

International Narcotics Control Strategy Report

March 2003

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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

HCI 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 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 2003 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 Convention's requirements. Other countries have taken reservations, declarations, or understanding 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 2002-2003 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 2002:

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, Canada, 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, Costa Rica, Cyprus, Dominica, the Dominican Republic, France, Germany, Greece, Guernsey, Haiti, 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, Switzerland, Taiwan, Thailand, Turkey, Ukraine, 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. The Foreign Relations Authorization Act of Fiscal Year 2003 (P.L. 107-228) made permanent law the modifications to the narcotics certification procedures introduced by Section 591 of the FOAA providing that the report be submitted not later than September 15 of each fiscal year.

Presidential Determination No. 2003-14

White House Press Release
Office of the Press Secretary
Washington, DC
January 31, 2003

SUBJECT: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for 2003

Pursuant to section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107228) (FRAA), which was enacted on September 30, 2002, I hereby identify the following countries as major drug transit or major illicit drug producing countries: 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.

The Majors List applies by its terms to countries. The United States Government interprets the term broadly to include entities that exercise autonomy over actions or omissions that could lead to a decision to place them on the list and, subsequently, to determine their eligibility for certification. A country's presence on the Majors List is not necessarily an adverse reflection of its government's counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug transit or drug producing country set forth in section 481(e)(5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug transit or drug producing countries are placed on the list is the combination of geographical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government's most assiduous enforcement measures.

Pursuant to section 706(2)(A) of the FRAA, I hereby designate Burma, Guatemala, and Haiti as countries that have failed demonstrably during the previous 12 months to adhere to their obligations under international counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this memorandum are justifications for each of the countries so designated, as required by section 706(2)(B).

I have also determined, in accordance with provisions of section 706(3)(A) of the FRAA, that provision of United States assistance to Guatemala and Haiti in FY 2003 is vital to the national interests of the United States.

Additionally, the alarming increase in the quantity of illegal synthetic drugs entering the United States, especially ecstasy from Europe, is of particular concern. A significant amount of the ecstasy consumed in the United States is manufactured clandestinely in The Netherlands (in 2001, a total of 9.5 million ecstasy tablets were seized in the United States, and the Drug Enforcement Administration believes that the majority of tablets originated in The Netherlands). We are working closely with Dutch authorities to stop the production and export of ecstasy, which we both regard as a serious threat to our citizens. We expect Dutch authorities to move effectively and measurably in the coming year against the production and export of this drug, including dismantling labs and proceeding against trafficking organizations. Early in the year, we plan to discuss specific steps we can take together to reduce drug trafficking.

Although the United States enjoys an excellent level of bilateral cooperation with Canada, the United States Government is concerned that Canada is a primary source of pseudoephedrine and an increasing source of high potency marijuana, which are exported to the United States. Over the past few years there has been an alarming increase in the amount of pseudoephedrine diverted from Canadian sources to clandestine drug laboratories in the United States, where it is used to make methamphetamine. The Government of Canada, for the most part, has not regulated the sale and distribution of precursor chemicals. The regulations to restrict the availability of pseudoephedrine, which the Government of

Canada has just promulgated, should be stronger. Notwithstanding Canada's inadequate control of illicit diversion of precursor chemicals, I commend Canadian law enforcement agencies, which continue to work energetically to support our joint law enforcement efforts.

Under section 706 of the FRAA, you are hereby authorized and directed to submit this memorandum to the Congress, and to publish it in the Federal Register.

GEORGE W. BUSH

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2002

The U.S. campaign against global terrorism in 2002 highlighted the importance of our international drug control programs. As the single greatest source of illegal revenue, the drug trade has long been the mainstay of violent political insurgencies, rogue regimes, international criminal organizations, and terrorists of every stripe. Whether through the heroin that financed the former Taliban regime in Afghanistan or the cocaine that sustains the decades-old insurgency in Colombia, the drug trade generates the money that is the lifeblood of the violence that increasingly threatens global peace and stability.

In 2002, despite a host of obstacles and setbacks, ranging from the hazards of operating in a dangerous war zone to the vicissitudes of domestic politics in drug source and transit countries, we made progress in critical areas. Working with our allies, our programs helped key governments weaken the drug trade at critical points. This included attacking crops on the ground, destroying processing facilities, interdicting drug and precursor chemical shipments, and breaking up trafficking organizations. We provided our partners with essential training assistance to strengthen their law enforcement and judicial systems and improve their extradition procedures, while working with them to reduce drug consumption in their own countries. At the same time, closer international cooperation among governments and financial institutions is systematically closing the loopholes that have let the drug trade legitimize its enormous profits through sophisticated money laundering schemes. The establishment of the Multilateral Evaluation Mechanism (MEM) has strengthened counternarcotics cooperation within the hemisphere. The MEM is a peer review system managed by the Inter American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD) to assess national and hemispheric performance and to identify ways in which that performance can be improved.

The Drug Threat to the U.S.

Cocaine, heroin, marijuana, and synthetic amphetamine-type stimulants (ATS), in that order, are the illicit drugs that most concern the United States. All the cocaine and heroin, as well as the bulk of the ATS drugs, originate outside the United States. Therefore, cutting off their flow to the United States remains our principal international counternarcotics goal. Though U.S. consumption has declined, cocaine still poses the greatest drug threat. Each year an estimated 300 metric tons or more enter the country, feeding addiction, fueling crime, and harming the economic and social well being of the United States. Since nearly all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, we targeted the bulk of our resources toward the Andean region.

Under the Andean Counterdrug Initiative, our central focus in 2002 was again Colombia, the world's leading producer and distributor of cocaine and a significant supplier of heroin to the United States. Nearly 80 percent of the world's cocaine hydrochloride (HCl) is processed in Colombia, the majority from indigenous Colombian coca crops, plus a limited amount from Peruvian and Bolivian cocaine base. Although Colombia grows less than two percent of the world's opium poppy, virtually all of its heroin production is destined for the United States market.

Cocaine and heroin revenues fuel terrorism and the decades-old civil war in Colombia. All the insurgent and paramilitary groups depend upon them. They fund the Revolutionary Armed Forces of Colombia (FARC), the hemisphere's largest and oldest terrorist group, the National Liberation army (ELN), and the paramilitary United Self Defense Forces of Colombia (AUC). The AUC and the FARC control areas that have the densest levels of coca and poppy cultivation in the country.

Since these drug crops are the "green gold" that keeps the civil war alive, the Colombian government is engaged in a long-term commitment to reduce and ultimately eliminate both coca and poppies. In 2002, Colombian counternarcotics forces carried out record levels of aerial eradication operations. As a result, coca cultivation fell to 144,450 hectares, a 15 percent drop from 2001. This was the first time in a decade

that Colombia has seen a significant drop in its coca crop. At year's end, Colombian forces had sprayed nearly 123,000 hectares of coca, a 45 percent increase over 2001, itself a record year. If all this coca leaf had been harvested and converted to cocaine it could have yielded approximately 500 metric tons of cocaine base or HCl. With each ton of HCl worth \$100 million (\$100/gram) at U.S. street retail prices, this activity theoretically kept as much as \$50 billion worth of cocaine from entering world markets.

Colombian aircraft also sprayed over 3,000 hectares of opium poppy, a 67 percent increase over the previous year's total. This was nearly half the 6,500 hectares of opium poppy detected at the end of 2001. Such spraying totals are especially impressive, given that most of these operations take place in dangerous zones in which minimally armored crop dusters must regularly take hits from rebel ground fire.

Despite aggressive eradication programs in 2002, coca cultivation rose modestly in Bolivia, and Peru. Year-end data on Colombia were not available at the time of publication. The Bolivian crop is believed to have jumped nearly 23 percent to 24,400 hectares of coca, notwithstanding eradication of approximately 12,000 hectares, a near-record annual eradication total. In Peru, there was an estimated eight percent rise to 36,600 hectares, although the government achieved its eradication goal of 7,000 hectares. These numbers remain relatively small compared to those of 1994, when Peru led the world with 108,000 hectares of coca and Bolivia had over 48,000. Nonetheless, any upward shift in cultivation trends is always a warning signal to all governments concerned.

Colombia faced several significant impediments to its counternarcotics efforts. In Colombia, the replant rate may range as high as 6,000 to 9,000 hectares per month. The GOC was eradicating at a higher rate than the replant rate in the latter part of the year, and the 2003 eradication is expected to continue at a rate in excess of the replanting rate. However, a sustained aggressive pace of spraying will be needed to break the replanting cycle. In Colombia, the drug trade has a clear advantage since the bulk of its coca and opium grows in zones that fall beyond the firm security control of the central government. Constant hits from insurgent ground fire frequently hinder eradication operations. All the insurgent factions have a life-or-death stake in the survival and expansion of the crops. Drug revenues finance the civil war. Without this income, the insurgents could buy neither arms nor influence and would become vulnerable. With their survival dependant on coca and opium, we can expect the insurgent groups to use all their firepower and ingenuity to protect and expand existing crops.

In Bolivia and Peru, political, economic and cultural battles have become obstacles to coca control. In both countries, radical movements have seized upon the historical tradition of coca cultivation as a rallying cry for indigenous rights against the dominant urban political culture. In Bolivia, by equating coca eradication with an attack upon both the poor in general and the indigenous rural poor in particular, a burgeoning anti-establishment political front has coalesced around the *cocaleros* (coca growers) movement. Since the organization's leader finished second in the June 2002 presidential elections, the government cannot ignore the *cocaleros*. The existence of this movement will complicate—and probably raise the costs of—coca eradication plans.

In Peru, a coca growers' movement modeled on Bolivia's *cocalero* organization staged a number of large protests during 2002. In response, the government of Peru signed agreements to halt coca eradication temporarily in certain regions, as well as to include *cocalero* representatives in the discussions of revisions to Peru's counternarcotics law.

The Peruvian government has not approved eradication in areas such as the Apurimac and Monzon valleys, two key sources of coca leaf. To compound the Peruvian government's problems, the Shining Path (Sendero Luminoso—SL) organization, which was forcibly disbanded in 1992, has reappeared on the scene. Before its suppression, this violent Maoist movement, which was financed by cocaine, engaged in a brutal guerrilla campaign that killed an estimated 30,000 people in the 1980s and early 1990s. The incipient resurgence of one of the world's most brutal terrorist movements, which is once again linked to coca cultivation, poses new challenges for the Peruvian government and worries for the region.

A further factor in the resurgence of coca cultivation in Peru has been the increase in price for coca leaf and base. This was due to the increased pressure on cultivation in Colombia and the alternative routes to moving the product from Peru once an effective Air Bridge Denial program had been put in effect in the mid-1990s. During the five years that joint U.S.-Colombian and U.S.-Peruvian operations limited narcotics traffickers' ability to use air routes to transport Peruvian cocaine base to Colombia for refining, Peru's coca cultivation fell precipitously. The disruption of this "air bridge" made most Peruvian coca unmarketable and caused an abandonment of coca fields and an exodus of coca farmers from the major coca growing areas. Peru, until then the largest coca producing country, plunged dramatically and has been replaced by Colombia as the largest coca growing country. In the aftermath of the program's suspension, the drug trade in Peru has been slowly increasing. Coca cultivation has risen to the 24,000 hectares detected in 2002 as Peruvian drug traffickers have expanded their operations towards Brazil, Bolivia and maritime shipments of the Peruvian coast.

Heroin

Although Colombia and Mexico account for less than five percent of the world's estimated opium production, most of the heroin detected in the United States originates in those two countries. Since eliminating poppy cultivation can have a very significant impact on the flow of U.S.-bound heroin, we support opium poppy eradication programs in both countries, as well as increased law enforcement initiatives, such as the installation of x-ray machines at all international airports.

As insurance against an aggressive eradication program, Colombian drug traffickers have been planting opium in neighboring countries. Narcotics traffickers supply farmers in neighboring countries with seeds, technical assistance, and cash loans. For example, a steady rise in opium latex seizures by the Peruvian National Police in 2002 confirmed the expansion of poppy cultivation and opium trafficking in Peru.

In Mexico, U.S. experts estimate that an area totaling 13,500 hectares of opium poppy was under cultivation during 2002 (a decrease from 14,600 in 2001). Given the favorable climate and terrain, two to three harvests per year were possible in the primary growing regions. Mexican government personnel eradicated 19,600 hectares in 2002 (up from 17000 in 2001). The remaining area, some 2700 hectares (down from 4400 in 2001) produced an estimated 47 metric tons of opium gum (which could have produced 5.6 metric tons of pure heroin—or 11 metric tons of black tar heroin). This figure is down substantially from 71 metric tons of opium gum (or 8.5 metric tons of pure, or 16 metric tons of black tar, heroin) in 2001.

In 2002, Afghanistan once again became the largest source of illicit opium. Following the removal of the Taliban regime, Afghan farmers in the country's traditional growing areas replanted the crops that had been briefly eliminated by the draconian measures of the Taliban authorities. Afghan farmers have since turned to poppy cultivation as a risk-avoidance response to a continuing drought (poppy is hardy), lack of credit or farm inputs for licit agricultural products, not to mention the vast difference in income among any licit choice and opium. At the end of 2002, USG surveys detected 30,750 hectares of poppy, with a potential opium yield of 1,278 metric tons.

With Afghanistan's re-emergence as the world's largest producer of illicit opium, Burma fell to second place in 2002. A joint USG/government of Burma survey found that the maximum potential yield for opium in Burma in 2002 totaled only 630 metric tons, down 235 metric tons (or approximately 26 percent) from 2001. The area under cultivation dropped to 78,000 hectares, down from 105,000 hectares in 2001. Over the past six years, opium production in Burma is estimated to have declined by more than 75 percent, from an estimated 2,560 metric tons in 1996 to only 630 metric tons in 2002.

Synthetic Drugs

The greatest threat over the next few years may not come from cocaine and heroin, but from man-made equivalents. Demand for synthetic ATS, which include methamphetamine and MDMA ("ecstasy"), has

shot up both in the industrialized nations and in most countries of the developing world. Methamphetamine now competes with cocaine as the stimulant of choice in many parts of the globe, including the United States. In Southeast Asia, methamphetamine vies with heroin as the principal illegal drug for consumption and export. In Burma, the heart of heroin production, methamphetamine has become a major source of income for the drug trade. The relative ease of manufacturing synthetics 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 a wide-range of countries, including Burma, China, North Korea, Mexico, and Poland.

Methamphetamine is one of the fastest-growing drug threats in the United States today. Well-established drug trafficking organizations, based in Mexico and California, control a large percentage of the U.S. methamphetamine trade. While Mexico is still the principal foreign supplier of methamphetamine and ATS precursors for the United States, Operation "Mountain Express III"—unveiled by DEA, U.S. Customs and the Royal Canadian Mounted Police in January 2002—demonstrated that traffickers had begun to use Canada as a diversion point for substantial quantities of pseudoephedrine used in domestic methamphetamine production.

Ecstasy, an amphetamine analogue, is now a very popular drug in the United States. 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 all-night dance parties ("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—and most of that seized in the United States—is manufactured in clandestine laboratories in the Netherlands. The government of the Netherlands has undertaken an intensive campaign to break up the ecstasy industry. That Dutch criminals are shifting some manufacturing operations to nearby Belgium suggests the campaign is bearing fruit. Wholesale distribution of the drug is dominated by Israeli criminal organizations operating in Europe and to some extent in the United States.

As seizure data in various INCSR chapters indicate, throughout the world ecstasy has become the drug of choice for young people in their late teens and early twenties. In 2002, authorities in countries as distant and distinct as Costa Rica, Iceland, and South Africa reported marked increases in ecstasy consumption and seizures. Ecstasy's most pernicious quality, however, is that many of its young users view it as a performance enhancer instead of as a dangerous drug. Its proponents bill it 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.

In the case of ecstasy this is especially disturbing. Brain imaging research in humans indicates that MDMA/ecstasy causes injury to the brain, affecting neurons that use the chemical serotonin to communicate with other neurons. The serotonin system plays a direct role in regulating mood, aggression, sexual activity, sleep, and sensitivity to pain. Many of the risks users face from MDMA/ecstasy are similar to those found with the use of cocaine and amphetamines. More alarmingly, however, research by the USG's National Institute for Drug Abuse (http://www.nida.nih.gov/Infofax/ecstasy.html) has linked MDMA/ecstasy use to possible long-term damage to those parts of the brain critical to thought and memory. One primate study showed that exposure to MDMA for four days caused brain damage that was evident six to seven years later.

Marijuana

Marijuana production and consumption is a serious problem in many countries—including in the United States. More than 10,000 metric tons (MT) of domestic marijuana and more than 5,000 metric tons of marijuana is cultivated and harvested in Mexico and Canada and marketed to more than 20 million users in the United States. Smaller quantities of marijuana are also produced in Colombia, Jamaica, Paraguay and other countries. The high-potency indoor grown marijuana, which is produced on a large-scale in Canada (and has also been found within the United States), is a particular concern. In many cases, this marijuana is grown in laboratory conditions—with specialized timers, ventilation, moveable lights on tracks, nutrients sprayed on exposed roots and special fertilizer—all designed to maximize the THC levels in the marijuana. The resulting drug is particularly powerful, dangerous and addictive. Although in the past some have suggested that marijuana was harmless, the latest scientific information indicates that marijuana produces withdrawal symptoms and is associated with learning and memory disturbances.

Attacking the Trafficking Organizations

In 2002, governments in key source and transit countries struck at important drug syndicates by targeting their key figures and operatives. For example: in Colombia, drug enforcement authorities working with their U.S. counterparts conducted a joint operation against the Garcia-Giraldo organization, a heroin trafficking enterprise that shipped an estimated quarter of a ton of heroin annually to New York and Philadelphia. They arrested 30 criminals, including Garcia himself, and are believed to have dismantled the organization.

In Mexico, law enforcement agencies and military personnel significantly reduced the capabilities of the Arellano Felix Organization (AFO) cartel by arresting Benjamin Arellano Felix, along with the AFO's chief of operations and logistics. They also arrested 43 allegedly corrupt police officers who had provided protection to the AFO. The AFO was further disrupted by the death of Ramon Arellano Felix in a shoot out. The Mexican military also arrested Jesus Albino Quintero Meraz, a top lieutenant in the powerful Gulf Cartel.

Such arrests of high-level traffickers and government officials in their pay demonstrate—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. They also demonstrate the commitment of our partners to root out the drug-related crime and corruption that threatens their own national security.

Strengthening Institutions

We have long-term programs with many governments to strengthen critical institutions, such as judicial and banking systems, to eliminate opportunities for penetration and manipulation by the drug trade. Judicial systems are particularly vulnerable, since in many countries the fate of a major drug criminal depends on the decision of a single judge. In some countries, judges receive low salaries and enjoy little or no protection from criminal retaliation. Not surprisingly, 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.

Thanks to U.S. assistance, that dynamic is gradually changing. In 2002, several countries continued to modify their laws and professionalize their court systems. These include reforms ranging from installing more modern equipment to changing the way judges are appointed and improving the security protection they can expect in the event of threats. 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 individual judges and the governments that are improving their efficiency and safety.

Extradition

Extradition to stand trial in the United States is one of the most effective tools to help other governments break up trafficking organizations. The long sentences imposed in the United States on notorious drug criminals are vivid reminders of what can happen to even the most powerful drug cartel leaders 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 mutual trust. Although several countries still prohibit the extradition of their nationals, we believe that extradition of nationals can be made acceptable to most governments, as long as treaty provisions are reciprocal and balanced.

We saw excellent cooperation in extradition matters in 2002, especially in the Western Hemisphere where it is a sensitive but critical issue. Colombia was among those countries that cooperated most on extradition matters. Colombia extradited over 40 fugitives to the United States in 2002, nearly twice the number for 2001. Thirty-seven of these were Colombian nationals (including one person who was a dual U.S.-Colombian national). While in 2002, Mexico extradited to the United States 17 fugitives facing drug charges (including the major drug trafficker, Jorge Mario Rios Laverde), Mexico's October 2001 Supreme Court decision that held that Mexico cannot extradite fugitives who face possible sentences of life imprisonment has made it much more difficult to extradite fugitives from Mexico, and has actually discouraged certain states from seeking to extradite the fugitives at all.

Precursor Chemicals

Cocaine, heroin and synthetic drugs must be manufactured. This process requires chemicals, many of which are subject to governmental control. Cocaine and heroin refining operations generally require widely available "essential chemicals." Substitutes for unavailable chemicals can be used for most of the chemicals used in the manufacturing process, but there are some key chemicals—potassium permanganate for cocaine and acetic anhydride for heroin—for which there are few easily obtainable substitutes. Synthetic drug manufacture requires even more specific "precursor chemicals," such as ephedrine, pseudoephedrine, or phenylpropanolamine. These chemicals, used mainly for pharmaceutical purposes, have important but fewer legitimate uses. They 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 2002 to improve an informal, multilateral system for exchanging information with respect to these chemicals. The goal was to improve controls on the key cocaine and heroin chemicals, and those necessary for synthetic drugs. Countries must have efficient legal and regulatory regimes to control chemicals, without placing undue burdens on legitimate commerce.

Controlling Supply

Our mission is to reduce and ultimately cut off the flow of illegal 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 United States 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. It 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 greater the likelihood of halting the flow of drugs altogether. Crop control is by far the most cost-effective means of cutting supply. If crops are destroyed or left unharvested, no drugs enter the system. We are in effect removing a malignant growth before it can metastasize into the system. In a Utopian world, with no drug crops to

harvest, no cocaine or heroin could enter the distribution chain; nor would there be any need for costly enforcement and interdiction operations.

Real world conditions are more complicated. Destroying a lucrative crop, even an illegal one, carries enormous political, economic and social ramifications for the producing country. It inevitably means attacking the livelihood of a large—and often the poorest—sector of the population. Democratic governments that take away vital income without any quid pro quo seldom survive for long. Implementing lasting crop control programs takes time, as governments must develop viable alternatives for the affected population. Therefore, we also focus upon the other links: 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, massive eradication is neither legally nor politically feasible in many countries. Our programs must have the flexibility to shift resources to those links where we can achieve both an immediate impact and long-term results. 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 the context of each country's unique situation.

Coca Reduction

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—a much less difficult task than trying to stop drugs once they are in the transportation pipeline. It is easier to eradicate a stationary target such as a coca field than to seek out and destroy 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 to 250 hectares of coca taken out of production deprives the drug trade, on average, of roughly one metric ton of refined cocaine. Even manual eradication can make a difference. By this measure, the estimated 12,000 hectares eradicated manually in Bolivia, combined with the estimated 7,000 hectares eliminated in Peru, kept the equivalent of between approximately 76 and 95 metric tons of cocaine from entering the system.

High-speed agricultural spray aircraft, however, are many times more efficient than other forms of eradication. If those planes that have been spraying Colombian coca fields had unobstructed access to all 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 zones in Colombia, our aircraft have faced a more difficult situation. Though dense concentrations of coca cultivation in a geographically confined area give the planes a better target, the planes are also exposed to a level of hostile gunfire for which they were not designed.

Illegal Drugs, Spraying, and the Environment

Inevitably, questions arise over the environmental risks of regular spraying of illegal drug crops. Colombia is at this time the only country that allows aerial spraying 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. EPA has approved its use on food croplands, forests, residential areas, and around aquatic areas. It is one of the top five pesticides, including herbicides, used in the United States.

Environmental Consequences of Illicit Coca Cultivation

In the past two decades, coca cultivation in the Andean region has led to the destruction of approximately six million acres of rainforest. Working in remote areas beyond settled populations, coca 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 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

The most powerful weapon in fighting the drug trade is an intangible: political will. The best-trained counternarcotics force, equipped with state-of-the-art police and military hardware, cannot succeed without the full commitment of the country's political leadership. When political leaders have had the courage to sacrifice short-term economic and political considerations in favor of the long-term national interest, we have seen the drug trade weaken. Conversely, when they have succumbed to the lure of ready cash, the drug syndicates have prospered accordingly.

The drug trade flourishes when it can establish an economic modus vivendi with a weak or complacent government. In exchange for the short-term benefits of large infusions of drug money into the economy (or into personal secret accounts or political treasuries), corrupt government officials can limit counternarcotics operations to those sectors least likely to harm a given set of trafficking interests. If drug cultivation needs protecting, a government can focus on interdiction rather than eradication. Government forces can also eradicate some crops while drug syndicates exploit corrupt enforcement and timid judicial systems to stay in business. Government officials may also launch anti-trafficking campaigns, but in offshore financial centers promote bank secrecy and lax incorporation laws that facilitate money laundering. In every case, the price of these short-term gains is the long-term entrenchment of drug interests. Therefore, a basic objective of U.S. counternarcotics policy is to prevent drug interests from becoming entrenched by strengthening the political will in the key source and transit countries. When political will wavers, corruption creeps in, subverts the rule of law, and puts democratic government in jeopardy.

Fighting Corruption

The fight against the drug trade is part of a broader struggle against corruption. Drug organizations possess a very powerful instrument for corruption: money, vast quantities of it, generated by drug trafficking. There is currently no widely available, easily renewable 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. For example, 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 United States; 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 some countries. Similarly, the estimated 123 metric tons of cocaine products seized by Colombia in 2002 would have a theoretical U.S. street value of over \$12 billion. Even if only a portion of these profits flows back to the drug syndicates, we are nonetheless speaking of hundreds of millions, if not billions, of dollars.

To put the scale of these sums into perspective, in FY 2002 the State Department's budget for international drug control operations was approximately \$892 million. That equates to roughly nine metric tons of cocaine; the drug syndicates have lost that amount in a single shipment without any indication that they felt the loss.

Money—the Power to Corrupt

Wealth on this scale gives 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. 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. Once this form of corruption has become deeply entrenched, it is difficult to eliminate without damaging many of the healthy institutions of an already weak democracy.

The ultimate worry of democratic leaders in countries where the drug trade is strong 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 its payroll. Although such a scenario has yet to play out, there have been enough close calls to suggest that it could happen, were it not for the sort of collective effort we are undertaking with our partners.

Next Steps

Battling the international drug trade is a complex, dynamic process. Contrary to expectations, it does not get easier with time. Every time we score a major success—and over the past decade we have scored many—the drug trade learns from it. As successful counternarcotics operations eliminate the less agile drug syndicates, those that survive get smarter and more sophisticated, adopting ingenious new strategies for concealment and survival. We have seen this already with the emergence of hundreds of small, less targetable syndicates that filled the void left by the destruction of Colombia's Medellin and Cali cartels. This type of forced natural selection eventually leaves us with a very astute adversary.

The drug trade itself also evolves naturally over time. We are now confronting second-generation multinational drug syndicates that have adopted modern management techniques, use state-of-the-art communications, and have sophisticated technical and financial expertise. As we have noted, they also have nearly unlimited financial resources to draw upon. The international counternarcotics effort, therefore, will require even greater tactical adaptability and flexibility, closer coordination between governments across the whole spectrum of diplomacy and law enforcement, and significant resources.

Yet, for all its sophistication as a criminal organization, the drug trade is still a business, an extremely prosperous and dangerous business. As a criminal organization it can hide safely in the shadows; but to prosper as a business, it must emerge into the daylight of the legitimate world. There it becomes

vulnerable. It needs raw materials, processing chemicals, transportation networks, and, most important of all, a means of getting its profits into legitimate commercial and financial channels. A business that cannot reinvest its profits soon goes bankrupt. Since governments ultimately control the global financial system, they can also render it almost impossible for drug and other criminal revenues to enter the system. But it only takes one or two entry points, such as storefront banks in small isolated countries, for dirty money to enter legitimate commerce. If we want to bankrupt the most lucrative criminal enterprise in history, we will have to seal those portals. That must be our goal for the years ahead.

Demand Reduction

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 harmful effects of drugs. 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 "best practice" research studies to use these findings to improve similar service provided in the U.S.

In 2002, INL funded bilateral training at various locations throughout the world on topics such as community/grassroots coalition building and networking, science-based drug prevention programming, and treatment within the criminal justice system. INL also continued to sponsor sub-regional demand reduction academies in Medellin, Colombia and Sao Paulo, Brazil, and co-funded with Lions Club International the establishment of a new academy in the Czech Republic. It co-sponsored the 4th Global Drug Prevention Network (GDPN) summit in Penang, Malaysia. The purpose of the summit was to develop an enhanced communications system for coordinating the participation of 7,000 drug prevention organizations from over 70 countries.

INL continued to fund comprehensive, multi-year scientific studies on pilot projects 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. The Spring/Summer 2002 issue of the *Journal of Social Work Research and Evaluation*, a professional publication that address international social research programs, published a 12-page article on INL-funded training. Research continues on prevention programs in selected countries that have developed promising prevention and anti-violence modalities from INL-funded training.

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 hectares 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

The yield figures in the INCSR 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. These estimates do not always make allowance for losses, so 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 decreased in 2002. The cultivated area fell to 102,590 hectares from 130,120 hectares the previous year. Potential opium gum production fell to 831 metric tons from 1,086 metric tons in 2001. This could yield approximately 83 metric tons of heroin, if all the gum were processed.

Opium poppy cultivation rose in Southwest Asia in 2002. Total hectares for Afghanistan and Pakistan increased to 31,372. Total potential opium gum production for both was 1,283 metric tons, or roughly 120 metric tons of heroin.

In the Western Hemisphere, the opium poppy growing countries have maintained active crop control efforts. In Colombia, the last United States Government estimates that there were 6,500 hectares, enough to yield an estimated 60 metric tons of opium gum, or a little more than six tons of heroin, assuming no losses. Data for 2002 were not available at the time of publication. In Mexico, there were an estimated 2,700 hectares of opium poppy in 2002, after eradication. Assuming no losses, the estimated potential yield was 47 metric tons of opium gum, or approximately 5.6 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 2002 crop will be larger than the 2001 estimate of 136,200 hectares. In Bolivia, there were 24,400 hectares of coca detected. Because of weather conditions, surveys in Bolivia now cover the period June-June, rather than January-December. Peru's coca crop increased slightly to 36,600 hectares at the end of 2002. It is 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.

The United States Government estimates that in 2002, 660 metric tons of cocaine were potentially available from Colombia, 140 metric tons from Peru and 60 metric tons potentially available from Bolivia. In publishing these figures, we repeat our caveat that these are theoretical numbers, useful for examining trends. Though every year research moves us closer to 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 2002 was 7,900 metric tons of cannabis from 4,900 hectares of cultivation. 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 1995–2002 (All Figures in Hectares)

	2002	2001	2000	1999	1998	1997	1996	1995
Onium	2002	2001	2000	1333	1930	1991	1330	1333
Opium	20.750	1.605		54.500	44.500	20.450	27.050	20.740
Afghanistan	30,750	1,685	64,510	51,500	41,720	39,150	37,950	38,740
India						2,050	3,100	4,750
Iran								
Pakistan	622	213	515	1,570	3,030	4,100	3,400	6,950
Total SW Asia	31,372	1,898	65,025	53,070	44,750	45,300	44,450	50,440
Burma	78,000	105,000	108,700	89,500	130,300	155,150	163,100	154,070
China								1,275
Laos	23,200	22,000	23,150	21,800	26,100	28,150	25,250	19,650
Thailand	750	820	890	835	1,350	1,650	2,170	1,750
Vietnam	1,000	2,300	2,300	2,100	3,000	6,150	3,150	
Total SE Asia	102,950	130,120	135,040	114,235	160,750	191,100	193,670	176,745
Colombia	6,500	6,500	7,500	7,500	6,100	6,600	6,300	6,540
Lebanon							90	150
Guatemala								39
Mexico	2,700	4,400	1,900	3,600	5,500	4,000	5,100	5,050
Total Other	9,200	10,900	9,400	11,100	11,600	10,600	11,490	11,779
Total Opium	143,522	142,918	209,465	178,405	217,100	247,000	249,610	238,964
Coca								
Bolivia ¹	24,400	19,900	14,600	21,800	38,000	45,800	48,100	48,600
Colombia	144,450	169,800	136,200	122,500	101,800	79,500	67,200	50,900
Peru	36,600	34,000	34,200	38,700	51,000	68,800	94,400	115,300
Ecuador								
Total Coca	205,450	223,700	185,000	183,000	190,800	194,100	209,700	214,800
Cannabis	l							
Mexico	3,900	3,900	3,900	3,700	4,600	4,800	6,500	6,900
Colombia	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Jamaica						317	527	305
Total Cannabis	8,900	8,900	8,900	8,700	9,600	10,117	12,027	12,205

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

Worldwide Illicit Drug Cultivation 1987–1994 (All Figures in Hectares)

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	1994	1993	1992	1991	1990	1989	1988	1987
Opium								
Afghanistan	29,180	21,080	19,470	17,190	12,370	18,650	23,000	18,500
India	5,500	4,400						
Iran								
Pakistan	7,270	6,280	8,170	8,205	8,220	6,050	11,588	9,970
Total SW Asia	41,950	31,760	27,640	25,395	20,590	24,700	34,588	28,470
Burma	154,070	146,600	153,700	160,000	150,100	143,000	104,200	76,021
China	1,965							
Laos	19,650	18,520	25,610	29,625	30,580	42,130	40,400	
Thailand	2,110	2,110	2,050	3,000	3,435	4,075	2,843	2,934
Total SE Asia	177,795	167,230	181,360	192,625	184,185	189,205	147,443	78,955
Colombia				1,160				
Lebanon	20,000	20,000	20,000	3,400	3,200	4,500	na	na
Guatemala		440	na	1,145	845	1,220	710	
Mexico	50	438	730	3,765	5,450	6,600	5,001	5,160
Vietnam	5,795	3,960	3,310					
Total Other	25,845	24,838	24,040	9,470	9,495	12,320	5,711	5,160
Total Opium	245,590	223,828	233,040	227,490	214,200	226,225	187,742	112,585
Coca						ı		
Bolivia	48,100	47,200	45,500	47,900	50,300	52,900	48,900	41,300
Colombia	45,000	39,700	37,100	37,500	40,100	42,400	34,000	25,600
Peru	108,600	108,800	129,100	120,800	121,300	120,400	110,400	108,800
Ecuador				40	120	150	240	300
Total Coca	201,700	195,700	211,700	206,240	211,820	215,850	193,540	176,000
Cannabis								
Mexico	10,550	11,220	16,420	17,915	35,050	53,900	5,003	5,250
Colombia	4,986	5,000	2,000	2,000	1,500	2,270	4,188	5,005
Jamaica	308	744	389	950	1,220	280	607	680
Total Cannabis	15,844	16,964	18,809	20,865	37,770	56,450	9,798	10,935

Worldwide Potential Illicit Drug Production 1995–2002 (All Figures in Metric Tons)

	1550	2002 (7	tii i igai	es ili ivie		"		
	2002	2001	2000	1999	1998	1997	1996	1995
Opium Gum								
Afghanistan	1,278	74	3,656	2,861	2,340	2,184	2,174	1,250
India						30	47	77
Iran								
Pakistan	5	5	11	37	66	85	75	155
Total SW Asia	1,283	79	3,667	2,898	2,406	2,299	2,296	1,482
Burma	630	865	1,085	1,090	1,750	2,365	2,560	2,340
China								19
Laos	180	200	210	140	140	210	200	180
Thailand	9	6	6	6	16	25	30	25
Vietnam	10	15	15	11	20	45	25	
Total SE Asia	829	1,086	1,316	1,247	1,926	2,645	2,815	2,564
Colombia				75	61	66	63	65
Lebanon							1	1
Guatemala								
Mexico	47	71	21	43	60	46	54	53
Total Other	47	71	21	118	121	112	118	119
Total Opium	2,159	1,236	5,004	4,263	4,453	5,056	4,285	4,165
Coca Leaf	'	•						
Bolivia ¹	19,800	20,200	26,800	22,800	52,900	70,100	75,100	85,000
Colombia ²			583,000	521,400	437,600	347,000	302,900	229,300
Peru	52,700	52,600	54,400	69,200	95,600	130,200	174,700	183,600
Ecuador								
Total Coca	72,500	72,800	664,200	613,400	586,100	547,300	552,700	497,900
Cannabis	'	•						
Mexico	7,900	7,400	7,000	3,700	8,300	8,600	11,700	12,400
Colombia	4,000	4,000	4,000	4,000	4,000	4,133	4,133	4,133
Jamaica						214	356	206
Belize								
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Cannabis	15,400	14,900	14,500	11,200	15,800	16,447	19,689	20,239

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

² Since leaf calculation is by fresh leaf weight in Colombia, in contrast to dry weight elsewhere, these boxes are blank.

Worldwide Potential Illicit Drug Production

1987–1994 (All Figures in Metric Tons)

	1994	1993	1992	1991	1990	1989	1988	1987
Opium Gum	1001	1000	1002	1001	1000	1000	1000	1001
Afghanistan	950	685	640	570	415	585	750	600
India	90							
Iran								300
Pakistan	160	140	175	180	165	130	205	205
Total SW Asia	1,200	825	815	750	580	715	955	1,105
Burma	2,030	2,575	2,280	2,350	2,255	2,430	1,280	835
China	25							
Laos	85	180	230	265	275	380	255	225
Thailand	17	42	24	35	40	50	25	24
Vietnam								
Total SE Asia	2,157	2,797	2,534	2,650	2,570	2,860	1,560	1,084
Colombia								
Lebanon		4		34	32	45		
Guatemala				11	13	12	8	3
Mexico	60	49	40	41	62	66	67	50
Total Other	60	53	40	86	107	123	75	53
Total Opium	3,417	3,675	3,389	3,486	3,257	3,698	2,590	2,242
Coca Leaf								
Bolivia	89,800	84,400	80,300	78,000	77,000	78,200	79,500	79,200
Colombia	35,800	31,700	29,600	30,000	32,100	33,900	27,200	20,500
Peru	165,300	155,500	223,900	222,700	196,900	186,300	187,700	191,000
Ecuador		100	100	40	170	270	400	400
Total Coca	290,900	271,700	333,900	330,740	306,170	298,670	294,800	291,100
Cannabis								
Mexico	5,540	6,280	7,795	7,775	19,715	30,200	5,655	5,933
Colombia	4,138	4,125	1,650	1,650	1,500	2,800	7,775	5,600
Jamaica	208	502	263	641	825	190	405	460
Belize				49	60	65	120	200
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	1,500
Total	13,386	14,407	13,208	13,615	25,600	36,755	17,455	13,693

Parties to the 1988 UN Convention

Co	untry	Date Signed	Date Became a Party
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.	Argentina	Accession	13 September 1993
7.	Armenia	20 December 1988	28 June 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

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. Ecuador	21 June 1988	23 March 1990
49. Egypt	20 December 1988	15 March 1991
50. El Salvador	Accession	21 May 1993
51. Estonia	Accession	12 July 2000
52. Ethiopia	Accession	11 October 1994
53. European Economic Community	8 June 1989	31 December 1990
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. Israel	20 December 1988	20 May 2002
76. Italy	20 December 1988	31 December 1990
77. Jamaica	2 October 1989	29 December 1995
78. Japan	19 December 1989	12 June 1992
79. Jordan	20 December 1988	16 April 1990
80. Kazakhstan	Accession	29 April 1997
81. Kenya	Accession	19 October 1992
82. Korea	Accession	28 December 1998
83. Kuwait	2 Ocotober 1989	3 November 2000
84. Kyrgyzstan	Accession	7 October 1994
85. Latvia	Accession	24 February 1994
86. Lebanon	Accession	11 March 1996
87. Lesotho	Accession	28 March 1995
88. Libyan Arab Jamahiriya	Accession	22 July 1996
89. Lithuania	Accession	8 June 1998
90. Luxembourg	26 September 1989	29 April 1992
91. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
92. Madagascar	Accession	12 March 1991
93. Malawi	Accession	12 October 1995
94. Malaysia	20 December 1988	11 May 1993
95. Maldives	5 December 1989	7 December 2000
96. Mali	Accession	31 October 1995
97. Malta	Accession	28 February 1996
98. Mauritania	Accession	1 July 1993
99. Mauritius	20 December 1988	6 March 2001
100.Mexico	16 February 1989	11 April 1990
101.Moldova	Accession	19 February 1995
102.Monaco	24 February 1989	23 April 1991

Country	Date Signed	Date Became a Party
103.Morocco	28 December 1988	28 October 1992
104.Mozambique	Accession	8 June 1998
105.Nepal	Accession	24 July 1991
106.Netherlands	18 January 1992	8 September 1993
107.New Zealand	18 December 1989	16 December 2002
108.Nicaragua	20 December 1988	4 May 1990
109.Niger	Accession	10 November 1992
110.Nigeria	1 March 1989	1 November 1989
111.Norway	20 December 1988	1 January 1994
112.Oman	Accession	15 March 1991
113.Pakistan	20 December 1988	25 October 1991
114.Panama	20 December 1988	13 January 1994
115.Paraguay	20 December 1988	23 August 1990
116.Peru	20 December 1988	16 January 1992
117.Philippines	20 December 1988	7 June 1996
118.Poland	6 March 1989	26 May 1994
119.Portugal	13 December 1989	3 December 1991
120.Qatar	Accession	4 May 1990
121.Romania	Accession	21 January 1993
122.Russia	19 January 1989	17 December 1990
123.Rwanda	Accession	13 May 2002
124.St. Kitts and Nevis	Accession	19 April 1995
125.St. Lucia	Accession	21 August 1995
126.St. Vincent and the Grenadines	Accession	17 May 1994
127.San Marino	Accession	10 October 2000
128.Sao Tome and Principe	Accession	20 June 1996
129.Saudi Arabia	Accession	9 January 1992
130.Senegal	20 December 1988	27 November 1989
131.Seychelles	Accession	27 February 1992
132. Sierra Leone	9 June 1989	6 June 1994
133.Singapore	Accession	23 October 1997
134.Slovakia	Succession	28 May 1993
135. Slovenia	Succession	6 July 1992
136. South Africa	Accession	14 December 1998
137.Spain	20 December 1988	13 August 1990

Country	Date Signed	Date Became a Party
138.Sri Lanka	Accession	6 June 1991
139.Sudan	30 January 1989	19 November 1993
140.Suriname	20 December 1988	28 October 1992
141.Swaziland	Accession	3 October 95
142.Sweden	20 December 1988	22 July 1991
143.Syria	Accession	3 September 1991
144. Tajikistan	Accession	6 May 1996
145.Thailand	Accession	3 May 2002
146.Tanzania	20 December 1988	17 April 1996
147.Togo	3 August 1989	1 August 1990
148.Tonga	Accession	29 April 1996
149.Trinidad and Tobago	7 December 1989	17 February 1995
150.Tunisia	19 December 1989	20 September 1990
151.Turkey	20 December 1988	2 April 1996
152. Turkmenistan	Accession	21 February 1996
153.UAE	Accession	12 April 1990
154.Uganda	Accession	20 August 1990
155.Ukraine	16 March 1989	28 August 1991
156.United Kingdom	20 December 1988	28 June 1991
157.United States	20 December 1988	20 February 1990
158.Uruguay	19 December 1989	10 March 1995
159.Uzbekistan	Accession	14 August 1995
160.Venezuela	20 December 1988	16 July 1991
161.Vietnam	Accession	4 November 1997
162.Yemen	20 December 1988	25 March 1996
163. Yugoslavia	20 December 1988	3 January 1991
164.Zambia	9 February 1989	28 May 1993
165.Zimbabwe	Accession	30 July 1993

Sig	gned but Pending Ratification		
1.	Gabon	20 December 1989	
2.	Holy See	20 December 1988	Not UN member
3.	Mauritius	20 December 1988	
4.	Philippines	20 December 1988	
5.	Switzerland	16 November 1989	Not UN member

Signed but Pending Ratification 6. Zaire 20 December 1988

Oth	er	
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.	Turks & Caicos	Not UN member
24.	Vanuatu	

USG ASSISTANCE

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

		FY 2002 Actual	FY 2002 Supp	FY 2003 Request	FY 2004 Request
ACI Country	Programs				
Bolivia: Interdiction & Eradication		48,000		49,000	49,000
	Alt Dev/Institution Building ¹	39,600	6,000	42,000	42,000
Colombia:	•	243,500	_	275,000	313,000
	Alt Dev/Institution Building	130,400	_	164,000	150,000
Ecuador:	Interdiction & Eradication	15,000		21,000	20,000
	Alt Dev/Institution Building	10,000	_	16,000	15,000
Peru:	Interdiction & Eradication	75,000	_	66,000	66,000
	Alt Dev/Institution Building	67,500	_	69,000	50,000
Brazil		6,000	_	12,000	12,000
Venezuela		5,000	_	8,000	5,000
Panama		5,000	_	9,000	9,000
Total ACI Cou	ntry Programs	645,000	_	731,000	731,000
INCLE Cour	ntry Programs				
Other Latin A The Bahan		1,200		1,200	1,000
Guatemala		3,500	_	3,400	3,000
Jamaica	1	1,550	_	1,300	1,500
Mexico		12,000	25,000	12,000	37,000
	rica Regional	10,000	4,000	9,500	5,000
Subtota	_	28,250	29,000	27,400	47,500
Africa	•	20,200	_0,000		,000
Nigeria		2,270	_	1,760	2,250
South Afric	ca	2,034	_	1,442	1,770
Africa Reg		3,196	_	3,798	2,980
Subtota		7,500	_	7,000	7,000
Asia and the		,		,	,
Afghanista	n	3,000	60,000	_	40,000
Indonesia		_	4,000	_	· —
Laos		4,200	_	3,000	3,000
Pakistan		2,500	15,000	4,000	38,000
Pakistan B Supplemer	order Security ntal	73,000	_	_	_
Philippines		_	_	_	2,000
Thailand		4,000	_	3,750	2,000
Asia/Middle	e East Regional	5,050	_	4,500	1,000
	Asia Initiative	_	_	3,000	_
Subtota	I	91,750	79,000	18,250	86,000
Total INCLE C	ountry Programs	127,500	114,000	52,650	140,500

¹ The \$6 million supplemental funding for Colombia in FY 2002 was appropriated as INCLE funding.

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

	FY 2002 Actual	FY 2002 Supp	FY 2003 Estimate	FY 2004 Request
INCLE Global Programs				
Interregional Aviation Support	60,000	_	65,000	70,000
Systems Support/Upgrades	6,000	_	4,000	5,000
International Organizations	16,000	_	13,000	14,000
Drug Awareness/Demand Reduction	5,000	_	5,000	5,000
Regional Narcotics Training	5,000	_	5,000	_
INL Anticrime Programs	15,330	_	9,000	9,000
Civilian Police Contingent	_	_	5,000	2,700
International Law Enforcement Academy	14,500	_	14,500	14,500
Trafficking in Persons	7,670	_	10,000	10,000
Total INCLE Global Programs	129,500	_	130,500	130,200
Program Development & Support	13,000	_	13,850	13,850
TOTAL ACI PROGRAMS	645,000	_	731,000	731,000
TOTAL INCLE PROGRAMS	270,000	114,000	197,000	284,550
Total INL Program ¹	915,000	114,000	928,000	1,015,550

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¹ The totals do not include FSA and SEED Act funding transfers from USAID, nor do they include PKO funding.

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.

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 2002, 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.

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 UNODC and the OAS. Through the meetings of major donors, the Dublin Group, UNODC 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.

Drug Enforcement Administration

The primary responsibility of the Drug Enforcement Administration (DEA) is to reduce the threat posed to our nation by illicit narcotics. The majority of illegal drugs impacting American society are produced outside of the United States and smuggled into our country. These illegal drugs are smuggled from their country of origin and often transit other nations before arriving in the United States. Thus, a strong international commitment to counternarcotics law enforcement is required to effectively blunt this menace. In cooperation with other U.S. agencies and foreign law enforcement counterparts, DEA strives the disrupt the illicit narcotics distribution chain; arrest and prosecute those involved in all aspects of the illegal drug trade and seize their profits and assets.

DEA's contribution to our nation's international counternarcotics strategy is accomplished through the 79 offices located in 58 nations that DEA maintains worldwide. The DEA overseas mission is comprised of the following components:

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

The emphasis placed on each component is determined by conditions and circumstances within the host nation. In nations where the law enforcement infrastructure is advanced and well developed, the DEA office may tailor its activities to specific areas that best support host nation efforts. In countries lacking a robust law enforcement capability, DEA personnel may provide assistance in all four of the mission areas annotated above. The following sections highlight the assistance that DEA provided during 2002 to host nation counterparts in support of the four established mission components.

Bilateral Investigations

Throughout fiscal year 2002, DEA offices in **Thailand** have mounted numerous enforcement efforts against International Impact Target, the United Wa State Army (UWSA). These collective enforcement efforts centered on the disruption of the UWSA's methamphetamine and heroin trafficking activities. Noteworthy bilateral investigations mounted by Thai authorities and DEA-trained Sensitive Investigative Units in northern Thailand resulted in a March, 2002 seizure of 26.6 kilograms of heroin and a January, 2002 seizure of 250 kilograms of methamphetamine.

The DEA **Bangkok** Country Office manages interdiction programs at the Don Muang International Airport, targeting both couriers and express mail packages. These programs have been extremely successful in identifying West African and other drug couriers smuggling kilogram quantities of heroin to the U.S., as well as identifying trafficking trends for the internal Thai drug market. Notable seizures include: a March 2002 seizure of 4,800 tablets of MDMA destined for Thailand from Amsterdam and 500 grams of heroin destined for Australia.

On January 6, 2002 Japanese Customs at the Port of Moji, Yamaguchi Prefecture, Fukuoka Prefectural Police and the National Police Agency of Japan seized approximately 150 kilograms of methamphetamine from a Chinese vessel (M/V Minshiyuhao) and arrested seven Chinese crewmembers. Japanese police sources have advised the **Tokyo** Country Office that the methamphetamine was produced and shipped from North Korea.

In June 2000, the DEA **Bangkok** Country Office, in concert with the Royal Thai Police, Nana Drug Enforcement Unit began an investigation of Nigerian heroin trafficker Napoleon MAVELLOUS. MAVELLOUS was reported to be the most prolific and prominent Nigerian trafficker in the region. During the course of the investigation, a cooperating source and an undercover DEA Special Agent were enlisted to infiltrate the MAVELLOUS organization. On March 10, 2002, the enforcement operation culminated with the delivery of 7.5 kilograms of heroin and the arrest of MAVELLOUS and five other members of his organization.

On March 19, 2002, the Office of Narcotics Control Board, Khon Kaen Narcotics Unit, which is sponsored by the DEA **Udorn** Resident Office, seized 2,000 kilograms of caffeine and arrested five individuals. The seizure was derived from information developed by the Office of Narcotics Control Board in Bangkok indicating that a suspicious shipment of 80 sacks of "white flour" was being transported. The quantity of caffeine seized could be utilized in the production of up to 40 million tablets of methamphetamine. This is the first large seizure of a chemical utilized in the manufacture of methamphetamine in northeast Thailand.

On April 5, 2002, a joint investigation involving the DEA offices in **Hong Kong**, **Bangkok** and **Beijing**, as well as the Bureau of Narcotics Control, Ministry of Public Security, Royal Thai Police, Hong Kong Customs, Guangzhou Customs, Guangzhou Public Security Bureau (PSB) and Yunnan PSB culminated in the seizure of approximately 317 kilograms of heroin and the arrest of 13 subjects. The principal target of this investigation, Paiboon TANKITTAYA-KAWIL, and his associates were instrumental in coordinating heroin shipments from Burma across southern China to Guangzhou. This investigation is significant, as it was the first time that the exchange of "real-time intelligence" had led to a major seizure in China.

On April 6-9, 2002, officers from the Indonesian National Police, Narkoba Unit raided two large-scale, clandestine MDMA laboratories and arrested ANG, Keim Soei. The DEA **Singapore** Country Office was immediately notified of this seizure and sent agents already in Indonesia to the scene. The first site contained approximately 150 kilograms of powder MDMA, 10,000 MDMA tablets, 100 gallons of Piperidine (PMK), 10 separate pill presses and U.S. \$200,000. In response to the discovery of the second lab site, DEA dispatched two chemists from its Special Testing and Research Laboratory to Jakarta, Indonesia to assist in the analysis and dismantling of the lab. It should be noted that approximately 30 samples were provided to DEA for laboratory analysis. On January 13, 2003, ANG was given a death sentence.

The DEA Los Angeles Field Division arrested SUVIT Prasobratanawas circa June 2001, in Los Angeles, California. Subsequently, the Kingdom of Thailand requested the provisional arrest and extradition of SUVIT to face drug charges in Thailand. The Los Angeles Assistant United States Attorney's Office advised that the information contained in the request was sufficient only to obtain the arrest warrant and was insufficient to show probable cause for a successful extradition. On April 24, 2002, after hearing testimony from a DEA Bangkok Country Office Special Agent, Magistrate Judge Jeff Johnson ruled that sufficient probable cause existed for SUVIT to be extradited to Thailand. An appeal is pending.

Thai counterparts have taken aggressive enforcement actions against DEA fugitive WEI Hsueh-Kang, specifically targeting his assets and equities located in Thailand. DEA offices throughout **Thailand** have provided large amounts of information related to WEI's identified assets in Thailand. WEI Hsueh-Kang is a DEA fugitive, who is also wanted for drug charges in Thailand. In one operation, the Royal Thai Police and the Thai Anti-Money Laundering Office (AMLO) served eight search warrants on residences and businesses related to WEI Hsueh-Kang. The operation yielded the seizure of assets totaling approximately 100 million Thai Baht, or the equivalent 23 million U.S. dollars. During a more recent operation, Thai authorities executed 26 search warrants and arrested and revoked the citizenship of five defendants. This operation was engineered to put pressure on high-level drug traffickers in northern Thailand, against whom the authorities have been unable to develop a prosecutable drug case. The revocation of their Thai citizenship will separate the defendants from their businesses and real property (estimated value of U.S. \$1 million) located in Thailand.

As a result of Operation LOVER'S SPEED, a joint operation between the DEA Hong Kong Country Office and the Hong Kong Customs and Excise Department, Controlled Chemicals Group (CCG). The Hong Kong Country Office successfully developed and shared information with the DEA Mexico Country Office for legitimacy verification of a large shipment of Piperonal that was scheduled to arrive in Mexico. Inquiries conducted by the Mexican authorities on the importer disclosed that the importer was not authorized to import the ten tons of Piperonal. Upon recommendations of the Mexico City Country Office, the Mexican authorities detained the ten-ton shipment of Piperonal. Presently, the ten tons of Piperonal is in the custody of the Mexican armed forces.

On August 7, 2002, an investigation coordinated by the **Udorn** Resident Office resulted in the arrest of five Lao nationals and the seizure of approximately 17. 5 kilograms of heroin and 60,000 methamphetamine tablets. One of these individuals had an ID card certifying him as a "plain clothes officer" of the Ministry of Interior, Peoples' Democratic Republic of Laos.

On August 22, 2002, Swiss Customs officials seized a suitcase belonging to a Singaporean national that contained more than 20,000 MDMA tablets. The suitcase was forwarded to Thai authorities who, in conjunction with members of the **Songkhla** Resident Office, conducted a controlled delivery in Thailand. Post arrest interviews of the defendant indicate that he was acting as a courier on behalf of an unidentified Malaysian Chinese male.

On August 28, 2002, the Louisville, Kentucky District Office contacted the **Bangkok** Country Office regarding a parcel that contained approximately 1.5 kilograms of cocaine. U.S. Customs officials at the UPS facility in Louisville, Kentucky had inspected the parcel. The parcel was forwarded to Bangkok for further investigation. Members of the Royal Thai Police in conjunction with the BCO conducted a controlled delivery of the parcel that resulted in the arrest of two West African nationals.

On September 9, 2002, two confidential sources controlled by the Royal Thai Police provided information that resulted in the seizure of 140 kilograms of heroin and the arrest of three individuals. Information provided by these sources indicates that the shipment was part of a larger 700-kilogram shipment that is believed to have been controlled by WEI Hsueh Kang, YANG Jiao Ho (a Tiger Trap fugitive) and an unidentified ethnic Kokang Official. Following this initial action, the **Chiang Mai** Resident Office provided these details to the Rangoon, Burma Country Office (RCO), who in turn relayed the information to its law enforcement counterparts. On October 9, 2002, Burmese authorities advised the RCO of 11 arrests, and the execution of several search warrants that resulted in the seizure of more than 41 kilograms of heroin, 5,000,000 methamphetamine tablets, and 10 kilograms of crushed/wet methamphetamine.

Based on information supplied by the DEA **Managua** Office, the Nicaraguan National Police have seized shipments of grenades, dynamite and AK-47 assault rifles on several separate occasions this year. Sources have indicated that these weapons were to be exchanged or sold for quantities of cocaine. Six Nicaraguans and one Guatemalan were arrested in connection with these seizures. Information to date does not indicate that these weapons and/or explosives were intended for use against the United States..

On January 18, 2002, the DEA **Costa Rica** Country Office reported that the Policia Control de Drogas (PCD) had arrested a Nicaraguan national and seized twenty AK-47s concealed in the container of a tractor trailer just outside the San Jose, Costa Rica metropolitan area. Intelligence indicated that the AK-47s were going to be exchanged with a group of unknown individuals for an unspecified quantity of cocaine somewhere between Costa Rica and Colombia.

On February 27, 2002, in a joint U.S. and **Mexico** operation, an 800+ foot cross-border tunnel was discovered between Mexico and Boulevard, California. Three Mexican nationals were arrested on the Mexican side. The tunnel was owned and operated by members of the Jose Albino Quintero Meraz drug trafficking organization.

On March 9, 2002, the Government of **Mexico** arrested Benjamin Arellano Felix, patriarch and leader of the drug trafficking Arellano Felix Organization (AFO). Also arrested was Manual Martinez Gonzalez, brother of AFO assassin Fabian Martinez Gonzalez a.k.a. "El Tiburon". The arrests were the result of a 6-

month joint investigation into the activities of Martinez that led investigators to Benjamin's location in Puebla, Mexico. At the time of his arrest, Benjamin acknowledged that his brother, Ramon Arellano Felix, had been killed in February 2002 in a shootout in Mazatlan. Through various sources of information, DEA Mexico has concluded that AFO operations continue under the leadership of another brother, Javier Arellano Felix.

On March 13, 2002, the Government of **Mexico** arrested Miguel Herrera Barraza aka "El Tarzan", lieutenant and operations and logistics coordinator for the AFO. Herrera was a former Municipal police officer and a former State Judicial Police officer and coordinated drug loads into the U.S. via the Tecate, Mexico corridor.

On April 10, 2002, Special Forces of the Mexican Army (Mexican Gaffes) in conjunction with the Organized Crime Unit (OCU), arrested 43 law enforcement officials in Tijuana, Mexicali and Ensanada areas of Baja California, Mexico. A total of 22 Municipal Police officers (18 in Mexicali, 2 in Tijuana, 2 in Ensenada) and 20 State Judicial Agents from Baja California were arrested. All of the individuals were working for the AFO.

On May 26, 2002, the Mexican Military arrested Jesus Albino Quintero-Meraz and 6 other key lieutenants of the Amado Carrillo Fuentes drug trafficking organization in Boca Del Rio, Veracruz, Mexico. At the time of his arrest, Quintero-Meraz and his associates were in possession of ten handguns, multi-hundred rounds of ammunition, six vehicles and \$8,553.00 U.S. currency. Quintero-Meraz was responsible for trafficking multi-ton quantities of cocaine per month into the U.S.

On July 16, 2002, approximately 1.46 million dollars were seized from a Colombian female at the Mexico City, Mexico Airport. The female courier, her son and her sister were destined for Cali, Colombia. The money courier and her husband are both targets of investigation in the Guadalajara, Mexico; Bogota, Colombia and Miami, Florida DEA Offices.

The Republic of **Panama** continues to be a favored transshipment point and distribution hub for Colombian heroin destined for the United States and, to a lesser extent, Europe. Increasingly, heroin enters Panama either in bulk shipments via maritime smuggling or in multi-kilogram shipments via couriers arriving as passengers aboard commercial aircraft. Recently, heroin has been seized aboard go-fast vessels transporting multi-hundred kilogram quantities of cocaine. As a result of coordinated efforts with Panamanian authorities, the Panama Country Office has reported nearly 245 kilograms of heroin seized in CY 2002.

In 2002, DEA **Guatemala** intelligence reported that Guatemalan law enforcement officials were stealing narcotics loads from traffickers for profit, offering protection for traffickers and their illicit cargo transiting Guatemala, assassinating drug transporters for the purpose of stealing their shipments, torturing and killing innocent civilians, and committing other criminal acts. Actions of this nature became so brazen that in October 2002, the Guatemalan Portillo administration disbanded the Departamento de Operaciones Anti-Narcoticas (DOAN). A new counternarcotics unit, Servicio de Analisis y Investigaciones Anti-Narcoticas (SAIA), was developed and staffed by newly assigned personnel. Mandatory requirements for personnel assigned to this unit include successfully passing a polygraph, urinalysis, and background check. Placing a greater emphasis on investigations than its predecessors, the SAIA has experienced a few early successes.

On August 10, 2002, the Nicaraguan National Police, working in conjunction with the **Managua** Country Office, arrested two individuals and seized approximately 445 kilograms of Colombian cocaine from a truck at a Nicaragua/Honduras border crossing.

On December 27, 2002, the DEA **Hermosillo**, Mexico Office, along with Mexican police and military components, discovered a subterranean tunnel used to smuggle drugs from Nogales, Sonora, Mexico into Nogales, Arizona. The tunnel was approximately 165 feet in length, four feet in height and three feet in width. One of three subjects arrested in Nogales, Sonora, Mexico in connection to the tunnel discovery is

the brother-in-law of the tunnel's owner/operator, Mauricio Balbastro-Urtuzuarte. Balbastro-Urtuzuarte is a well documented with DEA and has a long history of tunnel-related activity in the Nogales, Mexico area.

Operation Containment is a closely coordinated regional program involving the Central Asian States, India, Pakistan, Turkey, the Balkan nations, Russia, Germany, the United States and the United Kingdom. The goal of Operation Containment is to reduce the amount of Afghan heroin flowing to Western Europe through enhanced interdiction efforts, intelligence sharing, and database connectivity. The Southeast European Cooperative Initiative Center in **Bucharest**, Romania acts as a clearinghouse for interdiction and requests for database checks. From June 10 through July 10, 2002, 17 countries participated in a border interdiction blitz that resulted in the seizure of over 600 kilograms of heroin, more than 1574 tons of precursor chemicals and 5000 kilograms of marijuana. In **Turkey**, DEA Agents worked with Turkish Customs colleagues at Turkey's border crossings with Iran, Bulgaria, and Azerbaijan.

The **Berlin** Country Office in conjunction with the Vienna and New Delhi Country Offices, the Detroit Field Division, and German and Dutch officials have been targeting an MDMA trafficking organization since 2001. This organization was based in Germany and the Netherlands and was responsible for shipping multi-kilogram quantities of MDMA to the United States. The Detroit Field Division initiated undercover negotiations in Europe. As a result of these negotiations 130,000 MDMA tablets were seized, and three defendants were arrested.

Based on **Islamabad** Country Office developed information, the Baluchistan Frontier Corps seized approximately 100 kilograms of morphine base near the Pakistan/Afghan border. When authorities located the storage site, the two individuals guarding the site ran from the area. According to DEA Islamabad, an unknown person had planned on picking up the morphine base sometime that evening and transport it through Iran.

DEA **Istanbul**, Turkey in coordination with the Turkish Jandarma conducted an 8-month long investigation into a heroin drug trafficking organization. Based on intelligence developed by DEA, 7,454 kilograms of morphine base were seized on March 31, 2002 (morphine base converts to heroin at a 1:1 ratio, so this was the equivalent of over 7 metric tons of heroin). This is the largest seizure of opiates ever in Turkey. To date, 14 traffickers have been arrested that were associated with this case.

As part of a border interdiction initiative, on August 23, 2002, Turkish Customs seized approximately 17 metric tons of acetic anhydride at Ipsala, Turkey, which is located on the Turkish/Greek border. The Istanbul Resident Office is assisting Turkish authorities in this investigation. To date, this is the largest known acetic anhydride seizure in Turkey. It is believed that the acetic anhydride was enroute to Southern Turkey and Iran. In a continuation of this investigation on September 4, 2002 an additional 5.5 tons of acetic anhydride were seized in a rural area outside of Istanbul.

DEA **London** launched a joint investigation with the National Crime Squad of England focusing on identifying synthetic drug producers. This investigation led to the discovery of an MDMA manufacturing organization operating in southern California and Mexico, and the seizure of a sophisticated laboratory in January 2002. It also resulted in the indictment of 22 members of this syndicate.

Based on information provided by the **Madrid** Country Office the Spanish National Police initiated Title IIIs on cellular telephones utilized by members of a marine transportation organization which was smuggling cocaine. Intelligence revealed that cocaine was being transported onboard the United States registered sailboat "Che" to Spain. On July 6, 2002 the Spanish National Police seized 700 kilograms of cocaine onboard the "Che" and arrested two defendants. The seizure took place approximately 200 nautical miles off the coast of Portugal.

The **New Delhi** Country Office has been assisting the DEA Houston Field Division in the investigation of the whereabouts of a Houston Field Division Priority Target fugitive. Based on a U.S. request for provisional arrest and the coordinated efforts of the New Delhi Country Office, the Indian Central Bureau of Investigation and the Punjab State Police, the fugitive (who is a U.S. citizen) was arrested by Indian police on November 10, 2002. On January 7, 2003 an extradition request was made to the

Government of India. At the present time, the fugitive remains in custody pending judicial proceedings regarding his extradition.

The **Pretoria** Country Office and Kenyan law enforcement authorities have been investigating a Kenyan-based narcotic trafficking organization responsible for sending Southwest Asian heroin to the United States. A total of nine couriers associated with this organization have been arrested at various U.S. airports and over ten kilograms of heroin seized. This organization has also been responsible for sending approximately \$841,000.00 from the United States to Kenya. In September 2002, based on arrest warrants issued by Federal Court in the District of Columbia, Kenyan authorities arrested the two principal members of this organization in Nairobi, Kenya. These individuals will be extradited from Kenya to the United States and will be prosecuted by the Department of Justice in Washington, D.C. This investigation is significant because it will be the first time that a Kenyan national will be extradited to the United States to face federal drug charges..

DEA **The Hague** in conjunction with Dutch authorities initiated an investigation into an MDMA trafficking group. Intelligence information led authorities to the discovery of an active pill production site and the seizure of approximately 350 kilograms of MDMA powder. A tablet-manufacturing machine with a production capability of 100,000 tablets per hour was also discovered. Dutch authorities estimated that the MDMA powder seized would produce approximately 3.5 million tablets of MDMA.

The **Vienna** Country Office in conjunction with the Romanian Counter Narcotics Unit and the Austrian Police conducted an investigation into the ecstasy smuggling activities of a Romanian organization. Intelligence revealed that the organization was in the market to sell 500,000 tablets of MDMA. During ensuing negotiations the undercover officer received a sample of the MDMA. Subsequently, the undercover officer obtained approximately 50,000 tablets of MDMA. At that time, three individuals of the organization were arrested and two vehicles seized. Arrest warrants are being executed for the remaining members of this organization.

The **Bogota** Country Office and **Cartagena** Resident Office, in conjunction with the Colombian National Police Sensitive Investigations Unit assigned to the north coast of Colombia, led an international investigation into the drug trafficking activities of linear target Dolcey PADILLA-Padilla and members of his organization. PADILLA heads a drug trafficking network responsible for the supply and maritime transportation of multi-ton quantities of cocaine and multi-kilogram quantities of heroin through the Caribbean to the United States and Europe. This investigation culminated in the execution of 37 search warrants, the seizure of approximately \$1.2 million dollars in U. S. currency, multiple seizures of cocaine and heroin (28,024 kilograms of cocaine and 24 kilograms of heroin) and the arrest of PADILLA and several of his accomplices. PADILLA and approximately 17 high level associates were indicted in the United States and are pending extradition to face multiple drug trafficking charges.

The **La Paz** Country Office and the Bolivian National Police (BNP) Anti-Drug Unit coordinated an investigation targeting the cocaine transportation organization headed by Jorge CASTRO-Perez. This organization is responsible for the transportation of multi-hundred kilogram cocaine shipments from Peru through Bolivia and into Brazil. This investigation culminated in the seizure of 204 kilograms of Peruvian cocaine and the arrests of seven defendants.

The **Santiago** Country Office, in conjunction with the Bogota Country Office and the DEA Washington Field Division, coordinated a multi-national investigation which led to the indictment of Carlos CASTAÑO-Gil, Salvadore MANCUSO-Gomez and Juan Carlos SIERRA-Ramirez for conspiracy to import cocaine into the United States. The three suspects are leaders of the Colombia based Auto Defensas Unidas de Colombia (AUC). The investigation and indictment charged that the defendants are responsible for cocaine seized in several multi-ton maritime seizures in the Caribbean and Chile. Judicial extradition requests have been filed with the Colombian government.

The Brasilia Country Office, in coordination with the Brazilian Federal Police (DPF) Sensitive Investigative Unit (SIU), targeted the Leonardo DIAS-MENDONCA international cocaine and weapons

trafficking organization. This organization was found to be using Brazil as a transshipment base to send cocaine to the United States and Europe and was found to be trading weapons for cocaine with the Revolutionary Armed Forces of Colombia (FARC). This five-year investigation culminated with the arrest of DIAS-Mendonca and the arrests of 24 associates, to include several federal judges. Additionally, this investigation resulted in the seizure of 3,000 kilograms of cocaine and \$4,000,000 in cash and assets. DIAS was indicated in the United States, along with Brazilian trafficker Luis Fernando DA COSTA and Tomas MOLINA-ACASIO, commander of the 16th Front of the FARC, for conspiracy to import cocaine into the United States,

The **Caracas** Country Office and the Venezuelan Federal Police vetted unit, in coordination with the French Navy culminated an investigation into the international maritime transportation activities headed by Juan SANCHEZ with the seizure of 1,720 kilograms of cocaine, fifteen boats and the arrest of 13 defendants. This organization is responsible for transporting multi-ton quantities of cocaine from Venezuela to the United States and Europe via maritime vessels.

The **Buenos Aires** Country Office, in coordination with the Gendarmeria Nacional de Argentina culminated an investigation into the Reinaldo NINO-FONTECHA heroin trafficking organization with the seizure 8 kilograms of heroin, 20 kilograms of cocaine and the arrest of 17 defendants. The NINO-FONTECHA organization is responsible for the shipment of multi-kilogram quantities of heroin to the United States and multi-kilogram shipments of cocaine to Europe. The Buenos Aires Country Office also coordinated this investigation with the DEA Brasilia Country Office and the DEA Miami and New York Field Divisions. The extradition of NINO-FONTECHA and 12 of his primary associates to New York to face heroin trafficking charges is currently pending.

The **Quito** Country Office, in coordination with the Ecuadorian National Police Sensitive Investigative Units culminated an investigation into the Francisco Javier ALARCON-SANTIBAÑEZ international cocaine trafficking organization with the execution of five search warrants, the seizure of 2,100 kilograms of cocaine and the arrest of 16 defendants, including Colonel de Estado Mayor Jose Hermel PILA-HUALPA. Colonel PILA was an active member of the Ecuadorian Army and served as the Deputy of Operations. This organization was responsible for sending multi-ton quantities of cocaine to the United States and Europe utilizing maritime shipping containers. Colonel PILA provided security for the cocaine shipments and assisted the organization in securing counterfeit container seals that were used to ship the cocaine to the U.S. and Europe.

The Lima Country Office, the Peruvian National Police Illicit Drug Trafficking Division and the Peruvian Sensitive Investigative Unit conducted an investigation which led to the arrest of priority target Nelson PAREDES-Ortiz, 27 of his associates and the seizure of 1,760 kilograms of cocaine and a cocaine conversion lab. This investigation targeted the multi-ton cocaine smuggling activities of the PAREDES organization from Peru to the United States. The Lima Country Office also coordinated this investigation with the DEA Miami Division and the Bogota and Mexico Country Offices.

The Asuncion Country Office and the Paraguayan Federal Police Major Violators Unit culminated an investigation into the activities of the Carlos RIVERO-FREITAS cocaine trafficking organization. The RIVERO-FREITAS organization was involved in the transportation of multi-hundred kilograms of cocaine from Paraguay to Brazil for shipment to the U. S. and European markets. In conjunction with this investigation, a search warrant was executed at a private residence which resulted in the arrest of one suspect and the seizure of 150 kilograms of cocaine.

During 2002, DEA launched **Operation Hurricane II**. The operation ran from September 16, 2002 through September 28, 2002 and was the 5th in a series of operations that stressed the development of regional operations; facilitated the flow of information within and between the Caribbean transit zone and the South American source zone; promoted regional connectivity and the development of a nexus between participating counternarcotics entities; and focused on targeting the command structures of major international DTOs. Operation Hurricane II was significant in that the participating Caribbean

nations organized and planned this initiative through their participation in the annual International Drug Enforcement Conference (IDEC).

Intelligence Gathering

DEA coordinates drug-intelligence gathering and dissemination worldwide. The DEA intelligence component focuses on intelligence collection pertaining to the cultivation and manufacture of illicit substances, the sale of precursor chemicals for making illicit drugs and the transportation routes of these drugs into the United States. The following activities demonstrate the breadth of DEA involvement around the world.

DEA offices throughout **Southeast Asia** have reported a dramatic increase in the trafficking of MDMA throughout the region, to include the discovery of significant MDMA laboratories in China, Hong Kong, Taiwan, Malaysia and, most notably, in Indonesia. The increasing demand for ecstasy and the availability of precursor chemicals from China and Vietnam provide evidence that nations in Southeast Asia are increasingly vulnerable to becoming havens for large-scale MDMA manufacturers. While still in relatively small quantities, MDMA, trafficked and possibly produced by Southeast Asian drug traffickers, has been seized in the U.S. and Canada. In response, DEA offices throughout Southeast Asia have fully engaged their counterparts to prevent the diversion of precursor chemicals and target MDMA trafficking groups.

Intelligence reporting indicates that on occasion, the United Wa State Army has reacted to enforcement pressure in northern Thailand by temporarily shifting narcotics trafficking operations into areas of Laos bordering Burma. During February-April, 2002 several seizures were made totaling 557.1 kilograms of methamphetamine and 35.1 kilograms of heroin. These seizures indicate that Laos is re-emerging as a significant trafficking area for narcotics entering the international market from Burma. The DEA **Udorn** Resident Office and **Vientiane** Country Office continues to monitor this trend.

The March, 2002 the International Drug Enforcement Conference (IDEC) membership unanimously approved a proposal presented by the IDEC Presidents and DEA to establish four regional Centers for Drug Information (CDIs). These Centers are to be located in **Santo Domingo**, **Dominican Republic**; **Santa Cruz**, Bolivia; **Bogota**, Colombia; and **Mexico City**, Mexico. Upon completion, these four centers will provide law enforcement personnel of forty-one participating nations with the facilities and capability for sharing drug-related tactical and investigative information in a timely manner. Over 150 computers will be provided to participating nations' law enforcement personnel. These computers will provide the foundation for the exchange of information and expand current efforts regarding ongoing investigations, drug movements and seizures, alien smuggling, money laundering, weapons trafficking, clandestine drug laboratories, and other topics of mutual concern.

DEA Athens received intelligence from the DEA Rome Country Office that three containers containing a large quantity of cocaine would be transiting Greece enroute to Italy. DEA Athens working with the Hellenic (Greek) National Police and the Ministry of Financial Crimes Squad seized 220 kilograms of cocaine on January 8th; on January 11th, 702 kilograms of hashish were seized. On January 31st Greek authorities arrested four individuals associated with the shipment, and Swiss authorities arrested the individual who arranged transport.

On August 23, 2002, the Belgian Federal Police advised the **Brussels** Country Office of the seizure of three diamond cutting tables that were being stored in Antwerp, Belgium, with a final destination of New York. Upon further examination of the tables by personnel from the Brussels Country Office and Belgian authorities it was determined that 1.4 million ecstasy tablets were secreted inside locked storage compartments under the tables. It was decided that a controlled delivery of the tables would be attempted. On September 15, 2002, the tables were shipped via maritime freight to New Jersey, and onward to Brooklyn, New York. Subsequently, three subjects were arrested while attempting to take delivery of the tables.

The **Ottawa** Country Office working in conjunction with the Royal Canadian Mounted Police and numerous DEA domestic offices dismantled an internet-based drug trafficking operation. Operation Webslinger, a multi-jurisdictional investigation, targeted the illegal trafficking of "date rape" drugs such as GHB and its derivatives, GBL and 1.4 Butanediol by individuals and organizations supplying these drugs over the internet. The operation resulted in the arrest of 115 individuals and 3,300 gallons of the drugs, the equivalent of approximately 25 million dosage units in 84 cities across the United States and Canada. The laboratory supplying these drugs to customers is located in Canada.

During 2002, the **Paris** Country Office initiated an investigation targeting the sale of Sassafras Oil, a precursor in the manufacturing of MDMA, from France via the Internet. A customer from Frankfurt, Kentucky expressed an interest in purchasing two litters of Sassafras Oil. Thereafter, the Paris Country Office and the Lexington, Kentucky Resident Office put into effect a controlled delivery of the Sassafras Oil. In October 2002, the defendant was arrested after receiving the package. A search warrant executed on the defendant's apartment resulted in the seizure of precursor chemicals, new glassware and packaging material for a fully operational MDMA laboratory. An additional search warrant at another location resulted in the seizure of notes and formulas for the production of MDMA. Special Agents also seized several books related to the operation of clandestine laboratories and bomb making.

Centers for Drug Information (CDIs) are intelligence fusion centers that are designed to support the disruption and dismantlement of drug trafficking organizations (DTOs) via the development, coordination and dissemination of counternarcotics information. These centers will facilitate targeted investigations and resources will be synchronized in order to better support counternarcotics operations against the entire spectrum of the drug trade. This connectivity is essential to the development of unified action that rapidly identifies and attacks DTOs. The CDIs will achieve this by establishing essential elements of information that focus collection, analysis and dissemination resources against DTOs that have a regional impact; providing standard operating procedures (SOP) for information sharing; improving multi-lateral coordination and operation/intelligence integration by generating inter and intra regional information sharing; developing information relating to actionable, operational and strategic drug trafficking activities; facilitating timely, effective and secure sharing of investigative information, operational leads and actionable information; producing daily significant activity reports and joint regional strategies.

CDIs are presently being established in the **Dominican Republic**, **Mexico**, **Colombia** and **Bolivia**.

Coordinate Training Programs for Host Nation Police Agencies

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

The U.S. Department of State funded Southeast Asian International Law Enforcement Academy (ILEA) began offering courses in March 1999. ILEA has trained over 1,600 law enforcement and judicial officials from nine Association of Southeast Asian Nations (ASEAN) countries, People's Republic of China, and the Hong Kong and Macau Special Administrative Regions of China. In addition to directing the ILEA, DEA has continued to sponsor host nation counter narcotics officials and serve as trainers at the ILEA.

The **Buenos Aires** Country Office hosted five schools, to include three Basic Narcotics Investigator Schools, one Chemical Diversion Investigations School and one Jet Way Airport Interdiction School. The Buenos Aires Country Office additionally sponsored three Basic Chemical Safety Schools in the provinces of San Juan, Salta and Corrientes. The courses were attended by an average of 55-70 people per class and were comprised of federal and provincial police officers involved in drug enforcement activities.

The **Quito** Country Office hosted a Money Laundering School put on by the Office of International Training and a Chemical Diversion School assisted by the Chemical Diversion Unit from DEA

Headquarters. Approximately 40 people, representing the federal and state drug and financial enforcement and regulatory agencies, were represented at each school.

Institution Building and Foreign Liaison

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 DEAs efforts in foreign liaison and institution building activities.

In April 2002, DEA sponsored the 20th annual International Drug Enforcement Conference (IDEC) in Santa Cruz, Bolivia. At the conference, senior drug law enforcement officials from 58 nations were in attendance. Attendee's from Europe, Asia and the Western Hemisphere met to discuss and exchange insights on counternarcotics enforcement activities. Presenters described their counternarcotics enforcement activities and strategies and shared lessons learned from joint regional investigations and operations. Members adopted 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. They also adopted initiatives for increased enforcement and regulatory action to reduce the use of general aviation for trafficking purposes. The conference, hosted by the United States, provided a forum for the delegates to exchange information and build personal relationships that are key to enhancing closer coordination among law enforcement agencies.

In May 2002, the DEA **Rangoon**, Burma Country Office sponsored a visit to Washington D.C. of General Kyaw Thein, Directorate of Defense Intelligence Services, and Colonel Hkam Awng, Central Committee for Drug Abuse and Control. During the visit, Burmese counterparts met with officials from several U.S. Government agencies to discuss drug control efforts ongoing in Burma and U.S. certification benchmarks. This is the first high-level visit of drug control officials from Burma, since the current regime seized power in 1989.

The DEA **Hong Kong** Country Office hosted the second "Far East Regional Precursor Chemical Conference" in May 2002. The purpose of this conference was to serve as a catalyst to promote law enforcement cooperation among the participants and to enhance the ongoing ephedrine tracking initiative. Ephedrine is the primary precursor chemical used in the production of methamphetamine. Twelve countries were represented, to include the United States (DEA Office of Diversion Control), Thailand, Malaysia, Laos, Japan, Vietnam, the Philippines, Australia, India, South Korea, Macau Special Administrative Region, and Hong Kong Special Administrative Region, as well as corresponding DEA Attaches.

Burma was placed on the Financial Action Task Force's list of non-cooperating territories in June 2001, because of the poor quality of its anti-money laundering law and enforcement efforts. The Government of Burma responded by enacting new money laundering legislation, which addressed the FATF's recommendations and made money laundering itself a predicate offense. The DEA **Rangoon** Country Office is proactively sharing expertise in the establishment of a financial investigation unit, which will enforce the money laundering law, as well as any orders issued by the central bank to block the assets of narcotics traffickers and terrorist organizations. The Rangoon Country Office sponsored a workshop in June 2002, where DEA's experience in conducting drug-related money laundering investigations was shared.

On June 7, 2002, utilizing input from the DEA Manila Country Office, Philippine President Macapagal-Arroyo signed the "Comprehensive Dangerous Drugs Act of 2002". This new law drastically strengthens counternarcotics efforts by establishing a single mission agency modeled after the U.S. Drug Enforcement

Administration. It establishes a high-level Dangerous Drugs Board responsible for formulating policy, a Philippine Drug Enforcement Agency (PDEA) responsible for implementation and enforcement, and a PDEA Academy responsible for recruiting and training PDEA officers. Additionally, the law significantly increases all drug-related penalties, introduces penalties related to precursors and essential chemicals, and establishes some asset seizure and forfeiture provisions.

DEA has continued to foster a professional relationship with Chinese counterparts. Prior to opening the DEA **Beijing** Country Office in 1999, DEA routinely engaged Chinese counterparts in bilateral investigations from its **Hong Kong** Country Office. This relationship has significantly expanded since establishing a permanent presence in Beijing. To that end, DEA co-hosted the first bilateral intelligence sharing meeting between counter narcotics officials of the United States and China on October 29-30, 2002 in Beijing China. DEA Assistant Administrator for Intelligence, Steven Casteel and Director General Yang Fengrui of the National Narcotics Control Commission led their respective delegations. This conference was viewed as an important step in advancing Sino-American counter narcotics cooperation.

Successful drug trafficking organizations utilize collaborative and transnational efforts to accomplish their mission. The Caribbean, Latin American and Central American offices of DEA combat these drug trafficking trends by establishing regional initiatives. Currently, five regional investigations have been selected as "regional priority targets" The five selected targets unite law enforcement efforts by the sharing of intelligence and the planning of unified operations against the trafficking groups conducting activities in and through various nations.

Law enforcement officials from the countries involved in the current five regional priority target investigations met on a quarterly basis in CY 2002 in Miami, Florida to share investigative leads and devise operations directed at the selected targets. In 2002, five of six regional priority targets were indicted or arrested.

In February 2002, DEA **Turkey** and the Turkish National Police hosted the Southwest Asia Heroin Strategy Conference in Ankara, Turkey. This conference led to the development of Operation Containment. At that meeting, Ministers and officials from 25 countries agreed to regional plans to stem the flow of heroin from Afghanistan. DEA further led other planning meetings in Bucharest in April and an Interdiction Conference in May.

Based on the initiative of the **Lagos** Country Office, a West African Joint Operations counter narcotics association was established. During August-September 2002, a number of West African countries participated in a joint coordinated air, land, and sea counter narcotics operation. This operation was conducted to disrupt the transshipment of narcotics through the African sub-region, and to stimulate the sharing of drug intelligence information among participating countries. The National Drug Law Enforcement Agency of Nigeria and the Narcotics Control Board of Ghana co-sponsored the operation with the Lagos Country Office. This operation resulted in the arrest of 164 individuals and the seizure of 17 kilograms of heroin, 11.5 kilograms of cocaine, 1362 kilograms of marijuana and \$193,970.00 in U.S. currency. This operation was unprecedented in the African sub-region.

In February 2002, DEA **Nicosia** witnessed an eradication project in the Baaka Valley, Lebanon. Under the direction of the Lebanese Police and with the assistance of the Lebanese military, acres of young poppy fields were plowed under. The Lebanese eradication program was supported by the Syrian military as well. This is the first time in many years that personnel from the Nicosia Country Office were allowed to enter the Baaka Valley, much less observe the eradication of opium poppies. This is a significant event, which will enhance and solidify the cooperation between DEA and Lebanon.

INL-Funded DEA Training

	Number of Participants	Number of Programs
Drug Enforcement Administration		
Training in U.S.		
SIU Training Seminars	265	7
Training in Host Countries		
SIU Training Seminars	113	2
In-Country Drug Enforcement Seminar	273	8
Basic Drug Enforcement Seminar	389	12
Advanced Drug Enforcement Seminar	66	2
International Asset Forfeiture Seminar	130	5
Airport Operations Seminar	93	3
Specialized Seminars	140	4
ILEAs (Bangkok, Budapest, Gaborone)	723	18
Total INL-Funded DEA Training FY 2002	2,192	61

United States Coast Guard

Overview

The Coast Guard's multiyear campaign plan to combat the dynamic maritime drug trafficking threat, Campaign Steel Web, is continually evolving to reflect changes in drug trafficking trends.

Steel Web 2003 is fully aligned with the National Drug Control Strategy (NDCS), and complements the contributions of our law enforcement (Customs, DEA, and local LEAs) and DoD partners in this effort.

Three pillars form the foundation of Steel Web 2003:

- Denial of maritime drug smuggling routes by developing a dynamic interdiction presence in the transit and arrival zones, in response to tactical intelligence information, focusing limited resources to maximize the seizure rate 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 local, state and federal interagency
 efforts to combat drug smuggling through coordinated operations planning and
 execution.
- Implement the latest research and development (R&D) and off-the-shelf technologies available, to better equip Coast Guard assets to detect, monitor and interdict suspect vessels, and to locate contraband during boardings and searches.

The key to success of Steel Web 2003 is adherence to the concept of centralized operational planning and decentralized execution, which includes maintaining the flexibility to respond to tactical intelligence and information. Pursuit of international engagement opportunities is also necessary, which occurs at the tactical, theater and strategic levels. 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. The fruits of R&D and off-the-shelf technology are enabling more effective deployment of assets.

Combined Operations

The Coast Guard conducted Operation Caribe Venture, Operation Rip Tide, Operation Bluestorm, Operation Bluewater, Operation Carib Royale, Operation Venus and Operation Rio Coco during 2002.

- Operation Caribe Venture was a wide-ranging international effort to deny smugglers the
 use of maritime routes along the islands of the eastern Caribbean. Caribe Venture was a
 multi-phase operation that included counternarcotics forces from the French West
 Indies, Grenada, St. Vincent & the Grenadines, Trinidad and Tobago, the Dominican
 Republic, United Kingdom and Netherlands.
- Operation Rip Tide: A continuing 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 three times in 2002.

- Rio Coco: A new international effort to deny smugglers the use of maritime routes through Honduras and Nicaragua using Nicaraguan and Honduran shipriders under a trilateral arrangement. This operation had the added benefit of reducing tensions along a disputed maritime region.
- The U.S. Coast Guard also conducted Op Bluestorm with Nicaragua, which was run by a joint operation command center that included Nicaraguan Navy/Police and Coast Guard personnel.
- Other CD operations included: Op Bluewater in the Eastern Caribbean with the USCG, UK, Trinidad & Tobago, St Vincent & Grenadines and Grenada; Op Venus with the Venezuelan Coast Guard, and Op Carib Royale in the French West Indies (Martinique).

International Agreements

Increasing numbers of bilateral agreements between the U.S. and Caribbean nations is moving us toward our goal of a "seamless" territorial sea and airspace. In 2002, the six-part CD model agreements with both Nicaragua and Haiti entered into force. In addition, the U.S. government participated in final negotiations for a Caribbean Regional Maritime Counterdrug Agreement, which should be open for signature in early 2003.

Recent bilateral agreements have been reached with Panama and Nicaragua, which include International Maritime Interdiction Support (IMIS) provisions. These provisions allow for the transfer of detainees directly from a USG vessel to an awaiting USG aircraft in Panama and Nicaragua, as well as expedited entry of U.S. law enforcement personnel to provide technical assistance. These agreements have significantly improved the operational and logistical efficiency of our counternarcotics operations by allowing units to remain on patrol.

International Cooperative Efforts

In 2002, the Coast Guard was involved in 58 narcotics smuggling events, which resulted in the seizure of 40 vessels, the arrest of 207 suspected smugglers, and the seizure of 117,780 pounds of cocaine and 40,316 pounds of marijuana. Of the 58 events, 53 involved some type of foreign support or cooperation (direct unit participation, exercise of bilateral agreements, granting permission to board, logistics support, etc.). The Coast Guard seized 116,580 pounds of cocaine (99 percent of total seized) and 30,500 pounds of marijuana (76 percent of total seized) during these 53 events.

The Coast Guard has worked out informal counternarcotics cooperative efforts with Mexico, which have improved overall effectiveness. In 2002, the Coast Guard provided direct support to the Mexican Navy in six cases; the most significant of these was the F/V MACEL with 20,387 pounds of cocaine.

The Coast Guard continued to enjoy exceptional cooperation from the Government of Colombia in maritime interdiction resulting in the seizure of over 38,000 pounds of cocaine in 2002. The U.S.-Colombia 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 authorized all 66 requests for USCG boardings of claimed Colombian flagged vessels in 2002. Successful cocaine seizures as a result of the agreement include F/V PAULO (25,150 pounds) and F/V PUNTA DEL ESTE (10,300 pounds).

USCG Technical Assistance

FY02 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Albania	Maritime Interdiction Techniques Mobile Training Team	22-Jan-02	1-Feb-02	JCTP
Albania	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	6-May-02	23-May-02	IMET
Antigua (Trade Winds)	SAR Planning/OPCEN Procedures Mobile Training Team	16-Apr-02	25-Apr-02	INL
Antigua (RSSTU)	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-01	30-Sep-02	INL
Azerbaijan	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	1-Sep-02	14-Sep-02	IMET
Bahamas (Trade Winds)	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	6-Apr-02	13-Apr-02	IMET
Belize	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Small Boat Ops, Hull Maintenance Mobile Training Team	4-Mar-02	15-Mar-02	IMET
Bolivia	Water Survival Training	25-Feb-02	9-Mar-02	Embassy
Bolivia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-01	30-Sep-02	Embassy
Chile (UNITAS)	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	25-Jun-02	27-Jul-02	UNITAS
Colombia (UNITAS)	Counter Narcotics Joint Maritime Law Enforcement Boarding Officer Mobile Training Team	16-Feb-02	23-Feb-02	UNITAS
Colombia	Counter Narcotics Joint Maritime Law Enforcement Boarding Officer Mobile Training Team	7-Apr-02	13-Apr-02	IMET
Costa Rica	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-01	30-Sep-02	INL
Costa Rica	Outboard Motor Maint Mobile Training Team	18-Nov-01	1-Dec-02	INL
Costa Rica	Caterpillar Motor Maint Mobile Training Team	11-Mar-02	22-Mar-02	INL
Croatia	Maritime Assessment	17-Mar-02	30-Mar-02	EXBS/DOS
Dominican Republic	SAR Planning/OPCEN Procedures Mobile Training Team	11-Mar-02	22-Mar-02	FMS
Djibouti	Pre-training Maritime Survey	8-May-02	15-May-02	TCA
Ecuador	Pre-Training Maritime Assessment	5-Nov-01	9-Nov-01	DOD/TCA
El Salvador	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer, Interdiction Planning Mobile Training Team	14-Jan-02	31-Jan-02	IMET
Eritrea	Pre-Training Maritime Assessment	16-May-02	26-May-02	TCA
Estonia	Maritime Crisis Management Mobile Training Team	12-Jul-02		IMET
Georgia	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-01	30-Sep-02	USCS
Georgia	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	12-Jun-02	23-Jun-02	EXBS/DOS

FY02 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Ghana	Pre-training Maritime survey	27-Jan-02	2-Feb-02	IMET
Ghana	Maritime Law Enforcement/Fisheries Boarding Officer Mobile Training Team	11-Aug-02	17-Aug-02	IMET
Greece	Olympic Maritime Security Assessment	10-Aug-02	17-Aug-02	DOS/ATA
Guyana	SAR Planning/OPCEN Procedures Mobile Training Team	07 Jan 02	18-Jan-02	FMS
Guyana	Engineering Assessment Mobile Training Team	11-Mar-02	14-Mar-02	TCA
Honduras	Small Boat Operations Mobile Training Team	10-Feb-02	23-Feb-02	INL
Honduras	Small Boat Operations Mobile Training Team	25-Feb-02	1-Mar-02	TCA
Honduras	Maritime Law Enforcement/Fisheries Boarding Officer Mobile Training Team	10-Aug-02	21-Aug-02	TCA
Iceland	Search Coordination and Planning Mobile Training Team	22-Oct-01	6-Oct-01	FMS
Jamaica	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer Mobile Training Team	20-Jan-02	2-Feb-02	IMET
Japan	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer Mobile Training Team	07 Feb 02	24-Feb-02	FMS
Jordan	Port Security/Port Vulnerability Mobile Training Team	1-Apr-02	13-Apr-02	IMET
Jordan	Search Coordination and Planning Mobile Training Team	15-Apr-02	19-Apr-02	IMET
Jordan	Outboard Motor Maint Mobile Training Team	9-Sep-02	13-Sep-02	IMET
Kenya	Crisis Command and Control Mobile Training Team	9-Jun-02	22-Jun-02	IMET
Latvia	Marine Safety and Environmental Security Seminar	29-Jul-02	4-Aug-02	IMET
Lebanon	Outboard Motor Maint, Eng/Log Admin Mobile Training Team	18-Aug-02	7-Sep-02	IMET
Lebanon	Marine Safety and Environmental Security Seminar	3-Aug-02	9-Aug-02	IMET
Lebanon	Model Maritime Service Code	25 Jan 02	2-Feb-02	INI
Lebanon	Model Maritime Service Code	25-Feb-02	1-Mar-02	INI
Lebanon	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer, Interdiction Planning Mobile Training Team	17-Feb-02	9-Mar-02	IMET
Lebanon	Port Security/ Port Vulnerability Mobile Training Team	14-Apr-02	20-Apr-02	IMET
Lithuania	Maritime Crisis Mgt Seminar Mobile Training Team	9-Sep-02	20-Sep-02	IMET
Malawi	Pre-Training Maritime Survey	26-Jul-02	5-Aug-02	IMET
Maldives	Coastal SAR Mobile Training Team	2-Jun-02	6-Jun-02	IMET
Malta	Port Security/ Port Vulnerability Mobile Training Team	17-Aug-02	25-Aug-02	IMET
Mauritania	Pre-Training Maritime Survey	03 Frb 02	9-Feb-02	IMET
Mauritania	Maritime Law Enforcement/Fisheries Boarding Officer Mobile Training Team	7-Sep-02	22-Sep-02	IMET
Mexico	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Outboard Motor Maint Mobile Training Team	3-Jun-02	28-Jun-02	DOD

FY02 (Completed)

Country	Course Title	Start Date	Finish Date	Funding Source
Mexico	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Outboard Motor Maint Mobile Training Team	1-Sep-02	28-Sep-02	DOD
Mexico	SAST PACTACLET/IONSCAN Training	22-Sep-02	28-Sep-02	INL
Mexico	SAST PACTACLET/IONSCAN Training	10-Nov-02	15-Nov-02	INL
Netherlands Antilles	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	27-May-02	31-May-02	FMS
Netherlands Antilles	SAR Procedures Mobile Training Team	12-Aug-02	23-Aug-02	FMS
Nicaragua	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Interdiction Planning Mobile Training Team	14-Aug-02	29-Aug-02	IMET
Panama	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-00	30-Sep-01	INL
Paraguay	Coast Guard Subject Matter Exchange Mobile Training Team	8-Jun-02	15-Jun-02	TCA
Peru	Maritime Commerce Control, Infrastructure Development Mobile Training Team	1-Oct-00	30-Sep-01	INL
Poland	Search Coordination and Planning Mobile Training Team	15-Oct-01	19-Oct-02	IMET
Portugal	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	3-Mar-02	16-Mar-02	IMET
Qatar	Port Security/ Port Vulnerability Mobile training team	31-Mar-01	4-Apr-01	TCA
Samoa	Search Coordination and Planning Mobile Training Team	18-Feb-02	22-Feb-02	IMET
Singapore	Coastal Search and Rescue Ops Mobile Training Team	25-Mar-02	6-Apr-02	Direct
Seychelles	Coastal Search and Rescue Ops Mobile Training Team	13-Sep-02	19-Sep-02	IMET
Tonga	SAR Procedures Mobile Training Team	4-Feb-02	15-Feb-02	IMET
Tunisia	Maritime Law Enforcement/Fisheries Boarding Officer Mobile Training Team	14-Apr-02	27-Apr-02	IMET
Uruguay	Small Boat Maintenance Subject Matter Expert Exchange	16-Jun-02	21-Jun-02	TCA
Vanuatu	Model Maritime Service Code	25-Jul-02	3-Aug-02	IMET

USCG Technical Assistance

Country	Course Title	Start Date	Finish Date	Funding Source
Albania	Hull Maint and Damage Control	20-Feb-03	3-Mar-03	IMET
Albania	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	11-May-03	18-May-03	IMET
Algeria	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer Mobile Training Team	11-Jun-03	20-Jun-03	IMET
Azerbaijan	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	23-May-03	31-May-03	IMET
Azerbaijan	82' Patrol Boat Course	14-Jun-03	28-Jun-03	FMS
Azerbaijan	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	31-May-03	14-Jun-03	IMET
Bahamas (Trade Winds)	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	14-Apr-03	21-Apr-03	IMET
Belize	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	11-Jan-03	1-Feb-03	IMET
Colombia	Port Security and Vulnerability Assessment Mobile Training Team Course	16-Nov-02	23-Nov-02	FMS
Colombia	Maritime Crisis Management Seminar Mobile Training Team	15-Feb-03	1-Mar-03	FMS
Djibouti	Small Boat Operators Mobile Training Team	2-Mar-03	15-Mar-03	IMET
Dominican Republic	Engineering and Logistics Admin Mobile Training Team	2-Nov-02	16-Nov-02	FMS
Gabon	Pre-Training Survey	1-Mar-03	8-Mar-03	DoS
Georgia	82' Patrol Boat Course	4-Oct-02	27-Oct-02	EXBS
Greece	Maritime Crisis Management Seminar Mobile Training Team	27-Oct-02	8-Nov-02	DOS
Guyana	44' Subject Matter Exchange Mobile Training Team	26-Oct-02	1-Nov-02	TCA
Guyana	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	11-Jan-03	25-Jan-03	INL
Haiti	Maritime Needs survey	18-Nov-02	23-Nov-02	IMET
Haiti	Engineering and Logistics Admin and Outboard Motor Maint Mobile Training Team	25-Jan-03	15-Feb-03	INL
Lebanon	Coastal Search and Rescue Ops Mobile Training Team	9-Jan-03	19-Jan-03	IMET
Lebanon	Marine Safety Seminar Mobile Training Team	1-Feb-03	9-Feb-03	IMET
Malta	Maritime Crisis Management Seminar Mobile Training Team	7-Mar-03	23-Mar-03	IMET
Mexico	Outboard Motor Maint Mobile Training Team	1-Mar-03	8-Mar-03	DOD
Mexico	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	9-Mar-03	29-Mar-03	DOD
Netherlands Antilles	Counter Narcotics Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	1-Mar-03	15-Mar-03	FMS

Country	Course Title	Start Date	Finish Date	Funding Source
Nicaragua	Maritime Law Enforcement Subject Matter Exchange	3-Mar-03	8-Mar-03	TCA
Panama	Port Security and Vulnerability Assessment	23-Feb-03	28-Feb-03	Direct
Philippines	Maritime Needs Assessment	1-Mar-03	16-Mar-03	JAITFW
Taiwan	Small Boat Operators Mobile Training Team	7-Nov-02	24-Nov-02	Direct
Thailand	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	2-Mar-03	17-Mar-03	INL
Tunisia	Fisheries Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	114mar03	30-Mar-03	IMET
Turkmenistan	OPCEN Procedures Mobile Training Team	11-Nov-02	24-Nov-02	DOS
Unitas	Caribbean Phase	10-Feb-03	11-Mar-03	UNITAS
Uruguay	44' Subject Matter Exchange Mobile Training Team	2-Feb-03	8-Feb-03	TCA
Western Samoa	Coastal Search and Rescue Ops Mobile Training Team	13-Feb-03	22-Feb-03	IMET
Madagascar	Small Boat Operators Mobile Training Team	16-Mar-03	22-Mar-03	FMS
Venezuela	Outboard Motor Maint Mobile Training Team	16-Mar-03	22-Mar-03	DOD
El Salvador	Counter Narcotics Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	16-Mar-03	29-Mar-03	IMET
Mexico	Small Boat Operators Mobile Training Team	22-Mar-03	5-Apr-03	DOD
Malta	CG Maritime Commerce Control, SAR Development Mobile Training Team	22-Mar-03	30-Mar-03	IMET
Seychelles	CG Waterside Port Security Mobile Training Team	23-Mar-03	31-Mar-03	IMET
Venezuela	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	23-Mar-03	29-Mar-03	DOD
Jamaica	Counter Narcotics Maritime Law Enforcement Joint Boarding Officer, Instructor Mobile Training Team	29-Mar-03	12-Apr-03	IMET
Portugal	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	4-Apr-03	20-Apr-03	IMET
Ecuador	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	5-Apr-03	13-Apr-03	DOD
Guyana	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	14-Apr-03	25-Apr-03	INL
Lithuania	CG Waterside Port Security Mobile Training Team	18-Apr-03	4-May-03	IMET
Colombia	Coastal Search and Rescue Ops Mobile Training Team	20-Apr-03	26-Apr-03	FMS
Mexico	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	26-Apr-03	3-May-03	DOD
Belize	Advanced Port Security/Port Vulnerability Assessment Mobile Training Team	26-Apr-03	10-May-03	INL
Kenya	Coastal Search and Rescue Ops Mobile Training Team	10-Apr-03	21-Apr-03	IMET
Lebanon	CG Port Security/Port Vulnerability Mobile Training Team	18-Apr-03	4-May-03	IMET

Country	Course Title	Start Date	Finish Date	Funding Source
Haiti	Counter Narcotics Maritime Law Enforcement Boarding Officer and Hull Maint and Damage Control Mobile Training Team	1-May-03	15-May-03	IMET
Estonia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	1-May-03	25-May-03	IMET
Colombia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	3-May-03	10-May-03	DOD
Trinidad & Tobago	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	3-May-03	24-May-03	INL
Haiti	Advanced Outboard Motor Maint Mobile Training Team	4-May-03	10-May-03	IMET
Mexico	CG Small Boat Operators Mobile Training Team	10-May-03	17-May-03	DOD
Barbados	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	17-May-03	31-May-03	INL
Mexico	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	31-May-03	7-Jun-03	DOD
Thailand	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	1-Jun-03	23-Jun-03	INL
Russia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	1-Jun-03	7-Jun-03	DoS
Russia	CG Port Security/Port Vulnerability Mobile Training Team	3-Jun-03	10-Jun-03	DoS
Ukraine	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	6-Jun-03	14-Jun-03	DoS
Mexico	Outboard Motor Maint Mobile Training Team	7-Jun-03	15-Jun-03	DOD
Malawi	Fisheries Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	7-Jun-03	14-Jun-03	IMET
Bahamas	Coastal Search and Rescue Ops Mobile Training Team	14-Jun-03	22-Jun-03	IMET
Mexico	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer and Interdiction Planning Mobile Training Team	14-Jun-03	28-Jun-03	DOD
Jamaica	Small Boat Operators Mobile Training Team	21-Jun-03	12-Jul-03	INL
Mexico	Small Boat Operators Mobile Training Team	28-Jun-03	12-Jul-03	DOD
Oman	CG Port Security/Port Vulnerability Mobile Training Team	1-Jul-03	14-Jul-03	TCA
Barbados	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	13-Jul-03	19-Jul-03	INL
Latvia	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	1-Aug-03	7-Aug-03	DoS
Eritrea	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	1-Aug-03	11-Aug-03	IMET
Lithuania	Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	1-Aug-03	11-Aug-03	DoS
Ghana	Fisheries Maritime Law Enforcement Boarding Officer, Maritime Law Enforcement Instructor Mobile Training Team	15-Aug-03	24-Aug-03	IMET

Estonia	Counter Narcotics Maritime Law Enforcement Boarding Officer Instructor Mobile Training Team	22-Aug-03	31-Aug-03	IMET
Dominican Republic	Advanced Counter Narcotics Maritime Law Enforcement Boarding Officer Mobile Training Team	13-Sep-03	27-Sep-03	INL

United States Customs Service

The United States Customs Service processes goods and merchandise entering and exiting 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 targeted to have a minimum impact on legitimate trade, utilizing techniques of selectivity to identify high-risk shipments for intensive examination. U.S. Customs has responded to the nation's terrorism priorities by developing strategic programs to increase port security. Seizure statistics show that the U.S. Customs Service is a highly successful border control agency operating with a high level of efficiency and integrity. On the average day, U.S. Customs examines 1.3 million arriving passengers, 410,000 arriving conveyances, seizes \$500,000 in currency and 2 tons of narcotics, arrests 65 fugitives or violators, while processing high volumes of passengers and commercial merchandise. The State Department Bureau for International Narcotics and Law Enforcement Affairs and the U.S. Customs Service promote international cooperation through interagency agreements that provide funding for training and assistance programs throughout the world. The agreements enable the U.S. Customs Service to provide a variety of training, high tech tools and strategies for combating transnational crime and increasing international law enforcement success.

International Training and Assistance

U.S. Customs conducted a number of programs in response to emerging priorities in 2002:

- 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 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 Rug Investigation conducted jointly with DEA; Complex Financial Investigations conducted jointly with IRS; and Intellectual Property Rights conducted with the FBI. Customs provided assistance for 15 ILEA programs.
- African Growth and Opportunity Act (AGOA) was formalized to provide training and technical assistance to meet the requirements of provisions for textile manufacturing and exportation. The preparations include development of textile visa systems, implementation of measures to combat textile transshipment. The U.S. send survey and textile transshipment teams to AGOA countries to implement the Act. In 2002 AGOA provided training in South Africa and Kenya for a total of 35 countries. Textile verification teams were fielded to 2 countries. Videos were produced and used on field training on the topics of textile factory production verifications, integrity, risk management, and commercial fraud.
- Post-funded short-term advisory projects were conducted in Panama, Ecuador, El Salvador, Mexico, Qatar, China, and Israel during 2002. While the focus of each advisory project was tailored to the recipient country, the general theme was port security, professionalization of border control agencies and interdiction training.

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, 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. Thirty BASC programs were conducted during 2002 in Colombia, Costa Rica, Ecuador, Mexico, Panama, Peru and Venezuela.
- 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 counternarcotics 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

Port Security Initiatives

In response to increased threats of terrorism, U.S. Customs developed innovative programs that seek to identify high-risk shipments to the United States before they reach our ports. Outlined are the Container Security Initiative (CSI), the Customs-Trade Partnership Against Terrorism (T-CPAT), and Plan Colombia.

CSI represents a security regime to identify and inspect containers that may contain terrorist weapons or terrorists before the containers are placed on vessels destined for the United States. The 20 world ports handling the highest volume of cargo destined to the U.S. have been classified as "megaports." Sixteen of the original top 20 megaports have agreed to participate in the program. Currently, U.S. Customs personnel are collocated with their foreign counterparts at ports in Canada, the Netherlands and France utilizing the latest technology to profile, identify and examine high-risk shipments before they are shipped to U.S. ports. We will continue to deploy teams to the participating ports as quickly as possible We are looking to expand CSI beyond the top 20 ports, as rapidly as we can. We intend to expand CSI to all ports that ship substantial amounts of cargo to the U.S., and that have the infrastructure and technology in place to participate in the program.

T-CPAT is open to importers, carriers, brokers and other industry sectors to build a seamless security-conscious environment through the entire commercial shipping process. A forum is provided in which the business community and U.S. Customs can meet to exchange information to increase the security of the

process beginning with manufacturing, to transportation, through to importation and delivery. C-TPAT combats the threat posed by terrorist elements by employing best business practices and enhanced security measures to eliminate the vulnerability of the trade.

U.S. Customs developed and implemented an initiative focusing on narcotics interdiction efforts, combating the Black Market Peso Exchange, intelligence gathering, and bilateral cooperative efforts between the governments of the U.S. and Colombia. In support of Plan Colombia, U.S. Customs provided 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 was developed to counter the effects of Plan Colombia in the Andean Region. During 2002, our \$1 million in basic inspection tools and high-tech equipment was designated for delivery to Colombian National Police and Anti-Narcotic Police.

Plan Colombia

U.S. Customs has actively supported Colombia through several initiatives in 2002 through Plan Colombia. Air and Marine interdiction support is being provided to replace detection and monitoring aircraft upgrades. In addition, U.S. Customs supports the Colombian National Police (CNP) and the Direction de Impuestos y Aduanas Nactionales (DIAN) with training and equipment. Through Industry Partnership programs, U.S. Customs assists private sector entities in improving security. Financial Investigations programs aimed at combating the Black market Peso Exchange (BMPE) enhance the capabilities of DIAN to address smuggling, financial crime, integrity and trade fraud issues, and to expand their investigative abilities. A Special Investigative Unit (SIU) comprised of Colombian Judicial Police (DIJIN) officials was established in Bogota specifically to target BMPE-related money laundering crimes.

The U.S. Customs Attaché Bogota has assisted Colombia law enforcement with numerous seizures of currency, and has cooperated on several investigations in 2002. U.S. Customs has conducted Title III investigations of Colombian money launderers, assisted with controlled deliveries of counterfeit currency, as well as participating in undercover operations with DIAN. Additionally, U.S. Customs has conducted investigations of arms trafficking, corruption cases and child pornography. The Customs Attaché Bogota extradited several fugitives to the United States during 2002.

A total of 17 airport and seaport interdiction training and advisory programs have been conducted with DIAN and the CNP in 2002, and over 500 officers were trained. A total of 14 currency, internal narcotics carrier and contraband seizures have occurred during training programs with DIAN. The enforcement success rate of DIAN particularly in interdicting inbound currency, has increased.

Computer equipment to combat narcotics trafficking and money laundering was donated to DIAN in 2002. Inspection equipment was also procured for DIAN and the CNP in support of the Port Security Program and will be donated in 2003.

Customs Mutual Assistance Agreements

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

International Training in the U.S.

International Visitors Program (IVP). Visiting foreign officials consult with appropriate high level managers in U.S. 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 during 2002.

International Border Interdiction Training (IBIT). The Customs Port of Hidalgo hosted several IBIT programs during 2002. During separate courses, first and second-line field supervisors from border control agencies in the countries of Bosnia-Herzegovina, Azerbaijan, Armenia, Turkmenistan and Tajikistan completed IBIT—a course designed to introduce to operational managers the contraband interdiction methods and techniques used by U.S. Customs in the United States. Interdiction training of the front-line field officers in the participating countries follows the IBIT program as part of a larger Contraband Enforcement Team training program.

International Training in Host Countries

Overseas Enforcement Training (OET). This 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. In 2002 the curriculum was updated to include an overview of terrorism, particularly as it pertains to inspectional personnel. The OET program was delivered to 166 participants in 7 countries.

Train-the-Trainer Workshop. The Train-the-Trainer Workshop is oriented to prepare a nucleus of instructors who can teach border control interdiction techniques as part of a formal classroom training program. The program institutionalizes training methodology and prepares a cadre of trainers for the host governments. During 2002, the program was delivered to 12 instructors for the State Border Service Academy in Bosnia-Herzegovina prior to their grand opening. The State Border Service is a relatively new agency with broad border control responsibilities both at formal border crossings and the "green border" between.

Short Term Advisory (STA). This program commits an on-site U.S. 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, and counterproliferation of weapons of mass destruction (WMD). Advisors are also fielded for strategic planning, port security and contraband interdiction, commercial processing, investigations, automation and border/trade facilitation. During 2002, STAs were conducted in numerous locations throughout the former Soviet republics focusing on WMD counterproliferation, and in Bosnia-Herzegovina to re-enforce Contraband Enforcement Team Training.

Contraband Enforcement Team Training. This course assists host country border control agencies to develop and operate a mobile Contraband Enforcement Team. It is offered as a 3-phase program: an observational tour to the U.S. for a small group of prospective supervisors; in-country formal training for the prospective team members; and a U.S. short-term advisor who remains for 1-2 weeks following the incountry training. During 2002, U.S. Customs delivered 2 CET programs to 36 officers in 2 countries.

Airport Interdiction Training. During the airport-focused contraband interdiction training, participants are taught to identify irregularities through observational skills, interviewing techniques, document analysis and physical inspection of persons, aircraft, baggage and cargo. The goal is to develop targeting and risk assessment skills to identify falsified documents, high-risk passengers and cargo shipments, and to interdict narcotics and other contraband in the airport environment. U.S. Customs delivered airport interdiction programs to 72 participants in three countries during 2002.

Land Border Interdiction Training. This course is specialized for the risks at the land border environment. The course combines classroom training and field exercises. It offers training in interview strategies, counterfeit travel documents, targeting for narcotics/weapons of mass destruction (WMD) contraband, search techniques, port security, and safety practices for hazardous materials. Land Border Interdiction programs were delivered to 96 officers in four countries during 2002.

Integrity/Anticorruption. This course is designed to promote professionalism and integrity within the workforce of agencies particularly vulnerable to bribery and corruption. The focus is on integrity awareness training and development of internal investigation organizations. The Integrity course was delivered to 220 participants in 7 countries during 2002. Additionally, U.S. Customs was involved in a country assessment in Hong Kong as part of the Independent Commission Against Corruption. U.S. Customs received the World Customs Organization Award for Excellence for the Anti-Corruption and Integrity Awareness Program.

Canine Training (U.S.-Based). The Canine Training Program is designed to assist countries that export significant amounts of narcotics to the U.S. to initiate and maintain a viable detector dog program. Canine training was delivered to 4 participants from Trinidad during 2002.

Looking Ahead

The Department of Homeland Security begins operations in January 2003. The U.S. Customs Service, with its tradition in revenue collection and border protection, will take its place along with the other agencies designated to combat terrorism. The long-standing mission of the U.S. Customs Service in providing security to its citizens through targeted examination and interdiction will play a major role in the new organization. Port security functions will be in the forefront, with enforcement activities to promote domestic security and to fight the threat of international terrorism.

The year of 2003 will be marked with many changes, but the underlying role of U.S. Customs will continue in promoting legitimate trade and identifying contraband at our borders.

SOUTH AMERICA

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 Government of Argentina (GOA) statistics, domestic drug use continues on the upswing. Although the overall number of people arrested for possession and trafficking declined in 2002, the number of seizures of most types of drugs again 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. Argentina is a party to the 1988 UN Drug Convention.

While cognizant of its responsibilities in the interdiction area, the GOA 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 GOA has several national security forces involved in counternarcotics efforts, with the Gendarmeria 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.

II. Status of Country

Argentina is not a major drug producing country, however, because of its advanced chemical production facilities it may be a source for some of the precursor chemicals used by drug-producing countries in the Andes. 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. Although Buenos Aires had a sophisticated financial sector, which might have been used for money laundering operations, that sector has been crippled and reduced in size by Argentina's economic crisis over the course of the last year.

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 Ecstasy (MDMA), 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 system. 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 are considered to be a high trafficking threat. Much of Paraguay's international trade passes through Argentine ports in containers.

III. Country Actions Against Drugs in 2002

The GOA 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.

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 continuing severe counternarcotics budget limitations which have hampered investment in training and equipment. Also, weak coordination among the many, and at times, competing, law enforcement organizations continues to diminish GOA effectiveness. The GOA recognizes this problem and has taken some steps to try to alleviate it.

Seizure statistics provided by SEDRONAR indicate that only 32.3 metric tons of coca leaf was seized in Argentina in CY-2002. In CY-2001, 91.3 metric tons were seized. The radical decrease in seizure of coca leaf in 2002 could be attributable to a number of factors, including improved interdiction in Bolivia, and/or an increased emphasis on chemical seizures, which means more northbound traffic exiting the country is examined than southbound traffic entering the country from Bolivia. Another possible factor is the shift in Gendarmeria personnel from border interdiction duties to general policing due to a major increase in violent crime throughout the country this calendar year. Coincidentally, the price of coca leaf increased in Argentina during 2002.

Chemical diversion remains a serious problem, as demonstrated by a number of significant precursor chemical seizures resulting from operations carried out under Operations Gran Chaco and Seis Fronteras in the fourth quarter 2002. From November 2001 to October 2002 the Northern Border Task Force of the Gendarmeria Nacional seized in excess of 401,201.00 kilograms of illicit chemicals. Of this, 306,934.00 kilograms were seized in the fourth quarter, including eleven individual seizures of over 25,000.00 kilograms each. As noted above, the decrease in coca leaf seizures and the increase in chemical seizures could be a result of the increased emphasis on chemical seizures, rather than a shift in trafficking patterns.

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. The caretaker Duhalde government left in place anti-corruption measures and offices tasked with fighting corruption that had been established by the De la Rua government.

Agreements and Treaties. In 1990, Argentina and the USG signed a mutual legal assistance treaty (MLAT) that went into effect in 1993. In 1997, the USG and Argentina signed a new extradition treaty, which entered into force on June 15, 2000. A memorandum of understanding between the U.S. Treasury and SEDRONAR dealing with the exchange of financial information relating to money laundering was

signed in 1995. The GOA has yet to sign the standard INL Letter of Agreement for law enforcement and counternarcotics assistance because of Ministry of Foreign Affairs legal and policy concerns. This delay has hampered U.S./Argentina cooperative counternarcotics efforts in that it has impeded the disbursement of material assistance to the GOA.

The GOA is a party to the 1988 UN Drug Convention. It also has bilateral narcotics cooperation agreements with many neighboring countries. The United Kingdom, Germany, Australia, France, and Italy provide limited training and equipment support. Argentina signed the UN Convention Against Transnational Organized Crime and its protocols in December 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 in excess of 401,201 liters of precursor chemicals in 2002. That is a noticeable increase over the 350,465 liters of precursors seized in 2001.

A presidential decree signed in 1991 placed controls on essential chemicals and precursors, requiring that all manufacture, import or export of precursor chemicals (and certain pharmaceutical drugs) be registered with SEDRONAR. In 1996, another decree included the need for distributors and transporters to register. Until very recently, not much was done to verify the bona fides of chemical transfers. Due to resource constraints and deficiencies in the relevant earlier decrees, there have been very few investigations into suspicious chemical transfers. This may be in part attributable to the fact that Argentine law does not recognize the 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 to be in possession of precursor chemicals, although that situation appears to be improving as SEDRONAR has placed increasing emphasis on the precursor problem.

SEDRONAR has recognized long-standing problems with the old chemical register. 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. The GOA has proposed to its neighbors that they work more closely together to monitor the flows of chemicals in the region. SEDRONAR officials say they are willing and able to exchange records with USG law enforcement authorities, and have begun to do so in an effective manner mutually beneficial to both governments.

IV. U.S. Policy Initiatives and Programs

Cooperation between the USG and Argentine authorities, both federal and provincial, continued to be excellent in 2002. 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 415.6 kilograms of cocaine and arrested 53 traffickers in calendar year 2002. 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.

Based on the success of the NBTF and Group Condor task forces, the Embassy plans to assist the GOA in establishing similar task forces in the tri-border area and at the Port of Buenos Aires in 2003. The Gendarmeria Nacional's task force operations have been particularly effective in the past year and as a result the USG will channel significant amounts of available funding to assist Gendarmeria efforts to establish new task forces and train personnel to man them. The USG is also looking to provide more equipment and training to the Prefectura Naval, which places considerable emphasis on maritime drug interdiction activities. In 2002, the USG funded the training of a mid-level Prefectura Naval officer at the U.S. Coast Guard's Yorktown, Virginia training facility. He attended two courses—one on crisis

management and the other on command and control. The officer has since returned to Argentina and is training his colleagues based on what he learned in Yorktown.

In 2002, the USG also funded a seminar on airport drug interdiction methods that was organized by the DEA Buenos Aires Country Office (BACO). All GOA federal law enforcement agencies and the Argentine Customs Service were represented at the seminar.

In September 2002, the Embassy hosted a seminar on money laundering that was funded by INL and taught by instructors from the Federal Law Enforcement Training Center. The seminar was well attended and extremely well received. An Argentine federal judge, a number of federal prosecutors, four of the five directors of the new Financial Investigative Unit (FIU), Central Bank officials, and representatives from each of the three federal law enforcement agencies attended, along with officials from the private banking and money laundering sectors.

The Road Ahead. U.S./Argentine counternarcotics cooperation improved noticeably in 2002, despite an uncertain political situation in which Argentina had five different presidents in a three-week period at the beginning of the year. Elections are scheduled for April 2003 and a new government is to take office in May. New officials will take charge of GOA ministries and law enforcement agencies involved in counternarcotics efforts and they will need to establish counternarcotics policies and strategy for the new government. During that period, the USG will encourage the GOA to continue to focus its efforts on the critical northern border area where the vast majority of cocaine enters Argentina, without neglecting other important areas such as the tri-border area where Argentina, Paraguay, and Brazil meet. The USG will continue to 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. Efforts will also include continued work with SEDRONAR to develop effective chemical controls and identify the illegal diversion of precursor chemicals.

Bolivia

I. Summary

Bolivia's prior success in eradicating huge swaths of coca cultivated in the Chapare is challenged by a 23 percent increase in coca cultivation as of June 2002. Despite eradicating nearly 12,000 hectares of coca this year, constant replanting obliges the newly installed Sanchez de Lozada Administration to pursue a multi-year counternarcotics campaign in the Chapare. Alternative development initiatives in the Chapare continue to provide licit alternatives to coca.

The largest coca growing area within Bolivia, of both legal and illegal coca, is the Yungas. There, topography and history argue against a simple repetition of the policy of force eradication so successful in the Chapare. Limiting the expansion of illegal plantings in the Yungas are the principal challenges faced by the new Administration. In 2002, the GOB began putting in place the mechanisms to control the licit coca market and prevent diversion to illicit cocaine production by enhancing interdiction operations. Successes in interdiction, which have significantly disrupted the traffic and transit of drugs and precursor chemicals over recent years, have been somewhat offset by adaptations by Bolivian traffickers to a limited and changing supply of precursor chemicals. Additionally, Bolivia remains a transit country for Peruvian cocaine base. Over the years the GOB has also undertaken several projects to reduce domestic demand for illicit narcotics. Bolivia is a party to the 1988 UN Drug Convention.

II. Status of Country

Today Bolivia trails far behind its neighbors, Colombia and Peru, as a supplier to world markets of coca base and cocaine hydrochloride (HCL). Bolivia's cultivation of coca is about half what it was at its peak in 1995, dropping from 48,600 hectares to 24,400 hectares in 2002; Bolivian law authorizes the cultivation of up to 12,000 hectares of coca for traditional use.

Any gains in the GOB's successful reduction of domestic coca and cocaine production have been partially offset by Bolivia's growing importance as a transit country for Peruvian cocaine base destined mainly for 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 2002

Policy Initiatives. The successes of "Plan Dignity" were evident at the time of President Banzer's resignation for ill-health in August 2001. The transition administration of President Jorge Quiroga, worsening economic prospects and the run-up to the 2002 presidential elections combined to constrain GOB initiatives that would have consolidated these successes. The rooting out of corruption remains a challenge for the Sanchez de Lozada Administration, one that will ultimately determine, to a large degree, its future success in advancing its counternarcotics policy.

Despite the transition from the Quiroga Administration to that of Sanchez de Lozada, 2002 eradication statistics (nearly 12,000 hectares) were the second highest ever recorded for Bolivia. The Sanchez de Lozada Administration maintained the strong forced eradication program in the Chapare of his predecessors, though the President did establish a "dialogue" with cocalero leader Evo Morales that continued through the end of 2002. Morales' call for a "pause" in eradication has been rebuffed by the Sanchez de Lozada Administration, though it has shown itself willing to discuss a panoply of other cocarelated issues in an attempt to avoid violence and economic disruption from cocalero roadblocks.

Even with a strong eradication effort, in 2002 the GOB faced a 23 percent net increase in coca cultivation—4,500 hectares over the 2001 levels, due to rapid replanting by cocaleros. The net increase in

Chapare cultivation was 1,200 hectares, while the Yungas saw a net increase of 3,400 hectares. (The Apolo region declined by 100 hectares.) Due to strong and violent cocalero opposition, both the previous and the current GOB administrations have been hesitant to conduct forced eradication in the Yungas. The Sanchez de Lozada Administration is developing a comprehensive Yungas strategy focusing on interdiction. The USG is working closely with the GOB to rebuild DIGECO, the institution charged with regulating the commercialization of legal coca. This effort is an integral part of a long-term strategy of increasing interdiction efforts and achieving effective control over the legal market for coca leaf to prevent diversion to cocaine production.

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. There were no extraditions from Bolivia to the United States in 2002.

Counternarcotics Alternative Development. USAID supported net coca reduction by deepening and broadening alternative development assistance in the Chapare region. Through September 2002, USAID reached 21,410 families with on-farm technical assistance, planting material, training and infrastructure. The GOB estimates the area of licit crops planted in the Chapare increased about five percent in 2002, to nearly 125,000 hectares. Social conflicts and frequent blockades, however, limited the percentage of investments made in production and road infrastructure covered by non-USG resources in 2002. There are currently 92 agribusinesses purchasing agricultural products and/or supplying agro-inputs on a regular basis in the Chapare, about 70 percent of which received direct or indirect collaboration from USAID.

The annual family income from licit agricultural products in the Chapare increased from \$1,706 in 2000 to \$2,055 in 2001; USAID estimates that further (albeit limited) growth occurred in 2002. The GOB estimates the number of jobs in licit agriculture rose to 51,000 by December 2002. By September 2002 the value of licit produce leaving the Chapare decreased to \$19.5 million, down from \$28.9 million in September 2001. This was due to sharp reductions in demand occasioned by the economic recession in Bolivia and the severe economic crisis in Argentina; demand rebounded considerably in the fourth quarter.

USAID's alternative development program in the Yungas, known as the Yungas Development Initiative (YDI), through September 2002 completed 56 rural and small-town infrastructure projects, began implementation of 35 additional projects, and had 40 projects at various stages of design. These projects provide inter alia potable water systems, schools, coffee post-harvesting mini plants and other types of social and productive infrastructure.

In addition, the YDI has provided scholarships for 33 regional university students specializing in health provision and agricultural/veterinary science. The YDI has trained 35,100 Yungas residents in 454 communities in disease prevention and supported programs to provide successful medical treatment for tuberculosis and leishmaniasis to over 1,000 patients. The YDI constructed seventeen community sanitation units benefiting 6,967 people (with 34 more under construction), maintained and improved 37 kilometers of rural mountain roads (constructing three major bridges), and provided technical assistance in harvest and post-harvest techniques in twenty communities.

The YDI's successful efforts with coffee growers are starting to demonstrate high-income alternatives to coca production. Work with seven of the eight Yungas municipalities has resulted in signed coca control and reduction agreements with six federations and over 100 communities, leading to certification of over 60,000 hectares as coca-free areas. However, only 54 hectares of coca were voluntarily eliminated since the inception of the YDI in 1999.

Law Enforcement Efforts. The GOB and USG continue to work together to expand the size of the Special Drug Police Force (FELCN) and its specialized operational units. This expansion included 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. It also included construction of a

national communications grid, establishment of several computer-based data banks and information sharing systems and the upgrading of operational and office equipment and gear.

In 2002 the GOB seized 101 metric tons (MT) of coca leaf, 362 kilograms of cocaine HCL, 4.7 MT of cocaine base and 8.8 MT of cannabis. In 2002 the FELCN Chemical Unit seized 240,403 liters of liquid precursor chemicals (acetone, diesel, ether, etc.) and 150 MT of solid precursor chemicals (sulfuric acid, bicarbonate of soda, etc.). It also destroyed 1,420 cocaine labs and made 3,229 arrests. GOB efforts continued to focus upon the interception of illicit drugs and chemicals, as well as on the detection and destruction of both organizations which bring chemicals into Bolivia from Chile and Argentina and those which transfer cocaine from Bolivia into Brazil and Argentina.

The Code of Criminal Procedures (CCP) was enacted to strengthen the state's ability to protect its citizens' rights while providing for more rapid prosecutions and findings. New procedures introduced in 2002 to implement the CCP complicated the task faced by law enforcement and justice officials to complete successful investigations and trials in a timely manner. The public also does not yet fully understand the process. The USG and GOB continued to work together to provide training for prosecutors, investigators, and judges. In 2002 the USG also supported GOB efforts to strengthen Bolivia's prosecutorial institutions through the hiring of new prosecutors and paralegals to deal with the caseload within the deadlines fixed by the CCP. Problems with CCP implementation remain, however. Changes in the substantive Criminal Code are still needed to avoid prosecuting informants. Bail provisions and restrictions are not always applied correctly and the CCP limits the use of preventive detention. In addition, despite considerable training, prosecutors and judges (unaccustomed to the discretion under the CCP) often fail to apply preventive detention when it is called for.

Corruption. Bolivia's small- to mid-sized trafficking organizations do not seem to exercise a corruptive influence at the higher levels of the GOB. The present government neither condones, encourages nor facilitates any aspect of narcotics trafficking. In 2002, there were no prosecutions of narcotics-related cases involving senior level officials. The GOB, however, aggressively investigates allegations and is prepared to take appropriate action in instances wherein investigations suggest current or former Bolivian National Police or other officials are involved in or otherwise implicated in narcotics-related corruption.

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 yet ratified the UN Convention against Transnational Organized Crime and the Protocol against the Smuggling of Migrants; both have been approved by the Senate and are before the Lower House for final approval. In November 2001 Bolivia ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons.

Cultivation/Production. At mid-2002 total cultivation of coca in Bolivia was estimated to be 24,400 hectares, with 18,700 hectares in the Yungas region (6,700 hectares over that allowed under current Bolivian law), 5,400 hectares in the Chapare region (all illicit, destined for cocaine production) and 300 hectares in the Apolo region (all licit). Total potential cocaine production in Bolivia decreased from 240 metric tons in 1995 to 60 metric tons in 2002.

Drug Flow/Transit. Most Bolivian cocaine flows through Argentina and Brazil. 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 mostly enters Brazil. This cocaine base, particularly that of the lowest quality, is mostly consumed in Brazil. There are indications that some Peruvian cocaine base transiting Bolivia is consumed in the markets of Europe, Mexico and/or the United States. Some Peruvian cocaine base also transits Bolivia destined for Argentina, Chile or Paraguay.

Domestic Programs (Demand Reduction). During 2002 the USG continued to support the GOB's initiatives 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal U.S. counternarcotics goals in Bolivia are: to permanently remove Bolivia as a major producer of coca leaf for the production of cocaine; to promote economic development and establish alternative licit crops and markets so farmers will have viable options to cultivating coca; to disrupt the production of cocaine within Bolivia; to interdict and destroy illicit drugs and precursor chemicals moving within and transiting the country; and, to reduce and combat the market for the domestic abuse of cocaine and other illicit drugs. The USG works through various programs to promote institutional reform and strengthening the elements within the GOB dedicated to counternarcotics.

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

INL, through the Mission's Narcotics Affairs Section (NAS) and its Air Wing, 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 and Agriculture, and the Public Prosecutor's Office. The U.S. Coast Guard discontinued its long-term training operations, which had been operating continuously in Bolivia with rotating teams for over ten years due to Bolivia's significant improvement in riverine counternarcotics capabilities. Goals within the LOAs reflect U.S. interests outlined in the Mission Program Plan, and were generally met or exceeded in 2002.

Road Ahead. Bolivia had a general election in June 2002. Gonzalo Sanchez de Lozada was elected president, at the head of a coalition of parties. Cocalero leader, Evo Morales, received the second largest plurality in votes, heading, in turn, an agglomeration of disparate political elements running against the status quo. Although the ruling coalition has evolved into an entity with sufficient votes to move legislation through the Congress, the appearance of the anti-establishment grouping demonstrated the growing sense of disenfranchisement among many voters.

The challenge for the GOB will be to eradicate aggressively for the foreseeable future, thus demonstrating its resolve to discourage continued efforts to grow and commercialize coca in the Chapare. Much of its future success with regard to controlling illegal production in the Yungas will depend on the GOB's reformation of the systems in place to control the marketing of legal coca, limiting it to only truly traditional uses.

Bolivia Statistics

(1994–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994
Coca									
Net Cultivation ¹ (ha)	24,400	19 , 900²	14,600	21,800	38,000	45,800	48,100	48,600	48,100
Eradication (ha)	11,839		7,653	16,999	11,621	7,026	7,512	5,493	1,058
Cultivation (ha)	_	19,900	22,253	38,799	49,621	52,826	55,612	54,093	49,158
Leaf: Potential Harvest ³ (mt)	19,800	20,200	13,400	22,800	52,900	70,100	75,100	85,000	89,800
HCI: Potential (mt)	60	60	43	70	150	200	215	240	255
Seizures									
Coca Leaf (mt)	102	65.95	51.85	56.01	93.72	50.60	76.40	110.09	202.13
Coca Paste (mt)		_				0.008	_	0.05	0.02
Cocaine Base (mt)	4.7	3.95	4.54	5.48	6.20	6.57	6.78	4.60	6.44
Cocaine HCl (mt)	0.4	0.51	0.72	1.43	3.12	3.82	3.17	3.59	1.02
Combined HCI & Base (mt)	5.1	4.46	5.26	6.91	9.32	10.39	9.95	8.19	7.46
Agua Rica ⁴ (ltrs)	_	20,240	15,920	30,120	44,560	1,149	2,275	16,874	16,874
Arrests/Detentions	1,422	1,674	2,017	2,050	1,926	1,766	955	600	1,469
Labs Destroyed									
Cocaine HCl	2	1	2	1	1	1	7	18	32
Base	1,285	877	620	893	1,205	1,022	2,033	2,226	1,891

¹ 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.

² As of 06/01/2001.

³ Most coca processors have eliminated the coca paste step in production.

⁴ 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.

Brazil

I. Summary

The four main narcotics events of 2002 were the passage of an omnibus Brazilian federal counternarcotics law, the inauguration of the Amazonian Surveillance System (SIVAM), the regional integration of municipal drug laws of border cities, and the conclusion and publication of a Brazil-wide national drug consumption survey.

According to Brazilian authorities, the country's domestic drug problem is increasing. Additionally, Brazil is a major transit country for illicit drugs shipped to the United States and Europe. Brazil continues to cooperate with its South American neighbors to effectively control the remote frontier regions where illicit drugs are transported. Brazil is 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 Europe and the U.S. While the cocaine base has been consumed primarily in Brazil and the cocaine HCl exported, a significant, and increasing, amount of cocaine HCl remains in the country, particularly in Sao Paulo and other Brazilian urban centers where basuco and crack cocaine is used among the youth. Brazil is not a significant drug-producing country.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Brazil has undertaken various bilateral and multilateral efforts to meet all objectives of the 1988 UN Drug Convention, has implemented adequate law enforcement measures, and achieved significant progress in the fight against illegal drugs. In August, President Cardoso signed a decree formalizing the National Anti-drug Policy, reaffirming the commitment made in the Special Session of the General Assembly of the UN in June of 1998, and highlighting the transnational character of narcotics trafficking and the connection of this type of crime with other illegal activities such as money laundering. The new law focuses on punishing the trafficker and treating and rehabilitating the user with methods such as drug courts, and proposes the formal creation of a National Anti-drug System.

In July, the GOB implemented the 1.4 billion dollar project, begun in 1995, known as the Brazilian System for the Vigilance of the Amazon/System for the Protection of the Amazon (known by its Portuguese acronym SIVAM/SIPAM). SIPAM was created as a separate Brazilian government agency in September. The monitoring system known as SIVAM was designed to monitor all areas of interest in the Amazon, including environmental impact and illegal incursions into Brazilian territory. SIPAM maintains SIVAM and serves as a data conduit for the information between the Federal and local governments, as well as other interested parties. In December 2002, the system was reportedly 75 percent operational, but will require the installation of additional equipment and sensors, as well as additional GOB resources and support, to become fully functional.

The GOB implemented its border municipality counternarcotics pilot program in November. The goal of the program is to integrate border municipalities' drug demand reduction programs. The initial project covers the city-pairs of Santana do Livramento (Brazil)-Rivera (Uruguay), Uruguaiana (Brazil)-Paso de los Libres (Argentina), Ponta Pora (Brazil)-Pedro Juan Caballero (Paraguay), and Corumba (Brazil)-Puerto Suarez (Bolivia). The project is supported by the USG and OAS.

In September, the Brazilian household consumption survey of psychotropic drugs was published by the Brazilian National Antidrug Secretariat (SENAD). Half of the study was USG-financed. Brazilians were surprised at the high level of drug use (19.4 percent, at least once in their lifetime) shown in the study.

Cocaine usage (at least once in their lifetime) was shown in the study to be 2.3 percent of the population. The survey measured prevalence of drug use but not the total amount of drugs consumed.

The GOB continues to implement, with support from SENAD (the GOB National Anti-Drug Secretariat), specialized drug courts in Brazil, based on the U.S. model of national drug courts. The USG has financed and organized drug court conferences in Brazil, with U.S. speakers, as well as trips to the U.S. by GOB state justice officials to observe first-hand the drug court system in the U.S.

Law Enforcement Cooperation. The Brazilian Federal Police (DPF) and the National Anti-drug Secretariat (SENAD) continued to express their interest in active cooperation, particularly intelligence sharing, and coordination with the U.S. in drug control activities, inviting DEA agents to observe DPF operations in the Amazon region. Brazil actively cooperates with authorities in neighboring countries, particularly Colombia, Peru and Bolivia, to enhance regional counternarcotics efforts. In 2002 the GOB hosted both the Andean IDEC (International Drug Enforcement Conference) subgroup meeting, and the IDEC Southern cone subgroup meeting, as well as an international conference of Latin American Special Investigative Units (also known as vetted units). Brazil conducted joint counternarcotics operations (Operations Alianza 8 and 9) with Paraguay, and sent three DPF Agents to attend the Garras Del Valor Jungle police/counternarcotics training school in Bolivia.

Illicit Cultivation/Production. 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.

Distribution and Financing. The DPF have taken measures to identify significant drug trafficking trends, patterns, and traffickers throughout Brazil in 2002. 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, Federal Police information indicates that Bolivian cocaine generally tends to dominate in those markets. Federal counternarcotics police and state authorities are investigating the extensive domestic distribution networks in major and secondary cities in Brazil.

Asset Seizure. Many assets, particularly motor vehicles, are seized during narcotics raids and put into immediate use by the Federal Police under a March 1999 Executive Decree. Other assets are auctioned and proceeds distributed based on court decisions. Federal Police records show that 3 airplanes, 247 motor vehicles, 19 motorcycles, 1 boat, 47 firearms, and 221 cell phones were seized and used in 2002.

Extradition. According to the Brazilian Constitution, 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. Brazil cooperates with other countries in the extradition of non-Brazilian nationals accused of narcotics-related crimes. In 2002, Brazil extradited two U.S. citizens to stand trial in the U.S. on narcotics charges.

Demand Reduction. In late February, with USG assistance and in conjunction with the Brazilian National Public Safety Secretariat (SENASP) and SENAD, Brazilian Military Police trainers conducted DARE (Drug Abuse Resistance and Education) training sessions for Military Police personnel from 20 different Brazilian states. The DARE program, of which Brazil's is the largest outside of the U.S., reinforces a positive image of local police forces, while providing a strong message concerning demand reduction. In 2002, the hugely popular Brazilian soap opera "The Clone," watched daily by millions in Brazil and abroad, transmitted a strong counternarcotics message, which was educational and well received by the public and the GOB. SENAD continues to enjoy success with its toll-free number on drug information.

Interdiction. In 2002, the Federal Police seized 9.16 metric tons of cocaine HCl, 150 kilograms of crack, and 254 kilograms of base. Marijuana (cannabis) seizures went from 136 metric tons in 2001 to 190.87

metric tons in 2002. Two drug laboratories were dismantled in 2002. These numbers are incomplete, since only those of the Federal Police, and not those of local police forces, are reported on a national basis. Federal Police sources estimate they record perhaps 75 percent of seizures and detentions.

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.

Agreements and Treaties. Brazil became a party to the 1988 UN Drug Convention in 1991. Bilateral agreements based on the 1988 convention form the basis for counternarcotics cooperation between the U.S. and Brazil. Brazil also has a number of narcotics control agreements with its South American neighbors, several European countries, and South Africa. Brazil cooperates bilaterally with other countries and participates in the UN Drug Control Program (UNDCP) and the Organization of American States/Anti-drug Abuse Control Commission (OAS/CICAD). In June, the USG and GOB (Secretariat of the Federal Revenue) signed a bilateral Customs Mutual Assistance Agreement (CMAA). The CMAA will assist both countries in law enforcement efforts. Brazil and the U.S. are parties to a bilateral extradition treaty and additional protocol, signed in 1961 and 1962, respectively.

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. Federal Police officials indicate that cocaine leaving Colombia and entering Brazil by air is destined for international markets in Europe and the U.S. hidden in containerized cargo. According to Federal Police, smaller amounts of cocaine leave Colombia via Brazil's waterway networks in the Amazon region and are mainly destined for the Brazilian domestic market.

Precursor Chemical Control. Brazil requires registration with Federal Narcotics Police for all production, transport and distribution of precursor chemicals. In January, the GOB increased the number of controlled chemicals from 11 to approximately 150. Modifications of the existing laws were also made, making it easier for the Drug Enforcement Division (DRE) of the Brazilian Federal Police to investigate the diversion of precursor chemicals and prosecute those responsible. Additionally, the law grants the chemical section of the DRE the authority to add, delete, or otherwise modify the inclusion of specific chemicals and chemical-related statutes. In February, 46 agents of the Brazilian Federal Police attended the DEA academy in Quantico, Virginia. The agents are part of a special vetted investigative unit (SIU) working closely with DEA. Of the 46, 20 will be working directly with the Precursor Chemical SIU. The other 26 will join the 14 who have already been trained in the enforcement SIU.

The Federal Police 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.

VI. U.S. Policy Initiatives and Programs

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 accordance with the bilateral U.S.-Brazil letter of agreement (LOA) on counternarcotics, bilateral programs that took place in 2002 included cooperation with the Regional Intelligence Center of Operation COBRA, the International Drug Enforcement Conference (IDEC), Operation Alianza 8 and 9, and Operation Seis Fronteiras IV. Brazil and the U.S. are seeking to meet all goals set forth in the bilateral LOA.

Through the LOA, in 2002, the USG worked closely with the Federal Police, SENASP (Brazilian National Public Safety Secretariat), and SENAD. Various operations, such as Operation Alianza 8 and 9, were supported with LOA funds. With SENASP, the USG worked with local state and military police forces throughout Brazil to ensure such forces had basic law enforcement equipment, including bullet proof vests, handcuffs, and computer equipment. Working with SENAD, the USG ensured that all of Brazil's 26 state drug councils were provided with computer equipment and that they were hooked into a Brazil-wide network with SENAD.

Brazil continues to be actively involved in IDEC. Worldwide conferences are held annually, and subregional conferences are held approximately six months after the general conference. These conferences, sponsored and supported by DEA, bring law enforcement leaders from Western Hemisphere countries together to discuss the counternarcotics situations in their respective countries and to formulate regional responses to the problems they face. Brazil is a member of the Andean and Southern Cone Working Groups.

Operation Seis Fronteiras IV is part of a continuing successful regional counternarcotics exercise involving Brazil, Bolivia, Colombia, Ecuador, Peru, Venezuela, and the U.S. focusing on precursor chemicals.

In October, the USG provided MLAT (Mutual Legal Assistance Treaty) training to Brazilian judges, prosecutors, and law enforcement personnel in Rio de Janeiro, Curitiba, Sao Paulo, and Fortaleza. The USG provided funding for a SENASP team to visit the U.S. Department of Justice for possible implementation of a national information and look-out system, and funded the visit by a team of two Military Police Colonels to DARE program international headquarters in Los Angeles in November.

The Road Ahead. Brazil continues to expand its successful and ambitious Operation Cobra in northern Brazil towards other border areas, including the northern border with Suriname and Guyana and the southern triborder area with Argentina and Paraguay. Such expansion and perseverance 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 combat drug trafficking would include willingness to share information on a real-time basis with other governments committed to the counternarcotics fight; continued high-level attention to counternarcotics efforts; further funding of counternarcotics programs and law enforcement agencies; and continued interdiction efforts in the regions most exploited by international narcotics traffickers.

Chile

I. Summary

While not a center of illicit narcotics production, Chile remains a transit country for cocaine and heroin shipments destined for the U.S. and Europe. Chile is a source of essential chemicals for use in coca processing in Peru and Bolivia. Through continued cooperation with neighboring countries and the support of the DEA, Chile achieved several successes in the area of control in 2002, including the break-up of an international heroin trafficking ring.

Proposed legislation to strengthen Chile's current drug and money laundering laws passed the lower house of Congress, but still fails to provide the Government of Chile (GOC) with the necessary tools and authority to freeze suspect assets. While there has been no evidence of significant money laundering, Chile remains vulnerable due to banking secrecy laws and lack of effective enforcement legislation. Chile is a party to the 1988 UN Drug Convention.

II. Status of Country

Transshipment of cocaine from the Andean region is a problem for Chile, as is the growing transit of heroin destined for the U.S. and Europe. Chile is a destination country for marijuana from Paraguay due to domestic demand. Chile produces small amounts of marijuana for domestic consumption, but is not a major drug producing country. Chilean authorities have discovered some cocaine and amphetamine labs in the past year, but Chile is not a major source of refined cocaine.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Chilean Congress continues to work on a comprehensive revision of Chile's 1995 drug legislation, a project pending since 1999. Although passage of the law is unlikely this year, the portion of the law dealing with money laundering has been broken out for separate consideration. This section, which creates a Financial Analysis Unit (FAU) and criminalizes money laundering for arms trafficking and terrorist financing (currently only for narcotics), has been passed by the lower house of Congress, but still fails to provide the GOC with the necessary tools and authority to freeze suspect assets.

Accomplishments. In October 2002, Embassy Santiago, in conjunction with The National Drug Control Commission (CONACE), sponsored a conference of the Drug Prevention Network of the Americas (DPNA). The conference brought together representatives of 38 NGO's working in demand reduction throughout Chile. The goal of the conference was to encourage the creation of an NGO network in Chile to work on drug prevention issues and to create new demand reduction programs. This network, once formalized, will join DPNA.

Chile continues to implement its multi-year criminal justice reform to replace its current judiciary system. As of December 2002, seven of Chile's 12 regions will have adopted the new system, including Regions I and II where most drug trafficking occurs. Due to their proximity to the Peruvian and Bolivian borders as well as the presence of the major ports of Arica, Iquique and Antofagasta, the majority of Chile's drug-related arrests occur there. Having the new judicial system in place in those regions should make processing drug cases easier.

Law Enforcement Efforts. Chilean authorities are successfully interdicting narcotics transiting through and destined for Chile. As a result of increased U.S. support for interdiction efforts in the Andean source nations, narcotics traffickers are using Chile as a transshipment point for cocaine and heroin with more frequency. Chile's clean reputation with authorities in the U.S. and Europe means that vessels and aircraft originating from Chile are less closely scrutinized.

According to the Vice-Minister of the Interior, cocaine seizures were up 40 percent in the first three months of 2002, compared with the same period in 2001 (123 kilos 628 grams versus 88 kilos 15 grams). Chilean Customs, in cooperation with the Carabineros (uniform police) and the Investigations Police, reported seizing 580 kilos of cocaine in 2001, including 2 tons in one shipment. Police have reported seeing marked increases in cocaine trafficking from Peru and, working closely with their Peruvian counterparts, have made several seizures through joint land and sea operations. They seized 87 kilos in one weekend. The Investigations Police report seizing 433 kilos of cocaine as of October 2002, compared with 645 kilos in 2001.

Heroin trafficking continues to rise, coming from Colombia through Peru and Ecuador, although the overall amount seized has decreased since 2001 (33.2 kilos in 2001; 15.6 as of October 2002). Most seizures have occurred at the Santiago airport, including 5 kilograms seized from a Peruvian "mule" in September. The heroin was destined for the U.S. and was estimated to have a street value of U.S. \$18 million. In August 2002, Chilean Investigations Police arrested an Ecuadorian citizen in possession of approximately 9 kilograms of heroin at the Santiago International Airport. The heroin was hidden in the inner linings of 12 jackets, which had been transported from Ecuador, through Peru, into northern Chile. In an unprecedented decision, a presiding Chilean judge allowed a controlled delivery of the heroin to its recipient in New York. The subsequent delivery of 2 kilograms of heroin resulted in the arrest of the New York source of supply and two other couriers from Canada and Italy.

Seizures of marijuana from Paraguay rose dramatically in 2002. Chilean Customs recorded 88 seizures through October 2002, totaling 4 tons. The amount seized by the Investigations Police and Carabineros has more than quadrupled the figure from 2001, from 2,351 kilos to 8,413 kilos as of October 2002. In April 2002, Chilean police, in joint operation with Paraguayan authorities, seized nearly 2 tons of pressed marijuana in a truck crossing the border. Part of "Operation Southern Cross," the authorities arrested 13 individuals including a Chilean woman alleged to be the head of the ring. There have also been several other large seizures (one or more tons) of marijuana, including a shipment hidden in lumber pallets.

Corruption. Corruption among police officers and other government officials is not a major problem, although there were two high profile incidents in 2002, which alarmed the GOC and the public. In October 2002, the head of the Investigations Police's Anti-Narcotics Brigade in the northern city of Iquique, Raul Sumonte, was arrested for driving drunk and tested positive for cocaine use. The drug test combined with questions over Sumonte's degree of involvement with an informant led to his dismissal and the resignation of the National Anti-Narcotics Chief for Investigations, Carlos Espinoza. Also in October, Chilean authorities arrested one retired and four active army officials for supplying arms and protection to Paraguayan drug traffickers. The five suspects have also been implicated in the murder of a Paraguayan national. Despite their serious nature, these incidents appear isolated and not a sign of widespread corruption. Chile remains highly ranked on Transparency International's Annual Corruption Perception Index (16th in 2002, one spot lower than the U.S.).

Agreements and Treaties. The bilateral extradition treaty between the U.S. and Chile dates from 1900. Its updating is presently under consideration. The U.S. and Chile do not have a bilateral mutual legal assistance treaty (MLAT). Chile may ratify the multilateral OAS MLAT, to which the U.S. is already a party.

In September 2002, Chile and the U.S. signed a new agreement for cooperation and mutual assistance in narcotics-related matters, and U.S. assistance programs are implemented under this agreement. The GOC and the DEA signed an agreement in 1995 to create a Special Investigative Unit (SIU) within the Carabineros, and a portion of USG funding goes to provide training and equipment for the SIU. Chile has bilateral agreements in force with Argentina, Austria, Bolivia, Brazil, Colombia, Costa Rica, Croatia, Cuba, Ecuador, El Salvador, Mexico, Panama, Paraguay, Peru, Russia, Singapore, South Africa, Uruguay and Venezuela.

In multilateral fora, Chile is an active member of the Inter-American Drug Abuse Control Commission (CICAD). Chile also sent a delegation to the Inter-American Counter-Drug Forum (IACF) Conference

held in Miami in September 2002. As a party to the 1988 UN Drug Convention, Chile continues to work toward compliance with its goals and objectives, particularly through on-going efforts to update the 1995 drug law.

Drug Flow/Transit. Increasing amounts of drugs are being transshipped from Andean source countries through Chile, destined for the U.S. and Europe. Peru has reported discovering new trafficking routes from Colombia through the Peruvian jungles destined for the Chilean ports of Arica and Iquique. Chile's extensive and modern transportation system, both air and maritime, make it attractive to narcotics traffickers. Most narcotics arrive by land routes from Peru and Bolivia, but Paraguay and Argentina are gaining popularity as security tightens up northern points of entry. The efforts of Chilean authorities are hampered by treaty provisions allowing cargo originating in Bolivia and Peru to transit Chile without inspection to the ports of Arica and Antofagasta. A growing trend to use Peruvian fishing vessels to traffic large loads of drugs into Chile is emerging. The Chilean Navy, through its coast guard division "Directemar," has begun to take a more active role in interdiction efforts.

Domestic Programs. Chile is very concerned about rising domestic drug use and distribution. In April 2002, CONACE released a comprehensive new study of drug use among high school students. According to the survey, nearly 24 percent of high school students nation-wide had used drugs at least once (8 percent in the month previous to the study). Marijuana use among high school students increased 8.8 percent between 1999 and 2001, and 60 percent of students classified it as "easily obtained." Cocaine use also increased between 1999 and 2001, from 4.5 to 5.3 percent. Solvents, amphetamines, heroin and ecstasy were also used. CONACE co-sponsored a USG-funded conference of the Drug Prevention Network of the Americas (DPNA) with the goal of forming a Chilean NGO network to combat drug use.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. During 2002, the U.S. government pursued numerous initiatives based on the above priorities. These include; 1) a U.S./Chile Letter of Agreement (LOA) to provide INL support to the ongoing criminal justice reform, narcotics interdiction, anti-money laundering and demand reduction programs; 2) two oral advocacy courses for new Chilean prosecutors; 3) a U.S. speaker program on court administration; 4) two INL-funded evidence collection and investigative techniques courses; 5) an INLfunded course in major case management for police and prosecutors; 6) a U.S. speaker program on prosecution of drug cases; 7) INL-funded IRS training course on money laundering investigation techniques; 8) direct video conference with FINCEN and IRS on money laundering issues; 9) Southcomfunded support of the Chilean delegation to the Inter-American Counter-Drug Forum conference in the U.S.; 10) INL-funded support of the police to provide training and equipment for counternarcotics operations; 11) a U.S. Customs-funded Airport Narcotics Interdiction Course; 12) two essential chemical diversion courses; 13) an INL-funded Drug Prevention Network of the Americas (DPNA) conference in Santiago; 14) two International Visitor programs on demand reduction and law enforcement issues; 15) an International Visitor program on counterterrorism and money laundering issues; 16) Diplomatic Security funded support to send four GOC officials to a counterterrorism legislation seminar which included sections on money laundering; 17) course on street survival techniques for police; 18) DEA funded training for a new Chilean SWAT team; 19) renegotiation of the 1900 U.S./Chile extradition treaty; 20) a DOS-funded Chilean delegation to the annual PRIDE conference.

The Road Ahead. In 2003, 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 on-going process, the U.S. plans to continue to provide capacity-building assistance, including specialized training for prosecutors working on narcotics cases. Efforts to enhance the counternarcotics capabilities of the Chilean police pursuant to the LOA will continue. INL-funded courses provided by DOJ on money laundering prosecution, U.S. Customs on container security and the FBI on evidence collection techniques are all expected to take place in 2003. USG support to build a NGO counternarcotics alliance will likewise continue.

Colombia

I. Summary

Colombia continues to be the world's leading producer and distributor of cocaine and a significant supplier of heroin to the United States. In addition to supporting independent drug traffickers and cartels, the drug trade serves as a major source of funding for the leftist Revolutionary Armed Forces of Colombia (FARC), the hemisphere's largest and oldest terrorist group, and the United Self Defense Forces of Colombia (AUC), a paramilitary organization. The AUC and the FARC each control areas within Colombia that have the greatest coca and poppy cultivation. Their involvement in the drug trade fuels continued violence as each group vies to gain or retain profitable territory. The Uribe Administration is making good on its promise to crack down on extralegal armed groups and the illegal drug trade that funds them. During CY 2002, the U.S. Attorney General announced indictments against leading members of the FARC and the AUC for drug trafficking charges – including FARC Secretariat member Jorge Briceno-Suarez, FARC 16th Front Commander Tomas Molina-Caracas, and Carlos Castaño-Gil and Salvatore Manuero-Gomez, the number one and two of the AUC. The Colombian Government continues apace to extradite Colombian nationals to the U.S. to face serious drug trafficking charges and other crimes.

In 2002 the Government of Colombia (GOC) increased aerial coca eradication to a record pace. The U.S.-supported Colombian National Police Antinarcotics Directorate (DIRAN) sprayed 122,695 hectares of coca, a 45 percent increase over 2001, the previous record year. The DIRAN also sprayed 3,043 hectares of opium poppy, a 67 percent increase over 2001 levels.

Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia continues to be the world's largest producer of cocaine base, with an estimated 730 metric tons (MT) in CY 2001. Colombia produces nearly 80 percent of the world's cocaine hydrochloride (HCl), mostly from indigenous coca crops, plus a limited amount from Peruvian and Bolivian cocaine base. Colombia is also a significant supplier of high quality heroin to the United States, even though it produces less than two percent of the world's heroin. Almost all Colombian heroin is exported to the United States.

Drug trafficking has long funded the FARC, the hemisphere's largest and oldest terrorist group. The AUC has expanded its traditional role of providing security for cocaine production and transportation to active participation in all levels of the cocaine business. There are numerous reports of laboratories that are owned and operated by paramilitary groups independently of major drug organizations. The ELN, the smallest of the three terrorist groups operating in Colombia, is also active in the drug trade, but to a lesser degree.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The new president of Colombia, Alvaro Uribe, has instilled a sense of confidence in Colombians. He has passed an ambitious legislative agenda to restructure the state and formulated a National Security Strategy clearly defining government goals and developing a practical work plan to achieve its objectives. The strategy will marshal and coordinate resources government-wide to combat illegally armed groups and the drug trade that funds them.

The Uribe Administration is working to stimulate the economy and job opportunities. It has instilled confidence in both domestic and international investors. In 2002, the stock market increased in value by 50 percent. The new investments, bolstered by expanded Andean Trade Promotion and Drug Eradication

Act (ATPDEA) benefits, could generate over 250,000 jobs by 2004. With increasing opportunities in the legitimate economy, the high-risk modest income that growing illegal crops bring may lose its appeal.

President Uribe is also improving funding for both military and social programs, improving public security and the quality of life for Colombians. A new tax on the wealthiest one percent of the population will raise approximately U.S.\$ 1 billion, or 1.2 percent of GDP. Tax, labor and pension reforms will raise an additional U.S.\$ 1.5 billion; and ending the gasoline subsidy, an additional U.S.\$ 1 billion. Uribe plans to use these funds to support his ambitious plans to establish public security and stability in the outlying conflictive areas often controlled by the three terrorist groups, a vital component in the fight to eliminate illicit crop cultivation. President Uribe's good fiscal management will enable his government to provide security and social support to areas now lacking basic necessities.

The USG and GOC are working to reinitiate the air-bridge denial program to interrupt illicit trafficking of drugs by small, civilian aircraft. Three Cessna Citation 560 tracker aircraft and training are being made available to the Colombian Air Force.

The Department of Justice (DOJ) Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) assisted Colombia in revising its asset forfeiture law, using U.S. statutes as a model. The challenge time was shortened and the focus shifted from the accused to the seized item (cash, jewelry, boat, etc.), with the accused bearing the burden to prove the asset in question was acquired legitimately.

In November 2002, amendments to the Colombian Constitution mandated significant reforms to the Colombian Criminal Justice System in the transition from an inquisitional to a more accusatory system. The Constitutional change requires the drafting of new criminal procedure, evidence, and sentencing codes. DOJ is working closely with the Colombian government and USAID in drafting the new codes and in developing appropriate conceptual acceptance of an accusatory style system within the Colombian justice sector.

The Uribe Administration is taking steps to criminalize personal drug use. Current law allows personal consumption of drugs as long as it was not done in public or in the presence of minors. This initiative will be part of a nationwide referendum set for a vote by the public at large in 2003.

Accomplishments. For 2002, the Colombian Drug Information System (SIDCO), reported the seizure of 124 metric tons (MT) of cocaine HCl/cocaine base; 67,637 gallons of cocaine in production; 362 MT of coca leaves; 27 MT of coca seeds; 680 kilograms of heroin; and 73 MT of cannabis. SIDCO also reported the destruction of 1,247 cocaine base labs; 129 cocaine HCl labs and 3 heroin labs; the capture of 2,430 MT of solid precursor chemicals and 1,990,314 gallons of liquid precursors; the seizure of 731 vehicles, 91 boats, 3 aircraft and 35,907 weapons; the destruction of 3 clandestine airstrips; and the arrest 15,199 people for narcotics trafficking offenses.

The U.S.-supported aerial eradication program, bolstered by three new AT-802 spray aircraft, had a record year. The DIRAN sprayed a total of approximately 122,695 hectares of coca and 3,043 hectares of opium poppy. The total for coca is a record high and 45 percent more than sprayed in 2001. The poppy total is 67 percent higher than sprayed in 2001.

USAID began implementing its Alternative Development (AD) program in earnest in December 2000. Roughly two years later, activities have benefited 20,128 families and supported 15,742 hectares of licit crops in both coca and poppy areas. Importantly, farmers are beginning to have confidence in the help provided. In addition, AD programs completed 208 social infrastructure projects in 11 municipalities in the Departments of Putumayo, Narino, Cauca and Huila. Projects included the construction of roads, sewage systems, and bridges, as well as rehabilitating schools; and were designed to be as labor intensive as possible to provide maximum employment and generate income for the community. USAID's Local Governance program, which works hand in hand with the AD program, completed 69 infrastructure projects. The AD program has several major implementers in the field throughout the country: Chemonics; Agricultural Cooperative Development International/Volunteers in Overseas Cooperative

Assistance (ACDI/VOCA); U.S. Army Corps of Engineers (USACE); and Pan-American Development Foundation (PADF), with others beginning operations next year.

The DIRAN, with USG support, continued to implement the Airmobile Interdiction Project, which provides elite units ("Junglas") for drug interdiction missions. Within this project, the Bogotá Airmobile Company is at full strength, and the Santa Marta and Tulua Airmobile Companies are at 66 percent strength and should reach full operational capability by June 2003. The Airmobile Interdiction Companies conducted over 40 operations against narcotics targets, resulting in the destruction of 61 HCL laboratories and associated narcotics trafficking infrastructure. Two INL-funded intelligence/surveillance aircraft supported the majority of DIRAN operations. Nearly forty percent of its flight hours were flown in support of the Colombian Military's counternarcotics (CN) operations.

Also in 2002, the DIRAN Airmobile Company raided a cocaine lab located in Cundinamarca Department. CNP officials seized 100 kilograms cocaine base, 500 kilograms cocaine HCl, and large amounts of chemicals, laboratory equipment, cocaine brick markings/labels, and miscellaneous documents. The CNP also discovered a chemical processing laboratory located in Cundinamarca Department, and seized a large amounts of urea, alcohol, hydrochloric acid, sulfuric acid, gasoline, and ACPM (diesel fuel). It is reported that these laboratories were under the control of Luis Eduardo Cifuentes, Commander of the Autodefensas of Cundinamarca and a member of the AUC senior command staff.

In 2002, Joint Task Force South (JTFS), comprised of the U.S.-trained and equipped Counter-Drug (CD) Brigade, the 12th and 24th Brigades, Naval Forces South, and Air Group South, kept the pressure on FARC and paramilitary drug trafficking and terrorist activity in Caqueta and Putumayo, the heart of Colombian coca cultivation. JTFS destroyed five cocaine HCl labs and 682 coca base labs, bringing the two-year total to 24 and 1,500, respectively. In 2002, JTFS seized 316,268 gallons and 425,200 kilos of liquid and solid precursor chemicals.

In 2002, 141 narcotics terrorists were slain in JTFS operations, compared to 139 in 2001. Significantly, JTFS was successful in disrupting narcotics terrorist leadership in the south. On October 6, CD Brigade units carried out a surgical strike operation resulting in the deaths of eight members of the FARC 15th Front, including its commander (alias "Mocho Cesar") and his senior deputy. Cesar managed much of the drug trafficking industry in western Caqueta, controlled the Florencia-to-Bogota drug-trafficking corridor and was behind most of the terrorist activity in the region, including the murder of several mayors and the kidnapping of presidential candidate Ingrid Betancourt. On June 28, 12th Brigade units clashed with members of the FARC 49th Front in the vicinity of Curillo, Caqueta, resulting in the death of the 49th Front commander.

The backbone of the CD Brigade has been the UH-1N helicopter program. UH-1Ns have flown over 30,000 hours in two and one-half years, 19,000 hours in direct support of the CD Brigade in combat and service support operations. They have flown over 27,000 sorties, lifted more than 44,000 combatants and carried in excess of 776,508 pounds of cargo. Most impressively, the UH-1Ns completed over 170 medevac (medical rescue) missions. In 2002 the program suffered its first serious accident when a UH-1N went down in the vicinity of Larandia while conducting an emergency medical evacuation, resulting in five deaths among troops sent to defend the crash site. At the end of 2002, UH-60 Blackhawks, purchased under Plan Colombia, made their debut in the helicopter program, several supporting operations targeting FARC leadership.

The success of the CD Brigade has forced cocaine production facilities to move to other areas of Colombia, mainly the west coast, closer to cocaine transshipment points. In response, the Embassy worked with the Colombian military leadership in late 2002 to reorganize the CD Brigade, enabling it to operate throughout the country. The reorganization downsized the Brigade from 2,900 professional and conscript soldiers to 2,100 professional soldiers, and provided advanced training by U.S. Army Special Forces. During the reorganization, the DIRAN Junglas, intensified its efforts to seize and destroy the drug processing facilities that had moved to other parts of the country in response to successful interdiction effort in the Junglas original areas of operation.

With NAS support, the COLAR CD Brigade and 12th Brigade conducted five Medical Civic Actions (Medcaps) in 2002, providing needed health services to over 2,500 citizens in some of Colombia's poorest regions. These Medcaps helped promote rural citizens' trust that the Government will provide services lacking in the past. Notably, Medcaps are carried out where aerial spray eradication has taken place, allowing doctors to look for signs of health problems linked to spraying. As a result, a large body of evidence is accumulating that spraying is not the cause of major medical problems in rural Colombia.

Colombian Navy (COLNAV) and Marine (COLMAR) forces continued an aggressive CN campaign, with improvement in all measurable results. COLNAV Operations in Tumaco and other littoral regions were very successful in seizing drug production facilities, precursors, narcotics terrorists and weapons. Increased cooperation with JIATF-E and other agencies led to the capture of more than 57 metric tons of cocaine, 89 kilos of heroin, and significant amounts of precursors. The maritime enforcement effort has benefited from training provided by the DOJ and U.S. Coast Guard, a program that has become a model for the hemisphere. In one operation COLNAV suffered its first aviation loss at sea, losing one Bell 412 helicopter and two crewmembers during an interdiction operation. For the first time COLNAV provided a frigate for JIATF-E Tactical Control during interdiction operations.

The COLNAV and COLMAR continue to expand and improve their capabilities. COLNAV is reorganizing its marine forces including forming a new Riverine Battalion on the Pacific Coast, establishing a naval base at San Andres, revamping the Marine Special Forces Battalion and beginning the Naval Urban Special Forces (AFEAUR). Under the Executive Order for Internal Commotion (declaring the equivalent of a state of emergency), COLNAV assumed responsibility for the Special Rehabilitation zone in Magdalena, Sucre and Cordoba Departments. COLNAV purchased two CASA 235 Maritime Patrol Aircraft, approved the transfer/repair of the ex-USCG Durable to Colombia, delivered six Armored Troop Carriers (MATC), and converted a barge into an armored Riverine support ship. COLNAV made significant revisions to standing Interdiction Operations Plans, held regular "lessons-learned" conferences, and convened the second Operational Naval Committee meeting to further improve internal cooperation. COLNAV is continuing its fueling-at-sea initiative (with full implementation anticipated fall 20O3) and renovations to the Coast Guard Station at San Andres.

Extradition from Colombia takes place under Colombian national extradition law, as amended. During 2002, 40 fugitives were extradited to the United States, up from 24 extraditions in 2001. Thirty-seven of theses were Colombian nationals (including one person who was a dual U.S. Colombian national). The fast-moving stream of extraditions since President Uribe entered office reflects his administration's commitment to a strong law enforcement partnership with the United State that continues to promote unprecedented bilateral investigative efforts.

Since December 2000, the DEA Bogotá Country Office (BCO) has been investigating the cocaine trafficking activities of Tomas Molina-Caracas, commander of the 16th Front of the FARC. In March, a U.S. federal grand jury returned indictments against Molina and three other members of the organization on charges of conspiracy to manufacture and import cocaine into the United States. On June 18, one of the FARC members charged in this indictment, Eugenio Vargas-Perdomo (aka: Carlos Bolas), was detained in Suriname and expelled to the United States. Vargas is currently held in the U.S., pending trial. On November 13, 2002, the U.S. Attorney General announced that FARC Secretariat member Jorge Briceno-Suarez (aka Mono Jojoy) had been added to a superseding indictment of Tomas Molina-Caracas and six others.

In July 2002, the Colombian Government offered a reward of U.S. \$2,000,000 for information leading to the capture and arrest of FARC Secretariat personnel

Several DEA offices continued investigating Carlos Castaño-Gil, the head of the AUC. During a two-and-a-half year DEA investigation, witness testimony and evidence from Colombia, Spain, Portugal, Chile, as well as from Puerto Rico implicated Castaño and his associates in the trafficking of 17 tons of cocaine to the United States and Europe. On September 24, U.S. Attorney General John Ashcroft announced the

indictment of Castaño, along with AUC leader Salvatore Mancuso-Gomez and AUC member Juan Carlos Sierra-Ramirez.

Jose Jairo Garcia-Giraldo (aka Jota), the head of a Pereira, Colombia heroin trafficking organization sending approximately 20 kilograms of heroin to New York and Philadelphia monthly, was arrested and his operation dismantled. On June 12, the DEA in Bogotá and New York, and the Colombian Heroin Task Force, conducted a joint operation against the Garcia-Giraldo organization. Thirty people were arrested in Colombia and the United States, including Garcia. Over 30 kilograms of heroin and 20 kilograms of cocaine were seized.

Law Enforcement. The Maritime Enforcement project is a joint U.S.-Colombia initiative undertaken to ensure successful prosecution of maritime interdiction cases. The cooperation between Colombian and USG agencies involved in the project has grown to be a model for other countries to emulate. The response time in Colombia for maritime interdiction coordination has been reduced from an average of four hours to an average of 20 minutes, as was evident with the recent seizure of the ship "Paulo" and the capture of 11.5 tons of narcotics in February.

The effectiveness and commitment of law enforcement agencies remained high, as illustrated by the results of the interdiction and eradication operations summarized above.

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 to combat money laundering and related illegal financial flows associated with narcotics trafficking, and a special unit made up of officials of the Ministries of Justice and Finance tracks the illegal flow of money.

An U.S. Embassy Narcotics Affairs Section (NAS) investigation into questionable transactions in an account used to pay administrative expenses of the counternarcotics police resulted in the dismissal of several police officials and a change in leadership at the DIRAN. The account was suspended and the NAS now contracts the administrative items directly. The Prosecutor General's office is investigating over 80 police officials in connection with the case. The incident was unfortunate, but does not obscure the fact that the vast majority of the members of DIRAN, including the senior officers, are dedicated professionals.

OPDAT and ICITAP are working with the Colombian Prosecutor's Anti-Corruption Unit to develop this unit as an effective investigative and prosecution task force capable of investigating and prosecuting significant public corruption cases.

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. The United States and Colombia have a variety of arrangements to support bilateral narcotics control programs with several Colombian implementing agencies.

The GOC and USG are also parties to a maritime ship boarding agreement signed in 1997, providing faster approval for ship boarding in international waters and setting guidelines for improved CN cooperation with the Colombian Navy/Coast Guard.

Colombia has signed, but not ratified the UN Convention Against Transnational Organized Crime, which is not yet in force internationally.

Cultivation and Production. At the time of publication, crop estimates for 2002 were not yet available. The Colombian National Police, in collaboration with the United Nations Drug Control Program, estimated 163,289 hectares of coca under cultivation at the end of 2001. The estimated potential cocaine HCl production for Colombia at 730 metric tons in CY2001.

Reconnaissance flights and spray operations indicated 3,828 hectares of opium poppy were under cultivation in 2002. Recent USG studies on heroin production confirmed that farmers in all but one of

Colombia's opium poppy growing areas cultivate two crops per year. Previous USG estimates assumed Colombian farmers planted three opium poppy crops per year. In addition, these studies indicated that approximately 24 kilograms of opium latex are required to produce one kilogram of 100 percent pure heroin HCl.

The herbicide used in the aerial eradication of coca and poppy is glyphosate, the most common, most widely tested herbicide 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 various crops, forests, residential areas, and around aquatic areas. In its latest comprehensive review of studies on glyphosate, the EPA concluded that proper use would not cause serious or long-term adverse effects in humans. There are minimal risks of eye or skin irritation, but only in cases of direct exposure (not spray drift), and symptoms are mild, short-term and reversible. Glyphosate is not persistent in soil, does not build up after repeated use, and is biodegraded rapidly by soil microbes. Because it bonds tightly with the soil, glyphosate is unlikely to leach into underground water. Studies show glyphosate to be "practically non-toxic" to fish and long-term feeding studies of farm animals showed glyphosate was undetectable in muscle tissue, fat, milk, and eggs.

Cosmo-Flux 411F is produced in Colombia, where the Ministry of Health has classified it as lightly toxic. The EPA has determined that the ingredients in Cosmo-Flux 411F are acceptable for use on food products when the label instructions are followed.

Drug Flow/Transit. Colombia is the center of the international cocaine trade. Colombian traffickers produce large quantities of cocaine base domestically and also 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 cannabis. 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 trafficking is organized by 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 with the final destination for the United States and Europe. They are often loaded and off-loaded at sea by "go-fast" boats operating from secluded coastal areas. Fishing vessels are 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 legitimate fishing boats.

Go-fast boats transport drugs directly from Colombia to Central America, Mexico, and the Caribbean. The go-fasts deliver drugs to larger "mother ships," or transit directly to onshore deliveries in the region. Some trafficking organizations use refueling ships that re-supply the go-fast boats on the high seas.

Commercial cargo ships also transport drugs, which are camouflaged in containerized or bulk cargo or secreted in hidden compartments. The U.S.-sponsored Port Security Program (PSP), however, has significantly reduced this method of trafficking. At least partially because of the success of the PSP, narcotics trafficking organizations are making increased use of other methods of maritime trafficking. Among these is the use of go-fasts to depart Colombia from rivers and estuaries and deliver drugs to ships on the high seas. Traffickers also rely increasingly on the use of airways, including commercial airlines and clandestine airstrips.

The DEA believes that the bulk of the Colombian heroin destined for the U.S. is smuggled via couriers on commercial airlines, at approximately one kilogram per courier. However, during 2002, DEA noted an increase in bulk shipments (10 to 20 kilograms) of heroin from passengers arrested at Colombian and U.S. international airports. The majority of these seizures were found concealed in clothing or in the false linings of luggage. Drug organizations are also moving heroin as a part of large cocaine shipments. In October 2001, the DEA office in Colombia (DEA BCO) established a first-of-kind Airport Security

Program that included specialized training by DEA to identify human couriers and a body x-ray machine at Bogotá's El Dorado International Airport. This initiative is already paying dividends, with heroin seizures totaling more than 250 kilos. Within the next few months, NAS and the DEA will combine efforts to place body x-ray machines in three more international airports in Colombia. Over the course of the next two years, body x-ray machines and equipment to detect drugs in suitcases and cargo will be in all of Colombia's international airports.

Domestic Programs (Demand Reduction). On December 19, 2002, the Colombian Congress approved a proposal to criminalize the possession and use of personal doses of drugs. The drug penalty measure is one of 19 articles that will be submitted to popular vote in the form of a referendum in mid-2003. If approved by the voters, the drug penalty article will become an amendment to the Colombian Constitution.

The Uribe Administration has decided to eliminate former President Pastrana's RUMBOS counternarcotics program (which managed demand reduction projects directly under the President) and parcel out its functions among several Government agencies.

In July, NAS launched a new program in Colombia called the Culture of Lawfulness. The program, which was piloted in Mexico in 2001 and has now expanded to several other countries, seeks to teach students to be responsible citizens. The Colombian program consists of the introduction of a culture of lawfulness course into the curriculum of selected junior secondary schools in Bogotá and Medellin. Medellin has requested assistance with an expansion of the program in 2003. A subsequent phase of the project will work through "centers of moral authority" – churches, NGOs, and the media – to introduce or reinforce respect for the rule of law more broadly in civil society.

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.

Bilateral Cooperation. In 2002, NAS initiated a major program in support of President Uribe's national security strategy to strengthen public security and reestablish state presence throughout the country. The project provides training and equipment with limited operational support to the CNP to support creating 62 "Carabineros Mobile," or rural police, squadrons. Each squadron consists of 150 policemen that will patrol the rural areas of Colombia's conflicted zones. In addition, the USG will contribute to training and equipping police units that will be stationed in over 147 municipalities that have no current police presence. USG-support will also be used to construct hardened police stations for this program in the most areas. A U.S. Army Special Forces team is helping to train these policemen. After public security and confidence have been restored, the GOC will be able to extend other government and public services to these marginalized areas.

The NAS-sponsored Port Security Program (PSP), launched in 1998, strengthens CN security in Colombia's eight major seaports. Each port harbors a dedicated counternarcotics police unit that carries out inspection and interdiction operations. If drugs are seized, the Office of the Prosecutor General opens an investigation. The ports have paid for the facilities and most of the operating costs of the police bases. NAS and the United States Customs Service provide training and specialized inspection equipment. To date, Customs has provided U.S.\$650,274 worth of specialized equipment. In November 2002, NAS sponsored an international seminar in Baranquilla where Customs agents provided training in detection and inspections methods. The CN bases within the ports serve as a major deterrent to the use of the commercial seaports by narcotics traffickers. Before the program began, about 80 tons of illegal drugs were seized each year in these ports. In 2002, the amount seized dwindled to less than two tons.

The DOJ Bilateral Case Initiative represents an advance in the cooperation between the U.S. and Colombia in combating international drug trafficking. Prosecutors and investigators from both countries are working closely together to identify significant trafficking organizations and strategies for the effective

prosecution of major traffickers, identifying in advance which defendants will be sought for extradition to the U.S. The Initiative has resulted in several significant cases, including the recently indicted cases against members of the FARC and AUC. It has also resulted in October's Operation Conquista, which resulted in 15 arrests in Colombia, the execution of search warrants at 37 homes and businesses, and the seizure of \$1.4 million in U.S. currency and 25 weapons. These arrests, searches, and seizures were based on a federal indictment that was returned on September 19, in the District of Columbia. The indictment charges the leader of a major Colombian cocaine trafficking organization and 15 other defendants with a conspiracy to distribute cocaine knowing and intending that it would be unlawfully imported into the United States. These investigations and prosecutions would not have been possible without the help of the Colombian law enforcement community. The Bilateral Case Initiative continues with many important investigations now underway.

The DOJ International Criminal Investigative Training Assistance Program (ICITAP) and its Overseas Prosecutorial Assistance and Training Program (OPDAT) are continuing their Justice Sector Reform Programs. DOJ continues providing training to prosecutors and investigators to enhance their ability to develop and successfully prosecute criminal cases. Over 2,500 people have received training, which has resulted in better-organized and more focused investigations and trial presentations, according to participants who have implemented the techniques in real cases. In 2002, ICITAP and OPDAT instructors trained Colombian instructors from the Prosecutor General's office, the Colombian National Police (CNP) and the Technical Investigative Body (CTI) in forensics, prosecutorial techniques, interview techniques and crime scene management. DOJ provided training for specialized task force units (human rights, money laundering, asset forfeiture, anticorruption, and counternarcotics) as well as for line prosecutors and police investigators. This training included instruction in the accusatorial system, the collection of evidence, stages and responsibilities of investigations and oral trials.

ICITAP and OPDAT worked with the Prosecutor General's office to expand the National Human Rights Units. Eleven satellite units with regional responsibilities are up and running in Cali, Neiva, Villavicencio, Medellin, Barranquilla, Bucaramanga, and Cucuta, creating faster access to remote sites of major suspected human rights abuse. The USG funding of installation and training on various forensics systems have substantially improved the ability of Colombian law enforcement agencies to investigate and prosecute human rights crimes. This forensic capability connects in labs around the country enabling prosecutors and investigators to have quick access to forensic analysis in DNA, ballistics, fingerprints, and document imaging. Murders and massacres have been investigated and prosecuted with evidence developed by this equipment and training that would have been beyond Colombian capabilities in the past. The Colombian forensic facilities are now state of the art and one of the hemisphere's best.

The U.S. Marshals Service completed five dignitary protection courses in 2002. These courses train security details that protect threatened prosecutors, judges and investigators, as well as for several cabinet members, the mayor of Bogota, and the Attorney General. The program includes donation of equipment and training in a variety of techniques necessary to protect individuals in high-risk situations.

In support of key Plan Colombia initiatives, USAID is implementing a program to strengthen the Colombian criminal justice system, expand access to community-based legal services, promote alternative dispute resolution mechanisms, and strengthen the capacity of justice sector institutions to carry out their functions in a more timely, open, and fair manner. By the close of 2002, 29 legal centers ("Casas de Justicias") had been established, increasing access to justice for 1,502,021 poor and marginalized Colombians over the past seven years. The 19 oral trial courtrooms established are critical to USAID's efforts towards increased transparency and accountability within the Colombian legal system. Mixed inquisitorial/accusatorial trials have begun in most of the aforementioned courtrooms where officials apply concepts they have learned, including the presentation of evidence and cross-examination of witnesses.

USAID is working to improve the capacity of governmental institutions and civil society organizations to enhance and broaden respect for human rights in Colombia through a three-tiered approach including: the

prevention of human rights violations by strengthening GOC and civil society human rights institutions; the protection of human rights workers, community leaders and local elected officials under threat; and the improvement of GOC response to human rights 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 12 regional offices now established, the EWS has issued a total of 170 alerts. The 152 resulting responsive actions have potentially prevented numerous and serious human rights violations.

USAID has provided "hard" (e.g., communications equipment, bullet-proof vests, and vehicles) and "soft" (e.g., domestic and international airfares and economic assistance) protection assistance to 2,221 individuals under threat through 2002. It is also supplying protection equipment and armoring for a cumulative total of 49 offices of key human rights organizations. Equally important, in 2002 the human rights program expanded its protection component to provide assistance to mayors, city council members, and local human rights officials that are increasingly under threat.

The USAID local governance program improves the capacity of municipal governments to involve citizens in local decision-making, provides municipal services, and effectively and transparently manages resources. Since December 2000, USAID has assisted the governors and mayors of Putumayo and Caquetá in improving public services, generating municipal development plans, and implementing modern financial management systems. Concurrently, a local infrastructure fund supports infrastructure projects that re-enforce sound management practices and foster greater citizen participation. Projects include school classrooms, health clinics, potable water systems, electrification, fish farms, and small animal husbandry. Though 2002, the program has fostered 87 citizen oversight committees that will establish priorities for funding social infrastructure projects and subsequently oversee their management and financing. Through 2002, 69 social infrastructure projects were completed in 27 municipalities directly benefiting more than 80,000 individuals in Putumayo and Caqueta.

USAID is helping to standardize accounting and internal control systems across the GOC—at both the national and local levels. To support increased financial and management audits and raise public awareness of available instruments to combat corruption, USAID completed a nationwide anticorruption campaign. This campaign reached six million citizens through radio, newspaper and television messages designed to inform citizens of the mechanisms available to them to combat corruption. USAID also provides assistance to civil society oversight organizations aimed at improving their ability to monitor national and local government activities. Approximately 1,170 citizen leaders have been trained in techniques and best practices for citizen oversight of the Government's management of public resources. Additionally, in 2002, USAID helped standardize the internal control units of five GOC entities, including the Office of the Controller General of the Republic, the Accountant General of the Nation, and the municipalities of Medellin, Barranquilla, and Cali.

USAID's peace program provides grants to state and private organizations carrying out projects and programs focused on fostering a culture of peace in Colombia. In 2002, USAID provided over \$2.5 million in grants to 21 private and public sector Colombian organizations. USAID-funded activities included grants to support the participation of women in the peace process, NGO institutional assistance training, and the establishment of an information resource center within the office of the High Commissioner for Peace. To date, activities have been carried out in 56 municipalities in 11 departments, directly benefiting almost 90,000 individuals.

USAID provides non-emergency support for internally displaced persons (IDPs) and other vulnerable populations. At the end of 2002, a grand total of 634,286 of Colombia's estimated 2 million displaced people had received assistance in the areas of health care, psychosocial assistance, community strengthening, income and employment generation, urban assistance (shelter, water and sanitation), and education. Additionally, USAID has a former child combatants rehabilitation program that has aided 636 children.

Through the NAS/DOJ/Bureau of Prisons-sponsored Penitentiary Improvement Program, the national high security penitentiary in Valledupar became the first and, so far, the only penitentiary in the world to receive ISO 9000 (the International Organization for Standardization standards for penitentiaries) certification with respect to administration and internal procedures. The Prisons Investment Fund received a similar ISO 9000 certification in August 2002. Currently the program is focusing on improvements in the American-designed high security penitentiary in Combita, medium security penitentiaries in the Departments of Meta and Popayan, the national penitentiary school, and the training and equipping of a professional correction staff and special commando and internal control groups. Combita penitentiary holds all prisoners pending extradition to the U.S. Previously, these were scattered in several different prisons and posed significant security concerns to Colombia.

The Air Service fleet includes 62 helicopters (59 supported by NAS) and 23 airplanes (21 supported by NAS). Aircraft are used in a variety of ways: fixed-wing aircraft transport cargo and personnel or perform intelligence and surveillance operations, and helicopters are used for transport and interdiction, or to escort and protect spray aircraft during eradication missions.

In July, NAS contracted with Lockheed Martin to provide maintenance and logistics support to CNP Air Service aircraft. The result has been a higher availability rate for the 80 aircraft supported by NAS, which, in turn, has been a key factor in the record eradication figures.

The Air Service completed two more conversions of UH-1H helicopters to "Huey II" models, which brought the Huey II fleet to a total of thirty. Unfortunately, a terrorist attack and a crash, both in October, destroyed two of these helicopters.

A state-of-the-art hangar, constructed with INL funds, was completed in April at Bogota's El Dorado airport. The CNP now has adequate facilities to maintain its fleet of 23 fixed wing aircraft. Construction began on aviation facilities (hangars, heliports and fuel systems) at two forward-operating bases, Santa Marta and Tulua. When completed in early 2003, these facilities will allow for the decentralization of assets and will permit the CNP to react more quickly and effectively to interdiction requirements. Ten helicopters and 166 "Junglas" will be deployed to each base, allowing for rapid-reaction forces ready to take on drug-processing labs and narcotics traffickers around the country.

The last of 25 Huey II helicopters were provided to the Colombian Army by the USG in 2002. These helicopters are set to become operational in June 2003.

The U.S. Army provided training to over 2000 soldiers in the year 2002. The Special Forces teams worked with Colombian staffs to develop the capability to plan complicated and time intensive air assault operations.

The U.S. Army continued its support in establishing and implementing Colombian military justice programs that sensitize the Colombian military on the rule of law, human rights, and international humanitarian law. In September, the Colombian Military Penal Justice Corps (MPJC) celebrated its first anniversary. The MPJC consists of 314 offices nationwide, with a staff of about 600, primarily lawyers and legal support personnel. Its main purpose is administration of justice throughout the Colombian armed forces. U.S. Army-sponsored training in military penal law, criminology, and human rights reached over 60 MPJC members, qualifying them to teach others. This corps of instructors in human rights and international humanitarian law will travel to military units throughout Colombia to provide training.

The USMILGP sponsored activities in support of military respect for human rights. These include seminars on human rights in military operations for COLNAV and COLAF unit commanders, human rights officers, legal advisors, and operational personnel, and distribution of 3,000 instructors' manuals and CD-ROMS on human rights and international humanitarian law for trainers in the Colombian armed forces. USMILGP also sends COLMIL and MOD personnel to the Human Rights Instructor course at the Western Hemisphere Institute of Security and Cooperation (WHINSEC). In 2002 a training team from the institute traveled to Colombia and trained over 80 military and police personnel.

The Road Ahead. The greatest challenges in 2003 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. A change in policy, embodied in the new authorities approved by Congress and signed into law by President Bush in October 2002, insures that the U.S. will support Colombia's unified campaign against drug trafficking and designated foreign terrorist organizations, and the protection of human health and welfare in emergency circumstances. A coordinated counternarcotics and counterterrorism program for Colombia in 2003 will reinforce Plan Colombia training efforts already begun, leading to still greater efficiency and professionalism in the Colombian armed forces, prosecutorial ranks, and law enforcement agencies.

Colombia Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Coca										
Potential Harvest (ha)	TBD	NA	136,200	122,500	101,800	79,500	67,200	50,900	44,700	39,700
Eradication (ha)	122,965	84,250	47,371	43,246	_	19,000	5,600	8,750	4,910	793
Estimated Cultivation (ha)	NA	NA	183,200	_	_	98,500	72,800	59,650	49,610	40,493
HCI: Potential ¹ (mt)	NA	730	580	520	435	350	300	230	70	65
Opium										
Potential Harvest (ha)	TBD	6,500	7,500	7,500	6,100	6,600	6,300	6,540	20,000	20,000
Eradication (ha)	3,371	2,583	9,254	_	_	6,972	6,028	3,760	3,906	9,821
Estimated Cultivation (ha)	TBD	9,083	_	_	_	13,572	12,328	10,300	23,906	29,821
Cannabis ²										
Potential Harvest (ha)	5,000	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	5,000	5,050
Potential Yield (mt)	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,133	4,138	4,125
Seizures ³										
Heroin/Morphine (mt)	0.699	0.798	0.572	0.504	0.317	0.261	0.183	0.419	0.181	0.261
Opium (mt)	0.11	0.002	_	0.183	0.100	0.120	0.036	0.078	0.128	0.261
Cannabis (mt)	73	80	46	65	69	136	235	166	2000	549
Base/Basuco (mt)	30	26.70	_	9.00	29.30	10.00	17.50	19.50	32.00	10.40
Cocaine HCI (mt)	94	57.30	69.00	22.73	54.70	34.00	23.50	21.50	30.00	21.76
Total HCl/Base (mt)	124	80.00	69.00	31.73	84.00	44.00	41.00	41.00	62.00	32.16
Total Arrests	15,199	15,832	8,600		1,961	1,546	1,561	1,745	2,154	2,562

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

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

³ Seizure data show combined CNP and military figures.

Ecuador

I. Summary

Ecuador 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 especially in the border area. With most drugs exiting the country via maritime commercial containers, Ecuadorian counternarcotics police, with help from the USG, are working to substantially enhance port inspection facilities and introduce drug-detecting technology into their ports and airports. Seizures of heroin rose sharply again in 2002. Although Ecuador is implementing a new penal code, its faulty judicial system and conflicting laws continue to hamper the prosecution of criminals. Ecuador has shown little movement toward the investigation and prosecution of money laundering. Only money laundering resulting from narcotics trafficking is currently considered criminal; however, a push is being made currently to modify the penal code to criminalize all forms of money laundering. The USG continues to provide equipment, infrastructure and training to improve counternarcotics performance and has seen tangible results.

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, although USG resources have vitiated this deficiency to some extent.

Drug traffickers continue to find new ways to 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 has made significant contributions to the GOE police and military to strengthen security in the northern border region and to interdict illicit drug-related activities.

III. Country Actions Against Drugs in 2002

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 Ecuadorian Government's (GOE) national drug strategy published in 1999 specifies the counternarcotics roles and responsibilities of GOE agencies including the armed forces.

Military-police cooperation continued to improve at the operational level as joint task forces conducted operations in the three northern provinces. Military and police forces in the northern border area were further reinforced. CONSEP completed a final draft of a revised organic drug law (Law 108), but it was not introduced in the congress before year's end. A multi-agency group is drafting a stand-alone law criminalizing the laundering of proceeds of any illicit activity.

The Counternarcotics Directorate (DNA) of the National Police, established in 1999, was further increased to about 1100 members, including twenty-five women officers. A line item for the DNA was approved for the first time in the 2002 national budget. Efforts to identify funding for a national criminal justice university continued but were slowed by government fiscal austerity measures imposed during the year. With USG assistance, a curriculum was developed for training judicial police and other judicial operators in implementation of the new code of criminal procedures.

The Manta Port Authority ceded a site within the port to the DNA, where a cargo inspection facility will be completed in 2003. The inspection facilities in Guayaquil port were improved in 2002. Similar inspection facilities are planned for Machala and Esmeraldas ports in the next two years. Improvements of the National Police intelligence data and voice communications networks continued. The DNA purchased fifty new dogs to replenish the canine counternarcotics inspection force. The National Police provided thirty new vehicles to the DNA.

Law Enforcement. Narcotics-related guerilla and paramilitary activity in southern Colombia continue to impact law enforcement and public security in Ecuador's northern border area. There are indications that drug trafficking across the southern border continues at high levels. Cocaine HCl seizures in 2002 totaled 10.49 metric tons compared to 10.83 metric tons in 2001. Heroin seizures rose steeply again for the third straight year, to 350 kilograms compared to 110 kilograms in 2000 and 230 kilograms in 2001. Cannabis and coca base seizures declined to 1.90 and .87 metric tons respectively. A focused campaign by the ENP and CONSEP again brought some substantial seizures of illicit precursor chemicals transiting Ecuador but showed that the chemicals control regime still has shortcomings. Army patrols in Sucumbios Province seized large volumes of white gas, a refined petroleum product used in cocaine production.

The new Code of Criminal Procedures promulgated in 2001 continues to cause confusion as police, prosecutors and judges struggle to agree on how it should be implemented. The USG and other donors are working urgently with the GOE to overcome this situation, which hampers effective investigation and prosecution of all types of crimes.

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 the prosecution of any government official, including judges, who deliberately impedes the prosecution of anyone charged under that law. Some elements of other official corruption are criminalized in Ecuadorian laws but there is no comprehensive anticorruption law to address the problem per se. The 2001 investigation of General Abraham Correa, chief of police intelligence, for associating with an accused drug trafficker did not produce evidence on which to charge Correa, although he was dismissed from the police. The dismantling of a major international drug trafficking group in Quito in November 2002 involved the arrest of Col. Jose Pila, Deputy Chief of Operations of the Ecuadorian Army. Pila allegedly furnished security for containerized shipments of drugs to Ecuadorian ports. Over 2.6 tons of cocaine HCl were seized in this operation.

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 GOE 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 2002 resulted in several successful drug interdiction operations and the dismantling of some international trafficking organizations, including the November operation involving the arrest of Col. Jose Pila, described above.

Arrests and Prosecutions. 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 and then rearrested on November 26, 2001, was sentenced to twenty-five years in prison. There were no successful prosecutions in 2002 based specifically on the financing of drug operations. The lack of a comprehensive money laundering statute and of a dedicated financial investigations unit inhibit such prosecutions.

Agreements and Treaties. Ecuador and the United States signed a Customs Mutual Assistance Agreement in 2002. Ecuador became one of the first parties to ratify the United Nations Convention Against Transnational Organized Crime and its first two protocols.

The United States-Ecuador extradition treaty is outdated, but Ecuador has occasionally cooperated with the USG to deport or extradite non-Ecuadorian nationals. 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 GOE agreed in 1999 to permit the USG to operate a Forward Operating Location (FOL) at the Ecuadorian Air Force base in Manta for counternarcotics surveillance. Since these operations began, Manta-based aircraft have played a critical role in detecting smuggling vessels on numerous occasions.

The GOE is a strong supporter of regional cooperation and has signed bilateral counternarcotics agreements with the USG, as well as Colombia, Cuba, and Argentina, as well as the Summit of the Americas money laundering initiative and the OAS/CICAD document on an counternarcotics hemispheric strategy. There has even been recent interest in a maritime counternarcotics bilateral agreement first proposed to the GOE by the USG in 1994.

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 \$US 10,000.

The GOE has met the requirements of annual agreements with the United States concerning the provision of assistance for counternarcotics activities. The U.S. and Ecuadorian governments are cooperating to improve Ecuadorian controls over the entry and exit of persons, strengthen safeguards against terrorism and illegal migration, and enhance interdiction of illicit drugs and chemicals.

Cultivation/Production. Joint police/military operations located and destroyed about 20 hectares of cultivated coca in scattered locations near the northern border in 2002. One-half hectare of poor quality poppy was found and destroyed mid-way between Quito and the Colombian border. The crops were eradicated in the presence of a public prosecutor, as the law requires. The absence of significant cultivation and of processing laboratories suggests that drug production is not now a serious problem in Ecuador, although the threat is always present due to Ecuador's geographic location and widespread poverty.

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. The GOE's controlled chemicals list is outdated and inadequate. The USG, the UN Office on Drugs and Crime and other cooperating governments are working with the GOE to correct deficiencies in the chemical control regime. Ecuador continues to meet 1988 UN Drug Convention objectives regarding chemicals, and has signed a cooperative agreement with the European Union. However, CONSEP, the responsible agency, does not always place enough emphasis on conducting timely evaluations, particularly in response to priority queries from other countries.

The USG and the GOE have a bilateral agreement under which DEA notifies CONSEP in advance of pending chemical shipments. These notices are passed on to port inspectors, who 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 DEA as they relate to narcotics or controlled chemical seizures.

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. A new survey is in preparation. Prevention of domestic drug abuse is an integral part of the GOE's drug strategy. National prevention activities are conducted primarily through the schools and supported by foreign donors. All public institutions, including the armed forces, are required to have abuse prevention programs in the workplace. The DNA conducts abuse prevention programs in selected communities.

Asset Seizure. The seizure and disposition of drug-connected assets is a problem area. By law, seized assets cannot be forfeited until the owner is convicted of a drug offense. Most problems arise in relation to the safeguarding of assets pending forfeiture. Real estate, vehicles and other personal property are often used by government agencies or officials and depreciated during the interim. CONSEP's budget relies heavily on receipts from the sale of seized assets and thus suffers unpredictable fluctuations. CONSEP employees went on strike over pay issues several times during the year.

Regional Coordination. Ecuadorian Government officials met frequently with their Colombian counterparts concerning border issues. Ecuadorian and Colombian security organs are working to improve cross-border communications and information exchange. Ecuadorian police operational and intelligence communications systems now being developed provide for compatibility with other police agencies in the region to facilitate a rapid exchange of information.

Alternative Development. The Ecuadorian Agency for Northern Border Development (UDENOR), established in 2000 to coordinate economic and social development programs in the country's vulnerable northern border region, continued its implementation of the Government's four year, \$US 465 million northern border 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 and continuing throughout 2002-2003 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. Resources will be provided to the Ecuadorian Navy for the design and construction of a pier on Ecuador's northwestern coast in addition to the procurement of strategic vessels and other equipment that will improve the Navy's surveillance capabilities. A major police base and checkpoint will be completed in April 2003 and a second will begin construction around the same time. Cargo inspection facilities will be constructed in calendar year 2003 at the ports in Manta and Machala.

In 2002, the USG funded a judicial police training program whose purpose was to educate the judicial police on the new penal code. Trainers who successfully completed that first course are now multiplying their efforts by preparing courses to train colleagues. Additionally, both police and judicial authorities are being consulted on recommended changes to the new code and a forum has been created where changes can be discussed and folded into proposed revisions of the new code as appropriate. Communications equipment, ground vehicles and support of the canine program continue to be areas supported through USG assistance and for which recent successful operations can be credited.

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 and coastal control, police intelligence 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 mostly target the northern border. Increasing emphasis will be given to the prevention of money laundering, expanded training of the judicial police and the interdiction of illicit chemical precursors.

Ecuador Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Seizures										
Cocaine (mt)	10.49	10.83	1.72	9.24	10.770	2.160	9.800	4.400	2.186	1.039
Base, paste (mt)	0.87	1.26	1.60	0.93	0.690	1.605	0.530	0.250	0.192	0.335
Cannabis (mt)	1.90	3.07	18.26	2.98	17.730	0.022	0.200	0.200	0.131	0.183
Heroin (mt)	0.35	0.23	0.11	0.08	0.053	0.034	0.070	0.053	0.024	0.027
Labs Destroyed										
Cocaine	0	4	0	2	2	0	1	0	0	0
Arrests/Detentions										
Nationals	2,106	2,018	2,532	3,567	3,596	3,346	2,075	1,858	2,872	2,775
Foreigners	605	440	434	267	292	346	204	2,214	201	213
Total Arrests	2,711	2,458	2,966	3,834	3,888	3,692	2,279	4,072	3,073	2,988

Paraguay

I. Summary

While the levels of Andean cocaine transiting through Paraguay remained stable in 2002, the Government of Paraguay (GOP) strengthened its counternarcotics capabilities. The GOP's Anti-Narcotics Secretariat (SENAD) continued to work closely with DEA in expanding its permanent presence throughout the country. Three new regional offices were created, bringing the total to five. The offices are manned by sixty-five (65) agents of the Chaco Mobile Enforcement Team (CMET) and Major Violators Units (MVU). The MVU carried out several successful operations to disrupt cocaine networks, resulting in the arrest of two (2) pilots looking to expand into the business. There was an increase in cocaine seizures over last year due principally to the capture of over 150 kilograms of cocaine in one operation. The Paraguayan Congress approved a new counternarcotics bill that provides the SENAD with modern law enforcement tools. Paraguay, a principal money-laundering center, strove to re-charge its money laundering effort by transferring its Financial Analysis Unit (FAU) to the Attorney General's (AG) office. (A full discussion of this aspect of the counternarcotics effort is presented in the INCSR chapter on Money Laundering and Financial Crimes.) There were several steps taken by the AG to combat government corruption and by the Ministry of Hacienda to battle tax evasion and fraud, but overall progress and judicial cooperation against corruption is lacking. 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 destined for Argentina, Brazil, the U.S., Europe, and Africa. The CMET was created to target the cocaine that transits by land, river and air over the vast Chaco area, with its undeveloped land border, extensive river networks, and numerous registered and unregistered airstrips. The MVU is tasked with identifying and investigating major drug trafficking organizations. Paraguay is a source country for high-quality marijuana that is not trafficked to the U.S.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The past 12 months have been a building year for SENAD, which focused on expanding its physical infrastructure and putting trained people in the right places. In June, DINAR (the SENAD counternarcotics police) officially changed its name to DOA (Direccion de Operaciones Antinarcotics) to further emphasize the SENAD's counternarcotics mission. Three new regional offices were established, bringing the total to five. These regional posts are manned by 65 ad hoc vetted CMET and MVU agents, with each office having a minimum of 10 agents. The regional directors report directly to the SENAD chief. The SENAD chief continues to take active measures to assure that members of the police and military assigned to his office who are suspected of links to narcotics and other illegal activities are relieved of their duties. Polygraph tests have played an instrumental part in keeping the SENAD fairly clean. Of the 30 CMET and MVU agents re-tested, only four failed the exam and lost their posting. The SENAD chief's reputation as an excellent administrator was a key reason why the Paraguayan Congress voted to approve a comprehensive modification of the existing counternarcotics law, which grants long-sought authority to use informants and to conduct undercover operations and controlled deliveries. Once fully implemented, the law will enhance the SENAD's ability to successfully investigate and prosecute major drug traffickers.

Accomplishments. The most significant counternarcotics achievement in 2002 was the arrest of two narcotics pilots, fugitives from Brazilian justice, who had come to Paraguay to establish their own drug operation. In addition, the MVU seized a record cocaine shipment in a raid on a private house February

28, shortly after the opening of the regional office in Pedro Juan Caballero. The operation was marred, however, by the actions of the local prosecutor and police chief. One hundred and fifty kilograms of the over 200 kilos of cocaine confiscated were eventually destroyed. The rest was stolen while under custody of the prosecutor, who took possession of the drug and non-drug evidence as required by law. A subsequent investigation pointed to the local Police Commissioner as the likely culprit. Other SENAD successes include three joint Paraguay-Brazil counternarcotics "Alliance" marijuana eradication exercises. The maneuvers netted almost 25,000 kilograms of pressed or cut marijuana and led to the destruction of over 900 hectares of planted marijuana and more than 160 processing sites. They also resulted in the arrest of more than 15 individuals, among them two traffickers wanted in Uruguay and Carlos Fleitas Riveros, the Paraguayan owner of the house in Pedro Juan Caballero where the 200 plus kilograms of cocaine were found (see above). Also of note is the rapidly improving canine detection program. In airport and bus terminal searches, the dogs have discovered approximately 25 kilograms of cocaine, and an undetermined amount soaked in clothes. Since July 2002, 18 individuals detained by the canine unit have been arrested on possession and trafficking in cocaine.

Law Enforcement Efforts. Bail bondsman Nestor Baez, arrested for cocaine possession in 1998 and released in 2000 in a highly irregular decision, was sentenced to three years in jail for providing false testimony and obstruction of justice. According to the SENAD chief, 153 persons, including drug producers, distributors and bagmen, were arrested and imprisoned this year. As part of the implementation of the new narcotics law, the Supreme Court assigned two magistrates as special narcotics judges to handle search warrant requests and authorize the use of the police and investigatory powers granted in the legislation.

Corruption. The GOP recognizes corruption as a public policy challenge, but has been unable to attack corruption in a systematic fashion. There is no evidence that the government or any senior official encourages or facilitates the distribution or production of narcotics or other controlled substances. There have been a few high-profile convictions of former government officials for graft, and prosecutors in Asuncion and Encarnacion have opened investigations against more than 100 customs and port officials suspected of accepting illicit payments. We remain concerned that reportedly corrupt police officials are in positions to give protection to or compromise law enforcement actions against narcotics traffickers.

Agreements and Treaties. The new U.S.-Paraguay Extradition Treaty entered into force on March 9, 2001, and 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 of the country. SENAD estimates that 4,000 hectares (an increase of 1,000 hectares from 2001) were dedicated to the cultivation and production of marijuana in 2002.

Drug Flow/Transit. The levels of Andean cocaine transiting through Paraguay remained stable in 2002. U.S. law enforcement officials estimate that as much as 60 metric tons of Colombian, Bolivian, and Peruvian cocaine may transit Paraguay annually. Almost all the marijuana produced is for the Brazilian market, and is not destined for the United States.

Demand Reduction Program. The increased marijuana production in Paraguay has led to a noticeable rise in substance abuse. A poll to be completed in early 2003 will provide key information about the

public's perception of drug abuse and levels of drug use in Paraguay. Supported by funds from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL), the SENAD 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 continues to support further professional development of the SENAD's 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 passage of the new law authorizing the use of informants, controlled deliveries and undercover operations, and other law enforcement tools. We will now work closely with judicial and law enforcement agencies to use the new law to bring to justice major traffickers and to disrupt their networks.

DEA continues to work with the SENAD, providing guidance on operations and investigations. INL provided equipment and training support to SENAD, including a course for canine handlers, the purchase of detection canines, computers and computer-related items, uniforms, an advanced training course for SENAD agents, and vehicle maintenance. SENAD officers participated in an Office of Defense Cooperation (ODC)-sponsored Special Forces Training and in the Regional Air Force Counterdrug Conference in Key West. DEA also sponsored an counternarcotics core legal team of two judges, the Deputy Attorney General, and the SENAD legal advisor, who traveled to Bolivia for a course of how to prosecute narcotics cases.

The Road Ahead. The new counternarcotics legislation will expand the GOP's ability to crack down heavily on narcotics transportation networks. Implementation of the new law and re-structuring of the SENAD field offices will strengthen the MVU's and CMET's operational capability leading to more thorough investigations and more coordinated action against major trafficking networks. Full implementation of all provisions of the anti-money laundering and counternarcotics law will significantly enhance the GOP's ability to punish and prevent official corruption. The transfer of the GOP's Financial Analysis Unit (FAU) to the Attorney General's office should enhance the levels of cooperation between the two entities and spur more complete investigation of suspicious financial transaction and money laundering cases. The USG will continue to strengthen the SENAD's counternarcotics investigative and operational units, as well as the FAU, through training, technical assistance, and equipment donations.

Peru

I. Summary

Peru is the second largest cocaine producer in the world and a major exporter of high purity cocaine and cocaine base to markets in South America, Mexico, the United States, and Europe. Peru legally produces cocaine base and coca leaf for medical and commercial consumption in the U.S. and Europe. The country's production increased 8 percent in 2002 but is 36,000 hectares below the 1995 level.

Progress was made in the past year on many components of the counternarcotics program that targeted the illicit drug trade, encompassing demand reduction, coca eradication, air, land and waterway drug interdiction and chemical diversion control. Major accomplishments include increases in drug seizures, the destruction of maceration pits and arrests.

The pace of eradication picked up in the last four months of 2002 after it had temporarily slowed when the Government of Peru (GOP) faced social unrest from coca farmers and other civic sectors. Subsequently, a number of factors spurred greater cooperation that enabled the GOP to eradicate the target goal of 7,000 hectares of coca for the year. These included Peru's interest in qualifying for Andean Trade Preference and Drug Eradication Act (ATPDEA) benefits, USG demarches, a new bilateral alternate development agreement with the USG and a pilot participatory eradication program. The GOP is considering an eradication plan for 2003 that sets a minimum goal of 12,0000 hectares.

II. Status of Country

Coca is grown in a number of areas east of the Andes in Peru. The Upper Huallaga and Apurimac Valleys account for 60 percent of production while the "traditional" growing area of Cuzco produces 21 percent. Drug traffickers continue to move coca products out of Peru via air, river, land, and sea routes to Mexico, Bolivia, Brazil, Colombia, Ecuador and Chile. More drugs left Peru for Europe and the U.S. in 2002 through ports including Callao, Chimbote and others along Peru's coast according to DEA. Traffickers are exploiting the lack of control on the northern and southern borders to move cocaine hydrochloride (HCl) and cocaine base north into Ecuador and south into Chile and Bolivia. Opium latex and morphine are moved overland north into Ecuador.

Traffickers continue to use private aircraft to transport cocaine base from Peru to Bolivia, Brazil, and Colombia. However, there is no reliable information on whether or how smugglers may have changed clandestine flight operations carrying cocaine base from Peru to Colombia since the suspension of the Airbridge Denial (ABD) Program.

Sendero Luminoso (SL) members provide security for a fee to traffickers transporting drugs out of the Apurimac/Ene Valleys and the Upper Huallaga Valley. There is no evidence that the SL as an organization is directly involved in either the cultivation or processing of cocaine. This situation may change due to the SL's increased cooperation with traffickers in the cocaine production zones. There have been multiple reports of border crossings by the Revolutionary Armed Forces of Colombia (FARC) into Peru. In 2002 there was the first report of gunfire being exchanged between FARC forces and the Peruvian National Police. This could signal an escalation of the border situation, as pressure grows on the FARC in Colombia.

Poppy cultivation and opium trafficking continue to increase in Peru, as evidenced by the steady rise in opium latex seizures by the Peruvian National Police (PNP). Colombian narcotics traffickers supply Peruvian farmers with seeds and offer technical assistance and cash loans. These activities are primarily concentrated in the northern central part of the country although poppy may also be grown in the Huallaga Valley. Peru also produces marijuana that is consumed locally.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The GOP vacillated with respect to coca eradication during the first nine months of 2002. Organized coca growers (cocaleros) in Peru staged a number of large protests during 2002, which intimidated the GOP into signing agreements to temporarily suspend coca eradication in certain regions, as well as to include cocalero representatives in discussions on revising Peru's counternarcotics law. The cocalero threats to DEVIDA, Peru's equivalent to the U.S. government's Office of National Drug Control Policy, and alternative development NGO representatives caused the temporary suspension of some alternative development activities and the temporary withdrawal of some NGO staff from coca growing zones for safety. Politically, the cocaleros dominate the Apurimac/Ene River Valley Agricultural Association (FEPAVRAE), and have formed a new indigenous political party Llapanchicc, which is consciously modeled on Evo Morales' cocalero movement in Bolivia. While other Peruvian indigenous political parties have come and gone, Llapanchicc is the first to have as its central plank the defense of coca cultivation.

Eradication activities were renewed in the final three months of the year when a pilot program of participatory eradication (auto-eradication) was inaugurated in the Huallaga valley. This development followed the signing of a multi-year bilateral agreement in September, which will commit an estimated \$300 million to the Peruvian Alternative Development Program (ADP) through 2007. The new agreement establishes a revised strategy that conditions provision of alternative development in coca-growing areas with eradication and interdiction programs.

Interdiction activities were less controversial and the GOC was more proactive. A greater effort was directed at destroying coca maceration pits and laboratories in an attempt to destroy the coca and byproducts before they became mobile. The GOP also seized larger quantities of cocaine HCL and base in 2002. Seizures of coca paste reached 9,000 kilos compared to 6,300 the previous year. Nearly 7,000 kilos of potential base was destroyed along with 485 labs and maceration pits. The GOP confiscated close to 500 metric tons of illegal or diverted precursor chemicals. Peru and the USG signed a Bilateral Peru Riverine Plan (BPRP) in March 2002. The BPRP focuses on riverine law enforcement operations. It calls for the GOP to assume financial responsibility for the riverine school in Iquitos in CY 2003.

Treaties and Agreements. 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, as amended by the 1972 protocol, and the 1971 Convention on Psychotropic Substances. There is also an agreement between the U.S. and Peru to exchange information concerning large cash transactions. An 1899 bilateral extradition treaty is in force between Peru and the United States. In July 2001, the U.S. and Peru signed a new extradition treaty, which was ratified by both countries in 2002. The new treaty will enter into force once the two governments exchange the instruments of ratification.

Illicit Cultivation. Despite GOP eradication efforts, the total number of hectares of cultivated coca increased by 8 percent to 36,600 hectares in 2002. However, beginning in July, the Ministry of the Interior pledged full support to reach the 7000-hectare goal. A new pilot "auto-eradication" model was implemented that the GOP hopes will avoid social unrest. This model incorporates farmers into the eradication brigades, paying them a daily wage. Communities that have eliminated coca are also eligible for employment-generating public works for short-term assistance and longer-term alternative development. While still in its infancy, the model shows promise, with over 900 hectares eradicated, mostly in native communities. CORAH has also entered into two new areas, dramatically increasing eradication rates and achieving its 2002 goal of 7000-hectares. The GOP is reluctant to eradicate in areas where confrontation with coca growers might occur. To date, it has not approved eradication in areas such as the Apurimac and Monzon areas, two key source zone valleys where principal concentrations of coca leaf are found.

An eradication plan for 2003 is in the approval process. It will cover between the 9,000 hectares proposed by DEVIDA and the 12,000 hectares proposed by the Ministry of the Interior. Under this plan, eradication would be carried out in the Apurimac and Monzon valleys.

Police have been less successful this year in locating poppy fields, despite repeated efforts. The fields are typically small, in remote and broken terrain, or co-mingled with legitimate crops which makes it difficult to identify them from imagery or overflight.

Law Enforcement. Efforts. During 2002, the Peruvian National Police Narcotics Directorate (DIRANDRO) began monthly interdiction operations in the Apurimac valley, a major cultivation zone infrequently attacked in the recent past. DIRANDRO destroyed over 200 rustic cocaine and cocaine base labs and ton quantities of precursor chemicals. Similar operations in the Huallaga Valley region eliminated another 349 rustic labs and coca maceration pits.

DIRANDRO also began to enhance truck and vehicle inspections of suspected drug and chemical smugglers utilizing the roads and highways throughout Peru. The PNP Road Unit conducts weekly road operations using trained K-9 drug dogs on the major highways exiting the coca producing jungle region heading west to the coastal areas, on major roads entering Lima, and throughout key Departments in Peru. In cooperation with U.S. law enforcement agencies, private shipping companies have improved their abilities to monitor sea cargo containers. They provide DIRANDRO and Peruvian Customs 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.

The Riverine Program was designed to enable Peruvian police and Navy personnel to deny drug traffickers free access to the rivers and tributaries in the cocaine transshipment areas in Peru. Despite extensive USG investment in the Riverine Program, the GOP has shown little tangible, measurable results so far due primarily to a lack of coordinated effort and institutional rivalries between the Peruvian Navy, counternarcotics police and supporting regulations necessary for operations. This will be a major policy challenge in 2003.

Peruvian law requires, save for exceptional circumstances, that a prosecutor be present when police investigatory operations are carried out. The Anti-Narcotics Prosecutors (Fiscales Especiales Anti-Drogas or "FEAs") continue to play an integral role in narcotics interdiction. There are currently three drug prosecutors in Lima and 14 assigned to other provinces. The increase in number and availability of prosecutors has led to a sharp increase in destruction of laboratories and maceration pits, arrests, etc. For example, in 2001 a total of 769 operations were carried out resulting in 39 labs and 107 maceration pits being destroyed. In the first seven months (January through July) of 2002, 765 operations were carried out, resulting in the destruction of 137 labs and 198 pits. In 2001, 3884 kilos of coca paste were seized; in the first seven months of 2002, 8670 kilos were seized. Similar numbers are reflected in seizures of cocaine (1955 KG in all of 2001 versus 3373 in Jan-July 2002). In all of 2001, 1367 people were arrested in connection with drug trafficking, while in the January-July 2002 period, 1606 persons were arrested.

Corruption. The Peruvian congress and press has remained focused on uncovering and investigating government corruption. The investigation of former officials of the Fujimori Government continues, including possible charges of drug trafficking against the former de-facto national security advisor, Vladimiro Montesinos. The GOP 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 Government is known to engage in, encourage, or facilitate the illicit production or distributions of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Demand Reduction. Drug use continues to rise. According to a national survey, 59 percent of Peruvians believe that drug consumption is a "serious problem" for Peru. Marijuana, cocaine base, and cocaine remain the three illegal drugs most frequently abused. Peruvian men still significantly outnumber women in the use of marijuana and cocaine. Teenagers between the ages of 13-15 years continue to abuse these drugs. Glue sniffing remains a serious problem among street children in Lima. Gasoline sniffing is popular with the same age group in the jungle regions of Peru. Drug use in prisons is commonplace. Abuse of imported designer drugs such as Ecstasy (MDMA) is growing. Ecstasy is used by 10-20 percent of the drug abusers in Peru. The Government of Peru (GOP) recognizes the impact of Ecstasy on the

community and the urgent need for awareness and new legislation to specifically address importation, trafficking, possession, and manufacturing of MDMA.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG support for the GOP is focused on attacking the cocaine trafficking trade at its source in the Upper Huallaga Valley and the Apurimac/Ene Valley. Bilateral assistance also emphasizes institution building in support of Peruvian police counterparts and other entities involved in combating drug trafficking. Recently, GOP officials began discussions with political representatives in the Huallaga and the Apurimac/Ene Valley regarding future eradication efforts in those regions of Peru. Topics of discussion include auto-eradication, economic incentives, and viable alternative development measures, as well as increased police interdiction.

To attack the incipient opium trade the USG assisted the Peruvian police in forming a "Special Opium Group" dedicated full time to opium latex and morphine investigations.

There is also a bilateral maritime ports strategy with the GOP to improve police and Peruvian customs capabilities at all major ports throughout Peru. Seaport and airport intelligence collection efforts have helped identify suspect cargo and passengers departing Peru for the U.S. and Europe. Both programs continue to enhance liaison and cooperation between GOP authorities and private maritime and airfreight companies in support of GOP ports counternarcotics initiatives. The USG has helped the GOP to establish a joint Police/Customs Port Interdiction Unit in the principal seaport of Callao. It reviews export documents of containerized-freight and identifies suspect cargo to be searched. The group plans to deploy team members to other Peruvian seaports to conduct random document analysis operations.

The Peruvian police have arrested more drug smugglers and seized more drugs this year at Lima's international airport. These successes are the result of ongoing training in interdiction and investigative techniques as well as the installation of an X-ray machine to screen passenger luggage for narcotics prior to exiting Peru for foreign destinations. U.S.-trained dogs are also being used to detect drugs on passengers and in airplane baggage compartments. The PNP is developing a database to identify and locate different organizations that are actively involved in drug trafficking via the passenger and cargo shipping airlines through the cooperative efforts among PNP, airline companies, freight handlers and Peruvian airport security.

Precursor Chemicals. Callao is the primary point of arrival for imported chemicals entering Peru. Precursor chemicals are generally imported legally into Peru and are subsequently diverted by legitimate Peruvian chemical companies, suppliers, and brokers to drug traffickers who produce cocaine and cocaine base. Precursor chemicals also enter Peru illegally via rivers from Brazil and Colombia. Legislation to establish a tracking system for the sale and distribution of controlled precursor chemicals has been submitted to the GOP. However, there is still no single, automated tracking system for the sale and distribution of precursor chemicals in Peru. Although Peruvian law strictly regulates the sale and distribution of controlled precursor chemicals, additional legislation is required to increase the criminal penalties for trafficking in controlled chemicals. Draft legislation has been submitted to the Peruvian government for review, but GOP authorities have not yet submitted the legislation to Congress.

Airbridge Denial. The ABD Program was suspended in April 2001 after a Peruvian air force pilot shot down a plane killing two Americans who belonged to a missionary organization. Since then, air intelligence capabilities have been limited, and related air interdiction efforts have ceased. There is little information as to how or if narcotics trafficking organizations may have changed their air operations since the air interdiction program was suspended. Investigations and enforcement actions indicate that narcotics traffickers continue to transport multi-ton shipments of cocaine HCl and cocaine base via land for ultimate shipment by commercial or fishing vessels to Colombia, Mexico, the U.S., and Europe.

Alternative Development. In 2002, the alternative development program (ADP) invested \$32 million dollars in two main coca-producing valleys (the Huallaga and Ene-Apurimac River Valleys), and in

consolidation areas where coca has declined but could re-emerge if the licit economy is not further developed. Continuing high coca prices, combined with extremely low international market prices for key AD crops such as cacao, coffee, plantain, heart of palm, and native cotton, complicated the challenge to promote and expand the production of licit alternatives to coca. The greatest success lay in promoting high quality production targeted at niche export markets.

In 2002, the ADP financed substantial rural road rehabilitation (355 kilometers) and maintenance (458 Km) and bridges to improve market access for relatively isolated communities. USAID is coordinating with the Ministry of Transportation and the Army Corps of Engineers for the rehabilitation of 170 kilometers of the Fernando Belande Highway, a major link between the Huallaga Valley and national markets running from Juanjui to Tocache.

The Road Ahead. During 2002, DIRANDRO increased the number of officers in the drug source zone and provide special training and equipment to a dedicated eradication security support unit. These increases led to an increase of arrests and seizures and greater security for eradication teams during 2002. These efforts will become especially important in 2003 when the GOP begins to eradicate coca in the Apurimac/Ene and Monzon Valleys where strong local resistance to eradication efforts is expected. The USG also supported a Peruvian Special Operations Unit to interdict illegal activities at clandestine airfields, drug laboratories and other sites that will reinforce law enforcement efforts in 2003.

USG and GOP authorities are reviewing the reactivation of the ABD Program in Peru. Aircraft and other equipment have been identified and refitted and initial pilot training has been completed. The Embassy is coordinating all logistical and operational concerns regarding command and control requirements to safely and effectively resume Airbridge in anticipation of a final decision on whether to restart the ABD Program in Peru in CY 2003.

In February 2002, the GOP and USAID agreed to carry out an aggressive tropical forest management program designed to increase household incomes via sustainable 'off-farm' employment and to preserve the bio-diversity of protected areas by discouraging the massive deforestation that results when forests are cleared for illegal coca cultivation. In September, the GOP and USAID signed a 5-year cooperative agreement that more directly links alternative development to coca eradication. Under the new strategy, communities will sign agreements committing to voluntarily eradicate the illicit coca grown in their area of influence and remain permanently coca-free in order to participate in the AD program. The GOP will forcibly eradicate coca if it is not destroyed voluntarily and ADP benefit will be withheld.

For coca growers who choose to participate, there are immediate benefits which include health and nutrition activities targeted to the most vulnerable community members, temporary employment on the construction of priority public works projects identified by the community, and training for local government to lay the foundation for further development planning. The revised strategy also includes a major communications effort to generate an environment in which the AD program can operate safely and effectively, to strengthen public support and political will, and to foment behavior change towards licit lifestyles and the rejection of the illicit economy. This new strategy of 'auto-eradication' has already resulted in the eradication of over 900 hectares of coca in the pilot region of Aguaytia.

Peru Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Coca										
Net Cultivation (ha)	36,000	34,000	34,100	38,700	51,000	68,800	94,400	115,300	108,600	108,800
Eradication (ha)	7,000	3,900	6,200	13,800	7,825	3,462	1,259	0	0	0
Cultivation (ha)	42,000	37,900	40,200	52,500	58,825	72,262	95,659	115,300	108,600	108,800
Leaf (Potential Harvest) (ha)	52,700	52,600	60,975	69,200	95,600	130,600	174,700	183,600	165,300	155,500
HCI (Potential) (mt)	140	140	154	175	240	325	435	460	435	410
Seizures										
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 HCI (mt)	3.7	2.77	2.70	3.59	1.70	2.30	1.01	7.65	0.10	0.47
Cocaine Base (mt)	8.7	5.71	9.01	6.65	19.70	8.80	18.68	15.00	10.60	5.3
Total Cocaine (mt)	12.4	8.48	11.70	10.24	21.40	11.10	19.69	22.65	10.70	5.77
Heroin (mt)		.004	.002	_	_	_	_	_	_	_
Aircraft (items)		1	2	_	_	11	7	22	4	13

Uruguay

I. Summary

Uruguay is neither a major narcotics producing nor transit country, but it could become so in the medium term. Efforts to fight drug trafficking and domestic consumption are effective, although law enforcement agencies and drug programs continue to have very limited resources at their disposal. Current areas of concern include increased marijuana and cocaine seizures and consumption, the lack of inspection of containers at the port of Montevideo, and the use of free trade zones for the movement of arms, drugs, and other contraband. 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, although its five-year recession and strategic location could lead it to become a new gateway for drugs. Drug consumption appears to be at relatively low levels. Uruguay is affected by the tri-border area of Paraguay, Argentina and Brazil, which has long been a haven for narcotics traffickers, smugglers, and other organized criminal elements. In addition, the long porous border with Brazil lends itself to infiltration by traffickers and money launderers. 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.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Despite President Jorge Batlle's occasional public statements supporting the legalization of drugs, the Government of Uruguay (GOU) continues to make counternarcotics efforts a state priority. He has increased military involvement in anti-contraband and trafficking actions and was personally involved in GOU efforts to improve anti-money laundering regulations. The GOU remains committed to education and prevention efforts, although funding levels are low. In 2002, the GOU added an additional 25 officers to its lead counternarcotics agency. Uruguay remains active in international counternarcotics efforts and, as a member of the Southern Cone Working Group of the International Conference for Drug Control, the GOU regularly exchanges information on narcotics trafficking. Uruguay was one of the first participants in the Mutual Evaluation Mechanism (MEM) of the Financial Action Task Force (FATF).

Accomplishments. Despite the ongoing economic crisis, the GOU continued to sponsor training courses and working groups on money laundering. The newly created Financial Information and Analysis Unit of the Central Bank led efforts to bring a greater awareness of the issue to various members of the community including prosecutors, bankers, government officials, accountants, and judges. However, in its first mutual evaluation of Uruguay, the FATF for South America (GAFISUD) made several suggestions to expand the scope of legislation and improve investigative capabilities.

Law Enforcement Efforts. In 2002, cocaine seizures nearly doubled and MDMA (Ecstasy) seizures also increased significantly. By contrast, there were no seizures of heroin in 2002. The effectiveness of the different groups responsible for narcotics-related law enforcement has improved, but some difficulties in communication and joint efforts among the Directorate General for the Repression of Illicit Drug Trafficking (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, though more information sharing and interoperability will be necessary to increase arrest and conviction rates.

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 1998 criminalizes various abuses of power by government office holders and requires high-ranking officials to comply with financial disclosure regulations.

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, the 1972 Protocol amending the Single Convention, and has signed, but not yet ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Uruguay is also a member of the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). The United States and Uruguay have an extradition treaty that entered into force in 1984 and a mutual legal assistance treaty (MLAT) that entered into force in 1994. In early December 2002, the GOU and the United States signed a letter of agreement (LOA), under which the U.S. funds programs to promote police effectiveness in combating narcotics-related crime, and improve border control capabilities. Uruguay will assume the presidency of GAFISUD in 2003.

Cultivation and Transit of Drugs. There is no significant cultivation or production of drugs in Uruguay. Also, Uruguay is not a major drug-transit country. However, the long border Uruguay shares with Brazil is very porous with minimal law enforcement presence. 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 a potential transit point. Maritime and port 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 moving through the port of Montevideo. GOU customs and coast guard authorities search only 0.5 percent of all containers that enter Uruguayan ports, well below the international standard of 1 percent.

Domestic Programs (Demand Reduction). The GOU does not maintain statistics on domestic drug consumption, but indications are that drug use within Uruguay is moderate, with marijuana dominating. 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. However, as Uruguay approaches its fifth consecutive year in economic recession, there are doubts whether the GOU will be able to maintain several of its domestic programs.

IV. U.S. Policy Initiatives and Programs

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. 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 also continues to sponsor training designed to increase police professionalism and to improve Coast Guard and Customs controls at the port of Montevideo. The Federal Law Enforcement Training Center (FLETC) held seminars on financial investigations during 2002, attended by judges, prosecutors, public and private bankers, and enforcement officials, designed to assist the newly created Financial Information and Analysis Unit in the Central Bank of Uruguay (BCU). The BCU has been cooperative in the effort to determine whether terrorists and narcotics traffickers have bank accounts or investments in Uruguay.

The Road Ahead. The overall strategy is to assure that economic recession and regional instability do not lead to Uruguay becoming a major narcotics transit country or money laundering center, and to contain growing domestic drug use.

Venezuela

I. Summary

Internal political turmoil distracted the Government of Venezuela (GOV) from the international narcotics control program throughout much of 2002. Events in April, periodic incidents of political violence uncharacteristic in this country, and two national economic strikes kept much of the GOV's attention focused on internal political strife. Consequently, the key Organized Crime Bill made very slow progress throughout the entire year, except in October when the international community lobbied hard for its passage and nearly two-thirds of its 150 articles were approved by the National Assembly. Two training courses for public prosecutors and police investigators and one firearms identification course had to be cancelled in April and May due to an evacuation of Embassy personnel, which precluded the arrival in Venezuela of the USG instructors. The GOV also did not conduct any illicit crop eradication in 2002, partially due to distraction and uncertainty over the national political scene.

Despite this, the GOV maintained an active drug interdiction program and made progress in its overall counternarcotics program. Seizures were high in all categories, thanks in large part to the implementation of several new programs. The Port Security Program began in Puerto Cabello in February with the assistance of two on-site U.S. Customs Service inspectors. The Prosecutors' Drug Task Force, organized in late 2001, came into its own by mid-2002 as a very effective and professional law enforcement investigative unit. In 2002, the GOV also drafted a comprehensive five-year narcotics control plan and obtained legislative approval of the U.S.-Venezuela Mutual Legal Assistance Treaty. Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

The geographic location and terrain of Venezuela present attractive opportunities to drug smugglers seeking to move their product from neighboring Colombia, which shares a 2,200 kilometers border. The Pan American Highway and its spur roads support a daily flow of hundreds of tractor-trailers, trucks, and buses through two official border crossing points. The shared Guajira peninsula, long synonymous with smuggling and clandestine airstrips, affords alternate trafficking routes adjacent to the Caribbean Sea. The Serrania de Perija mountain range, located between the Pan American Highway and the Guajira peninsula, contains coca and opium poppy cultivations as well as rudimentary production labs on both sides of the border. From deep inside Colombia's coca-growing and cocaine-production region, the navigable Guaviare and Meta rivers flow to form two sides of Venezuela's southwest border, eventually coming together to form the Orinoco River, which bisects Venezuela and provides several oceanic ports before emptying into the convergence of the Caribbean Sea and Atlantic Ocean.

The amount of cocaine transiting Venezuela is estimated to be at least 150 metric tons per year. Although there is no reliable estimate of the amount of heroin transiting the country, the continuation of an exponential rise in heroin seizures over the last three years and the use of bolder smuggling methods are cause for grave concern. In 2002 Venezuela saw the first large seizure of MDMA (Ecstasy) as an imported drug. Coca and opium poppy are cultivated along the Colombian border in small but increasing amounts.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Progress on major legislative issues continued to be slow throughout 2002. The primary source of disappointment was the National Assembly's failure to pass 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 combat effectively narcotics trafficking 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 narcotics trafficking), establishment of the concept of conspiracy, and enhanced and streamlined asset forfeiture. After four years of development, the organized crime bill finally passed its first reading during the final quarter of 2001. The second reading was scheduled for early 2002, but other issues, including the events of April, distracted the National Assembly from this critical piece of legislation during the first nine months of the year. After several months of encouragement by the international community, the National Assembly passed 96 of the bill's 150 articles in October. Further work on the bill again stopped, however, as political tensions between Government and the Opposition again increased.

A major amendment to Venezuela's Uniform Drug Law (LOSEP), which would provide much needed enhancements to Venezuela's chemical control laws, did not move beyond completion of the first reading in 2002. Again, the overriding reason for the slow progress on this legislation was the national political crisis.

The National Commission against the Illicit Use of Drugs (CONACUID) is Venezuela's equivalent of the U.S. ONDCP. After 15 months of research and coordination, CONACUID published a five-year National Drug Control Plan in November 2002. Projects contained within the plan cover all 11 categories of the 1988 UN Drug Convention; the USG has current or planned programs to support 14 of these projects.

Accomplishments. The GOV in 2002 did not address domestic illicit cultivation or production of drugs, which are small, but may be increasing in the area bordering Colombia. GOV efforts were focused primarily on disrupting the distribution, sale, transport of drugs, as discussed in part IV of this report (bilateral cooperation). A major judicial success was achieved against money laundering with the sentencing of two Venezuelans to 15 and 25 years, respectively. Millions of dollars of narcotics trafficker assets were seized in 2002, including real estate and watercraft. Asset seizure, like money laundering, however, is currently governed by weak laws, which will be greatly expanded when the Organized Crime Bill becomes law. Law enforcement cooperation against drug transit has been excellent, as described in the following section and in Part IV of this report. Venezuela continued to participate in a regional chemical control effort, Operation Seis Fronteras, begun in late 2001. A pending revision to the National Narcotics and Psychotropic Drug Law (LOSEP) would provide for improved chemical control regulation. Finally, demand reduction programs abound in Venezuela, financed and administered by a variety of government agencies, non-government organizations, and private sector companies.

Law Enforcement. Cooperation between GOV and USG law enforcement agencies continues to be very good. A highlight of this cooperation in 2002 was the capture and expulsion of James Spencer Springette, a U.S. fugitive who was on both the FBI's "Top Ten" and the U.S. Customs Service's (USCS) "Most Wanted" lists, and who had escaped from prisons in the United States and Colombia. The leader of the violent "Island Boys" narcotics trafficking organization, Springette was wanted for conspiring to smuggle multi-ton loads of cocaine into the U.S. Acting on information provided by U.S. authorities and with the assistance of the USCS, DEA, and FBI offices at the American Embassy in Caracas, GOV authorities captured and deported Springette in early November 2002.

Another outstanding example of law enforcement cooperation was an August 2002 investigation that made possible a combined operation in September 2002, "Golfo de Paria I." In this operation, the Venezuelan National Guard, the Venezuelan Prosecutor's Drug Task Force (PDTF), and DEA targeted the Mario Sanchez (AKA Leon Cachito) narcotics trafficking organization, which was responsible for smuggling multi-ton loads of cocaine into the U.S. each month. With a day's notice, the operation went into action, by the end of the week concluding with the arrest of Sanchez and 15 co-defendants and the seizure of two tons of cocaine, 16 "go-fast" boats, 40 high-powered outboard motors, two fishing vessels, and various real estate.

Corruption. Although the GOV, as a matter of government policy, does not encourage or facilitate illicit drug production or trafficking, nor the laundering of proceeds from the same, there have been accusations that the current administration has turned a blind eye to such activities. In one highly publicized case, a

Venezuelan Coast Guard officer and two naval policemen stole more than 700 kilograms of cocaine, stored at a Coast Guard facility, from an August 2001 seizure on the high seas of 1,800 kilograms. When discovered through the good work of a public prosecutor and a team of counternarcotics National Guardsmen, the Coast Guard officer had already cut the cocaine and broken it down into smaller packages for local sale.

Petty corruption, such as the taking of small bribes to facilitate exportation processing, is widespread and tolerated with ambivalence. This in turn creates an atmosphere of ambiguity where larger scale corruption may also be accepted.

Agreements and Treaties. In 2002, the GOV obtained legislative approval of the U.S.-Venezuela Mutual Legal Assistance Treaty (MLAT). Entry into force awaits the completion of formal mutual notification of the completion of the ratification process through the diplomatic channel, in accordance with the terms of the treaty. An extradition treaty between the U.S. and Venezuela dates back to 1923. 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 and ratified the UN Convention against Transnational Organized Crime, and the Protocol to Prevent, Suppress and Punish Trafficking in Persons. Venezuela has also signed 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. 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 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 Services Business Antismuggling Coalition (BASC), which seeks 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. BASC is part of the USCS Americas Counter-smuggling Initiative (ACSI).

Cultivation/Production. Unknown quantities of coca and opium poppy are cultivated in the Serrania de Perija mountain range along the Colombo-Venezuelan border. There were no eradication missions conducted in 2002 to confirm exact locations and quantities. In 2001, however, three cocaine base labs in this region were discovered for the first time ever in Venezuela, indicating what could be a troubling new trend in the Venezuelan territory adjacent to Colombia. Cultivation of coca fields, for the first time as large as eight hectares, were also reported in 2001.

Drug Flow/Transit. Venezuela is a major transit country for shipment of cocaine, heroin, and cannabis 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. New trends include a dramatic increase in heroin smuggling and new methods, including hiding large quantities in checked luggage and possibly initial attempts to use maritime cargo containers for heroin, sometimes as a part of a large cocaine shipment.

Based on seizure statistics for 2002, multi-ton shipments of cocaine continue to enter Venezuela from Colombia primarily via the Pan American Highway (border state of Tachira) and exit Venezuela from the

coastal states of Carabobo (Puerto Cabello), Vargas (Puerto La Guira and Maiquetia International Airport), and Sucre (mainland coast opposite Margarita Island). Significant cocaine seizures in the border states of Zulia and Bolivar confirm the transit of cocaine from Colombia across the Guajira Peninsula and via the Orinoco River, respectively.

Heroin trafficking, based upon 2002 seizure statistics, indicates heavy inbound activity at the Colombian border in Tachira, as well as heavy outbound activity at Maiquetia International Airport. Notable heroin trafficking is also noted across the Guajira Peninsula and in the vicinities of Puerto Cabello and Maracaibo.

Demand Reduction. CONACUID is 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 for a Drug-Free Venezuela (Alianza para una Venezuela sin Drogas) undertake important work on their own. CONACUID and Alianza had planned to conduct independent surveys in 2002 to determine the nature and extent of drug abuse in Venezuela, but such were not realized.

CONACUID did, however, complete its analysis of a late-2001 drug usage survey conducted among secondary school students in the capital city of Caracas. Of the nearly 3,000 students surveyed, about one-quarter of one percent reported any consumption ever in the categories of cocaine, opiates, or methamphetamines. Less than two percent reported any use of cannabis. The reliability of the survey, however, is called into question by the fact that senior students reported zero monthly, annual, and lifetime use of cocaine, opiates, and methamphetamines, whereas younger students reports at least some usage in all categories.

IV. U.S. Policy Initiatives and Programs

Ultimately, the diverse manifestations of narcotics trafficking—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 narcotics trafficking organizations through numerous policy, law enforcement, and institutional development efforts. Interdiction, in this context, is viewed as a precursor to obtaining and exploiting intelligence information, which in turn may be used to direct criminal investigations and, ultimately, prosecutions.

USG narcotics control efforts and programs continued to undergo significant expansion in Venezuela in 2002. Seaport, airport, and land border points of entry security programs were studied and initiated during the year. Heroin seizures, both on the border and at the country's largest airport, continued to expand. A multi-agency investigative task force begun in late 2001 came into its own, making major seizures and arrests in 2002. Arrests and prosecutions continued at an energetic level throughout the year, although convictions remained low, indicating the need for better-trained prosecutors and/or tougher laws.

A small team of U.S. Customs Service inspectors augmented the Port Security Program during ten months of the year, conducting assessments of Venezuela's largest commercial seaport, Puerto Cabello, which is a known embarkation point for multi-ton containerized shipments of cocaine to the U.S. Assessments were also conducted at Maiquetia International Airport outside of Caracas and at the largest border crossing point of entry on the Colombo-Venezuelan border at San Antonio de Tachira. These assessments laid the foundation for improved procedures, organization, training, and equipment to detect and intercept drug shipments, collect intelligence, conduct follow-up investigations, and make arrests.

The Prosecutors' Drug Task Force (PDTF), begun in October 2001 with USG support, developed a professional investigative and operational capability in 2002. Composed of vetted personnel from three GOV agencies (the Public Ministry, the Federal Judicial Police, and the National Guard), this task force of

three dozen prosecutors and investigators seized almost 13 metric tons of drugs (3.5 MT of cocaine, 93 KG of heroin, and 9.3 MT of cannabis), conducted follow-up investigations resulting in the arrest of more than 80 traffickers (including one kingpin), and seized numerous watercraft, real estate, and cash. Additionally, the PDTF's intelligence and investigations supported international operations that resulted in the indictment and arrest of an additional 17 traffickers and the seizure of several additional tons of drugs.

Road Ahead. The pending Organized Crime Bill is pivotal to increased operational capability at all levels and in all disciplines, from the conduct of criminal investigations to money laundering control to asset seizure. The USG will continue to urge speedy passage and enactment of this long overdue law. Additional training and advisory resources must be directed to improve GOV capabilities in the areas of intelligence analysis, criminal investigations, case management, and prosecution. The port security program, begun at the country's primary seaport, airport, and border crossing in 2002, will be intensified at those locations and expanded to other large transportation hubs in 2003. As conditions in Venezuela permit, the USG will focus again on training programs for public prosecutors and criminal investigators, as well as seek to revitalize and expand a centralized organized crime intelligence analytical center.

Venezuela Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Seizures										
Cocaine HCI (mt)	14.888	13.39	15.03	12.48	7.30	14.58	5.60	6.17	5.10	2.00
Other Cocaine (Basuco) (mt)	0.343	0.79	0.62	0.62	1.30	1.60	1.60	1.60	1.60	1.30
Total Cocaine Products (mt)	15.231	14.18	15.17	13.10	8.60	16.18	7.20	7.77	6.70	3.30
Cannabis (mt)	19.377	14.43	12.43	19.69	4.50	5.52	5.30	13.70	10.00	1.00
Heroin (mt)	0.475	0.28	0.13	0.04	0.04	0.11	0.07	0.10	0.02	0.02
Arrests										
Nationals	1,614	2,733	2,341	6,414	7,242	4,880	_	3,000		_
Foreigners	450	336	275	216	289	499		600		_
Unspecified	647									
Total Arrests	2,711	3,069	2,616	6,630	7,531	5,379	_	3,600		_

CANADA, MEXICO AND CENTRAL AMERICA

Belize

I. Summary

Belize was removed from the list of major drug-transit countries in 1999, chiefly because of declining estimates of the amount of drugs transiting en route to the United States and Mexico (but also due to modest drug seizures over the previous four years). Current evidence, however, suggests that the quantities of drugs transiting Belize are once again on the increase, of particular concern being substantial increases in cocaine transits. Belize's topography and geographic proximity to Mexico and the Western Caribbean drug-transit routes make it a logical transshipment point for drugs. Intelligence in 2002 suggests that go-fast boat traffic through Belize's numerous cays and inland waterways was most likely on the increase, although few seizures were made. For these reasons, the situation in Belize requires further careful monitoring.

The Government of Belize (GOB) recognizes that transiting of drugs is a serious concern and, therefore, increased the size of the police Anti-drug Unit from 23 to 33 vetted members. The Government of Belize works with the United States on narcotics control and other international crime issues. The Belize Police Department (BPD) and the Belize Defense Force (BDF) participate closely with United States efforts on narcotics control initiatives and initiatives of their own design, including manual eradication of cannabis crops. Members of the BPD participated in training exercises within Belize, and received training both in the United States and in neighboring countries. 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. Contiguous borders with Guatemala and Mexico, large tracts of unpopulated jungles and forested areas, a lengthy unprotected coastline, hundreds of small cays, and numerous navigable inland waterways, combined with Belize's rudimentary infrastructure, make Belize a potentially significant transshipment point for illicit drugs.

Although the GOB repeatedly asserted that the Belize Economic

Citizenship Program, under which Belizean citizenship and passports were sold, ended on January 15, 2002, a significant number of passports continued to turn up that were issued after that date. This suggests that sales continued well after the January 15 cutoff date. Further, careful and independent vetting of individuals applying for Belizean citizenship did not appear to take place. Signatures for approval on the applications for citizenship appear to have been forged, as well as many of the documents used to process the applicants information. The GOB amended its Constitution to end the program, launched a criminal investigation, and appointed a Commission of Inquiry to look into the scandal. However, the Belize Economic Citizenship program remains a real concern and an issue that could affect the security of the United States.

III. Country Actions Against Drugs in 2002

For the second year in a row, the size of the Anti-drug Unit was increased, and it now stands at 33 vetted members. An increased level of attention was paid to the police as evidenced by local television reporting on special police units. The media paid particular attention to the Police K9 Unit (narcotics detection trained) and to a Crime Scene Management course for 35 mid-level officers in Belize conducted by FBI agents.

The National Drug Abuse Control Council remains active in the community and participates in National Drug Awareness Week by assisting with school-sponsored activities.

The GOB participated in joint counternarcotics operations with the USG, including Operation Atlantico and Operation Allied Strength/Ocean Garden, a cooperative US-British-Belize counternarcotics maritime operation, and regular manual eradication missions. Throughout the year, the GOB also carried out its own independent counternarcotics operations and participated in regional counternarcotics initiatives.

Accomplishments. Although the number of police officers remains virtually on a par with the previous year, the GOB has made increasing the size of the force a goal. Currently there are 896 police officers. In addition, there are 36 Tourism Police, who do not have arrest authority. The Tourism Police are notable for reducing the number of petty crimes against tourists in Belize. The GOB has also slightly increased the number of new cadets admitted to the police force. In addition to the usual qualifications, secondary education and/or job experience are now qualities that are sought in new cadets.

Illicit Cultivation/Production. Through November, 45,772 cannabis plants were eradicated in Belize. Illicit cultivation of cannabis continues to occur but at reduced levels from the widespread cultivation of a decade ago, when Belize was ranked fourth in worldwide cannabis production. There is no available evidence that cannabis cultivated in Belize has a significant impact on the United States. Although it is much less prevalent than it was in years past, cannabis remains the most widely grown drug crop in Belize. Despite their limited resources, the BDF and the BPD routinely conduct manual cannabis eradication missions involving modest fields, some of which range in size from 500 to several thousand plants.

Because of environmental concerns, the GOB does not allow spray missions for the eradication of cannabis. However, it continues to cooperate with and encourage aerial reconnaissance operations. The BPD and BDF follow up these missions by manually eradicating cannabis fields and seedlings, which the GOB views as effective and more environmentally sound than spraying.

Typically, cannabis fields are located in remote regions, far from the homes of the cultivators, so even though thousands of plants were destroyed in various locations, few attendant arrests were made.

Precursor Chemical Control. In November 2001, Belize police found and shut down its first chemical laboratory and arrested several individuals. There are no legitimate industries in Belize that require the use of precursor chemicals, and the seizure of a lab of this sort causes some concern. Until recently cannabis was thought to be the only drug produced in Belize. Notwithstanding the fact that Belize had few signs of precursor chemical production, the GOB, in support of the 1988 UN Drug Convention, has an existing precursor chemical program.

Asset Seizure. GOB law permits the seizure of assets connected to drug trafficking; however, there is no real legislation in effect to turn profits or necessary items back to the agency which was involved in the seizure. To date, planes, boats, cash, vehicles, and weapons have been seized. Further negotiations to implement an International Asset Sharing Program in Belize await U.S. action.

Domestic Programs/Demand Reduction. GOB demand reduction efforts are coordinated by NDACC, which provides drug abuse education, information, counseling, rehabilitation and outreach. NDACC also operates a public commercial campaign, complete with radio advertisements and billboards, designed to dissuade youths from using drugs. The NDACC is also very active in annual school "say no to drugs" efforts.

Law Enforcement Efforts. Seizures of cocaine, including crack cocaine, total approximately 10 kilograms, a major decrease from last years 3,850 kilograms. Authorities also seized 330 kilograms of cannabis and 2 kilograms of cannabis seed. To date this year, there have been no seizures of heroin. The Police Anti-drug Unit is dedicated solely to handling narcotics cases and conducts operations throughout the year. To this end, nearly 2,000 arrests were made on drug related charges stemming from possession of cannabis, cocaine, crack cocaine, and heroin, or trafficking in them. Additionally, five go-fast boats were seized. In 2001, the Belize Police arrested Mexican drug lord Jorge Moreno, also known as Jorge Teller with 1,447 kilograms of cocaine. The United States requested Teller's extradition, and Belize deported him to the United States.

Though building its capability, the GOB continues to dedicate resources effectively to pursuing major maritime interdiction efforts. Its efforts to eradicate cannabis appear to be successful. The GOB's most serious internal drug problem is rooted in drug-associated criminality. Obtaining convictions remains troublesome because the office of the Director of Public Prosecutions (DPP) is under-funded, under-equipped, and under-staffed, and its personnel need additional training and higher pay. Recent GOB efforts to make the DPP more effective include replacing police officers who serve as prosecutors with civilians who have professional legal training or education. This should result in a dramatic improvement in conviction rates, because police officers often are transferred to other departments and left the Office of Police Prosecution after having been fully trained.

Corruption. In April 2000, the GOB created an Office of the Ombudsman, which can independently investigate allegations of public official wrongdoing. The Office of the Ombudsman chaired the investigation into the illegal sale of Belizean citizenship under the Belize Economic Citizenship Program, which was officially ended on January 15, 2002. Within the police department, the Internal Affairs Investigator is charged with handling complaints against police officers.

Agreements and Treaties. Belize has been a party to the 1988 UN Convention since 1996. A stolen vehicles treaty between Belize and the United States entered into force on August 16, 2002. 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 signed a bilateral maritime counternarcotics agreement with the United States. An overflight protocol to the 1992 maritime agreement was signed in April 2000, a new extradition treaty in March 2000, and an MLAT in September 2000. All except the MLAT are in force, and the MLAT is before the President for expected to enter into force within the next few months.

Drug Flow/Transit. Maritime routes along Belize's lengthy coastline, remote border crossings, and navigable inland waterways are the suspected means for trafficking narcotics through Belize to Mexico, Guatemala, and the United States. Because of its geographical location between Colombia to the south and Mexico and the United States to the north, drug trafficking organizations continue to use Belizean waters as a transit route for cocaine bound for the United States. This constitutes the primary narcotics threat to the United States from Belize. Cargo guards protect shipments of cocaine. Often these guards carry automatic weapons and are considered extremely dangerous. This, coupled with the lack of visibility at night and the heavy vegetation including mangroves, makes duty patrolling the coastline by sea hazardous.

The primary means for smuggling drugs are go-fast boats transiting the reef system; traffickers can operate in relative safety due to numerous hiding locations and shallow water. The entire Belize coastline offers a multitude of opportunities for maritime traffickers. Often the drugs are off-loaded on the ocean side near the barrier reef to smaller vessels. These vessels freely transit inside Belize's national waters because of the lack of adequate host nation resources and interdiction capabilities, including equipment, vessels, personnel, and other items deemed necessary, as well as a lack of critical information, such as locations and times of delivery.

Once cocaine is delivered to Belize, in many instances it moves northward on the northern highway. This highway leads to the Corozal commercial free zone as well as the Santa Elena Belize/Mexico border crossing. Traffickers exploit the unguarded remote border crossings. Lax customs enforcement contributes to cross-border operations.

Intelligence suggests that the Colombian drug cartels have established partnerships with Mexican drug cartels, creating an increase in Mexican drug trafficking activities in Belize. It has also been confirmed that these Mexicans have been masterminding clandestine aircraft and sea vessel drug operations within Belize. The local Belizean drug traffickers merely provide resources while the Mexicans are fully in charge and responsible for the operations' success.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Bilateral Cooperation. U.S. strategy in Belize continues to focus on assisting the GOB to develop a sustainable infrastructure to combat its drug problems effectively. In 2001, USG support included counternarcotics and law enforcement assistance, which provided the host nation with equipment and training for the Belize police department's counternarcotics unit, and training for the Department of Immigration, the Customs and Excise Department, and the magistrate and supreme courts. The U.S. Coast Guard and the U.S. Southern Command, including JIATF-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, the potential remains for Belize to become an ever-increasing transshipment point for cocaine. Cannabis cultivation continues to require monitoring and periodic eradication. After four years in power, the People's United Party continues to advocate combating drug trafficking and associated crime as a top priority. U.S. Embassy support will continue to focus on supporting police counternarcotics units and improving Belize's rule of law infrastructure.

Canada

I. Summary

The Government of Canada (GOC) is committed to reducing the harm and availability of illicit drugs within its borders. At the federal level last year, 11 departments and agencies spent approximately U.S. \$350 million to combat illicit drug use in Canada. Municipal and provincial/territorial governments are equally involved in addressing the use of illicit drugs. Health Canada has responsibility for overall coordination of the nation's drug strategy. On September 4, 2002, however, the Canadian Senate's Special Committee on Illegal Drugs released a report recommending the decriminalization of cannabis possession for personal use and the expunction of records for individuals with a prior conviction for possession, and the House of Commons Subcommittee followed suit in December. On December 9, Canada's Minister of Justice announced that the GOC is considering introducing legislation in 2003 that would enact this recommendation.

Excessive importation of precursor chemicals into Canada, coupled with diversion of pharmaceutical products manufactured from those chemicals, has become problematic in recent years. Canadian firms have increased imports of precursor chemicals, which they process into finished over-the-counter products, primarily pseudoephedrine tablets. Traffickers divert or smuggle significant quantities of those tablets to the U.S., where they are used to produce illicit synthetic drugs, primarily methamphetamine. Legislation scheduled to come into force in early 2003 is expected to help Canadian Authorities monitor and control chemical precursors and other substances produced or imported into Canada. The GOC is active internationally on the drug issue and a dynamic member of the United Nations Office of Drug Control and Crime (UNODC) and Organization of American States (OAS) Inter American Drug Abuse Control Commission (CICAD). Canada is a party to the 1988 UN Drug Convention.

II. Status of Country

Over the past several years, Canada has become an increasingly significant conduit for precursor chemicals. Imports of precursor chemicals have increased markedly; these materials are then processed into over-the-counter drug products used to produce illicit synthetic drugs in the U.S. While these substances have been strictly controlled in the U.S. since early 1989, they were not effectively regulated in Canada as of the end of 2002. This situation may change with the promulgation of regulations implementing a 1996 law that enabled regulation of precursor chemicals in Canada. Pseudoephedrine (PSE), a common cold remedy and the main component in the manufacture of methamphetamine, is legally imported into Canada from China, India, and Germany. Canadian imports of PSE were steady until 1997, but tripled between 1997 and 1998, and have increased steadily since. Much of the PSE imported into Canada ends up in the production of illicit drugs. U.S. law enforcement intercepted over 30 metric tons of PSE coming into the United States from Canada in 2001 and 2002, some 25 percent of Canada's PSE imports. Other precursor chemicals available in Canada and used in the production of synthetic drugs are sassafras oil, piperonal, and gamma butyrolactone (GBL). These precursors are used in the manufacture of Ecstasy, MDMA, MDA, and gamma hydroxybutyrate (GHB). A variety of other synthetic drugs are also produced in Canada, including MDA and GHB, and are trafficked into the United States.

While Canada did not have chemical regulations in place, responsible members of the Canadian chemical industry complied with the Royal Canadian Mounted Police's (RCMP) National Precursor Chemical Diversion Program, which calls for voluntary reports on chemicals believed to have been diverted for illegal use. However, as of the end of 2002, there were no mechanisms in place to ensure a full accounting of the whereabouts and uses of precursor chemicals and other substances of concern. To remedy this, the GOC developed regulations to implement aspects of the Controlled Drugs and Substances Act, passed by Parliament in 1996, which should strengthen Canada's ability to monitor and control precursors and other

substances used in the clandestine manufacture of synthetic drugs. These regulations came into force in January 2003.

Cannabis cultivation, much of which is destined for the United States, is also a concern. Hydroponic hothouse operations in Canada produce high THC level cannabis, but the RCMP reports that Vietnamese groups may have mastered organic methods that rival the more technical systems. Moreover, Canadian law enforcement officials have seized a few aeroponic installations, where the roots are suspended in midair and sprayed regularly with a fine mist of nutrient-enriched water. While there are no official production statistics, the RCMP estimates that 800 tons of cannabis are produced each year. Authorities destroy over one million plants annually.

Canada is also a significant drug consumer country. According to the RCMP, Asian-based organized crime dominates the trafficking of heroin from Southeast Asia to Canada. The RCMP estimates 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 trafficking and distribution appears to involve a number of organized crime groups as well as individual carriers and sellers. The RCMP estimates that approximately 15 to 24 tons of cocaine enter Canada annually. The wide demand for cannabis in Canada, however, does not appear to be met by domestic production. Some 100 tons of hashish and 6 tons of liquid hashish find their way into Canada from a variety of sources, including the U.S., Mexico, Colombia, the Caribbean, the Middle East, and to a lesser degree, Thailand and Morocco. Outlaw motorcycle gangs and Colombian, Italian, and Asian-based criminal organizations cooperate with one another to varying degrees in the trafficking and distribution of illegal drugs.

The RCMP reports that ecstasy imports into Canada have been increasing over the past several years (over 1.8 million tablets seized in 2001 and over 2 million in 2002). Though small-scale production occurs in Canada, Israeli, Russian and Dutch-based traffickers bring the bulk of the ecstasy supply from Western Europe. The U.S. is the principal source of LSD sold in Canada. The RCMP estimates that the drug trade in Canada (not including cannabis) has the potential to generate proceeds for criminal groups in excess of U.S. \$3 billion at the wholesale level and U.S. \$13 billion at the street level. Though reliable statistics are not currently available, drug use among Canada's youth is believed to be on the increase.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The GOC recognized that Canada needed to adopt a regulatory and administrative framework for better controlling precursor chemicals. As a result, Health Canada drafted regulations implementing long-dormant elements of the Controlled Drugs and Substances Act, enacted in 1996. Although U.S. chemical control experts believe that the regulations fall short in certain critical respects, they are at least an important first step, and Canadian regulatory and law enforcement authorities appear to be committed to making them work effectively. As a whole, the regulations should strengthen Canada's ability to monitor and control precursors and other substances used in the clandestine manufacture of synthetic drugs. These regulations came into force in January 2003. Law enforcement (RCMP and Customs) and regulatory officials have pledged to coordinate their respective responsibilities under the new legal regime.

Moreover, in late 2001, Canada enacted stronger organized crime legislation which simplifies the definition of a criminal organization and added three new criminal offenses to the criminal code (targeting nonmembers who participate in organized crime and enhancing Canadian law enforcement efforts to investigate and develop cases). Those convicted under the new legislation will have to serve at least half of their criminal sentence before applying for parole, up from only one third under the prior law. Intimidation of justice system participants -- witnesses, jurors, police, prosecutors, prison guards, judges, the media, and members of Parliament -- was made a criminal offense. This legislation should also better protect Canadian law enforcement officers involved in undercover operations by establishing an accountability process to protect them from criminal prosecution for offenses committed in the furtherance of a criminal investigation.

Though the production, distribution and use of narcotics is illegal and punishable by fines and/or incarceration in Canada, on September 4, 2002, the Canadian Senate Special Committee on Illegal Drugs released a report recommending the decriminalization of cannabis possession for personal use and the expunction of records for individuals with a prior conviction for possession. A House of Commons subcommittee issued similar recommendations, and on December 9, Canada's Minister of Justice announced that the GOC intends to introduce legislation early in 2003 that would consider enacting this recommendation. Canadian law provides for the legal use of cannabis for medical purposes.

Accomplishments. Canada serves as an elected member on the Commission on Narcotic Drugs (CND), of the UNODC, participates actively in the Dublin Group, and will be the next chair of OAS/CICAD where its progress in drug control is evaluated annually.

Canada actively participates in international activities aimed at illicit drugs. It currently chairs the Multilateral Evaluation Mechanism (MEM) working group of CICAD. It is an elected member of the CND, the governing body of UNODC. 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 contributor to both the UNODC and CICAD, both in funding and technical support.

Law Enforcement Efforts. In September 2002, Canadian law enforcement arrested a major distributor and two others for supplying GBL and GHB through the Internet to customers in the United States and elsewhere. In connection with these arrests, as part of "Operation Webslinger," U.S. authorities were able to arrest 124 other individuals for their part in receiving over 4,000 chemical kit orders containing illegal substances. Additionally, two financial service institutions used by those arrested in their drug transactions were identified.

On January 10, 2002, U.S. law enforcement and RCMP officials announced the arrests in the U.S. of 121 individuals involved in the illegal trafficking of PSE from Canada into the United States. This continuing investigation, "Operation Mountain Express," began in 2000. By January 2002, it had resulted in the seizure of over 30 tons of PSE, 181 pounds of methhamphetamine, U.S. \$16 million in cash, over 300 arrests, and the closure of 9 methamphetamine labs in the U.S.

In 2001, seizures in Canada amounted to more than 1,200 kilos of cocaine and some 71 kilos of heroin. From January to October 2002, the RCMP, Canada Customs and Revenue Agency, and local municipal police forces seized some 455 kilos of cocaine, 3,830 kilos of hashish, and 2,782 of MDMA. In December, the RCMP arrested 15 individuals accused of importing some U.S. \$1.5 billion in illegal narcotics (hashish and cocaine) through the Port of Montreal.

Corruption. Canada holds its officials and law enforcement personnel to a very high standard of conduct and has strong anticorruption controls in place. Government personnel found to be engaged in malfeasance of any kind are removed and are subject to prosecution. As a matter of Government policy, Canada does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, nor the laundering of proceeds from illegal drug transactions. Investigations into accusations of wrongdoing and corruption by government officials are credible. Moreover, it is very unlikely that any Canadian government official engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transaction.

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 its 1972 Protocol. The U.S. and Canada have numerous longstanding agreements on law enforcement cooperation, including extradition and mutual legal assistance treaties, a customs mutual assistance agreement, and an asset sharing agreement. 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), of which the RCMP is an associate member, and the USG's tactical drug intelligence center. Efforts are now underway to improve the timeliness and utility of information shared.

Canada 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 in May 2002. Canada is a signatory to all 12 United Nations Security Council Resolutions pertaining to terrorist financing. Canada has also ratified the Inter-American Convention on Mutual Assistance in Criminal Matters, and the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and other Related Materials.

Cultivation/Production. Cannabis 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 cannabis are produced annually. Indoor growing operations have generally replaced outdoor cultivation, allowing production to continue year round. As a result, growing operations are becoming larger and more sophisticated. For instance, Canadian law enforcement authorities estimate cannabis cultivation in British Colombia alone represents a U.S. \$1 billion a year growth industry with a sizable amount of the harvest being smuggled in to the U.S. It is estimated that cannabis production Canada-wide earns some U.S. \$4 billion annually.

Domestic Programs (Demand Reduction). Health Canada is the focal point for the nation's drug control policy. Based on Canadian government estimates, there are approximately one million 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 nonviolent drug possession offenses. Though no national statistics are available, the British Colombia Coroner's Office reported 256 deaths in 2000 attributed to illicit drug overdoses.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Canadian and U.S. law enforcement have an extensive cooperative relationship. The two countries collaborate closely at the federal, state and local levels, as well as the multilateral arena. The principal bilateral cooperative forum is the annual Cross Border Crime Forum, which engages policy makers 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. Canada is one of the United States' principal extradition partners.

To further enhance this cooperative relationship, the USG is committed to the following: supporting Canadian efforts to strengthen legislation and regulatory practices consistent with international standards and practices; maintaining and expanding two-way intelligence sharing to include the timeliness and relevance of information provided; expanding professional exchanges and cooperative training activities between our law enforcement agencies; maintaining joint cross border investigations and operations; and working with the GOC to increase the risks and penalties for criminals engaged in drug trafficking and other organized crimes.

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 Government of Canada has taken and is 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. Yet the U.S.

Canada, Mexico and Central America

is increasingly concerned about the presence of precursor chemicals in Canada and their diversion into the United States by narcotics traffickers. The U.S. hopes that the new chemical control regime will be implemented swiftly and seriously and that fluid means of cooperation will be developed between the regulatory authorities at Health Canada, who have primary responsibility under the law, and law enforcement entities who would investigate and prosecute chemical diversion and related crimes. To the extent weaknesses are perceived in the law and regulations, they should be addressed promptly. The U.S. is also concerned over possible plans to decriminalize cannabis possession; this will not only harm Canadian society, but have consequences for the United States as well.

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, the situation in Costa Rica requires continued scrutiny. The bilateral Maritime Counterdrug Cooperation Agreement, which entered into force in late 1999, continues to improve 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 partners of the U.S. Government (USG) in combating counternarcotics offenses and ever-changing drug smuggling methods. The amount of illicit drugs seized in Costa Rica increased dramatically in 2002, almost doubling in the case of cocaine and trebling in the case of heroin. The Government of Costa Rica (GOCR) implemented a new drug control law in 2002 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. 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 for South American-produced cocaine and heroin destined primarily for the United States. Enhanced maritime interdiction activity and capabilities on northbound maritime trafficking routes prompted some smugglers to take routes further out to sea, especially in the Eastern Pacific. The last quarter of 2002, however, demonstrated another shift in trafficking patterns in response to interdiction efforts, with several suspect vessels pursued through Costa Rica's Pacific Exclusive Economic Zone. The amount of illicit narcotics seized in Costa Rica increased dramatically in 2002, almost doubling in the case of cocaine and trebling in the case of heroin. The GOCR runs a model airport interdiction program; however, Costa Rican counterparts have expressed concerns that Juan Santamaria International Airport is becoming a major hub for international drug couriers. 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 drugs including crack cocaine and "club drugs," along with the violent crimes associated with such drug use, are growing concerns to Costa Ricans. The 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 2002

Policy Initiatives. The Maritime Agreement, and the Coast Guard Professionalization Law 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 established its permanent home in Golfito on the southwest Pacific Coast in 2002, and has thus far graduated 55 officials. Costa Rica cosponsored with The Netherlands and the United Nations Development Program negotiations associated with the "Agreement Concerning Co-operation in Suppressing Illicit Maritime and Aeronautical Trafficking in Narcotics Drugs and Psychotropic Substances in the Caribbean Area" and the GOCR has agreed to serve as the agreement's depository once it is signed. The anticipated signing date of the regional agreement is mid March 2003, in San Jose, Costa Rica. The U.S. Embassy requested permission from the GOCR to transfer third-party detainees apprehended in international waters for trafficking drugs through Costa Rica for direct transport to the United States as an extension of the Maritime Agreement. The

Legislative Assembly passed legislation to strengthen the GOCR's law enforcement capabilities to combat drug trafficking and related crimes in December 2001. A major benefit under the new legislation is the creation of a Costa Rican Counternarcotics Institute that became operational in 2002. The Institute coordinates 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 drug related offenses to include other serious crimes, including terrorism. The Institute produced the GOCR's first comprehensive national counternarcotics plan in 2002. However, it is not yet clear whether budget limitations will allow the Institute to realize its full potential.

Accomplishments. Relations between U.S. law enforcement agencies and GOCR 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. In 2002, the Costa Rican Coast Guard, the U.S. Coast Guard and the U.S. Navy conducted two joint counternarcotics operations. The Costa Rican Coast Guard detained three Colombian-flagged vessels serving as refueling platforms for suspected go-fast vessels in 2002. In addition, the first seizure of 1260 kilos of cocaine and the detention of a go-fast vessel and five Colombian citizens was coordinated off the south Pacific Coast of Costa Rica. The 42-foot go-fast boat was chased by U.S. law enforcement vessels and aircraft for seven hours before running aground on the Pacific coast of Costa Rica. All five Colombian citizens were arrested by the Costa Rican Drug Control Police and are being prosecuted in Costa Rica. The Costa Rica Counternarcotics Institute overseas a Precursor Chemical and Prescription Drug Control Unit that 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 drug trafficking. The Drug Control Police investigate both domestic and international drug smuggling and distribution, and are 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. Given the threat posed by trafficking via commercial air cargo and container shipments, increased attention was given in 2002 to training counterparts in the Ministry of Finance's Fiscal Control Police and Customs Agency.

Corruption. The commitment to combat public corruption reaches to the highest levels of the GOCR. President Pacheco has worked aggressively to deter corruption among public officials. Vice President Saborio leads the National Council on Citizen Security and Participation that is charged with implementation of initiatives that encourage good governance and public sector transparency. 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 GOCR engages in, encourages, or

facilitates the illicit production or distribution of illegal drugs, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. The Maritime Agreement continues to serve as the model maritime agreement for Central America and the Caribbean, and has promoted closer cooperation in the interdiction of maritime smuggling. Results under the Maritime Agreement in 2002 include conducting the combined maritime counternarcotics operations, facilitation of 42 U.S. law enforcement ship visits to Costa Rica in support of Eastern Pacific and Caribbean counternarcotics patrols, and response to six search and rescue cases. The United States and Costa Rica also signed a bilateral Memorandum of Understanding (MOU) on Maritime Cooperation and Assistance, 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. Although Costa Rican law does not permit the extradition of its nationals, the treaty has been successful in obtaining the extradition of U.S. citizens and persons who hold citizenship in other countries. Costa Rica has ratified the Inter-American Convention Against Corruption and the Inter-American Convention Against the Illicit Manufacture of and Trafficking in Firearms. The U.S. and Costa Rica signed a 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 Firearms on November 12, 2001.

Cultivation/Production. Cannabis 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. Utilizing U.S. Army air assets, joint eradication operations are periodically carried out under the auspices of "Operation Central Skies." Over six million cannabis plants have been destroyed to date during these operations. The quantity of plants eradicated suggests that cannabis 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. GOCR officials have made numerous seizures at the international airport in San Jose, typically from departing passengers. Along with traditional body carrying methods, counternarcotics law enforcement personnel have uncovered some novel modes of concealment. The recent trend of increased trafficking of narcotics by maritime routes has continued, with indications that maritime traffickers solicit Costa Rican-flagged fishing vessels to serve as refueling vessels for northbound go-fast boats in the Costa Rican exclusive economic zone. Costa Rican internal drug use is mostly limited to cannabis, cocaine, and crack, but Ecstasy (MDMA) 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 Prevention Unit of the Costa Rica Counternarcotics Institute 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. The Institute and the Ministry of Education expanded their 2001 distribution of specific demand reduction materials for middle schools students by inaugurating educational materials for high school students in early 2002. All public school children are now exposed to demand reduction

instruction from primary school through graduation. 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal U.S. counternarcotics goal 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 cannabis fields; and continued targeting of high-level trafficking organizations operating in Costa Rica. Specific initiatives include: continuing to implement the Maritime 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, the Intelligence Unit of the Costa Rica Counternarcotics Institute, 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. This facility is expected to be completed in July 2003. A Mobile Enforcement Team possessing specialized vehicles and equipment will enhance the inspection station; the U.S. Customs Service will train its officers.

Bilateral Cooperation. The Department of State has 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 2002, the United States delivered two new 24-foot rigid hull inflatable fast boats; provided numerous U.S. Coast Guard training programs; provided over U.S. \$100,000 in maintenance and spare parts for the three U.S. donated 82-foot patrol boats; started construction on a Coast Guard Station in Quepos on the Pacific coast; and continued funding support for a U.S. Coast Guard Advisor, a 12-month U.S. Coast Guard long-term training team deployment to support the newly established Costa Rican Coast Guard Academy, and a contract maritime engineering advisor position. The United States also provided increased information sharing on suspect vessel and air traffic movements near Costa Rica.

The U.S. Embassy hosted a series of four seminars on the law of maritime interdiction and boarding procedures that brought together Costa Rican Coast Guard officers, prosecutors and judges. The Embassy used the same inter-agency approach to provide training on law enforcement techniques related to land seizures to five police organizations. Increased emphasis on operations that combine the forces of various law enforcement entities is anticipated in the next year.

The United States acquired upgraded computers, peripheral equipment, and software for the Ministry of Public Security's Drug Control Police, Air Surveillance Section, and Migration Section; the Judicial Investigative Police Narcotics Section; the Public Prosecutor's Economic Crimes Section and Sex Crimes Section; and the Costa Rica Counternarcotics Institute's Financial Analysis Unit, Intelligence Unit and Precursor Chemicals Unit.

The Road Ahead. The U.S.-sponsored U.S. \$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 Maritime 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 seaport 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. 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

El Salvador is a transit country for narcotics bound for the United States, mainly cocaine and heroin. To date, evidence does not suggest that the drugs that transit El Salvador have a significant effect on the United States, but the situation in El Salvador merits continued scrutiny. 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. El Salvador in 2002 approved a counternarcotics master plan, and the Anti-Narcotics Division (DAN) of the National Civilian Police (PNC) seized more than double the amount of cocaine than was seized in the previous seven years combined. Strong leadership, new personnel, and better intelligence have led to the DAN's much-improved performance. U.S. aircraft flying out of the Forward Operating Location (FOL) also played an important role in the seizure of more than 30 tons of cocaine. El Salvador is a party to the 1988 UN Drug Convention.

II. Status of The Country

Located in the isthmus between the principal drug consuming and principal drug producing nations, Salvadoran territory is a logical transit point for drugs. Climate and soil conditions are unfavorable for coca cultivation, and there is limited cannabis production for mainly domestic consumption. Precursor chemical production, trading, and transit are a minor problem at present.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The 2002-2008 National Anti-Drug plan, the counternarcotics master plan of the Salvadoran Government (GOES), was approved on January 22, 2002. The GOES also established an office to coordinate data collection on illegal drugs, maintain statistics, facilitate research in supply and demand reduction, and disseminate information about the nation's counternarcotics efforts.

Accomplishments. Significant milestones in the 2002-2008 National Anti-Drug Plan were achieved in demand reduction and drug supply. For demand reduction, the milestones were: development of municipal plans for drug prevention, holding youth workshops on drug use prevention, establishing minimum standards for the treatment and rehabilitation of drug addicts, and inaugurating publicity campaigns against drugs. For drug supply, the milestones were: the donation of computers and software by the United Nations Drug Control Program (UNODC) for the installation of a national system for drugs and precursors; and participation in the International Seminar for Drug-Trafficking Control in Ports. El Salvador's work with the UNDOC included participation in the "Fight Against Organized Crime and Corruption: Palermo Convention" seminar; organization of the first-ever International Anti-Drug Day in El Salvador; training on the management of the national database system; and financing for two drug use-prevention projects.

During 2002, El Salvador took significant steps in furtherance of the objectives of the 1988 UN Drug Convention.

The year's most notable seizure was the nearly 2 tons of cocaine recovered from a go-fast boat off the southwest coast on July 1, as the result of an operation coordinated with the U.S. Coast Guard through Grupo Cuscatlan, the GOES inter-agency counternarcotics group. In total, U.S. aircraft flying out of the FOL played a significant role in the seizure of more than 30 tons of cocaine. Having gained several months' experience inspecting 100 percent of the incoming truck containers, the Salvadoran Customs

Service progressed to inspecting selected only selected containers in order both to speed up processing of innocent cargo while targeting suspicious shipments for more rigorous inspection.

Law Enforcement Efforts. Law enforcement efforts in 2002 were adequate, given resource constraints and legal shortcomings, and in some areas represented a great improvement over past years. In 2002, the DAN seized 2,066.5 kilograms of cocaine, more than double the seizures of the previous seven years combined and several orders of magnitude greater than the 18 kilograms seized in 2001. About 13.2 kilograms of heroin were seized in 2002 versus 10.5 kilograms in 2001. There were 1,223 drug arrests in 2002, a 70 percent drop from 2001's 4,003, as the DAN changed its focus from arresting small drug dealers and users to investigations of major traffickers. One important seizure was the confiscation of 7 kilograms of heroin and the detention of two Guatemalan nationals on February 22 at the Comalapa International Airport. Another important catch was U.S. \$730,000 in undeclared U.S. currency found taped to the body of a would-be airline passenger. In 2001, the DAN performed relatively poorly because of leadership turnover, corruption, and lack of resources. In 2002, the leadership turnover stopped and new officers replaced those of uncertain reliability. These factors combined with stronger leadership, a successful operations plan, and better intelligence, resulted in a much-improved DAN in 2002. Having a senior police official as head of the DAN, and swiftly filling DAN vacancies, shows the priority the GOES gives to counternarcotics law enforcement. However, like the rest of the PNC, the DAN suffers from a lack of resources. Its effectiveness is also hampered by the lack of both a modern conspiracy law and a law allowing judge-approved wiretaps. A bill to reform the conspiracy law is stalled in a legislative committee. And, it is unclear when a bill to amend the constitution to allow wiretaps will be formally submitted and approved by two successive Assemblies.

The Salvadoran Navy's ability to patrol the Pacific coast was significantly enhanced by the transfer of ex-U.S. Coast Guard vessels and boarding equipment in 2001. However, the Salvadoran Navy has been unable to take full advantage of these new acquisitions in 2002 because of a lack of funds for fuel and maintenance.

The PNC is understaffed by about 10 percent, fielding 16,702 officers of its authorized 18,500. Moreover, the PNC's budget is the same as it was in 1997, although hundreds of officers have joined the PNC since then. As a result, police are short of essential equipment, particularly communications and vehicles. In 2003, the PNC's U.S. \$134.6 million budget will be cut by U.S. \$5 million or about 3 percent. This was the result of government-wide budget cuts.

Corruption. With USG assistance, the GOES drafted a code of government ethics and proposed creation of an Office of Government Ethics to control, identify and prosecute corruption among public officials. GOES officials are currently working on a bill to be submitted to the Assembly in early 2003 that would establish the Office within the Court of Accounts (the Salvadoran equivalent of the Inspector General's Office). The PNC's Internal Affairs Unit and the Anti-Corruption Unit of the Attorney General's Office (FGR) detain and prosecute police officers for corruption and abuse of authority. The USG provided specialized training in anti-corruption to police, prosecutors, and judges. The GOES is making significant efforts to prevent and combat corruption among senior public officials and reduce it at all levels of government, and to keep the country from becoming a safehaven for drug-traffickers, money launderers, and other criminals. The penal code punishes corruption, although narcotics-related corruption is not specifically mentioned.

As a matter of policy, the GOES does not encourage or facilitate illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. To our knowledge, no senior official 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 GOES has not misused INL-provided aircraft or other equipment.

El Salvador is a party to the Inter-American Convention Against Corruption. Consistent with the country's obligations under that Convention, the law criminalizes soliciting, receiving, offering, promising, and giving bribes, as well as the illicit use and concealment of property derived therefrom. Although the

GOES recognizes the crime of illicit enrichment, it does not have a law similar to the U.S. Foreign Corrupt Practices Act. However, Salvadorans can be prosecuted for crimes committed outside Salvadoran territory and thus for bribing foreign officials abroad. The 1998 anti-money laundering law also covers the proceeds of corruption.

Agreements and Treaties. The current extradition treaty between the United States and El Salvador does not provide for the extradition of each other's nationals and does not expressly cover narcotics offenses. Negotiations for a new treaty have been productive, but several outstanding issues remain under review.

There is no bilateral mutual legal assistance treaty (MLAT) between El Salvador and the United States. However, El Salvador signed the Inter-American Convention on Mutual Assistance in Criminal Matters in 2002. Once it ratifies that treaty, legal cooperation between the two countries, including that in narcotics cases, will become easier.

There is no bilateral precursor chemical agreement between El Salvador and the United States. Formal negotiations on a comprehensive maritime counternarcotics cooperation agreement are expected to begin in early 2003.

Annually, the two governments sign letters of agreement under which the USG provides counternarcotics assistance to the GOES.

El Salvador is a party to the 1988 UN Drug Convention. It has signed but not yet ratified the UN Convention against Transnational Organized Crime and its protocols. It is 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. El Salvador is a signatory to the Central American Convention for the Prevention of Money Laundering Related to Drug-Trafficking and Similar Crimes. There is a collective Mutual Legal Assistance Agreement between all Central American countries.

Cultivation/Production. Climate and soil conditions do not favor the cultivation of cocoa plants. Small quantities of cannabis are produced and consumed domestically.

Drug Flow/Transit. Cocaine from Colombia typically transits El Salvador via the Pan-American Highway. Heroin from Colombia usually goes through Panama, then via courier on a commercial passenger flight to El Salvador to another commercial flight to Honduras and then by bus to Guatemala. The Pan-American and Littoral Highways are the land routes preferred by traffickers.

Go-fast boat activity has increased along the Pacific coast. P-3 aircraft flying out of the FOL have detected various go-fast boats, and the PNC found two abandoned go-fast boats along the coast. The number of suspicious aircraft detected transiting Salvadoran airspace increased.

Domestic Programs (Demand Reduction). The Salvadoran Anti-Drug Foundation (FUNDASALVA) sponsors counternarcotics radio and television campaigns as well as counternarcotics education, drug treatment, and drug rehabilitation programs. The PNC draws on the U.S. Drug Abuse Resistance Education (DARE) program for its counternarcotics presentations at schools. The Ministry of Education uses the U.S. Military Information Support Training (MIST) program to inform elementary school children of the dangers of drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States aims to assist in the professional development of GOES law enforcement agencies, increase their ability to combat money laundering and public corruption, and ensure a transparent criminal justice system.

Bilateral Cooperation. The United States provided U.S. \$1.7 million to assist Salvadoran law enforcement, including: U.S. \$818,000 for police communications equipment; U.S. \$495,000 for 76 police motorcycles and 16 cars; U.S. \$90,000 in operational support for Grupo Cuscatlan; U.S. \$90,000 to help

establish a high-profile crimes unit (GEAN) within the DAN; U.S. \$87,000 to buy six vehicles for the FGR's anti-corruption unit; and U.S. \$76,000 to purchase four vehicles for the PNC's Office of the Inspector General. The USG also funded a variety of training courses on money laundering and anti-corruption costing approximately U.S. \$37,000.

Road Ahead. The U.S. government will continue to provide operational support to Salvadoran law enforcement institutions, anti-money-laundering training, and essential investigative tools. In partnership with the GOES, the USG plans to construct a vehicle inspection facility, construct a new headquarters for the DAN, and build new kennels for the DAN's drug-sniffing dogs. To reduce drug consumption and crime, the United States will also fund a laser tattoo-removal machine. Over 40 percent of homicides are gang related, and there is a direct linkage between El Salvador gangs and their U.S. counterparts. A tattoo removal machine will help reduce recidivism amongst gang members, thereby reducing crime and increasing rehabilitation. In addition, the USG will sponsor a comprehensive national study of drug use.

Guatemala

I. Summary

Guatemala remains a major drug-transit country for South American cocaine and heroin en route to the United States and Europe. Large shipments regularly move through Guatemala by air, road, and sea with very little law enforcement intervention. Guatemala has failed demonstrably to meet its counternarcotics obligations in 2002. This last year was very difficult for the Guatemalan entities involved in counternarcotics efforts, notwithstanding regular U.S. technical assistance and training. Cocaine seizures decreased by more than 40 percent and were far below historic averages. The traditional problems of widespread corruption, acute lack of resources, poor leadership, and frequent personnel turnover in law enforcement and other Government of Guatemala (GOG) agencies continue to negatively affect the GOG's ability to deal with narcotics trafficking and organized crime. The National Civilian Police's Anti-Narcotics Operations Department (DOAN) stole more than double the amount of cocaine than was legally seized during the year. DOAN personnel also held the small village of Chocon hostage, while torturing and killing two village residents, in an effort to steal 2000 kilos of cocaine.

These scandals and others led first to the firing or transfer of more than 75 percent of the DOAN personnel, and ultimately to the elimination of the unit in October 2002. The newly created narcotics police (SAIA) has had some small successes and has been very responsive to U.S. training and technical assistance. The USG will work with the GOG on the professionalization of the SAIA in order to enhance interdiction and eradication operations. Particular emphasis will be on leadership, investigations, and human rights issues. There are also similar efforts to improve the performance of the narcotics prosecutors and judges. Many of these programs are regional in nature. The GOG recognizes that there is a growing domestic consumption problem and supports a very active demand reduction program.

The GOG has been working positively on using the money laundering legislation passed in 2001, but there have been no convictions to date. The GOG remains on the FATF list of non-cooperating jurisdictions with regard to money laundering. Negotiations began on a comprehensive six-part maritime counternarcotics agreement. Guatemala is a party to the 1988 UN Drug Convention and the Inter-American Anti-Corruption Convention.

II. Status of Country

Guatemala is the preferred country in Central America for the storage and consolidation for onward shipment of cocaine to the United States. USG estimates indicate that up to 400 metric tons of cocaine are shipped through the Central American corridor to Mexico and the United States annually, with up to half of that total passing through Guatemala. Guatemalan law enforcement agencies interdicted 2.4 metric tons of cocaine in 2002. This was a significant decrease from the previous year's 4.1 metric tons, which was already below historical averages. The DOAN stole more than twice the amount of cocaine that was reported as seized and were involved in a number of other major scandals before being disbanded. Narcotics traffickers continue to pay for transportation services with drugs, thereby fomenting domestic consumption and crime.

Widespread corruption, high turnover of law enforcement personnel, poor leadership, and a lack of resources continue to plague the police. Since the current administration took office, in early 2000, there have been four Ministers of Government, seven Directors of the National Civilian Police (PNC), and 11 different directors of the DOAN or SAIA. This constant turnover has made long-range planning for operations and investigations nearly impossible and the formation of working relationships very difficult. With almost no air assets, the Guatemalan police have problems adequately supporting their eradication and drug interdiction efforts. They continue to have trouble providing even basic equipment and

provisions to SAIA agents in the field. Corruption is endemic in all sectors and levels of the government and continued to hinder counternarcotics operations significantly during 2002.

The SAIA, which replaced the DOAN, has the potential to become an honest and credible threat to narcotics trafficking. All new recruits undergo a background investigation, polygraph exam, and a urinalysis test. During the last two months of 2002, USG agencies began to work more closely with the SAIA and there were some successful operations, especially at the international airport. Further significant training and support from the USG will be needed to train and equip the SAIA adequately. It will also be necessary for the GOG to protect the SAIA from the tremendous corruption that led to the disbanding of the DOAN. In addition, the SAIA will have to find a way to function with very limited resources, since the PNC is having trouble even paying salaries and utilities for the 20,000-strong national police force.

The Public Ministry's narcotics prosecutors units receive USG training and assistance, and continue to try cases and achieve convictions of minor narcotics offenders. These units were also largely disbanded and reconstituted during 2002. While inexperienced, the new prosecutors seem competent and knowledgeable. As in previous years, success in prosecuting major narcotics traffickers has been limited. Corruption, intimidation, and lack of resources in the judiciary, as well as an absence of formal criminal conspiracy laws in Guatemala, are the additional reasons for the lack of success in prosecuting and convicting major traffickers. Guatemala is beginning to work positively on using the money laundering legislation passed in 2001. However, there have been no convictions to date. If used appropriately, the money laundering legislation could prove to be an avenue for eventually bringing some of the more important narcotics traffickers to justice, since it contains limited conspiracy provisions.

Guatemala grows minimal quantities of opium poppy and cannabis. Apart from crack cocaine and cannabis for local consumption, narcotics are generally not processed in Guatemala. Diversion of precursor and essential chemicals is considered to be a problem, however. In 1999, the GOG passed chemical control legislation identifying 46 chemicals that need to be monitored. However, it has still not passed the implementing regulations that would make the legislation useful for enforcement and prosecution purposes. Even if regulations are finally passed, the GOG lacks the personnel and resources to control the specified chemicals.

The GOG has an aggressive demand reduction program aimed at a growing substance abuse problem. 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 seminars and surveys providing education to decrease consumption and raise public awareness about consumption and narcotics trafficking.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, Guatemala signed three Letters of Agreement (LOAs) with the USG on counternarcotics and demand reduction. However, the disbanding of the narcotics police and the reconstitution of the prosecutors units on grounds of corruption and inefficiency made full implementation of the LOAs difficult. Neither Guatemala's Congress nor its Executive made any significant effort to improve the situation via legislation, increased budgets, or more high-level attention and leadership. The Regional Counternarcotics Training Center continued to function well, and the GOG formally transferred the title of the property to the police. This will allow for greater infrastructure improvements in the coming years. No progress was made on implementing the legal and regulatory changes necessary for Guatemala to comply with the terms of the Inter-American Convention Against Corruption that was signed in 2001, although Guatemala did become a member of the Caribbean Financial Action Task Force (CFATF) in 2002.

Accomplishments. In 2002 there were few significant seizures and total seizures declined more than 40 percent compared to 2001. In June of 2002, DOAN reported a seizure of 500 kilograms of cocaine that were being transported in a go-fast boat. However, further investigation indicated that the DOAN had

actually kept about 1500 kilos of the 2000-kilo shipment. In November, the SAIA, working with USG law enforcement, seized 834 kilos of cocaine that was hidden in a secret compartment of tanker truck carrying syrup. In the last two months of 2002, USG law enforcement began working closely with the SAIA on detecting illicit funds flowing south through the Guatemalan international airport. Almost 2.5 million dollars were seized or identified in those two months. While a very positive development, it remains to be seen if the GOG can convict any of these couriers or what will be the final outcome of the currency.

The USG-funded canine program was one of the few bright spots in 2002, with at least eight seizures attributed to it. The Police- Prosecutor Task Force that was created at the end of 2001 has had some successes. They have brought to light a number of corruption scandals that involve close friends and associates of high-ranking GOG officials. Complete investigation and conviction on these cases may be impossible due to pressure from very high levels. However, the fact that the Task Force was even able to open investigations in these sorts of cases is a first in recent years. The Task Force did arrest a narcotics prosecutor who was accused of taking payments to undermine a narcotics trafficking case. The Task Force has also dismantled a number of fake documents rings and arrested mid-level national and municipal officials involved in corruption.

The GOG used USG funding and technical assistance to provide training in the application of the narcotics activity and money laundering law. Guatemala again participated in a joint U.S.- GOG counternarcotics operation in early 2002. This operation did not produce much in the way of seizures, but did result in the eradication of large quantities of cannabis. This joint operation in 2002 provided the narcotics police with advanced training in counternarcotics operations, planning, and logistics.

The Port Security Program (PSP), a self-financed effort that fosters cooperation among the GOG, the USG, and private shipping companies to try to improve counternarcotics efforts was regularly stymied by port corruption. PSP is funded by a fee levied on shipping companies and provides monetary and technical assistance to the SAIA agents who operate in the ports. The USG provides technical assistance, logistical support, and training for this program that, in past years, yielded a number of large seizures. The PSP did make progress on improving the overall security at the ports in order to comply with new U.S. legislation.

Illicit Cultivation and Production. Guatemala has significant cannabis cultivation and minimal opium cultivation. The GOG continues to have an active manual eradication program for cannabis and opium. However, the complete lack of air assets for reconnaissance and transportation of personnel make manual eradication a very difficult endeavor in a country with mountainous terrain and limited infrastructure. Eradication of cannabis plants continues to be robust, however, with more than 380,000 plants being eradicated in 2002. Over 280,000 cannabis plants were eradicated during a joint USG-GOG Central Skies counternarcotics exercise. There is very little indication that Guatemala has any large labs or processing sites for other illegal narcotics, even though there is some evidence to suggest that larger loads of such narcotics transiting Guatemala are regularly broken down into smaller loads for onward shipment.

Sale, Transport, and Financing. The Pan-American Highway is a major conduit for drugs traveling north to Mexico and, eventually, the U.S. The trend continued of "mules" transiting Guatemala and being subsequently caught in U.S. airports with cocaine and heroin. The use of go-fast boats continues to rise, and there also seems to be an increase in the use of small aircraft. Commercial containers, both on land and through seaports, continue to offer the best opportunity for smuggling larger quantities of drugs through Guatemala, and are the area where the GOG has had the least success in interdiction efforts, primarily due to the corruption that is endemic to all three major ports. Colombian and Mexican narcotics traffickers continue to operate in Guatemala, even though almost all of the transportation is actually done by Guatemalan transport groups, that operate throughout Central America. As much as 10 percent of some cocaine shipments passing through Guatemala is left behind as payment for services rendered. Most of this is sold in Guatemala as crack.

Money Laundering. Guatemala did join CFATF in 2002, but remained on the Financial Action Task Force's (FATF) list of non- cooperative countries. (For additional information see separate Money Laundering Section).

Asset Seizures. The GOG passed reforms to drug enforcement legislation in 1998 to allow the police to use seized assets. The Supreme Court has resisted this, stating that only courts have the right to retain these assets. However, the Court has made no real effort to use the assets, with many cars, boats, and planes rusting away.

Law Enforcement and Transit Cooperation. Guatemalan law enforcement representatives do work with USG personnel and organizations to curtail the flow of drugs through Guatemala in instances where the USG can provide intelligence, funding and technical assistance. However, the corruption scandals that plagued the narcotics police last year made the cooperative effort much more difficult than in past years. In fact, informants regularly refuse to talk with USG agencies, as they are accustomed to the Guatemalan police paying them in drugs, instead of money. The DEA and several other USG law enforcement agencies continue to have collaborative relationships with Guatemalan law enforcement authorities. Guatemala does exchange limited 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 Central Skies joint counternarcotics operations that included the DEA, the U.S. Coast Guard, and the U.S. Army.

Demand Reduction. The GOG continues to support counternarcotics education and rehabilitation programs. SECCATID implemented a variety of projects as part of a comprehensive and aggressive demand reduction strategy. The principal project was the first- ever nationwide comprehensive drug consumption survey. The data have been collected and analysis has begun. The data will provide the GOG with a scientific and concrete baseline to use in focusing and evaluating projects. Through the National Program of Preventive Education, SECCATID trained 693 more instructors this year throughout the country using the "train the trainer" concept with the participation of the Ministries of Health and Education. SECCATID provided training and education to 2214 parents as agents of preventive education. More than 1800 Guatemalan students received drug awareness seminars along with 653 teachers. SECCATID also provided training to more than 1600 NGO reps, private company reps, soldiers, prison guards, and social security employees. The DARE program also provided extensive training to over 5700 students and teachers.

In 2002, SECCATID developed and distributed counternarcotics educational materials, including 151,368 pamphlets, 56,422 bookmarks, 14,419 posters, 60,000 school agendas, 2,102 mouse pads, 6,665 booklets, 7,755 notebooks, and 1,497 teacher's manuals.

Law Enforcement Efforts. The PNC and the SAIA are often very cooperative on a case-by-case basis when there is significant USG involvement, funding, and interest. However, they have demonstrably failed in the day-to-day job of interdicting narcotics and then investigating the traffickers on their own, due to corruption, poor leadership, and insufficient funding. Very large shipments of cocaine and heroin regularly pass through Guatemala without any law enforcement intervention. There was some improvement in the last two months of the year, and it is hoped that this momentum will continue. After significant USG and public pressure, the GOG announced at the end of the year that it was opening investigations against five retired military officers who are allegedly involved in narcotics trafficking. These five include retired General Francisco Ortega Menaldo, believed by many to be the leading figure of organized crime in Guatemala. The GOG's support to the Regional Counternarcotics Training Center, run by the Guatemalans with USG advice and financing, and the canine program, continue to be two bright spots.

Corruption. Corruption has increased significantly in recent years and it is the number one obstacle to increasing the effectiveness of all USG programs in Guatemala. Transparency International's August rankings listed Guatemala as the 21st most corrupt of 102 countries ranked. There are frequent allegations of police, prosecutors, and judges being corrupt. Hardly a week went by without another corruption scandal involving government officials. High levels of impunity and intimidation only exacerbate the

corruption. Few high-level figures are ever charged or formally investigated for corruption and even fewer go to trial. GOG efforts to fight corruption have been generally ineffective, and have contributed to disillusionment with the government's commitment to solving this problem. Efforts to pass legislation on corruption and transparency have failed, primarily due to disagreements between the ruling FRG party and the opposition parties. The President's effort in late 2001 to bring in the World Bank to help develop a "National Anti-corruption Plan" finally got off the ground in December. However, the committee of notables that is going to implement and monitor the process has been widely questioned.

The USG has been very aggressive in trying to convince the GOG to deal with corruption. This was one of the primary topics of hearings held by the House International Relations Committee (HIRC) in October 2002. Through our Embassy, the USG has sponsored numerous seminars and training sessions on corruption and its caustic effect on all aspects of society. In spite of this, GOG efforts to fight corruption have remained generally ineffective.

Agreements and Treaties. Guatemala is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, the Central American Commission for the Eradication of Production, Traffic, Consumption and Illicit Use of Psychotropic Drugs and Substances, and the Central American Treaty on Joint Legal Assistance for Penal Issues. Guatemala has also signed bilateral counternarcotics agreements, including information exchanges, with Mexico (1989), Venezuela (1991), Argentina (1991), Colombia (1992), Ecuador (1992), Peru (1994), and Spain (1999). Guatemala has failed demonstrably in 2002 to meet its obligations under relevant international counternarcotics agreements and, additionally, has failed to codify provisions on extradition. Guatemala has ratified the UN Convention Against Organized Crime, as well as the Inter-American Convention Against Corruption, but has done little to pass laws or regulations to comply with these conventions.

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 and none of the pending requests was resolved in 2002. Instead of formal extraditions, the GOG is often able to expel U.S. fugitives on the basis of violations of Guatemalan immigration laws. However, extradition of Guatemalan citizens remains very difficult. The USG does not have a mutual legal assistance treaty (MLAT) with Guatemala. The GOG signed in December 2002, but has yet to ratify, the OAS multilateral MLAT, to which the United States is a party.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In spite of the difficulties, the U.S. strategy in Guatemala continues to focus on strengthening the GOG law enforcement and judicial sector through training, technical assistance, and the provision of equipment and infrastructure, especially for the units directly involved in combating narcotics trafficking and other international crimes that directly affect the U.S. 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 investigations, interdiction, corruption, money laundering, task force development, and a maritime agreement. The USG will also energetically continue to assist the GOG in improving the successful Regional Counternarcotics Training Center.

The Road Ahead. A stagnant economy and rampant corruption will make it very difficult for Guatemala to make serious inroads against narcotics trafficking in 2003. As the current government prepares for national elections in late 2003, the limited resources available to the police, prosecutors, and judiciary may be concentrated on violent crime, a major issue in previous elections. In addition, although the SAIA and the Narcotics Prosecutors are now fully staffed, both groups are inexperienced and untrained to

effectively battle the entrenched narcotics trafficking organizations. These factors make USG training and assistance even more important.

The Government of Guatemala, with the assistance of CICAD is developing a comprehensive national drug strategy that should assist in making maximum use of its resources. Following significant high-level USG and public pressure at the end of 2002, the GOG began to pay attention to counternarcotics issues. The Embassy, in concert with Washington, will continue to urge progress on a return to pre-2002 drug seizure levels, more aggressive prosecution of major narcotics cases and the complete destruction of seized drugs not needed for evidence. In addition, the U.S. will work with the GOG to conclude negotiations on a bilateral maritime agreement – as well as encouraging the GOG to develop new legislation needed for increased successful counternarcotics enforcement, particularly in areas of search warrants, investigative authority, and the use of seized assets. The upcoming Central American Free Trade Agreement negotiations will enhance this effort by focusing regional attention on GOG performance regarding international agreements and obligations. The GOG will also need to address domestic cocaine abuse, primarily crack, which is expected to grow as traffickers increasingly trade a percentage of cocaine shipments for transportation and security services. The GOG should also pass legislation on terrorist financing, and continue to implement much needed reforms to assist in anti-money laundering efforts specifically coordination with law enforcement to successfully investigate and prosecute money launderers.

Guatemala Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium										
Potential Harvest (ha)	0	0	0	0	10	7	0	39	50	438
Eradication (ha)	1	1	1	1	5	3	12	86	150	426
Cultivation (ha)	1	1	1	1	15	10	12	125	200	864
Potential Yield (mt)	unk	0.00	0.00	0.00	0.20	0.10	0.00	0.40	0.50	4
Cannabis										
Potential Harvest (ha)	unk	unk	unk	0	82	100	41	50	100	unk
Eradication (ha)	38	43	32	52	58	50	213	250	100	200
Cultivation (ha)	38	43	32	52	140	150	254	300	200	unk
Potential Yield (mt)	unk	1	1	0	10	12	5	6	12	
Seizures										
Cocaine (mt)	2.8	4.1	1.4	10.1	9.2	4.3	4.0	1.0	2.0	7.6
Cannabis (mt)	2.3	0.52	0.03	0.65	0.42	0.34	16.40	0.50	1.76	2.1
Heroin (kg)	18.00	16.00	9.30	52.00	3.65	16.20	7.80	0.00	0.00	0.00
Opium (kg)	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Arrests	5,917	479	842	472	928	188	189			

Honduras

I. Summary

The trans-shipment of cocaine through Honduras using air, land and maritime routes continued without significant disruption in 2002. Overall seizures in Honduras dropped to their lowest level in more than three years and were the fewest of any country in Central America. Corruption remains a problem within Honduran law enforcement, judicial, and military organizations and is the primary impediment to successful law enforcement cooperation. On a positive note, the Honduran Congress finally approved a new money laundering law in March that will facilitate U.S. and Honduran law enforcement and counterterrorism efforts. The National Council for the Fight Against Drug Trafficking renewed its commitment to lead the country's counternarcotics efforts. A new, more politically independent Supreme Court was installed in January with the change of government. It has already demonstrated its willingness to tackle the problems of judicial corruption. It is working assiduously to improve the administration of justice in the country. Available funds to implement a government-approved counternarcotics master plan remain limited. The Ministry of Public Security and the Honduran military took a more active role in counternarcotics operations; however, their actions did not effectively reduce the amount of drugs transiting Honduras. The United States continues to provide funding, training and technical support to improve Honduran law enforcement capabilities. Ensuring the detention, prosecution and incarceration of major offenders, however, remains a challenge. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras is not a significant producer of drugs. But it is a transshipment point for cocaine, 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. The Honduran police and Honduran Navy do not have sufficient maritime assets to attack drug trafficking along its north coast. There was a significant drop in drug interdiction this year, with the total amount of cocaine seized dropping from 182 kilograms to 76 kilograms. Despite the recent passage of a new broader law, money laundering in Honduras remains a serious threat, although the country is not yet a major money laundering center.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In February, the new President, Ricardo Maduro, launched a "zero tolerance" campaign to combat crime in Honduras. His policy launched a combined police-military effort to patrol throughout the country, but primarily in urban areas, where widespread violent gang activity had reached alarming levels. The President directed more than 3,000 soldiers to work directly in support of law enforcement activities.

In response to violations of its airspace, the new Government approved the creation of a joint interagency incident response group; however, implementation of this new capability stalled. In late 2002, Armida Villeda de Lopez Contreras, the presidentially designated chair of the National Council for the Fight Against Drug Trafficking, launched an effort to improve coordination between the police, armed forces, prosecutors, and judiciary.

The Criminal Procedures Code took effect on February 20, 2002. The new code changes Honduras' criminal legal system from an inquisitorial system to an accusatorial one. The judicial system (law enforcement, prosecutors, judges, public defenders) required, but did not fully receive, additional budgetary resources for its successful implementation. Nonetheless, Honduras carried out far more trials (84) under the new code than have other Central American countries during comparable transition periods.

Accomplishments. As of December 1, 2002, 76 kilograms of cocaine and 708 rocks of crack and 341 kilograms of cannabis had been seized and there had been 722 narcotics-related arrests. Some progress was made in establishing a small maritime law enforcement facility in Gracias a Dios Department. The Honduran Frontier Police had success detecting cocaine transshipments through frontier posts, drawing on increased U.S. government-provided counternarcotics training. Law enforcement agencies seized U.S. \$460,000 in a mid-December seizure and search of the M/V Capt. Ryan.

Law Enforcement Efforts. Counternarcotics efforts are a priority for government agencies, but evidence continues to mount of infiltration of law enforcement agencies by narcotics traffickers and other criminals, as well as bribery. The DEA equivalent investigative force (the DLCN) continued to operate ineffectively despite new leadership. Furthermore, the new DLCN Director resigned his post in late October, and no successor had been named by the end of 2002. The Minister of Public Security supported creation of new counternarcotics police units, authorized an expanded role for the Frontier Police in the counternarcotics effort, and joined an inter-agency effort to create a new joint police-military counternarcotics command.

Corruption. While the government does not encourage or facilitate drug trafficking, corruption within the government and judiciary is a significant impediment to effective law enforcement actions. The Minister of Public Security named a new Police Chief and Internal Affairs Director in February and continued efforts to purge the police of corrupt elements. However, the Government has still not conducted any effective investigations into criminal penetration of law enforcement units and the judiciary. The Internal Affairs Director and Minister of Public Security became embroiled in a highly publicized dispute over the involvement of police officers in extrajudicial killings, which inhibited efforts to investigate corruption within the police. Nationally elected officials enjoy legal immunity for all acts while in office, creating a perverse incentive for people involved in illicit activity to run for office and complicating enforcement efforts against suspected illegal narcotics activity. The widespread issuance of Honduran diplomatic and official passports also aids drug trafficking. A member of the 1997-2001 Honduran Congress was arrested with 6 kilograms of heroin while attempting to cross the Panama-Costa Rica border using a valid Honduran diplomatic passport.

Agreements and Treaties. An U.S.-Honduras maritime counternarcotics agreement entered into force in 2001; under its auspices a trilateral counternarcotics maritime operation, which included Nicaragua, was conducted in April 2002. The agreement allows U.S. vessels to operate in Honduran waters in support of Honduran law enforcement efforts; in addition, the agreement provides for information exchange and the coordination of joint counternarcotics activities. The Honduran government is an active member of the Inter-American Drug Abuse Control Commission (CICAD). Honduras also hosts the Regional Center for (Counternarcotics) Development and Judicial Cooperation in Central America, headed by a Nicaraguan. Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela and Spain.

Cultivation/Production. Cannabis remains the only illegal drug known to be cultivated in Honduras. There were no additional seizures of synthetic drugs during 2002, despite the seizure of Ecstasy for the first time in Honduras in December 2001. Aerial herbicides are not used in the Government's eradication efforts.

Drug Flow/Transit. The volume of drugs transiting Honduras continues to increase but does not have a significant impact on the United States. There has been a noticeable increase in the number of suspect air flights transiting Honduran airspace en route to Guatemala and southern Mexico. Overland routes using commercial and private vehicles continue to be used to smuggle cocaine. Illegal go-fast boat landings in Department of Gracias a Dios also are used to deliver cocaine for trans-shipment via small boat to La Ceiba, where it is transported onward for embarkation on commercial vessels, or trucked toward Guatemala. The vast majority of drugs entering/transiting Honduras - probably over 90 percent - are destined for the United States, although it is now a common practice for traffickers to pay local "contractors" in drugs. Gang members are increasingly used to "push" these in-kind payments to

Hondurans in urban areas and along the north coast. Drug smuggling using ships departing Honduran ports on the Caribbean is common. Despite efforts to establish a port security program, the government's autonomous Port Authority has not made any significant progress to address this problem.

Domestic Programs/Demand Reduction. The Maduro Administration has launched a pilot program directed at Honduran youth to fight drug abuse. The National Council is making demand reduction a major part of Honduran counternarcotics efforts. It reflects the government's appreciation that drug trafficking through Honduras is a national security threat and major public policy problem inside the country.

Drug use is a growing phenomenon among youth culture in Honduras; 49 percent of Hondurans are under 18. Drug abuse by gang members is a growing issue of public concern. It is viewed by some as only one of many public health and social problems linked to unemployment, poverty and economic underdevelopment. Cannabis is the most widely abused illegal drug in Honduras, followed by cannabis, inhalants, and - to a much lesser degree - cocaine. Crack cocaine and designer drug use is increasing.

The National Council's pilot program links the efforts of the government's demand reduction entity "IHADFA" - the Institute for the Prevention of Alcoholism and Drug Addiction - with an umbrella group ("CIHSA") of NGOs working in demand reduction and drug rehabilitation. The new program combines programs operated by the Ministries of Public Health and Education, IHADFA and CIHSA, to launch a community-wide effort to inform youth about the dangers of drugs and to address root causes of drug experimentation. The U.S. Embassy is working with the National Council to support this new approach.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics initiatives aim to strengthen Honduran law enforcement entities, with a special focus on enhancing GOH maritime interdiction along the north coast. The new government has worked hard to support implementation of bilateral counternarcotics projects and expressed interest in expanding program cooperation, though its resources are extremely limited. In addition, the June amendment to the 2000 Letter of Agreement directed monies for the establishment of a machine readable passport project, completion of the construction of a container freight tracking system, and a repatriation shelter for illegal aliens from third countries.

Bilateral Cooperation. The United States added almost U.S. \$1.5 million to its bilateral counternarcotics program during 2002. The U.S. Government (USG) funded construction of additional office space for a new transnational crime analytical unit and provided necessary computer equipment to CEINCO, the joint intelligence coordination center. U.S. Customs provided refresher training and an assessment of the DLCN canine program. Construction of a counternarcotics and customs checkpoint on the Pan-American Highway was completed in November 2002. The new facility will be manned by the Frontier Police, which received intensive training for the U.S. INS Border Tactical Police. The refurbishment of two 36-foot and two 24-foot USG-donated boats for counternarcotics purposes was completed and the boats were deployed along the Caribbean (north) coast. The United States doubled its support for Honduran demand reduction programs.

The Road Ahead. The Honduran government of President Maduro has demonstrated a strong interest in attacking drug trafficking through its national territory and is organizing itself to more effectively respond to this challenge. We expect to see an increased level of maritime interdiction operations by the government during the next year. The National Council for the Fight Against Drug Trafficking has taken a revitalized leadership role within the government. We expect to work closely with the council to address better implementation of the national counternarcotics master plan. The council is more effectively coordinating the various efforts of the police, Attorney General's Office, judiciary, and armed forces. Corruption, threats and violence continue to pose a major challenge to effective law enforcement.

Mexico

I. Summary

The United States and Mexico achieved unparalleled levels of cooperation with Mexican counterparts in fighting drug trafficking and other transnational crimes in 2002. President Fox and members of his Cabinet unveiled an ambitious National Drug Control Plan in early November that called upon Mexican society and institutions to wage a frontal assault against all aspects of the drug problem, including production, trafficking, and consumption. Mexican authorities continued to achieve impressive results in arresting leaders of major drug trafficking organizations, undermining their capabilities to operate both in Mexico and the United States. Mexico's interdiction efforts focused on maritime and air drug movement on both coasts as traffickers responded with smaller load sizes and changes in land movements. The Mexican Attorney General's Office (PGR) and Mexican military services continued to strengthen their institutions and root out corruption within their ranks. The PGR's Federal Investigative Agency (AFI) and the National Drug Planning Center (CENDRO) have developed first-rate cadres of investigators to collect and analyze information on drug trafficking and other organized crimes. The PGR and the Mexican Army waged aggressive eradication campaigns against cannabis and opium poppy; opium gum production was reduced substantially over 2001. The GOM extradited a record number of fugitives to the U.S. in 2002; however, many U.S. requests, including for major drug fugitives, were denied, raising concerns about future cooperation. Mexico is a Party to the 1988 UN Convention.

II. Status of Country

The United States and Mexico have achieved unprecedented levels of cooperation in fighting drug trafficking and other transnational crimes during the Fox Administration. The PGR and the military services targeted the leadership of all major drug trafficking organizations, with the goal of disrupting their production, transport, and sale of drugs. In 2002, Mexican police and military officials arrested and jailed leaders of major drug trafficking organizations. The Government of Mexico (GOM) continued aggressive eradication campaigns, with the PGR performing aerial spraying of drug fields and the Army deploying up to 20,000 soldiers per day to the field for manual destruction of marijuana and poppy crops. PGR officials plan to implement soon a major reorganization that will enable PGR personnel to work more effectively against organized criminal groups. Many opportunities exist for further improving cooperation, particularly in interdiction and capacity building, during the remaining four years of the Fox Administration.

Even with these successes, Mexico remains the major transit country for cocaine entering the United States. Approximately 65 percent of cocaine reaching the United States passes through Mexico and waters off the Pacific and Gulf coasts. The eastern Pacific, in particular, remains a preferred transit route for the smuggling of cocaine from South America to the United States. While Mexico produces less than five percent of the world's opium poppy, geographical proximity to the United States allows cultivators and processors to supply a disproportionately large share of the U.S. heroin market. Marijuana grown in Mexico provides a significant supplement to that grown by domestic cultivators in the United States. Additionally, Mexican traffickers figure prominently in the distribution of drugs, particularly cocaine, heroin, methamphetamine, and marijuana in U.S. markets.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In early November, President Vicente Fox unveiled a comprehensive, six-year National Drug Control Program that called upon Mexican society and institutions to engage in a frontal assault against drugs. The strategy focuses on the need to address all aspects of the drug problem,

including production, consumption, smuggling, and related crimes, such as money laundering and diversion of precursor chemicals. As one of its action items, the Fox Administration plans to present legal reforms to allow state and local authorities to arrest and prosecute those involved in retail sales of drugs, thereby enlisting the aid of police at all governmental levels. The National Drug Control Plan assigns specific responsibilities to 14 Cabinet Secretaries, the Attorney General, and the Attorney General of the Federal District (Mexico City).

President Fox and Attorney General Rafael Macedo de la Concha promoted efforts to root out corruption, instill integrity among law enforcement personnel, and build the capacity of GOM institutions to fight drug trafficking, terrorism, and other forms of organized crime. Both AFI and CENDRO, with USG assistance, undertook comprehensive upgrades of equipment and key training for personnel. Under a reorganization plan approved by the Mexican Congress in mid-December, the PGR will consolidate all offices involved in fighting organized crime under a single Deputy Attorney General. The PGR will also create an office responsible for ensuring respect for human rights of defendants and another to oversee training and governmental innovation. In December, the PGR received from the Swiss-based International Service Organization its ISO-9000 certification for enhancing the efficiency of 81 internal procedures, the first recognition of this type for any Mexican federal entity.

Institutional Development. Mexican officials promoted institutional development of law enforcement entities at federal, state, and local levels. They worked energetically to restructure federal law enforcement agencies and change the attitudes of citizens regarding the quality and professionalism of Mexican police personnel. Rigorous training programs, important acquisitions of equipment, renovation and construction of new offices, and improvement of benefits, including salaries and job security, contributed to ongoing professionalization of law enforcement personnel. Much work remains, but the GOM has made important progress.

The Mexican Government has invested considerable human, financial, and material resources into counternarcotics and anti-crime efforts. In 2002, PGR leaders increased salaries for their employees and established a system of bonuses for pilots who fly missions using night vision goggles. In instituting the salary increases, PGR managers raised the pay of junior personnel first, then that of mid-level managers, followed by that of senior officials. Such action boosted morale and strengthened PGR efforts to deter use of corrupt practices to supplement meager salaries. AFI has established a career path for all investigative agents, characterized by job stability, upward mobility, incremental salary increases, and promotions based on time-in-grade and performance. The PGR also embarked on a program of major infrastructure improvements at offices throughout Mexico. Both CENDRO and AFI now possess first-class computer networks for use in collecting, storing, and analyzing crime-related intelligence.

AFI celebrated its first anniversary in November 2002. During its first year of operations, AFI personnel figured prominently in investigations resulting in the arrests of drug traffickers, violent kidnappers, and corrupt officials. In the process, AFI has become the centerpiece of Fox Administration efforts to transform Mexican law enforcement entities into honest, effective institutions. AFI leaders have focused on developing young, professional, and well-trained investigators.

In the past year, CENDRO officials assumed a broader mandate to gather and analyze strategic intelligence on organized criminal organizations throughout Mexico. CENDRO personnel will gather information on eleven categories of organized crime, including terrorism, drug trafficking, money laundering, vehicle thefts, arms trafficking, currency counterfeiting, trafficking of minors, assaults, migrant smuggling, kidnappings, and trafficking in human organs.

During 2002, over 6,200 law enforcement personnel attended over 120 U.S.-sponsored training courses that cost the U.S. more than one million dollars. The National Public Security System (SNSP), which coordinated training for state police at five regional academies, played a key role in coordinating these courses, covering such diverse skills as Narcotics Investigations, Instructor Development, Ethics and Corruption, and Kidnapping and Hostage Negotiations. New courses in 2003 will include counterterrorism and extradition-related training.

Law Enforcement Efforts. Mexico's counternarcotics enforcement actions included organized crime investigations, arrests of major drug traffickers, robust marijuana and poppy eradication, and increased bilateral interdiction cooperation. Mexican officials revitalized the Sensitive Investigative Unit (SIU) program and moved the units to AFI, the PGR's operations-oriented arm. In late 2002, AFI created a special anti-money laundering unit that may help to advance the GOM's anti-money laundering regime. Only a relatively small number of money laundering investigations have been opened, prosecuted, and proceeded to conviction. The GOM could achieve more progress in such cases by improving communications among entities responsible for fighting money laundering. Financial Analysis Units yielded valuable results in several drug-trafficking investigations. The SIU program continues to hold the potential to be an effective mechanism for sharing the most sensitive intelligence data with Mexican law enforcement personnel without compromise. Following up on successes in 2001, SIUs have played important roles in successful investigations under Operation "Lion's Grip." The PGR, other law enforcement entities, and the military services successfully targeted all seven major drug-trafficking organizations in Mexico. Among the most prominent actions included the capture by military units of AFO kingpin Benjamin Arellano Felix in Puebla, just one month after his brother, also a kingpin, was killed in a shoot-out.

Arrests. Mexican law enforcement agencies and military personnel continued to achieve impressive results in dismantling the leadership of major drug trafficking organizations in Mexico. According to GOM statistics, during 2002, the GOM arrested 6,652 drug traffickers, including 6,534 Mexicans and 118 non-Mexicans. The most notable arrests included:

In January, authorities arrested Arturo Guzman Loera, the brother of Joaquin "El Chapo" Guzman (who escaped from a Mexican prison in January 2001) and ten members of Guzman's organization. Officials continue to seek the re-capture of Joaquin Guzman.

In March, Mexican military units arrested Benjamin Arellano Felix in Puebla, along with Manuel Martinez Gonzalez, the brother of hit man Fabian Martinez Gonzalez, significantly reducing the capabilities of the Arellano Felix Organization (AFO). A younger brother, Francisco Arellano Felix, and a sister remained fugitives. In March, authorities arrested Miguel "El Tarzan" Herrera Barraza, a lieutenant and chief of operations and logistics in the AFO. Herrera formerly served as a member of the state and municipal police forces.

In April, authorities arrested 43 corrupt police officers who had provided protection to the AFO, including 21 state judicial police agents and 22 municipal police officers. As a result of debriefings of these individuals, police also arrested Marco Antonio Tomayo Sotello and Javier Baca, charging them with organized crime offenses, and AFO hit man Jorge Ronquillo, charging him with murder. However, most of the 43 have been released and the cases against them dismissed.

In May, the Mexican military arrested Jesus Albino Quintero Meraz, a top lieutenant in the Gulf Cartel. He had also worked for the now-incarcerated Quintana Roo Governor Mario Villanueva.

In August, police officials arrested leaders of the "Ma Baker" drug distribution ring, which had distributed considerable amounts of cocaine and marijuana in Mexico City and its eastern neighborhoods. Those arrested included gang leader Delia Patricia Buendia Gutierrez; two daughters, Marcela Gabriela Bustos Buendia and Nadia Isabel Bustos; and the daughters' husbands, Esteban Galindo Buenrostro and Fernando Gutierrez, as well as other key lieutenants.

In October, members of the Federal Investigative Agency arrested long-time Colombian fugitive Jorge Mario "El Negro" Rios Laverda, whose arrest U.S. authorities had sought because of his involvement in drug offenses.

In December, members of the Federal Investigative Agency arrested Cesar Jimez Reyes. Jimez Reyes, the commander in charge of the Tijuana, Mexico office of the Attorney General's special drug unit, was implicated in the murder of three PGR officials in Tijuana in 2001.

Seizures. During 2002, Mexican authorities seized over 12.5 MT of cocaine, 1,494 MT of marijuana, 254 kilograms of heroin, 299 kilograms of opium gum, and 386 kilograms of methamphetamines. They also confiscated 1,815 vehicles, 116 boats, and 34 aircraft, and destroyed ten clandestine laboratories. Mexican authorities broke up a major ketamine trafficking organization headed by Jose Francisco Molina Alvarado, owner of Tokkyo Laboratories, and Jorge Ernesto Chevreuil Bravo. The group manufactured and distributed ketamine to U.S. and other consumers via the internet.

Illicit Cultivation and Eradication. Cultivators continued to employ small, widely dispersed plots in remote, inaccessible regions of the western Sierra Madre mountains to grow marijuana and opium poppy crops in Mexico. Growers used the dispersion and remoteness of the fields to attempt to undermine the effectiveness of aerial and manual eradication programs. The Mexican Army deployed up to 20,000 soldiers in the field at any one time to eradicate drug crops manually, while the PGR employed helicopters to spray herbicides on such crops.

Preliminary results of an opium yield survey begun in 2000 suggest that cultivators achieved higher yields per hectare than previously estimated. Farmers in the northern growing areas of Sinaloa, Durango, and Chihuahua used techniques comparable those employed in commercial agriculture, producing an average of 19.5 kilograms of opium gum per hectare. Farmers in southern growing regions of Guerrero, Oaxaca, Michoacan, and Nayarit employed techniques associated with subsistence farming, producing an average of 12.8 kilograms of opium gum per hectare.

Mexico does not produce an estimate of area under drug cultivation. U.S. experts estimate that approximately 13,500 hectares were cultivated with opium poppy during 2002 (down from 14,600 in 2001). Given the favorable climate and terrain, two to three harvests were possible in the primary growing regions. They estimated that some 19,400 hectares of cannabis were cultivated (up from 18,400 in 2001).

Data available from the Government of Mexico indicate that authorities eradicated 19,626 hectares of opium poppy, up from 19,116 hectares in 2001. U.S. experts estimated that this resulted in an overall reduction in poppy cultivation area by 10,800 hectares (up from 10,200 in 2001). The remaining area, some 2,700 hectares (down from 4,400 in 2001) produced an estimated 47 metric tons of opium gum, sufficient to produce some 5.6 MT of pure heroin or 11 MT of black tar. This constitutes a substantial reduction from the 2001 estimate of 71 MT of opium gum (sufficient to produce 8.5 MT of pure or 16 MT of black tar heroin). Mexican authorities also eradicated 30,777 hectares of marijuana (up from 28,699 hectares in 2001). U.S. experts estimate that the impact of this eradication effort effectively eliminated some 15,000 hectares (up from 14,300 in 2001) from cannabis production.

Extradition. During 2002, the GOM extradited 25 fugitives to the United States. This number is up from 17 during 2001, although a significant number of fugitives extradited in 2002 waived the extradition process. Of these, 17 faced narcotics and related charges, including drug trafficker Jorge Mario Rios Laverde; two of five suspects arrested in December 2001 during Operation "Landslide;" and marijuana trafficker Armando Lozoya. The Foreign Relations Secretariat (SRE) also ordered the extradition of Agustin Vasquez Mendoza, wanted for the 1994 murder of DEA Special Agent Richard Fass, and drug kingpin Miguel Angel Caro Quintero, but the Mexican courts must first resolve pending charges against them in Mexico. Currently, two other defendants await departure after waiving their appeal of extradition decisions. Mexico arrested 36 major fugitives wanted on drug charges in the U.S.; Benjamin Arellano Felix was the most prominent of these.

Since the October 2001 ruling by the Mexican Supreme Court that a person facing life imprisonment could not be extradited because a sentence violated the Mexican Constitution, the decisions of Mexican courts and the SRE have continued to evolve in response to the creative attempts of defendants to avoid extradition using the October 2001 decision. Where possible, the USG has worked to frame assurances regarding life imprisonment in terms that indicate clearly that sentences would not require defendants to spend their "natural life" in prison. However, the issue of assurances remains the thorniest one of several difficult issues in extradition cases. Recently, the SRE asserted that decisions on the adequacy of assurances rested with the SRE and not with the courts — a position sustained by certain appellate court

decisions. Earlier, the issue of the timing of provision of assurances caused denials of some extradition requests. The SRE has decided that the USG must provide assurances with the formal extradition package, an issue pending decision before the Mexican Supreme Court. Both SRE and the courts continued to deny extradition requests because of perceived inadequacies in life sentence assurances and sometimes unexplained technicalities Problems and resulting denials of extradition requests remained over differences in the types of evidence required to establish probable cause. Nonetheless, planned bilateral meetings of prosecutors should help resolve this problem.

SRE denied extraditions in three high-profile cases. In November, the SRE denied the extradition of alleged drug trafficker Thomas Gonzalez Hincks. Even though the USG had provided categorical assurances, an appellate court recommended denial due to the alleged inadequacy of assurances and the defendant's Mexican nationality. The SRE asserted executive discretion in denying the extradition because of nationality. The SRE also denied the extradition of Ana Monti Almaraz, wanted for murder in Texas and for narcotics offenses in Texas and New Mexico. The court ruled against extradition because of inadequacy of life assurances in just one of the three jurisdictions. Although the SRE makes the final decision in extradition cases, SRE officials did not follow up with a request for separate decisions, but they agreed to discuss such legal issues in future cases with U.S. counterparts before completing their opinions. The SRE also denied the extradition of U.S. citizen Adan Medrano Rodriquez, a high-ranking member of the Osiel Cardenas Organization, because of allegedly insufficient evidence to establish probable cause for one or more charges. However, the PGR plans to prosecute Medrano in Mexico for the attempted kidnapping of an informant, assault, and drug offenses, using evidence supplied by the United States. However, the GOM's domestic prosecution of high-level trafficking cases under Article 4, based on U.S. evidence, have been largely unsuccessful to date.

Demand Reduction. Internal drug consumption continues to spiral upward in Mexico. According to recent surveys by Mexico's Secretary of Health and the National Council Against Addictions (CONADIC), internal drug abuse has expanded dramatically during the past ten years with a 300 percent increase in consumption since 1998. The increase is seen with regard to all drugs; cocaine use now rivals that of marijuana among young users. Further, the age of initiation of drug use has declined, with children as young as ten years of age beginning to abuse drugs. Illegal drug consumption is highest among the regions along the U.S.-Mexico border and in many major urban areas in Mexico's central region, including Mexico City. This corresponds to reports of increased drug availability in these areas. During the unveiling of the National Drug Control Plan in early November, President Fox and other senior officials publicly expressed concern over these consumption trends.

CONADIC is coordinating countrywide prevention, treatment, and rehabilitation programs through the use of state organizations and important ancillary federal government elements such as the Mexico's Social Service and Child Welfare Agency and major national private foundations. Of special concern is the increased drug availability and drug consumption near schools. The GOM has initiated an intensive national media campaign to raise awareness of the dangers of drug use and to exhort parents to monitor their children's activities more. The Mexican Attorney General is participating in these citizen outreach and demand reduction programs. The Mexican military services are also now participating in demand reduction programs.

Corruption. Mexican leaders worked energetically to detect and punish corruption among law enforcement officials and military personnel. President Fox, Attorney General Macedo, and other Cabinet members repeatedly warned that authorities would detect and punish corrupt public servants. In October, Army leaders disbanded a battalion that protected drug crops in Sinaloa and charged over 40 soldiers with offenses involving drug trafficking, dereliction of duty, and illicit association. In an unprecedented action in October, a Military Courts Martial convicted two Army Generals, Arturo Acosta Chaparro and Francisco Quiroz Hermosillo, on drug trafficking charges and sentenced them to 15 and 16 years in prison, respectively.

Another excellent example of the GOM's attempts to stem corruption is the October 2002 arrest of 25 mid-level personnel from the PGR, Federal Preventative Police, the military, and other law enforcement entities on accusations of disclosing privileged information to narcotics traffickers such as Ismael "El Mayo" Zambada, Vicente Carrillo Fuentes, Joaquin "El Chapo" Guzman, and Colombian Juan Diego Espinoza Ramirez. This case is now awaiting trial.

The Fox Administration has implemented long-standing anti-corruption laws with renewed vigor. A transparency law granting greater access by citizens to official documents will become effective in 2003 and should deter corrupt activities. The Secretary of the Comptroller and Administrative Development (SECODAM) instituted a requirement for senior officials to declare their assets annually. SECODAM officials created an Internet web site to allow citizens to file complaints directly via electronic means. SECODAM leaders initiated over 30 anti-corruption projects, affecting 148 federal agencies. As a result of investigations, SECODAM took actions against over 4,400 employees and imposed economic sanctions in nearly 850 cases, amounting cumulatively to fines of over U.S. \$20 million.

The PGR's Center for Confidence Control (CCC) conducted suitability reviews on over 10,000 people, including investigators, prosecutors, and other professionals, using a battery of tests, including polygraph, medical, psychological, and background examinations. The PGR vetted newly hired employees as well as those transferring from one major position to another. The PGR bolstered its Human Rights and Internal Affairs Sections by adding manpower, procuring modern equipment, and providing training courses such as Ethics in Government, Anti-Corruption Investigations and Prosecution, and Management and Supervision. By the end of 2002, the PGR forced all personnel from the former Federal Judicial Police into retirement, including through use of severance packages.

U.S. Government donations of computer equipment and software to CENDRO and AFI have allowed PGR personnel to store vast amounts of crime-related data, including the contents of original affidavits filed by federal prosecutors in criminal cases. Storage of data from original documents should deter corrupt prosecutors from altering documents outside accepted procedures. Simultaneous targeting of multiple drug trafficking organizations limited the ability of corrupt officials to target one or more groups while diverting scrutiny away from others.

The GOM 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. Additionally, the GOM does not in any way condone or encourage the involvement of senior government officials in the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

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. Mexico also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere and 1990 Declaration of Ixtapa, which committed signatories to take strong action against drug trafficking, including controlling money laundering and preventing chemical diversion. To date, Mexico has signed bilateral counternarcotics accords with 32 nations. Mexico signed the United Nations Convention Against Transnational Organized Crime and two of its associated Protocols: the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, especially Women and Children, and the Protocol Against Smuggling of Migrants by Land, Sea and Air (UN website doesn't confirm ratification). The Mexican Government has signed, but not yet ratified, the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.

The U.S.-Mexico Extradition Treaty entered into force in 1980. A U.S.-Mexico Protocol to the Extradition Treaty, which became effective in May 2001, permits the temporary surrender for trial of fugitives serving a sentence in one country but wanted on criminal charges in the other; however, Mexican authorities have reported legal difficulties in enforcing the Protocol. The U.S. and Mexico also have a mutual legal assistance treaty. The two governments are also are reviewing the "Brownsville-Merida" law enforcement accord to improve cooperation in conducting money laundering investigations.

The GOM is a party to the Inter-American Convention Against Corruption. In October, with support from the Embassy's Public Affairs Section, the SRE, together with the Secretary of the Comptroller and Administrative Development, hosted a public meeting to assess the country's compliance with the Convention's measures and invited comments from public institutions.

Mexican officials have participated actively in the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States. Mexican Attorney General Rafael Macedo de la Concha assumed the Presidency of CICAD in December 2002 and hosted a successful conference at which delegates approved Multilateral Evaluation Mechanism Reports for each country.

Bilateral Cooperation. While bilateral law enforcement cooperation often depends on close interpersonal relations among key officials, significant progress has been made in establishing bilateral frameworks for promoting continued cooperation well into the future. The U.S. and Mexico continued to participate in several bilateral counternarcotics and law enforcement fora. The most senior on-going bilateral entity involves the Legal Affairs Working Group of the Binational Commission (BNC), chaired by the Attorneys General of both countries. The Senior Law Enforcement Plenary (SLEP) continues to meet at least twice yearly to monitor and guide bilateral actions at the practical and operational level. The SLEP comprised several working groups, including those dealing with major drug trafficking organizations, money laundering, demand reduction, arms trafficking, extradition, interdiction, training, and precursor chemicals.

The Bilateral Interdiction Working Group (BIWG), established in June 2000, remained a productive forum for discussing the practical aspects of interdiction efforts. In 2002, the group acted as the catalyst for the creation and testing of a ship-to-ship communications plan. BIWG working groups also developed lists of suspect maritime vessels and prepared an analysis of drug trafficking flows and assets needed to enhance drug interdiction.

The Mexican Federal Judicial Council expressed support for convening workshops to exchange information and experiences among court clerks, judges, and prosecutors on mutual legal assistance issues, including extraditions. Such workshops should begin in 2003. Additionally, hundreds of Mexican officials and investigators have attended training courses, both in Mexico and the United States, which serve as excellent venues for the exchange of information on each country's justice systems.

Mexican officials used document exploitation software (RAID) provided by the U.S. National Drug Intelligence Center (NDIC) together with computer hardware and software donated by the U.S. Embassy's Narcotics Affairs Section (NAS) to improve their analytical capabilities. Cooperation on this project continued with NDIC technicians providing follow-on advice and NAS providing additional hardware. The software has enabled PGR officials to progress in their investigations of unsolved crimes.

Joint post-seizure analysis has improved in selected drug cases. For example, after the seizure of 9.3 metric tons of cocaine from the F/V Macel in late December 2001, Mexican authorities shared information regarding the seizure, including the intended destination, crew list, telephone numbers from the on-board computer, and photographs of equipment. The Mexican Navy allowed DEA personnel to take random evidence samples from cocaine packets, and invited also DEA to attend the destruction of the drugs.

On the judicial side, the GOM made available three protected witnesses who, according to U.S. prosecutors, provided critical testimony before U.S. grand juries on criminal activities of the Arellano Felix Organization.

Military to Military Relations. Cooperation between the Mexican Navy and the U.S. Coast Guard (USCG) improved dramatically in 2002. The Mexican Navy agreed to temporary placement of liaison officers on USCG vessels twice during the year. President Fox approved the assignment of permanent Mexican liaison officers at the Joint Interagency Task Forces in Riverside, California, and Key West, Florida. Additionally, in August 2002, the USCG and Mexican Navy demonstrated for each other their respective drug interdiction methods for stopping go-fast vessels. These cooperative efforts produced results during seizures in October and November 2002.

The Mexican military has aggressively sought out training and assistance to improve its counternarcotics capabilities. Over 200 Mexican military members underwent training during fiscal year 2002 using U.S. Defense Department counternarcotics funding. The Mexican military services have requested additional types of training and have shown greater interest in use of U.S. Mobile Training Teams to provide training for large groups at lower costs. Reciprocal visits between the Secretary of National Defense and the Chairman of the U.S. Joint Chiefs of Staff occurred, further strengthening the relationship. Officers from the Mexican Navy, together with two federal prosecutors, participated in two NAS-sponsored Space Accountability Training courses (for locating cached drugs or contraband) given by USCG officers at the port of Manzanillo. Mexican Navy officials expressed keen interest in using the comprehensive search methodology and created three regions to facilitate implementation of the procedures. These investigative techniques, along with ion-scanning technology, should greatly enhance post-seizure analysis and prosecutions.

Under a 2001 agreement between the Secretariat of National Defense and the U.S. Department of State, 48 military personnel attended technical training at Lackland Air Force Base to learn to use and maintain FLIR and radar systems installed on GOM C-26 aircraft. The program continued with the same personnel receiving in-flight training in Mexico. Installation of additional equipment will resume in early 2003.

Air and Maritime Interdiction. Mexico's interdiction efforts focused on maritime and air drug movement on both coasts as traffickers responded with smaller load sizes. According to Mexican Government reports, nine major maritime interdictions resulted in important seizures of cocaine, primarily in international waters. Most maritime seizures occurred along the west coast of Mexico, a continuation of recent maritime smuggling trends. In January, authorities detained traffickers who attempted to use a Mexican "panga" (launch) to smuggle over 2,337 kilograms of marijuana. In September, authorities discovered another group of traffickers attempting to smuggle 1,595 kilograms of marijuana in a go-fast boat near the port of Madero. Additionally, the Mexican Navy recovered three tons of cocaine found floating in the Gulf of Tehuantepec, Oaxaca, believed to have been from an air drop or a capsized small vessel. In October, the Mexican navy retrieved 1,639 kilograms of cocaine dumped overboard by the crew of a go-fast boat off the Yucatan coast. In February, the Mexican Navy, together with the USCG, worked to apprehend the F/V Atun X (Mexican registry), suspected of smuggling a multi-ton shipment of cocaine in the eastern Pacific. When the USCG informed the captain of the Atun X that the GOM had given permission for to the USCG to board, the 160-foot vessel was deliberately scuttled, along with the helicopter on deck. All 23 crew members were rescued and turned over to Mexican authorities for prosecution.

Through November 20, detection and monitoring assets had identified 669 suspicious aircraft flying along the U.S.-Mexico border. Of these, 375 detections occurred over Sonora, while another 171 detections occurred over Baja California. These numbers reflected a decrease in detections from those of the previous year, in part because of the non-availability of one of the detection assets. Seizures associated with these detections, however, have increased, reflecting better response time. Suspicious flights detected in northwestern Mexico generally involved short-duration flights originating in Mexico, with the overwhelming majority of seizures involving marijuana.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. Many opportunities exist to enhance the already close cooperation that the United States and Mexico enjoy in fighting drug trafficking and other transnational crimes. Creative and wise investment of additional resources in counternarcotics programs in Mexico will pay considerable dividends in stemming the production of drugs in Mexico and the flow of drugs through Mexico to the United States.

Mexico should consolidate gains already made through strengthening the capacity of various federal law enforcement institutions, particularly AFI and CENDRO within the PGR, and similar institution building should be expanded to other GOM law enforcement entities. Closer coordination with the PGR training

Canada, Mexico and Central America

institutes will avoid duplication of efforts and enable USG training assistance to complement training that already exists within Mexico.

The PGR's Air Wing contains an aging fleet of helicopters that have reached their maximum operational usefulness without compromising the safety of air crews. Policy makers have reached a critical crossroads at which they must decide on options for upgrading or replacing these helicopters.

Additionally, the PGR requires additional aircraft to enhance their "end-game" capabilities to seize drugs and arrest drug traffickers associated with suspicious aircraft that land at remote airfields, particularly near the U.S.-Mexico border and in the Yucatan Peninsula. Options include better interagency coordination, forward placement of quick response forces consisting of law enforcement personnel and helicopters, and procurement of new aircraft. Neither the Mexican military services nor the PGR have sufficient air assets to conduct interdiction, eradication, and reconnaissance missions over the broad expanse of Mexican territory. The GOM will need additional fixed-wing aircraft to pursue suspicious aircraft and conduct reconnaissance missions, as well as additional helicopters of various types to perform patrols along the border, coordinate "end-game" activities, and transport quick response forces to difficult-to-reach locations.

Continued meetings and consultations of prosecutors from both countries will help to expand mutual understanding of the requirements of each other's extradition, money laundering, asset forfeiture, and other financial crimes requirements. Better coordination among federal entities involved in investigations of money laundering and diversion of precursor and essential chemicals will help promote successful prosecutions of criminals involved in these activities and serve as deterrents to future use of Mexican territory for such crimes.

Mexico Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium ¹										
Potential Harvest (ha)	2,700	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)	47	71	25	43	60	46	54	53	60	49
Cannabis										
Potential Harvest (ha)	7,900	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)	7,900	7,400	7,000	6,700	8,300	8,600	11,700	12,400	5,908	6,283
Seizures										
Opium (mt)	0.299	0.48	0.27	0.80	0.15	0.34	0.22	0.22	0.15	0.13
Heroin (mt)	0.254	0.24	0.268	0.258	0.120	0.115	0.363	0.203	0.297	0.062
Cocaine (mt)	12.5	29.3	18.3	33.5	22.6	34.9	23.6	22.2	22.1	46.2
Cannabis (mt)	1.494	2,007	1,619	1,459	1,062	1,038	1,015	780	528	495
Methamphetamine (mt)	0.386	0.396	0.555	0.358	0.096	0.039	0.172	0.496	0.265	
Arrests										
Nationals				10,261	10,034	10,572	11,038	9,728	6,860	17,551
Foreigners				203	255	170	207	173	146	75
Total Arrests				10,464	10,289	10,742	11,245	9,901	7,006	17,626
Labs Destroyed	10	18			7	8	19	19	9	5

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¹ 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

Nicaragua is not a major drug producing country. However, Nicaragua is a transit zone for narcotics trafficked from South America to the United States and Europe. The isolation of the country's Atlantic coast, its weak banking system, its endemic poverty and its well-armed population, a result from years of civil war during the 1980s, make Nicaragua a rich target for drug traffickers. Consequently, the U.S. Government (USG) is working to help Nicaragua's fight against illegal drug trafficking. Narcotics consumption in Nicaragua is a problem, particularly along the Atlantic coast. The Nicaraguan Government is making a determined effort to fight both the domestic use of illegal drugs and the international narcotics trade. Even so, the Nicaraguan National Police (NNP) and the Nicaraguan Armed Forces require U.S. help in order to make significant gains against well-financed and well-armed drug traffickers.

In 2001, Nicaragua approved a six-part bilateral maritime counternarcotics agreement with the United States. On the basis of this agreement, Nicaraguan and U.S. law enforcement authorities engaged in several joint maritime counternarcotics operations in 2002. The United States also continued to assist the NNP's counternarcotics efforts during the year. In 2002, working with the Drug Enforcement Administration (DEA) office in Managua, the NNP seized significant amounts of cocaine and record setting amounts of heroin. Nicaragua is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombian drug traffickers move illegal narcotics through Nicaragua by land, sea, and air. According to DEA Managua, recent advances in maritime interdiction by the Governments of Panama and Costa Rica have pushed drug traffickers northward in their search for refueling areas. Nicaragua is also in danger of becoming a target for money laundering due to a weak and largely unregulated banking sector. Recently, DEA and the NNP have noted increased movements of illegal drugs by air. In October 2002, the NNP intercepted an airplane filled with illegal drugs on its way north.

The NNP is a relatively capable law enforcement organization. In 2002, the DEA office in Managua and the NNP conducted joint investigations that resulted in the capture of 2,100 kilograms of cocaine and almost 50 kilograms of heroin. 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 is responsible for law enforcement, the Army, which includes a naval unit, is increasingly playing an important support role in counternarcotics efforts.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Government of Nicaragua (GON) continues efforts to revamp the country's legal system. In December 2002, the new Criminal Procedures Code went into effect. The Code permits oral arguments in court cases, a change that should allow fairer and more efficient processing of legal cases. The National Assembly is also due to pass reforms to the major statute that covers illegal drugs. This law includes important provisions related to money laundering. The reformed statute clearly establishes money laundering as an autonomous crime.

Accomplishments. Nicaraguan authorities continued to destroy domestically grown cannabis plants in increased numbers during 2002. They also carried out major seizures of transshipped cocaine and heroin (see below). In the course of the year, several joint maritime operations were carried out between the

Nicaraguan military, the Nicaraguan police and U.S. law enforcement vessels under the auspices of the U.S.-Nicaraguan bilateral maritime counternarcotics agreement that went into force in 2001. These were the first operations of their kind in Nicaragua. In recent months, NNP officials have also made efforts to attack local drug distribution centers, gathering intelligence on their locations and starting raids against them in late November.

Law Enforcement Efforts. During 2002, the NNP arrested over 900 persons on drug-related charges, including 22 foreigners. During the same period, Nicaraguan authorities seized 2,100 kilograms of cocaine; 49.7 kilograms of heroin; 132,218 cannabis plants; 11,650 crack stones and 19,860 tablets of Ecstasy. These seizures represented significant increases over the previous year. The most important increases took place in seizures of heroin and Ecstasy, reflecting greater trafficker interest in these drugs. Despite this admirable record, resource limits continue to plague the NNP. The Narcotics Unit has only 116 officers, including administrative support, to cover all of Nicaragua.

Corruption. The GON has implemented a number of initiatives that were launched in 2001 to address corruption within the police. The NNP regularly rotates officers to prevent conflicts of interest from developing at the local level. The NNP also issues numbered badges in order to make it easier for the public to identify abusive police officials. Finally, the Narcotics Unit answers only to the top two ranking officials in the NNP, a measure that maintains the integrity of confidential information. However, low salaries make it hard to eliminate corruption. A new Nicaraguan Police Officer earns about U.S. \$120 a month. Judges' official salaries run about U.S. \$500 month. Corrupt judges often let drug suspects go free after a short detention, a practice that puts drug traffickers back on the streets and that undercuts police morale.

Starting in 2000, with funding provided by the U.S. Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) and using expertise provided by the U.S. Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) in Guatemala, the NNP developed an Anti-Corruption Unit (UAC) to investigate cases of abuse of government power. The unit has contributed to cases that have resulted in a number of arrests for corruption and misuse of government funds.

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. Nicaragua has volunteered to be one of the countries evaluated in the first compliance reviews in early 2003. Nicaragua also ratified the OAS Mutual Legal Assistance Convention in 2002, an agreement that facilitates the sharing of legal information between countries.

Cultivation/Production. With the exception of cannabis, illegal drugs are not cultivated in Nicaragua. The cannabis grown in Nicaragua is dedicated to local consumption.

Drug Flow/Transit. Nicaragua's location in the isthmus of Central America, the deep poverty of a large proportion of the population, the lack of government presence in large sections of the country and the paucity of government monies that can be dedicated to law enforcement make the country an attractive transit zone for drug traffickers. Nicaragua's isolated Atlantic coast constitutes the most vulnerable part of the country. This region's many islands and inlets provide way stations for drug smugglers moving between Colombia and points further north. Many Atlantic coast residents, the majority of whom are ethnically and culturally distinct from the rest of Nicaragua, support the traffickers by refueling their vessels, storing drugs, and serving as lookouts for law enforcement authorities. In some communities drug

smuggling has become the principal economic activity, creating concern that an incipient "narco-culture" is emerging. 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. Atlantic coast leaders in particular have become concerned about increasing levels of crack cocaine use in that region of the country. The Atlantic coast is the poorest part of Nicaragua and suffers from chronic 60-70 percent unemployment. Narcotics traffickers pay for help from locals by distributing drugs, additionally drug shippers threatened by interdiction in the Caribbean Sea toss their cargoes overboard. These packages wash ashore in communities where residents 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, funding from the United States government established the D.A.R.E. Program in Nicaragua and approximately forty NNP officers received training as D.A.R.E. instructors. The following year, a second class of forty NNP Officers went through D.A.R.E. training. During 2001, over 3,200 Nicaraguan schoolchildren were awarded certificates of participation in the D.A.R.E. Program. During 2002, five thousand more students have received D.A.R.E. training.

III. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Nicaragua and the United States are allies in counternarcotics activities. During 2002, the United States continued to provide significant counternarcotics and law enforcement assistance to the National Police through the DEA, INL, and ICITAP. The Nicaraguan military has also proven to be an effective and reliable partner in the counternarcotics field and has committed ground, air, and naval forces to support law enforcement operations. Nicaragua is cooperating with the United States on attempts to cut off terrorist financing. The USG shares information on suspect persons or organizations whose assets should be frozen with the Superintendent of Banks as well as the Ministry of Finance and the Foreign Ministry. Nicaragua is a party to the 2002 International Convention on the Suppression of the Financing of Terrorism.

The Road Ahead. Nicaragua's leaders recognize the threat that the illegal drugs pose to Nicaraguan society and sovereignty. The Nicaraguan Military and the Nicaraguan Police are committed to the counternarcotics effort. Even so, Nicaragua does not possess the resources to combat narcotics trafficking and requires continual assistance from the U.S. Nicaragua also requires urgent internal reforms, particularly the professionalization of justice sector personnel and the application of stronger statutes to combat such crimes as corruption and money laundering, if the country is to become a successful partner for the United States in fighting the narcotics trade.

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 2002, the GOP seized significant quantities of illicit drugs. The GOP expanded the capacity of its law enforcement agencies to combat international narcotics-related crimes with the augmentation of resources to the Panama National Police (PNP) Narcotics Division; the creation of a Public Ministry, Technical Judicial Police (PTJ) Vetted Unit; and the addition of personnel for Drug Interdiction Task Force at Tocumen International Airport and for the PTJ Financial Investigative Unit. Panama continues to lack an effective precursor chemical control regime; however, the GOP is drafting legislation to produce such a regime. Panama is a party to the 1988 UN drug convention.

II. Status of Country

Panama's proximity to the world's largest cocaine producer and South America's heroin producers, containerized seaports, Pan-American Highway, international hub airport and numerous uncontrolled airfields, vast coastline, and limited control of its borders, continue to make Panama a major drug-transit country. Domestic drug abuse continued to be a significant problem in 2002. Juvenile drug abuse is a serious and growing problem, with Ecstasy (MDMA) consumption markedly expanding among urban youth. Panama is not a significant producer of drugs or precursor chemicals. Cannabis is produced in small quantities for local consumption, and small-scale coca cultivation also exists in Panama's remote Darien Province that borders Colombia.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, the Panamanian National Commission for the Study and Prevention of Drug-Related Crimes (CONAPRED), an inter-institutional GOP entity functioning under the direction of the Attorney General's office, published its second five-year National Drug Control Strategy. The report proposes 81 projects to combat all aspects of drug supply and demand.

Accomplishments. During 2002, the Drug Prosecutor's office convened a conference on Ecstasy for domestic law-enforcement entities and held the second national seminar for counternarcotics authorities. Panama also played host in 2002 to the Third Regional Seminar on Port and Container Security.

Law Enforcement Efforts. USG law enforcement agencies enjoy cooperative relationships with their GOP counterpart agencies across the full spectrum of narcotics-related criminal matters. DEA-monitored statistics through December 2002 indicate seizures of 6.08 metric tons of cocaine, 6.4 metric tons of cannabis, 0.245 metric tons of heroin, 934 tablets of Ecstasy, and 250 arrests for international drug-related offenses, as well as approximately U.S. \$2.3 million in currency seizures. An aggressive GOP law enforcement posture has compelled trafficking groups to employ more sophisticated methods and greater operational security, and to vary their smuggling routes to elude detection. Consequently, as in recent years, most of the large seizures in 2002 resulted from intelligence-driven operations and cooperation among Panama's public forces and with USG counterparts. Indicative of the GOP's success is the fact that for the third straight year heroin seizures have nearly doubled.

This cooperation was furthered by the creation in December 2001 of a Public Ministry/PTJ Vetted Unit with authority to conduct special and sensitive investigations relative to major drug and money laundering organizations. The Vetted Unit became fully operational in August 2002. It complements three other institution-building, counternarcotics projects sponsored by the U.S. Embassy's Narcotics Affairs Section

(NAS) and the DEA - the PNP Mobile Inspection Unit and Paso Canoas Interdiction Enhancements, the International Airport Drug Task Force, and the Canine Unit. All of these projects have produced numerous seizures and arrests. The PNP/PTJ Drug Task Force has accounted for 69 drug courier arrests this year. PTJ/PNP team members under an IDEC initiative have provided training to Guatemala, Nicaragua, Costa Rica, Argentina Peru, Bolivia and Uruguay.

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. DPO cooperation with U.S. law enforcement agencies is excellent and extensive. The PNP's 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 illicit drug seizures in 2002. The PNP responded aggressively to new trafficking patterns in 2002, interdicting drug and arms shipments along the coast and in the interior of Panama.

The National Maritime Service (SMN) has vigorously employed assets to interdict illicit narcotics. During 2002, the SMN conducted eighteen boardings or interdiction operations in response to USG requests, on one occasion deploying a third of its entire flotilla to interdict a suspect go-fast boat in the Gulf of Chiriqui. The SMN also regularly provides critical assistance to USG drug-interdiction operations. This includes verifying ship registry data for U.S. Coast Guard (USCG) or U.S. Navy boardings, and transferring detainees and drug evidence from USG ships to Panama for air transport to the United States for prosecution.

The National Air Section (SAN) continued to provide excellent support for counternarcotics operations despite limited air assets and management problems. The SAN continued to respond rapidly to U.S. law enforcement requests to over-fly and photograph suspect areas and to identify suspect aircraft in flight or on the ground. The SAN provides logistical support in the transfer of detainees and drug evidence through Panama to U.S. jurisdiction. The SAN and PNP continued to cooperate in the surveillance of areas of potential coca and cannabis growth. During 2002, the SAN launched several reconnaissance flights to support SMN counternarcotics interdiction efforts. Both the SMN and SAN responded to reports of air drops of cocaine from general aviation aircraft to the Caribbean and Pacific coasts of Panama, several times resulting in small to multi-hundred kilogram seizures.

Cultivation and Production. Joint DEA-SAN aerial reconnaissance efforts in 2002 indicate small-scale coca cultivation, accompanied by cocaine laboratories, has resumed in the portion of the Darien Province bordering Colombia. GOP resource constraints, triple-canopy jungle, and the presence of armed Colombian insurgents in the region have prevented crop eradication. Limited cannabis cultivation, principally for domestic consumption, exists in Panama, particularly in the Perla Islands. The SMN, SAN, and PNP cooperate routinely and effectively to eradicate these crops.

Precursor Chemicals. Panama is not a significant producer or consumer of chemicals used in processing illegal drugs, but a large volume of chemicals transits the Colon Free Zone for other countries. The GOP regulatory/enforcement infrastructure to control the use and shipment of precursor chemicals remains inadequate. During 2002, the National Commission for the Study and Prevention of Drug-related Crimes (CONAPRED)-led a task force to draft legislation to create an effective regulatory system and enforcement regime. The legislation also clearly defines criminal conduct pertaining to chemical diversion and imposes adequate penalties. Early legislative assembly action on the measure is hoped for. During 2002, DEA conducted a comprehensive course on chemical diversion for officials of GOP agencies that either regulate or monitor controlled chemicals in Panama. DEA also collaborated with GOP law enforcement agencies to conduct inspections and audits of businesses dealing in precursor chemicals.

Drug Flow/Transit. Panama is a key center for the transit and distribution of South American cocaine, heroin, and Ecstasy. Fishing vessels, cargo ships, small aircraft, and go-fast boats transit Panamanian waters and airspace, continuing to other Central American countries and the United States or dropping their cargo in Panama. Shipments deposited in Panama are repackaged and moved northward on the Pan-American Highway or shipped in sea-freight containers. General aviation aircraft planes enter Panamanian

airspace, and transport drugs and money. Couriers transiting Panama by commercial air flights continued to move cocaine, as well as increasing amounts of heroin, to the United States and Europe during 2002.

Domestic Programs (Demand Reduction). CONAPRED's new five-year counternarcotics strategy identifies 29 demand reduction, drug education, and drug treatment projects to be funded between 2002 and 2007 at a cost of U.S. \$6.5 million. The Ministry of Education and CONAPRED, supported by U.S. funding, promoted demand reduction through training for teachers, information programs, and school curricula. CONAPRED and the Embassy's NAS also supported the Ministry of Education's National Drug Information Center (CENAID) in 2002. The PNP Juvenile Police, with Embassy NAS funding, implemented the DARE Program in Panama City public schools in 2002.

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. Panamanian public perceptions of governmental corruption increased markedly during 2002, with a November poll showing that 90 percent of those surveyed believe corruption exists in the legislative assembly and the political parties. Since January 2002, when two major corruption scandals broke within the legislature - one over ratification of two supreme court justices and the other over bribes in the concession law for a CFZ multimodal center - fighting corruption has gained societal momentum among nongovernmental organizations, the private sector, and the Catholic Church.

Agreements and Treaties. Panama 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 mutual legal assistance treaty and an extradition treaty are in force between the United States and Panama, although the Panamanian constitution does not permit extradition of Panamanian nationals. A Customs Mutual Assistance Agreement and a stolen vehicles treaty are also in force. In February 2002, a comprehensive maritime interdiction agreement between the USG and GOP entered into force. Panama has bilateral agreements on drug trafficking with the United Kingdom, Colombia, Mexico, Cuba, and Peru.

IV. U.S. Policy Initiatives and Programs

The United States provided crucial equipment, training, and information to enhance the performance of GOP counternarcotics, public force, and law enforcement institutions in 2002. These U.S.-supported programs are aimed at improving Panama's ability to intercept, investigate, and prosecute illegal drug trafficking and other transnational crimes; strengthening Panama's judicial system; assisting Panama to implement domestic demand reduction programs; encouraging the enactment and implementation of effective laws governing precursor chemicals and corruption; improving Panama's border security; and ensuring strict enforcement of existing Panamanian laws. Panama does not have an anti-alien smuggling law, nor has the USG approached the GOP on this issue.

The USG, through USAID, continues to assist the GOP in developing an Administration of Justice (AOJ) program to strengthen law enforcement and judicial institutions and procedures. This program addresses objectives including reduction of pre-trial detention. The AOJ program also works to promote civil society involvement in the reform process.

During 2002, the USCG worked closely with the SMN, enhancing its effectiveness as a maritime interdiction force. In 2002, the SMN received the 180-foot buoy tender "Sweetgum," which the United States provided under a 2000 Memorandum of Understanding (MOU). The United States, through the Embassy's NAS, continued to procure repair parts for the trail boats transferred by the USG and to fund additional training in fleet maintenance and boarding operations. In the summer of 2002, the USCG assisted the GOP in hosting a round-up of Latin American patrol boat fleets to further regional cooperation in interdiction and related operations. The United States traditionally has had an excellent relationship with Panamanian Customs, and 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.

During 2002, the USG, through the NAS, donated nine trucks to the PNP, which will enhance its logistic and support capabilities for units in the Darien province. Funds from the 2002 Andean Counterdrug Initiative (ACI) supported the establishment of the PTJ Counternarcotics Vetted Unit. Other USG projects funded in 2002 included continued support of a rental motorpool in the PTJ counternarcotics units in Panama City and Colon; purchasing radar equipment for the SMN; improving Panama's National Commission for Criminal Statistical Analysis (CONADEC) analytical ability; assistance and training in counterfeit document detection; renting facilities for the inter-institutional agency for precursor chemical control (CCQ); and equipping forensic laboratories in Panama City and the interior. The USG continued to support the Ministry of Education's teacher training programs in demand reduction, development of Panama's Joint Intelligence Coordination Center, and joint counternarcotics operations among Panamanian authorities and the DEA, U.S. Customs, and the USCG.

Bilateral Cooperation. The Moscoso Administration continued its close cooperation by sustaining joint counternarcotics efforts with the DEA and by strengthening national law enforcement institutions. The new maritime interdiction agreement has facilitated enhanced cooperation in maritime interdiction efforts. Joint operations also were resumed successfully in 2002.

The GOP has remained one of the United States' principal partners in counternarcotics missions. Under the authority of Panama's Attorney General and Ministry of Government and Justice, during 2002 there were nine instances in which drugs and 74 prisoners seized on the high seas were transferred through Panama's territory for prosecution in the United States. Also during 2002, the SMN conducted eighteen boardings or interdiction operations in response to USG requests. The GOP has cooperated with U.S. requests to board and search Panamanian-flagged vessels suspected of drug smuggling in international waters. In 2002, the PTJ, Panamanian Customs, and the PNP, with support from the U.S. Customs Service and the DEA, executed interdiction operations against alien smuggling and drug trafficking along the Costa Rican border.

The Road Ahead. The GOP continues to demonstrate its commitment to build strong law enforcement institutions and deter the flow of narcotics northward. The maritime interdiction agreement and the creation of procedures for the travel of uniformed and civilian members of the Department of Defense to Panama for security training, assistance, and operations will allow the USG and GOP to expand their already robust law enforcement cooperation during 2002. The GOP wishes to cooperate with the USG on the issue of port security, this will enable Panama to better control its huge container traffic to detect and deter illicit drug and precursor chemicals smuggled through Panama's ports. This effort also continues to enjoy significant private sector support.

Panama's law enforcement efforts would be enhanced through additional coordination among its law enforcement agencies, and improvement of the role and capabilities of the PTJ as an investigative agency. GOP resources will continue to be inadequate to patrol fully the land borders, the Panamanian coastline, and the adjacent sea lanes, rendering all vulnerable to illicit traffic. The United States will continue to work with the GOP to help strengthen Panama's ability to deter trafficking in drugs through training and equipment. The United States will also continue to work with the GOP to help strengthen Panama's law enforcement and public forces institutional capacity and will provide assistance to Panama to support criminal justice reform, as well as anti-crime and anti-corruption efforts. The United States will continue to work with the Ministries of Health and Education and NGOs to expand Panama's demand reduction programs.

THE CARIBBEAN

The Bahamas

I. Summary

The Bahamas is a major transit country for cocaine and cannabis bound to the U.S. from South America and the Caribbean. The Bahamas (GCOB) cooperates with the United States Government (USG) to target Bahamian drug trafficking organizations and interdict the flow of drugs through Bahamian territory and to reduce the domestic demand for drugs within the Bahamian population.

During 2002, Royal Bahamas Police Force (RBPF) and Operation Bahamas and Turks and Caicos (OPBAT) personnel increased cocaine and cannabis. In December, a joint Bahamas-U.S. investigation resulted in the arrest of 32 members of a major Bahamian drug trafficking ring, the Austin Knowles organization. In January 2003, the three top ringleaders of another major Bahamian drug trafficking ring, the Samuel "Ninety" Knowles organization, lost their court battle against extradition to the U.S.

In 2002, there was no discernible progress to implement the recommendations of an OAS/CICAD assessment of The Bahamas' precursor chemical control systems nor to complete the long-promised National Anti-Drug Plan (NADP). The Bahamas is a party to the 1988 UN Drug Convention.

II. Status of Country

The Bahamas is a country of an estimated 316,000 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 U.S. Its extent and location make The Bahamas an attractive target for drug transshipments, principally Colombian cocaine and Jamaican cannabis. The GCOB assigns a high priority to cooperating with U.S. law enforcement agencies in interdicting this drug flow and conducting joint investigations targeting drug trafficking organizations. The Bahamas has worked for several years, with the assistance of OAS/CICAD, on a National Anti- Drug Plan, but it remains unfinished as there is no central authority for coordinating national drug control policy. Although small plots of cannabis plants have been increasingly 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 2002

Policy Initiatives. Completion of a National Anti-Drug Plan (NADP), begun in late 2001 with the assistance of OAS/CICAD was delayed throughout 2002. Publication of the NDAP is expected in 2003. In 2001 the GCOB indicated it would draft, with the assistance of the United Nations Drug Control Program, precursor chemical control legislation, but no such legislation was introduced into Parliament in 2002. Development of the much-delayed Bahamas Integrated Justice Information System (BIJIS), a court case management software system intended to make Bahamian courts virtually "paperless" was again pushed back due to a lack of administrative and technical personnel.

Accomplishments. The Drug Enforcement Unit (DEU) of the Royal Bahamas Police Force (RBPF) cooperated closely with U.S. and foreign law enforcement agencies on drug investigations in 2002. For example, in December a year-long joint investigation culminated with the arrest of 32 members of the Austin Knowles ring, a major drug trafficking organization with operational bases in Jamaica and South Florida. This investigation was conducted by the DEU, the DEA, U.S. Customs, the U.S. Coast Guard, and several Florida County Sheriff Offices, and resulted in the seizure of 767 kilos of cocaine. Several Bahamian members of the ring are jailed in The Bahamas awaiting extradition to the United States.

The RBPF also cooperated with USG agencies in maritime interdiction operations that resulted in significant seizures of drugs and smuggling vessels. In 2002, The Bahamas Customs Department created a canine drug detector unit to prevent the exploitation of the Freeport Container Port by drug smugglers.

Law Enforcement. The RBPF participated actively in OPBAT, a multi- agency, international operation whose mission is to stop the flow of cocaine and cannabis transiting through The Bahamas to the United States. Alerted by U.S. Customs Service surveillance aircraft and sometimes aided by sightings passed on by the Cuban Border Guard (TGF), U.S. Coast Guard and U.S. Army helicopters based on the Bahamian islands of Andros, Great Exuma, and Great Inagua intercept maritime drug smugglers and seize airdrops of drugs into Bahamian territory. Officers of the 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. Seizures of drugs and traffickers captured by OPBAT in international waters are taken to the U.S., while those taken in Bahamian or TCI territory are turned over to those nations. Three RBPF fast response boats donated by the State Department and strategically deployed throughout the nation provide an "end game" to OPBAT's helicopter pursuits of drug smuggling "go-fast" boats.

The DEU, a special force within the RBPF composed of 78 officers, works closely with DEA on drug investigations and drug interdiction. The DEU has a staff of 78, including the 22-member Strike Force, which participates in OPBAT missions; the 7-member Marine Unit, which crews the three fast response boats; the 31-member General Investigations Unit; the 9-member Technical and Surveillance Unit; a 6-member unit in Freeport; and 3 commanders. Drug canine units in Nassau (6 officers) and Freeport (2 officers) are also attached to the DEU.

During 2002, the DEU seized 2.448 metric tons of cocaine (a 160 percent increase over 2001) and 11.491 metric tons of cannabis (a 183 percent increase over 2001). The DEU arrested 1899 persons on drug-related offenses. During 2002, the year the DEU also seized drug- related assets valued at \$1.3 million.

GCOB plans to have the Royal Bahamas Defence Force (RBDF) take a greater role in interdicting maritime drug smuggling bore little fruit in 2002. The RBDF's own fast response boats, forfeited "go-fast" drug smuggling vessels, were frequently out of service and were not able to respond to any of OPBAT requests for assistance in pursuits. 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 ratified the Inter-American Convention against Corruption in 2000. The USG has no knowledge that any senior official of the GCOB 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 Prime Minister of the ruling Progressive Liberal Party (PLP) government has dismissed allegations by the opposition Free National Movement (FNM) leader that the PLP used donations from drug traffickers to fund its April 2002 election campaign; neither party has disclosed the sources of its campaign contributions. In 2002, the RBPF continued its "zero tolerance" campaign to weed out corrupt members of the force. The GCOB formed a new civilian Complaints and Corruption Unit to ensure that complaints against police are investigated properly, quickly, and credibly.

In contrast to the RBPF's reputation for not tolerating internal corruption, there is a widespread public perception that narcotics corruption is condoned within the RBDF. The GCOB took no action in 2002 on long-standing USG suggestions for establishing an administrative mechanism or internal affairs unit to deal with corrupt members of the RBDF; currently the only way to remove such officers is through conviction in a civilian court of law. In December, the GCOB announced it was satisfied with a 1992 police inquiry into the disappearance of a portion of a "controlled delivery" of cocaine while in custody of crewmen from the RBDF vessel "Inagua." That investigation failed to identify which crewmen were

responsible for the theft. However, one independent opposition Member of Parliament, a former attorney general in the previous FNM government, called on the GCOB to complete the flawed investigation into the "Inagua" incident. A number of RBDF members remain permanently ineligible for U.S. visas and USG-sponsored training because of a reasonable suspicion of their involvement in the affair. Integration of RBDF personnel into OPBAT and sharing of sensitive law enforcement information with the RBDF remains problematic due to corruption concerns.

Agreements and Treaties. The Bahamas is a party to the 1988 UN Drug Convention. The GCOB works with the USG to accomplish the objectives of a continuing U.S.-Bahamas counternarcotics and law enforcement project designed to enhance the capability of the GCOB to suppress criminal activity and promote 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. USG MLAT requests 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 substantially reduced the backlog of unexecuted MLAT requests from the USG and continues to improve its MLAT relationship with the USG. The Bahamas also has MLATs with the United Kingdom and Canada.

The 1994 U.S.-Bahamas Extradition Treaty permits the extradition of Bahamian nationals to the U.S. Requests are typically slowed by numerous defense appeals and by the procrastination of judges in issuing rulings. An October 2000 magistrate's ruling granting extradition of Samuel "Ninety" Knowles Jr. and two of his top henchmen, Lemuel Gibson and Frank Cartwright, was reversed by a Supreme Court justice in February 2002. In January 2003, the Court of Appeal reversed the Supreme Court and -affirmed the magistrate's ruling and ordered the extradition of the three traffickers. Knowles and his co-defendants will likely appeal to the Judicial Committee of the Privy Council in London, the final avenue for appeal available in the Bahamian legal process. In December 2002, the same magistrate granted a U.S. extradition request against Samuel Knowles Jr. relating to a different drug indictment; that ruling will be appealed by Knowles in 2003. In 2002, the same Supreme Court Justice who had reversed the Samuel Knowles extradition order overturned a 2001 magistrate's order for the extradition to the U.S. of a Bahamian, Derek Taylor, who had jumped bail in 1985 prior to his sentencing in the U.S. for drug trafficking; the Supreme Court justice ruled that the conviction had occurred too long ago. The GCOB announced that it would not appeal the justice's ruling; it provided no explanation for its decision despite previous assurances that it would appeal, and repeated USG requests.

In 1985, the USG and the GCOB informally established the "Joint United States Coast Guard/Royal Bahamas Defence Force Shiprider and Overflight Programme" 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 drugsmuggling 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 USG law enforcement aircraft to over fly Bahamian territory.

Drug Flow/Transit. The USG estimates indicate that some 10 to 15 percent of the cocaine detected heading to the United States from South America flows through the Jamaica-Cuba-Bahamas corridor. Most of that flow originates in Colombia and arrives in The Bahamas by "go-fast" boat from Jamaica. There was an increase in 2002 in the number of suspected airdrops by aircraft originating in Jamaica and Colombia to waiting Bahamian "go-fast" boats off the Cuban coast. This resurgence of airdrops may be due to the increased interdiction of "go-fast" boats; however the number of airdrops remained small compared to detected movements by sea.

DEA/OPBAT estimates that there are roughly a dozen major Bahamian drug trafficking organizations. These organizations offer their services, often with "money-back guarantees," to Colombian and Jamaican drug cartels to transport their drugs to the United States. The Bahamian "go-fast" boats usually head north from Colombia and 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. Detected shipments of drugs by "go-fast" boat through the Bahamas in 2002 increased by 32 percent from 2001 (139 detected movements of suspect vessels versus 105). This increase in detections may be due to better intelligence collection and more frequent surveillance flights over the OPBAT area of operations by U.S. Customs airplanes during 2002. OPBAT- related cocaine seizures amounted to 5.341 metric tons in 2002 (up by 120 percent from 2001). OPBAT cannabis seizures were 14.643 metric tons (up by 143 percent from 2001).

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 U.S. and foreigners on their way to the U.S. are detected with small amounts of drugs (cocaine, cannabis, 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 minor transit point for "Ecstasy" tablets destined for North America and brought into The Bahamas by Dutch nationals. Historically, The Bahamas has been used as a transit point for smuggling "club drugs" such as ecstasy into the U.S. by airliner from Europe. Although club drug seizures in The Bahamas have been minimal over the past two years, the Bahamian route remains a potential threat.

Demand Reduction Programs. 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. The RBPF's Community Relations Section, Police Canine Unit, and DEU effectively implement drug prevention programs and present demand reduction lectures with exhibitions at various schools, churches and civic organizations in New Providence and the Family Islands. The success of all these programs has yet be determined.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The goals of USG assistance to The Bahamas are to dismantle trafficking organizations, stem the flow of drugs through The Bahamas to the U.S., promote drug demand reduction, 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. During 2002, INL's Bahamas Country Program, 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. The NAS also funds the DEU drug detector dog program that is active at NIA and GBIA and the newly established Bahamas Customs Department canine unit at the Freeport Container Port.

In 2002, the NAS donated to the RBPF two high- performance purpose-built fast response interceptor boats to be used in conjunction with OPBAT helicopters on drug interdiction missions. During 2002, these boats and another donated in 20001 (an aluminum-hulled "Avenger") were deployed around The Bahamas and participated in a number of significant seizures of drugs and "go-fast" drug-smuggling vessels.

In October 2001, 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. Formal negotiations are expected to begin in 2003.

The Road Ahead. The Bahamas' proximity to the U.S. and the sheer extent of its area guarantee that 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, will continue to depend on upon significant USG assistance to fight international narcotics trafficking and crime. In 2003, the USG will present a formal proposal for a Comprehensive Maritime Agreement to the GCOB. To strengthen the country's counternarcotics institutions, the USG plans to continue cooperation and support for the DEU in dismantling drug trafficking organizations; to continue its participation in OPBAT; and to assist an RBDF vetted unit in integrating its counternarcotics mission with OPBAT. The USG looks forward to the completion of a National Strategy in 2003. The USG 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

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Seizures ¹										
Cocaine (mt)	2.45	0.94	2.74	1.86	4.39	2.58	0.12	0.39	0.49	1.80
Marijuana (harvested) (mt)	11.49	4.06	3.80	3.60	2.30	3.76	2.61	3.53	1.42	0.65
Amphetamines (kg)	0.036	0.014	63.4	_	_	_	_	_		
Arrests	1,899	1,629	1,811	1,969	1,650	1,894	1,576	1,565	1,025	1,023

¹ Through November, 2001.

Cuba

I. Summary

Cuba's decaying infrastructure, declining operations budgets, and sporadic fuel shortages have hampered enforcement efforts. The island's 3500 nautical miles of coastline and more than 4000 sparsely populated islets and cays present an inviting environment for both air and maritime smuggling. In the past three years, the Government of Cuba (GOC) claims to have focused its attention on non-commercial boats and small aircraft, with a resulting increase in seizures and disrupted smuggling attempts.

Limited, case-by-case coordination between the GOC and the USG on international drug trafficking issues has continued despite impediments created by some elements in the Cuban regime. Since the September 2000 addition of a U.S. Coast Guard Drug Interdiction Specialist (DIS) to the U.S. Interests Section in Havana, Cuban authorities occasionally have provided that officer information and assistance on specific cases and he has been able to reciprocate on a limited number of cases. The GOC, however, has not exploited the DIS's presence to the fullest by developing more effective counternarcotics cooperation, nor has it been forthcoming on the extent of narcotics transiting Cuban soil and the level of rising domestic drug consumption. Moreover, the GOC has subjected him to repeated harassment by State Security agents, including invasion of his home and government vehicle, and continual, oppressive surveillance of his official activities. These acts of official harassment have limited effective liaison between the DIS and Cuban counternarcotics officials and call into question the Cuban regime's true intentions regarding more effective collaboration against narcotics trafficking.

Although GOC officials claim they deal transparently with other governments on counternarcotics efforts, the degree of transparency and cooperation with the U.S. is influenced by political factors. For example, for the most part, the GOC permits the DIS increased access to its facilities and information only during visits by members of Congress, their staff, and important non-government organizations, raising the question of whether the Cuban government's principal motivation is to seek authentic cooperation or win political advantage. Drug cases have been exploited by the GOC for political gain, including the publication of sensitive information in order to make a case for a bilateral agreement.

The challenge of stemming the flow of narcotics grows in the presence of increasing tourism from Europe and the United States. Cuba is a party to the 1988 UN Convention.

II. Status of Country

The island does not appear to be a significant producer of drugs or precursor chemicals, although government reports indicate that marijuana is being cultivated for a growing domestic market. Cuban officials have pointed to the growing quantity of drugs seized over the past few years as a sign that Cuba's attractiveness as a transit point is increasing and interdiction efforts are improving. The GOC claims its improved interdiction has come despite inadequate resources to patrol territorial waters and airspace. Cuban government sources report that some upgrades to patrol boats and equipment are being made, but not at a rate commensurate with the growing narcotics threat to Cuban territory.

According to the Cuban government, the Cuban Border Guard interdicts ninety percent of the drugs that Cuban law enforcement authorities seize. The lead investigative law enforcement agency on drugs in Cuba is the Ministry of the Interior's National Anti-Drug Directorate (DNA). The DNA is comprised of a variety of law enforcement, intelligence, and youth affairs and education organizations.

The non-enforcement governing body for prevention, rehabilitation, and policy issues is the National Drug Commission, formed in 1989 after the scandal in which the Cuban regime convicted and executed an Army major general, a Ministry of Interior colonel, and several other officials for involvement in

narcotics trafficking. This interagency coordinating body headed by the Minister of Justice is comprised of the Ministries of the Interior, Foreign Relations, Public Health, Higher Education, Education, and Culture. Also represented on the commission are the Attorney General's Office, Customs and Border Guard Services and the National Sports Institute.

III. Country Actions Against Drugs in 2002

Policy Initiatives. According to Cuban government sources, counternarcotics personnel continued to attend training symposiums hosted by third country representatives visiting Cuba. The Program Management Office of Barbados presented two such multi-national programs in Havana, while almost all other third country-sponsored sessions are conducted on a bilateral basis. Despite a new policy in 2001 to increase societal control by assigning a "social worker" to each Cuban family and a national plan to educate Cubans on the dangers of drugs, domestic drug use rose. The Attorney General made a public statement acknowledging the increase, but attributed it to consumption by growing numbers of tourists and did not acknowledge the greater usage by Cubans.

In August 2002, the DNA's leadership changed when Colonel Oliverio Montalvo Alvarez retired and was replaced by Brigadier General Jesus Becerra Morciego of the national police. This change marked a shift of responsibility from the military to the national police, as well as an upgrading of the post to a higher rank. To date, however, Becerra has not taken a visible role in the coordination of the DNA liaison with third country representatives.

Law Enforcement Efforts. The force structure increase established during the ACHE II counternarcotics offensive from July-October 2000 has led to an increase in the number of seizures and a better flow of information to the U.S. Coast Guard. In the first ten months of 2002, Cuban drug interdiction units seized 4.5 tons of narcotics. The U.S. Coast Guard and Cuba's Border Guard (TGF—Tropas Guardas Fronteras) have exchanged information on a case-by-case basis which, on certain occasions, has led to the apprehension of several boats and crews involved in drug trafficking. Additional counternarcotics units, some positioned at the airports and others used to raid nightclubs, have met with some success. In early 2002, a number of nightclubs in Havana were closed and others had their hours curtailed after rampant drug use was observed. By the spring, clubs were reopened with a higher police presence including the use of dogs to make random checks. At the end of 2002, only one of the most popular nightclubs remains closed and others have seen a resumption of drug availability.

Drug Seizures/Arrests. The GOC rarely publishes figures on the quantity of drug seizures and arrests. However, the GOC's selectively prepared data, including statistics derived from the actionable information provided to the U.S. Coast Guard on discrete occasions, indicate that there have been a number of arrests and seizures. In the months of June and October, Border Guard units recovered large amounts of narcotics washing up on Cuban shores from disrupted maritime drug smuggling ventures. At the airport, DNA officials have made 41 arrests in 25 cases involving the seizure of 45.89 kilograms of cocaine. In some cases that have had links to the U.S., Cuban officials have shared their findings with U.S. law enforcement officials for case development in the U.S.

At Havana's Marina Hemingway, Border Guard officials detected on at least three occasions the presence of narcotics involving U.S.-flagged vessels, two of which were ordered out of the country; the results were shared with U.S. law enforcement officials. Although comprehensive data on the GOC's drug seizures and arrests are not available, coordination between the U.S. Coast Guard and the TGF led to a number of foiled trafficking operations, and the dumping of several tons of marijuana and cocaine. In addition to Cuban arrests and seizures, Border Guard officials have on occasion provided actionable information to the U.S. Coast Guard, leading to coordinated seizures and arrests by U.S., Cuban, and third country counternarcotics officials in both international waters and territorial seas of The Bahamas and Cuba.

Corruption. The United States does not have direct evidence of narcotics-related corruption among senior GOC officials. However, observations and the existence of a thriving black market where drugs are

available suggest that corruption does exist at lower organizational levels within the national police and security apparatus. No mention of GOC complicity in narcotics trafficking nor narcotics-related corruption was made in the media in 2002; the media in Cuba is completely controlled by the state.

Agreements and Treaties. Cuba is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Pyschotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. The GOC maintains bilateral narcotics agreements with 29 countries and less formal working arrangements with 16 others. Counternarcotics coordination between the U.S. and Cuba occurs only on a case-by-case basis in the absence of a bilateral treaty or agreement. The Cuban government has signaled its willingness to participate eventually in a regional Caribbean counternarcotics cooperation agreement. Cuba also has signed the UN Convention against Transnational Organized Crime.

Cultivation/Production. There is no evidence that Cuba is a significant drug-producing country. Cuban narcotics officials say that small quantities of marijuana are grown around Havana and Eastern Cuba for domestic use. GOC official media recently publicly reported that marijuana is being grown in Cuba. The GOC offered no information regarding crop size estimates, crop yields, or eradication efforts, except to say that it amounts to less than a hectare.

Drug Flow/Transit. There are no authoritative reports on the nature and extent of trafficking from and through Cuba. Based on U.S. and third country seizure information and cases presented to U.S. law enforcement officials, it appears that the majority of detected trafficking took place through Cuba's territorial waters and airspace, with less 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 for pickup. These drugs appeared to be heading for The Bahamas, with the United States as the likely final destination. In the airport cases, drug couriers or "mules" were used to carry narcotics to Europe primarily; however, Cuban officials, for the first time, shared information from two cases in which the narcotic was allegedly being transported to the U.S.

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 2002.

Domestic Programs. The GOC continues to blame the growing drug consumption problem on increased foreign tourism and "wash-ups," drugs that have washed ashore, jettisoned by smugglers and not reported by their finders who subsequently consume them or sell them for hard currency. GOC officials report that drug use has contributed to a rise in crime, but have announced no new measures to deal with the problem. A multi-agency approach already exists to respond to "wash-ups" that includes a specialized mobile search team with members who have been trained in rummage techniques by the UK and Canada.

The National Commission on Drugs (CND), created in 1989, has taken the lead on drug prevention programs. British prevention and rehabilitation authorities have hosted seminars to assist the Cubans in establishing similar programs. The majority of municipalities on the island have counternarcotics organizations and those that do not are in the process of creating them. Prevention programs focus on education and outreach to groups most at risk of being introduced to illegal drug use.

There is a comprehensive counternarcotics action plan that encompasses the Ministries of Health, Justice, and Education, among others, to coordinate a long-term prevention strategy. As drug use rises, the GOC will have more difficulty in supporting its contention that the problem remains contained. Ultimately, the GOC may have to place greater emphasis on treatment for existing addicts, including wards to assist in dependency issues in enhanced treatment facilities.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation in narcotics control matters occurs only on a case-by-case basis. Since the DIS arrived in September 2000, the GOC, despite its harassment of the officer personally, has,

on occasion, provided actionable information to the U.S. Government. Up until summer 2002, the DIS had initiated all but one of the cases being developed in Havana with his Cuban counterparts. Since the summer of 2002, the DNA has initiated 19 cases which included leads on fugitives from U.S. law enforcement authorities. Last year, the GOC returned one fugitive on an informal basis and is attempting to return two more fugitives, also on an informal basis. The DIS was invited to participate in two boarding operations in Marina Hemingway and assisted in the case development and evidence collection surrounding a known international drug trafficker operating in Cuba. After a delay of several months, Cuban authorities permitted the importation of drug interdiction equipment, known as a "Buster Kit," and the DIS has demonstrated its use. This increased initiative on the part of the GOC likely can be attributed to U.S. pressure and complaints about the lack of Cuban engagement with the DIS. It is unknown whether the DNA will continue to bring cases to the DIS or will revert instead to its past uncommunicative posture.

The Road Ahead. If the DNA continues to provide case information to the DIS, additional work on a case-by-case basis is possible.

Dominican Republic

I. Summary

The Dominican Republic (DR) is a major transit country for South American drugs, mostly cocaine and heroin, moving to the United States. The Government of the Dominican Republic (GODR) continued to cooperate closely with the U.S. in counternarcotics matters. Last year (2002) saw an increase in heroin seizures, a decrease in cocaine interceptions, and the appearance of MDMA (Ecstasy); limited cooperation between the GODR and the Haitian police; acceleration of the extradition process; and enactment of a strong anti-money laundering law. (For details on the GODR's anti-money laundering initiatives in 2002, see the Money Laundering section of this report.) Although the GODR increased its efforts to combat corruption in 2002, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics through the DR. In 2002, an estimated eight percent of the cocaine directed toward the U.S. flowed through Hispaniola and nearly half of this amount reached the DR's shores directly from South American sources. 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 hub, but Dominican criminal organizations are increasingly involved in command and control of international drug trafficking operations.

Seizures in 2002 continued to indicate that cocaine, heroin, and cannabis destined for the United States and, to a lesser extent, Europe, were being transshipped through the DR and its territorial waters. Ecstasy seized in the DR was most often being transported from Europe to the United States. 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, the language of the source country smugglers; move easily throughout the Caribbean; and are recruited for very small 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 2002

Policy Initiatives. After the success of a U.S.-sponsored regional counternarcotics operation in 2001, "Operation Hurricane," involving 19 Caribbean countries including the DR and Haiti, the DR initiated bilateral intelligence-sharing and interdiction efforts with Haiti. The National Directorate for Drug Control (DNCD), the law enforcement arm responsible for counternarcotics measures, and the National Drug Council (CND), the GODR's drug control policy and planning organ, have adopted a computerized system to track seizures of assets in connection with drug-related offenses, but the system is not yet fully functional.

The GODR passed new anti-money laundering legislation that U.S.-funded programs helped draft and promote. (See the Money Laundering section of this report.) The GODR also enacted, with U.S. support, a revised criminal procedures code that would change the Dominican criminal system from a Napoleonic inquisitorial system, with a dossier of evidence evaluated by a judge, to an accusatory system that includes presentation of oral arguments before a judge or a jury.

Law Enforcement Efforts. In June 2002, Dominican military and law enforcement agencies participated in a two-week counternarcotics exercise, "Sorpresa Nocturna II." The exercise focused on cooperation with military and law enforcement agencies of the United States and the Haitian police. "Sorpresa Nocturna II," which involved DOD, DEA, USCG, and USCS, was the largest operation of its kind in the Dominican Republic's law enforcement history. The exercise tested the DR's joint command and control abilities as well as its military's capacity to assist the DNCD in true joint fashion. The Dominican military took important steps to bolster its future counternarcotics capability through significant equipment procurement. Its acquisitions included renovation of six aging patrol craft, construction of two new 110-foot coastal patrol ships under commercial contract with a U.S. company, and fourteen helicopters, including six designed for operations over water, all scheduled to arrive in FY 2004.

The DNCD increased its canine program from 20 to 25 dogs and handlers.

Cultivation/Production. There is no known cultivation of coca or opium poppy in the DR. Cannabis is grown on a small scale for local consumption. The GODR launched investigations into the possible manufacture of MDMA (Ecstasy).

Drug Flow/Transit. The DNCD increased heroin seizures over those of 2001, logging almost daily interdictions of body-carried heroin through the DR's international airports. Through December 2002, with cooperation and assistance of the U.S. Drug Enforcement Administration (DEA), the DNCD seized 1.1 metric tons of cocaine, 115 kilograms of heroin, and nearly 1.7 metric tons of cannabis. The DNCD also continued to focus its investigations and interdiction operations on the drug-transit routes in the DR's territorial waters along the northern coast and at land border crossings with Haiti, attempting to prevent airdrops of illicit narcotics to vessels waiting offshore or to sites on land.

In 2002, drugs were readily available for local consumption in most metropolitan areas. The DR attracted a substantial number of tourists from Europe and North America 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 4156 drug-related arrests in 2002; of those arrested, 3857 were Dominican nationals and 299 were foreigners. There were 448 more drug-related arrests in 2002 than in 2001 and 87 more foreigners were among those arrested on drug charges than in 2001.

Most of the significant seizures were made on land, in the big cities. There were some seizures made at the Haitian border in 2002, but quantities seized were limited. While the number of seizures made in Dominican airports was high, the actual amount of drugs seized there was relatively small. Airport seizures of MDMA ("Ecstasy") pills, however, accounted for 47 percent of all "Ecstasy" seized in the country. Maritime seizures remained a challenge for the DR, especially detecting drugs hidden in commercial vessels.

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 (USMS) 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 United States to face justice. Despite withdrawal of the marshals in December 2001, the tempo of extraditions to the United States continued to increase in 2002, largely due to the extradition of fugitives captured prior to the marshals' departure.

President Mejia's administration continued its cooperation in 2002 and the GODR extradited 17 Dominicans to the United States during the year. The DNCD arrested 12 fugitives in 2002 in response to U.S. extradition requests. The National Police, working with the FBI, arrested and extradited two drug-related subjects and located 14 subjects for extradition. Six fugitives are now in custody pending

extradition to the United States. In addition, Dominican authorities deported four U.S. citizens and third-country nationals wanted by U.S. justice authorities.

In 2002, the Justice Ministry constructed new cells to house up to 45 fugitives awaiting extradition. The new construction, at the Najayo prison, was partly funded by the U.S. Government.

Mutual Legal Assistance. The GODR cooperates with USG agencies, including the DEA, FBI, U.S. Customs Service, and USMS on counternarcotics and fugitive matters.

The DNCD housed the new DEA-sponsored Caribbean Center for Drug Information (CDI) at its facilities in Santo Domingo.

Corruption. The GODR does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, and other controlled substances; nor does it contribute to drug-related money laundering. The GODR did not convict any senior officials for involvement in the above-mentioned activities; however, a former Dominican vice consul in the Haitian capital was apprehended by DNCD's Special Investigations Unit while smuggling drugs across the border and remains under arrest.

The GODR's Immigration Directorate removed 126 inspectors and supervisors in 2002 for allowing people to travel to the United States and Europe without proper documentation. Nevertheless, Dominican institutions remain vulnerable to influence by interest groups or individuals with money to spend, including narcotics traffickers.

Legislation remains pending that would strengthen enforcement of a 1979 law that requires senior appointed civil service and elected officials to file financial disclosure statements. However, an effective system to verify these statements and impose sanctions for false statements has not yet been implemented.

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 DNCD conducted 44 youth events in various cities and neighborhoods, from basketball tournaments to chess matches, to encourage competitive and recreational activities as better choices than drug abuse.

Agreements and Treaties. The GODR began negotiations to grant permanent overflight authority to the USG for rapid response in counternarcotics and alien smuggling operations. The current four-year extension of overflight authority was in lieu of an agreement to expand a 1995 U.S.-DR bilateral maritime agreement to include overflight and order-to-land authority. The United States has proposed a Maritime Migration Law Enforcement Agreement and a Search and Rescue Agreement. In 1985, the United States and the DR entered into an agreement on international narcotics control cooperation. The DR 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 DR also was an active participant in negotiations that recently concluded a Caribbean regional maritime counternarcotics agreement. 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cocaine and heroin 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 2002, the United States provided essential equipment and training to expand the counternarcotics canine units, supported the DNCD's vetted special investigation unit and border intelligence units, provided radio equipment for the DNCD's border units to use on the DR's border with Haiti, and funded an assessment of the implementation of a previously funded automated tracking system to manage seized assets. The United States also assisted the Dominican Navy in planning for a complete maintenance and training program for its maritime assets. The cornerstone of this effort is the reopening of the DR Navy's training and maintenance school, closed in 1997.

The United States has funded training for the DNCD Fugitive Surveillance Unit, helping it locate, apprehend, and extradite individuals wanted on criminal charges in the United States. Enhanced computer training, database expansion, and systems maintenance support were provided to the DNCD. The Dominican Navy and Air Force have established a direct communications agreement with the United States 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.

Other significant USG military equipment acquisitions include the \$250,000 purchase of a Zodiac Rigid Hull Inflatable Boat capable of intercepting go-fast narcotics craft.

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 continued to provide training to prosecutors in basic criminal justice and prosecutorial skills. Several high-profile investigations are ongoing.

The U.S. Department of Justice, through the Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT), provided three weeks of training to prosecutors and investigators in the Department for Prevention of Corruption (DEPRECO). This hands-on training improved DEPRECO's ability to investigate and prosecute government corruption cases.

The USG has taken the initiative in bringing together a group of high-profile Dominican business leaders. These leaders formed and capitalized an NGO, hired a full-time director, and began working with human resource departments of local businesses to implement programs to warn employees of the dangers of drug use. Two privately owned airports have shown leadership in improving airport security, including cofunding with the USG of DNCD canine units.

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.

With USCS leadership and DEA support, the Port Authority initiated a project to improve security at the chaotic Santo Domingo terminal of the ferry to Puerto Rico. An ongoing project has improved passenger processing and established controls to detect and prevent smuggling of drugs and other contraband. U.S. Customs also advised the owners of a new container terminal, now under construction.

DEA funded construction and equipment for a new Caribbean Center for Drug Intelligence at DNCD headquarters. When fully functional in 2003, this center will permit real-time sharing and analysis of narcotics-related information among all the nations of the Caribbean Basin. Similar centers are being established in Mexico, Colombia, and Bolivia. USG training programs have also targeted the DR military's intelligence units in order to improve their capacity to analyze, detect and interdict narcotics shipments.

USAID has supported analysis and public debate which led to the drafting of important legislation to reform the Criminal Procedures Code, establish an apolitical cadre of career prosecutors, reform the National Police, and strengthen anti-money laundering laws. The Criminal Procedures Code reform was

adopted in 2002. An automated criminal case tracking system pilot project became operational in the Santo Domingo District in 2002.

With the incoming eight patrol vessels, high-speed launch, and 14 helicopters, the Dominican military will have a greatly augmented capacity to interdict narcotics smuggling. USG military assistance efforts will then turn to maintaining these assets and convincing the GODR and its military to acquire a sensor package for its fixed-wing air fleet, to be used in interdiction operations at sea and on land. Other training efforts will focus on both improving the military's counternarcotics intelligence apparatus and improving the DR military's ability to conduct operations through joint command and control training.

The Road Ahead. The immediate U.S. goal remains helping to institutionalize judicial reform and good governance. The DR and United States are working to build coherent counternarcotics programs that can resist the pressures of corruption and address new challenges brought by innovative narcotics trafficking organizations.

The U.S. Government and the GODR will continue strengthening drug control cooperation through sharing of information and developing closer working relations among principal agencies. The United States will work closely with the DR to ensure that the new asset seizure tracking system is fully utilized. The United States will continue providing training and equipment for the DNCD's border control units, focusing its attention on exchanging the intelligence necessary to disrupt cross-border narcotics smuggling. Support for the retraining and re-certification of the DNCD canine units will continue, as will establishment of new canine units in cooperation with DNCD. The DNCD's fugitive investigation teams will continue to receive hands-on U.S. support for their efforts pursuing Dominican fugitives from U.S. justice who seek refuge in the DR. The USG will continue to provide support to Dominican government and private sector counternarcotics efforts, including provision of specialized technical equipment and support of business and civil society demand reduction efforts.

USAID and the U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) will provide further training to prosecutors and investigators, increasing their professionalism and ensuring that they are prepared to implement the new Criminal Procedures Code when it becomes effective in 2004. 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 Prosecution Department.

The USG will work closely with the newly formed Anti-Money Laundering Commission to ensure full implementation of the newly enacted Anti-Money Laundering Law.

Dominican Republic Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Seizures										
Cocaine (mt)	1.1	1.8	1.27	1.01	2.34	1.35	2.14	3.60	2.80	1.07
Heroin (mt)	0.115	0.017	0.020	0.012	0.069	0.008	0.005	_	_	_
Marijuana (mt)	1.7	3.794	2.90	0.18	0.11	0.78	1.01	1.00	6.81	0.31
Arrests/Detentions										
Nationals	3,857	3,496	4,454	3,918	1,676	1,431	3,097	3,388	2,810	_
Foreigners	299	212	161	111		50	69	11	158	_
Total Arrests	4,156	3,708	4,615	4,029	1,676	1,481	3,166	3,399	2,968	5,635

Dutch Caribbean

I. Summary

Aruba, the Netherlands Antilles, and the Netherlands 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. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF).

II. Status

Netherlands Antilles

The islands of the Netherlands Antilles (NA) (Curação and Bonaire off Venezuela and Saba, Saint Eustatius, and Sint 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 although use of fishing boats, freighters, and cruise ships is becoming more common. Direct transport to Europe, and at times to the U.S., is by "mules" (drug couriers) using commercial flights. Evidence in 2002 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 Sint Maarten en route to Puerto Rico or the U.S. Virgin Islands.

The year was marked by a crack-down at Curacao's Hato International Airport on "mules" who either ingest or conceal on their bodies illegal drugs, mostly destined for Europe. Since the inception of the "Hato Team" concept of interagency cooperation in April, at least 6,500 persons have been denied boarding based on suspicion of drug trafficking under the GONA's legal authority to prevent disruption on air carriers. Suspected traffickers may request an X-ray in order to clear themselves of suspicion and receive permission to board the plane, but only about 10 percent do so. Of those, about three percent are found to have ingested drugs. Smugglers who ingest the illegal drugs are switching from latex condoms to cat and goat intestines to hold drugs that are mixed with a waxy substance to better conceal them from x-ray imaging. In December, the x-ray program was suspended because of threats against the hospital and the two private radiologists who conduct the tests. There have been three assaults on the airport "Hato Team." Consistent with the increased smuggling, arrests were frequent in 2002, filling Curaçao's prison, where management problems persist, to capacity. Additional guards are being trained and five new cells have been built at the police station nearest the airport.

As Hato airport tightened control, traffickers began to move to other Antillean airports, challenging law enforcement control at those locations. For example, from January to May Bonaire arrested seven "mules," but after the transfer of a major KLM route to Bonaire in June, 40 were arrested through September. Sint Maarten detected increasing numbers of "mules" and made plans to improve its drug detection technology with Dutch assistance. In addition to go-fast activity and smuggling via commercial airlines, large quantities of narcotics moved through in containers, as indicated by seizures from containers in 2002. In November, 1,200 kilograms of marijuana were seized from a container in Sint Maarten in a

joint operation with the French side of the island, Saint Martin. Statistics on significant seizures in 2002 indicate that Dutch Sint 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 remained important concerns for the GONA. Curacao experienced a stunning increase in drug-related homicides in 2002; there were at least 29 in 2002 compared to 9 in 2001. Ten of the victims were Colombians. Beginning early in 2003, the GONA will require visas of Colombians wishing to enter its territory. The rise in drug abuse is attributed to payment for drug trafficking services in cocaine rather than in cash as well as to a weakened economy. The Government that took office in June made narcotics interdiction, crime control, and international cooperation priorities through a 'Zero Tolerance' enforcement campaign. The Minister of Justice developed a plan to add 350 new judicial services employees, including 215 new police and 100 new prison guards. His plan addresses the prison shortage, intelligence improvement, and migrant control, as well as increasing numbers of police. The Prime Minister announced the GONA's plan to acquire container scanning equipment, island-wide radar coverage, and two helicopters (for which a contract has already been signed).

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, have received some additional resources, including support from the National Guard. The rigorous legal standards that must be met to prosecute cases constrain the effectiveness of the police; nevertheless, local police made significant progress in 2002 in initiating complex, sensitive cases targeting upper-echelon traffickers. In September, law enforcement made one of the largest seizures ever with 393 kilograms of cocaine and 43 kilograms of heroin after a sophisticated, lengthy investigation. In November, police working with the Joint Coast Guard of the Netherlands Antilles and Aruba seized 223 kilograms of cocaine. These efforts demonstrated the effectiveness of cooperation with other law enforcement entities in the region.

The local community supports the GONA's offensive against drugs. In November, the major bank donated 500,000 NAF (\$280,000) to the "Zero Tolerance" program. In December, the owner of a local adult entertainment facility (Campo Alegre) and his lawyer were convicted on drug trafficking-related charges. The owner was sentenced to 12 years in prison and a one million NAF (\$560,000) fine, his lawyer received 7 years and a 300,000 NAF (\$168,000) fine

The far-reaching restructuring of the police, started in 2000, began to show results. The police chief made improvement of the Criminal Investigative Service (CID) his top priority. His second priority is improving the expertise of the financial investigation team. Thirty new police recruits began training in January 2003, an important step in addressing the shortage of officers. The police on Curaçao received nine new vehicles in 2002 and another three went to Sint Maarten. As a result of a protocol signed in 2002 between the Justice Ministers of the Antilles and the Netherlands, the NA is now connected to the Police Information net to exchange information, particularly about international crime. The specialized Dutch police units (RSTs) that support law enforcement in the NA continued to be effective in 2002 and began, as originally intended, to include local officers in the development of 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 conduct counternarcotics detection and monitoring flights over both the source and transit zones from commercial ramp space provided free of charge. A major expansion project at the airport that began in January 2002 will add markedly to the FOL's capacity when it is completed in September 2003.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) scored a number of impressive successes in 2002. The CGNAA was responsible for several seizures of both cocaine and marijuana. The CGNAA's

three cutters, outfitted with rigid-hull inflatable boats (RHIBs) designed especially for counternarcotics work in the Caribbean, demonstrated their utility against "go-fast" boats and other targets. The CGNAA has planned to acquire four 'super' RHIBs over the next two years.

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 the islands, and its local responsibility to stop narcotics distribution on the islands. In May, working with its partners, it seized a small Colombian freighter with 46 kilograms of cocaine concealed onboard. Under the leadership of its new Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2002. This cooperation extended to Sint 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 secondarily to Europe. Drugs move north via cruise ships and the multiple daily flights to the U.S. and Europe. Evidence in 2002 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 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. The most visible evidence of a drug abuse problem may be the homeless addicts, called "chollars" who number about 220 and 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. The expanding use of MDMA in clubs by young people attracts increasing attention. 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 Government has been very clear that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2002, Aruban law enforcement officials continued to investigate and prosecute mid-level drug traffickers who supply drugs to the endless parade of "mules." The police cooperated closely with DEA in a complex investigation leading to the arrest of two cruise ship crewmembers transporting 1.3 kilograms of heroin to Puerto Rico. On September 15, four couriers were arrested at the airport with 3.2 kilograms of heroin. This case also led to the arrest of 20 other individuals and seizure of another eight kilograms of cocaine. Also in the fall, Aruban law enforcement broke up a smuggling ring resulting in five arrests and the seizure of 30 kilograms of cocaine.

The police were reorganized in 2002, establishing four instead of three districts, each autonomous with its own detectives' division and led by a District Commissioner. Officers rotate periodically through the police functions. The aim is to put more police on the streets to counter criticism that low-level street pushers enjoy virtually unimpeded freedom to sell cheap drugs to Aruban youth. Two new police stations will be established. A new police unit was created for the tourist areas to provide focused coverage, including counternarcotics. A new Attorney General committed to international cooperation, was appointed in February 2002.

The GOA took further steps in 2002 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 to make valuable commercial ramp space available to both U.S. military and U.S. Customs aircraft conducting aerial counternarcotics detection and monitoring missions.

The GOA hosts the U.S. Immigration and Naturalization Service, U.S. Customs Service (USCS), and U.S. Department of Agriculture's Animal and Plant Health Inspection Service (APHIS) pre-inspection and preclearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. USCS seizures of cocaine, heroin, and ecstasy were frequent in 2002. Drug smugglers arrested are either prosecuted in Aruba or returned to the U.S. for prosecution, if appropriate. Aruban jails remain overcrowded. The GOA established special cells in which to detain those suspected of ingesting drugs. Aruban officials actively and creatively explored ways to capitalize on the presence of the FOL and preclearance 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 2002

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. 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. 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. In April, the NA signed a Tax Information Exchange Agreement with the U.S. Aruba has limited legislation dating from May 1996 regulating the import and export of certain precursor and essential chemicals, consistent with the 1988 UN Drug Convention. In the Antilles, it is not clear if the pending legislation 2381 at Parliament relating to precursors is final, but the NA does cooperate in efforts to identify and destroy chemicals.

Cultivation/Production. Cultivation and production of illicit drugs are not issues.

Seizures. Available drug seizure statistics for calendar year 2002 are as follows:

Aruba seized 469.611 kilograms of cocaine, 25.221 kilograms of heroin, 1.308 kilograms of marijuana, 10 grams of hashish, and 19,445 tablets of MDMA ("Ecstasy").

The NA seized 28,939.992 kilograms of cocaine, 16,612.97 kilograms of heroin, 18,996.07 kilograms of marijuana, 3.77 kilograms of hashish, and 82 tablets of MDMA ("Ecstasy").

Seizures reported by the Joint Coast Guard of the Netherlands Antilles and Aruba are: 1,682 kilograms of cocaine, 2.56 kilograms of heroin, and 4,841 kilograms of marijuana.

Corruption. The effect of official corruption on the production and processing of illegal drugs is not an issue for either Aruba or the NA. There is no evidence to indicate that ranking 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. Aruba, having identified and acquired a site, plans to open a comprehensive drug rehabilitation and shelter facility as early as March of this year.

IV. U.S. Policy Initiatives and Programs

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) departed in 2002 from its prior policy of not funding the component governments of the Kingdom of the Netherlands and offered limited counternarcotics assistance available to the GOA. Although a bilateral counternarcotics agreement was not concluded by year's end, the United States continues to encourage Aruban and NA law enforcement officials to participate in INL-funded regional training courses at the GOA and GONA's expense. An NGO expert from Curação participated in the International Visitors Program project regarding demand reduction. Chiefly through the DEA, the United States is able to provide limited assistance to enhance technical capabilities as well as some targeted training. In May 2002, the U.S. Coast Guard provided a maritime law enforcement boarding team training course in Curação tailored to local needs. The U.S. is also searching 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.

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 and marijuana products, traveling from South America to the U.S. and other global markets. Approximately 35 metric tons of cocaine originated from, was destined for, or transited through the Eastern Caribbean in 2002. 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 for the British, French and Dutch jurisdictions in the Caribbean. There has been an increase in cocaine courier travel by commercial air to Europe.

The level of cocaine and marijuana trafficked through the individual Eastern Caribbean 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 are areas of concern to be kept under observation.

Drug trafficking and related crimes—such as money laundering, drug use, arms trafficking, official corruption, violent crime and intimidation—have the potential to threaten the stability of the small, democratic countries of the Eastern Caribbean, and to varying degrees, 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, corrupting officials and contracting the services of local criminal organizations, some of whom are now sufficiently trusted by major DTOs to be given narcotics on consignment. Some of the Eastern Caribbean DTOs also have established contacts amongst themselves to facilitate drug distribution in the region. Local traffickers often pay for services with drugs and/or weapons to limit costs and to increase demand and markets. U.S. law enforcement officials are alert to the possibility that terrorist organizations could tap into the infrastructure built by DTOs operating in the region.

The seven Eastern Caribbean states are parties to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1988 UN Drug Convention. Other than St. Lucia, all of the Eastern Caribbean countries are parties to the 1971 UN Convention on Psychotropic Substances. Two of the seven states have ratified the Inter-American Convention against Corruption; one has signed but not ratified. All seven governments have in force bilateral mutual legal assistance and extradition treaties with the U.S. The U.S. Government has maritime drug law enforcement agreements with all seven of the Eastern Caribbean states. A Protocol to amend and update all maritime agreements was submitted in September 2001, but no response has been received from any RSS country.

Marijuana crops are grown in the greatest amounts 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. Marijuana is grown to a lesser extent in Antigua and Barbuda, Grenada, and St. Kitts and Nevis. 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 appears to make it a significant element of the Vincentian economy. Most Eastern Caribbean officials regard marijuana production and trafficking as serious offenses, although the question of legalization or decriminalization is being discussed in some quarters. The U.S. supports and encourages eradication campaigns as a means to combat marijuana use in the Eastern Caribbean.

In general, Eastern Caribbean law enforcement agencies are committed to controlling drug trafficking and working with their U.S. counterparts. However, conspiracy cases against DTO ringleaders, prosecutions for complex finance crimes and money laundering cases and successful asset forfeitures remain almost non-existent. Some of the necessary criminal statutes to bring such cases exist in all Eastern Caribbean countries, such as conspiracy, criminal asset forfeiture and money laundering laws, but they are used infrequently. Other laws or practices that would allow law enforcement agencies to effectively penetrate organized criminal groups, such as wiretapping, undercover buys, paying informants, controlled deliveries, witness protection and plea agreements, have not been enacted or implemented. Moreover, sentences for drug possession or trafficking do not appear to act as a deterrent.

The 1996 Barbados Plan of Action for Drug Control Coordination and Cooperation in the Caribbean, the 1997 U.S.-Caribbean Summit Justice and Security Action Plan, and the CARICOM Regional Task Force on Crime and Security, as well as Caribbean police authorities on a regular basis, all call for modern laws covering these areas. In most cases an apparent lack of political will, and in others, resource shortages (e.g., of funds for informants or witness relocation, etc.) have effectively weakened such legal initiatives in most Eastern Caribbean jurisdictions. Without a serious, broad-based prosecution and law enforcement modernization effort, and a greater percentage of national resources given to drug law enforcement and prosecution, it is unlikely that the region will develop significant defenses against DTOs, as well as terrorist organizations, money launderers and other international and regional criminals and criminal groups.

Most of the seven countries devote resources and effort to maritime drug interdiction operations. Traditionally, in the absence of investigative leads, these efforts have been costly and of limited effectiveness, and there appears in some cases to be a less than aggressive maritime drug law enforcement posture. The effectiveness of these efforts is likely to improve as a result of U.S. and UK assistance in the development of Eastern Caribbean maritime and aviation combined operations capabilities, and by the Eastern Caribbean maritime units' acquisition of Rigid Hull Inflatable go-fast boats, now being supplied by the U.S. State Department. Eastern Caribbean countries participate in various maritime interdiction operations initiated by the U.S., UK, France and the Netherlands.

The seven Eastern Caribbean countries continued to support the Regional Security System (RSS), a treaty-based organization to which all seven countries belong. Barbados pays 40 per cent of the RSS's budget. The RSS includes marijuana eradication exercises in its basic training course for police special services units. The RSS continued to operate a maritime training facility in Antigua for member-nation forces. Local instructors, assisted by U.S. Coast Guard and British trainers, have provided various law enforcement and seamanship courses for several years. However, only the British instructors will remain in 2003. In 2002, the RSS C-26 program continued to provide valuable maritime detection and surveillance, particularly for intelligence-cued interdictions under U.S., UK, French or Dutch operational control. The U.S., which provided the two C-26 aircraft to the RSS, supplies ongoing support for the operation and maintenance of both C-26 aircraft. In one noteworthy operation in July 2002, the RSS C-26 program played a pivotal observation role for the UK ship HMS Newcastle in the seizure of 500 kilograms of cocaine from a yacht off the coast of St. Lucia.

Law enforcement authorities in the region acknowledge the need for increased information collection and sharing, and several of the countries, with donor assistance, have installed inter-agency drug intelligence centers, known as National Joint Headquarters (NJHQ's), which have UK-provided communications equipment. The NJHQ's also have access to the Regional Clearance System, administered by the Caribbean Customs Law Enforcement Council in St. Lucia, which registers small craft and crew movements in the Caribbean. Lack of personnel, rivalries between law enforcement bodies and, in some jurisdictions, an apparent lack of political commitment to create or ensure the success of such centers have hindered progress on these initiatives.

Eastern Caribbean countries that have tried to broaden their offshore financial sectors without implementing effective regulation and oversight have been especially vulnerable to money laundering and

to other financial crimes. This phenomenon is addressed in detail in the money laundering section of this report.

Dominica and St. Kitts and Nevis have economic citizenship programs that are susceptible to abuse through inadequate due diligence checks. St. Vincent and the Grenadines has eliminated its economic citizenship program and Grenada just passed legislation that will soon go into effect, to eliminate its economic citizenship program. Unscrupulous individuals, including suspected members of criminal organizations, can take advantage of such programs to ease travel and to modify and/or create multiple identities. Such individuals have also used these false identities to help create 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. Immigration and passport agencies in the Eastern Caribbean countries also are susceptible to corruption and that, combined with the lack of automated immigration records in the region, can facilitate ease of movement for criminals or terrorists.

In 2002, the Eastern Caribbean countries' focus on the 1996 Barbados Plan of Action and its follow-up 2001 high-level meeting on drugs and crime, and on the 1997 Caribbean-U.S. Summit Action Plan, transitioned into a focus on the work of the Caribbean Community's (CARICOM) Regional Task Force on Crime and Security. The 1997 U.S.-Caribbean Action Plan had set out a comprehensive set of measures to combat transnational crime, particularly drug trafficking and money laundering. It called for collaboration also 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. The CARICOM Task Force's September 2002 recommendations, similar in many respects to previous recommendations, take into account also the need for counterterrorism efforts as a result of the September 11, 2001 attacks on the U.S. and would have the effect of improving drug law enforcement and prosecution efforts if implemented. The Eastern Caribbean countries are now considering the recommendations for implementation.

Status of Countries and Actions Against Drugs

Antigua and Barbuda

The islands of Antigua and Barbuda are drug transit sites for narcotics moving from South America via Jamaica and St. Vincent 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. Marijuana cultivation on the islands is not significant and is largely for local consumption.

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 Assistance in Criminal 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 ratified in 2002 the UN Convention against Transnational Organized Crime, but has not signed any of its three protocols.

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 extradition and mutual legal assistance treaties with the U.S. The GOAB was responsive to USG-initiated mutual legal assistance requests in 2002. The GOAB has been uncooperative with the USG in executing U.S. initiated extradition requests. The U.S. has made two extradition requests to Antigua and Barbuda since the treaty entered into force. Both are pending. The USG is particularly concerned about the recent appellate court decision denying the extradition of William Cooper, an indicted money launderer, and reports that the GOAB does not intend to appeal the decision to the Privy Council. The USG hopes that the GOAB will appeal this appellate decision.

The GOAB inaugurated a new facility for its Office of National Drug Control and Money Laundering Policy (ONDCP) in August 2001. The modern facility houses the National Joint Headquarters, the Financial Intelligence Unit, the Financial Investigations Unit, the Drugs Intelligence Unit, the Drug Control Policy Unit coordinator and two attorneys. In 2002, GOAB forces seized 51.4 kilograms of cocaine and 211.5 kilograms of marijuana, arrested 107 persons on drug-related charges and eradicated 35,757 marijuana plants. Recent use of modern profiling techniques and cooperation among UK law enforcement, the ONDCP, Antigua customs and the police drug squad, has led to a significant increase in arrests of UK-bound cocaine couriers. The GOAB has model asset seizure legislation, and has received substantial funds via asset seizure/sharing agreements with Canada, and other countries. With assistance from the OAS, the GOAB is drafting a master drug control plan. Early in 2002, GOAB officials noted a slight increase in heroin usage. In an OAS/CICAD survey, crack usage was more prevalent than were usage of other forms of cocaine or marijuana.

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. There are no public drug rehabilitation facilities in Antigua and Barbuda. Drug addicts are referred to the country's mental hospital. The ONDCP, in association with international donors, local organizations and the Ministry of Education, is initiating a "life skills" education program in primary schools. The D.A.R.E. program, also used in the schools, is conducted by the police.

Barbados

Barbados is a transit country and hub for cocaine and marijuana products, and less frequently, 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. 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 Assistance in Criminal Matters. Barbados has signed the UN 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. Barbados effected an extradition to the U.S. under the treaty in 2002. The Attorney General has publicly committed 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 narcotics traffickers and other criminal actors. In November 2002, two airport workers and a customs officer were arrested in connection with an alleged Jamaica-Barbados marijuana trafficking ring. GOB agencies reported seizing nearly 47 kilograms of cocaine and 690 kilograms of marijuana in 2002. The single largest marijuana seizure was 50 kilograms. The GOB arrested 128 persons on drug charges (January-November 2002). From January-October 2002, reported drug crimes accounted for 12 per cent of the total recorded crimes in Barbados. The GOB said in December 2002 that, with assistance from the University of the West Indies, it planned to research the effects of marijuana. According to a government minister, a significant portion of the youth population in Barbados and the Caribbean does not believe marijuana should be an illegal substance. However, the GOB indicated that it would have to carry out extensive studies before it could consider decriminalization of marijuana.

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 GOB plans to develop a drug court that will specialize in providing non-custodial sentences for drug offenders, if appropriate.

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 GOB has shared in assets forfeited in U.S. legal proceedings and has seized property belonging to convicted drug traffickers. 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 is 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. 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.)

Following up the recommendations of the CARICOM Regional Task Force on Crime and Security, the GOB announced the formation of a National Commission on Law and Order, which is to be an advisory body to the Attorney General's office. The Commission will consider a national plan of action against crime drafted by the Attorney General's office that will also form the basis for public hearings in 2003. The GOB also plans to introduce wiretapping legislation early in 2003.

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 to 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, marijuana is cultivated in Dominica. The Dominica police regularly conduct ground-based marijuana eradication missions in rugged, mountainous areas.

Through November 2002, Dominican law enforcement agencies reported seizing 4 kilograms of cocaine and 364 kilograms of marijuana. They eradicated 83,000 marijuana plants. Dominica police arrested 277 persons on drug-related charges. As part of its basic training course, the RSS destroyed 4,103 marijuana plants in Dominica in June 2002. A judicial process that emphasizes fines in lieu of jail sentences, especially for foreigners, undermines efforts by the Dominica police to arrest important drug traffickers. Dominican law permits the forfeiture of drug traffickers' assets. Police resource shortages and Dominica's difficult terrain make drug law enforcement investigations difficult.

The Ministry of Health oversees drug demand reduction efforts. The Ministry and its National Drug Prevention Unit have been 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. The GCOD is seeking funding to revive a youth cadet corps, one of whose objectives will be drug demand reduction.

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. Dominica is not a party to the Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Convention against Corruption, the Inter-American Firearms Convention or the UN Convention against Transnational Organized Crime. 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.

An extradition treaty and an MLAT are currently in force between the U.S. and Dominica. Numerous MLAT requests and informal queries have been honored, particularly those submitted in the aftermath of the September 11 attacks in the U.S. Two extradition requests are outstanding. Dominica has taken no action to resolve these matters. In addition, the U.S. recently was forced to withdraw a request for one murder fugitives when, due to years of inaction by Dominica, an essential witness became unavailable. Since receiving an extradition request in 2000, Dominica has not extradited a Dominican national who was caught in New Mexico transporting over one ton of marijuana. The individual was released from jail in Dominica pending a decision on the extradition.

Grenada

The Government of Grenada (GOG) reports that the volume of narcotics it seized increased in 2002. Private vessels passing through and stopping in Grenada's coastal waters and unpoliced islands and beaches en route to U.S. and other markets are used to transport or drop off illegal narcotics for onward destinations, including by drug couriers on commercial aircraft. Relatively small amounts of marijuana are grown in Grenada. Marijuana is imported from St. Vincent for domestic use. Local drug kingpins have made significant connections with South American traffickers.

Grenada 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. Grenada has ratified the Inter-American Convention against Corruption and the Inter-American Firearms Convention. Grenada acceded to the Inter-American Convention on Mutual Assistance in Criminal 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 extremely responsive to MLAT requests, particularly in the aftermath of the September 11 attacks in the U.S.

The Drug Control Secretariat of the National Council on Drug Control is very active and effective. Under a 2002 statutory mandate, and with the participation of many government agencies, including the police service, the National Council on Drug Control, headed by the Attorney General, guides and integrates national interdiction and demand reduction policy. Grenada, with OAS assistance, is working on a new national master plan for drug control to cover the period 2003-2007. The Council effectively keeps drug prevention themes before the public. 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 sole 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. Grenadian authorities reported seizing approximately 77.1 kilograms of

cocaine and 356.7 kilograms of marijuana in 2002. They arrested 469 persons (28 non-nationals) on drug-related charges and eradicated 4097 marijuana plants.

The GOG has been extremely helpful and cooperative with the USG in the targeting and investigation of local drug kingpins. The GOG has provided support for the arrest and prosecution of members of the kingpin organizations. The

GOG also has been innovative in its law enforcement techniques and training, especially in the area of airport interdiction.

St. Kitts and Nevis

St. Kitts and Nevis is a transshipment site 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. Police officials noted in 2002 an increase in marijuana seen in the country.

The USG continues to seek the extradition of two members of the Charles Miller trafficking organization. Miller surrendered to U.S. authorities in February 2000, and was convicted on felony trafficking charges in Florida in December 2000 and sentenced to life in prison. The UK Privy Council dismissed in June 2002 the appeal of Miller's associates against the upholding of their extradition by the St. Kitts High Court. The case was remanded to the High Court for expeditious action, and a High Court procedural hearing on the case was held in January 2003. Another hearing on the case is scheduled for March 2003. In the meantime, the two individuals—Noel Heath and Glenroy Matthew—who have been named Specially Designated Narcotics Traffickers under the Foreign Narcotics Kingpin Designation Act, remain free on bail.

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 is not a party to the Inter-American Convention on Mutual Assistance in Criminal Matters or the Inter-American Convention against Corruption, or to the Inter-American Firearms Convention and the UN Convention against Transnational Organized Crime. 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. The GOSKN is extremely responsive to U.S. MLAT requests.

St. Kitts and Nevis developed a master plan for drug control in 1996, which was refined and submitted to parliament in December 2000. 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 police drug unit on St. Kitts has been largely ineffective. The GOSKN Defence Force augments police counternarcotics efforts, particularly in marijuana eradication operations. The government opened a National Joint Headquarters (NJHQ) in 2000. GOSKN officials reported seizing nearly one kilogram of cocaine and 30 kilograms of marijuana in 2002. They arrested 39 people on drug charges and eradicated 14,763 marijuana plants.

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 few 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 via 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 have been 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 GOSL police reported seizing 152 kilograms of cocaine and 230 kilograms of marijuana through October 2002. They arrested 634 persons on drug charges and eradicated 51,000 marijuana plants. The USG and the GOSL cooperate extensively on law enforcement matters. St. Lucia law permits asset forfeiture after conviction. The law directs the forfeited proceeds to be applied to treatment, rehabilitation, education and preventive measures related to drug abuse. Moreover, St. Lucia is in the process of extensive legislative reform of its criminal code. 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 the 1972 Protocol and the 1988 UN Drug Convention. The GOSL signed a maritime agreement with the USG in 1995 and an overflight amendment to the maritime agreement. An MLAT and an extradition treaty are in force between St. Lucia and the United States. 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 FAA 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 and the Grenadines as a major illicit drug producing or a major drug transit country under the FAA. Compressed marijuana is sent from St. Vincent and the Grenadines 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.

In 2002, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing 13.2 kilograms of cocaine and 7400 kilograms of marijuana. They arrested 475 persons on drug-related charges and eradicated 108,758 marijuana plants. 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.

St. Vincent and the Grenadines is party to the 1988 UN Drug Convention. In 2001, it became a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and to the 1971 UN Convention on Psychotropic Substances. The GOSVG has acceded to the Inter-American Convention against Corruption. The GOSVG has signed but not ratified the Inter-American Convention against Firearms.

The GOSVG signed and ratified in 2002 the UN Convention against Transnational Organized Crime, and its protocols on trafficking in persons and migrant smuggling.

The GOSVG signed a maritime agreement with the USG in 1995, but it has not yet signed an overflight amendment to the maritime agreement. An extradition treaty and an MLAT are currently in force between the U.S. and the GOSVG. USG law enforcement officials have received good cooperation from the GOSVG in 2002, particularly in the aftermath of the September 11 attacks in 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, and St. Barthelemy 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 to Europe and, to a lesser extent, to the U.S. Although evidence in 2002 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.

In May, 2002 110 grams of cannabis were found concealed in stuffed yams shipped from Noumea. The farmer was arrested.

In July 2002, Marseille police made eight additional arrests in an ongoing investigation of the Saint-Roe cocaine network. This network was importing cocaine from Colombia via Martinique and distributing it in southeast France. A courier was intercepted in June carrying 17.6 kilos (kilograms) of cocaine and the final arrests made in June. A passenger coming from Cayenne was arrested at Charles de Gaulle airport carrying 23 kilograms of cocaine.

In July, a Dutch national flying into Paris also from Cayenne was stopped in possession of 500 grams of cocaine.

In August, French customs officials at Charles De Gaulle Airport seized 5.26 kilograms of cocaine from the bottom of a dog cage coming in from Guiana. The passenger had been to the local SPCA to get a dog just for the trip.

Finally in October, 1.2 kilograms of cocaine were intercepted by French authorities near Antigua on route from Venezuela to Europe.

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 an agreement was drafted in November 2001 on Cooperation in Suppressing Illicit Maritime and Aeronautical Trafficking in Drugs and Psychotropic Substances in the Caribbean Area. Pending a final agreement, 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, covering such subjects 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 UNODC, OAS/CICAD and individual donor nations. U.S. customs officers periodically teach at CIFAD.

France supports European Union initiatives to increase counternarcotics assistance to the Caribbean. The EU and its member states, 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).

Guyana

I. Summary

Guyana is a transshipment point for South American cocaine destined for North America and Europe. There is insufficient evidence, however, that the cocaine entering the U.S. from Guyana is in an amount sufficient to have a significant effect on the U.S. The economic, political, and social conditions in Guyana make it a prime target for narcotics traffickers to expand their illicit activities. The transit of narcotics through Guyana has led to increasing domestic use. Although nominally committed to counternarcotics enforcement, the Government of Guyana (GOG) was largely preoccupied in 2002 by political instability and a dramatic rise in violent crime, some of which was reportedly linked to drug trafficking activities. Nevertheless, the GOG took steps to improve its counternarcotics capabilities, such as strengthening its Evidence Act and joining the Caribbean Financial Action Task Force. The GOG cooperated with DEA investigations, and GOG law enforcement officers participated in U.S.-funded training provided by DEA and other U.S. agencies. Guyana is a party to the 1988 UN Drug Convention, but needs to take further action to meet its obligations under the Convention, such as updating its National Drug Plan and enacting additional legislation to enhance its counternarcotics capabilities.

II. Status of Country

Guyana's ineffective drug interdiction capability makes the country a relatively safe route for cocaine trafficking from South America to the U.S. and Europe. The country's geographic location and limited transportation infrastructure have thus far limited significant exploitation of Guyana's territory by drug traffickers. Guyana is not a producer of cocaine or precursor chemicals. The Government of Guyana's (GOG) counternarcotics efforts are undermined by the lack of adequate resources for law enforcement, poor coordination among law enforcement agencies, and a weak legal and judicial infrastructure. A surge in violent crime in 2002, resulting in the murders of twelve police officers (including the Deputy of the Customs Anti-Narcotics Unit), dominated public life and preoccupied Guyana's government and law enforcement agencies.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The GOG continues to express its commitment to counternarcotics efforts, domestically and internationally. Guyana supported the work of the CARICOM Regional Task Force on Crime and Security, which in September issued the report mandated at the CARICOM Conference of Heads of Government in Nassau in July 2001. The GOG also welcomed a U.S. counternarcotics assessment team in May. The team's report identified GOG shortcomings and provided recommendations to the GOG for improving its counternarcotics capabilities. The team recommended that Guyana's outdated National Drug Strategy Master Plan be revised, as it lacked defined goals, objectives, and tasks and is poorly supported by relevant counternarcotics agencies. Although the GOG did not take action on any of the report's recommendations by year's end, in December, it requested assistance from the OAS's Inter-American Drug Abuse Control Commission (OAS/CICAD) to draft a new National Drug Strategy. In response to the escalating violence in Guyana, the GOG enacted four anti-crime bills in the fall, one of which amended the Evidence Act to provide for the admissibility in court of evidence collected by electronic means or computers. Guyana became a member of the Caribbean Financial Action Task Force in October.

Law Enforcement Efforts. GOG counternarcotics efforts are hindered by the lack of adequate resources for law enforcement. In addition, corruption, mutual distrust, and hesitation to share intelligence

make coordination between Guyana's counternarcotics agencies difficult. Guyana's inefficient and antiquated legal system continues to hinder prosecution of drug offenses.

The Customs Anti-Narcotics Unit (CANU) made one large seizure in May, when 1800 kilograms of marijuana were discovered concealed in a commercial shipping container, but no arrests resulted. Law enforcement activity was otherwise limited to numerous arrests of individuals with small amounts of marijuana, crack or cocaine on charges of possession of drugs or possession with intent to distribute drugs. The Guyanese Police Force (GPF) Narcotics Branch and CANU continued to arrest drug mules at Guyana's international airport en route to the U.S. or Europe. It is noteworthy that all such arrests have been of foreigners, since the majority of travelers are Guyanese. The GPF Narcotics Branch and CANU also conducted several manual marijuana eradication operations, mostly in the early part of the year. In the fall, the GOG participated in a joint counternarcotics operation with the governments of Brazil and Suriname to combat the flow of narcotics in the tri-border area. The operation destroyed some airfields in Brazil. No airfields were destroyed in Guyana or Suriname, and suspected drug laboratories in the area were not found.

Guyana's Defence Force Coast Guard (GDFCG) demonstrated a marked improvement in its maritime law enforcement capability during 2002, although there have not yet been any narcotics interdictions at sea. The GDFCG conducted patrols with the 44-foot motor lifeboats (MLBs) acquired from the U.S. and seized several boats for engaging in illegal activities.

Corruption. Guyana is a party to the Inter-American Convention Against Corruption, but has yet to implement fully its provisions. Allegations of corruption are widespread, but continue to go uninvestigated. There were no arrests or prosecutions for corruption charges in 2002.

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. The bilateral maritime agreement signed by Guyana and the U.S. in 2001 is not yet in force pending the enactment by the GOG of implementing legislation. Guyana is a member of OAS/CICAD.

Cultivation/Production. A small amount of cannabis cultivation takes place in Guyana's interior. There are no reports of cocaine or precursor chemical production in Guyana.

Drug Flow/Transit. Cocaine flows into and out of Guyana through its porous borders and along its coast. Numerous airstrips in the mostly inaccessible interior are likely used to facilitate trafficking from Venezuela, Colombia and Brazil. Once inside the country, narcotics are carried to Georgetown by road, waterway, or air, and then on to the U.S. or Europe via commercial carriers, either directly or through intermediate Caribbean ports. Arrests, seizures, and reports of airdrops in Guyana's interior have decreased in relation to 2001, although the actual volume of trafficking may be unchanged. GOG officials believe that GOG counternarcotics agencies interdict only a small percentage of the cocaine and coca paste that transits Guyana.

Domestic Programs. Some marijuana is consumed domestically. The consumption of cocaine, crack cocaine, ecstasy, and heroin is increasing, as drug traffickers reportedly provide narcotics as payments to their Guyanese associates. Guyana has a national demand reduction strategy, developed in cooperation with the Pan-American Health Organization, the World Health Organization, and the UNODC. Prevention programs operate in the prisons and a few urban areas, but lack of resources limited the scope of these efforts.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In 2002, U.S. efforts continued to focus on strengthening the capacity of Guyana's law enforcement agencies through INL-funded training and procurement of equipment. U.S.

officials continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives.

Bilateral Cooperation. Both CANU and the GPF continued to work closely with the DEA, and representatives from Guyana's counternarcotics agencies participated in numerous DEA training seminars during the year. Since the assassination of the CANU Deputy on August 24, and the lack of any arrests in the case, DEA efforts in Guyana have slowed significantly. In March, the U.S. funded an orientation visit of GDF, GPF and CANU representatives to Trinidad and Tobago's Joint Intelligence Coordination Center (JICC) and Joint Operations Command Center to observe their operations and improve the functioning of the JICC in Guyana. GDFCG personnel participated in a U.S. Coast Guard boarding officers course, and the GDFCG received from the U.S. three engines to provide maintenance support for its 44-foot MLBs. The GOG continued to support the Caribbean Support Tender (CST), a USCG vessel with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean maritime forces. In November, four GDFCG crewmembers completed tours on the CST. A fifth crewmember is on board, and a sixth is expected to begin duty in January 2003. The U.S.-GOG Letter of Agreement on narcotics control and law enforcement was amended in September to provide an additional \$50,000 in U.S. support.

The Road Ahead. Guyana's political stalemate and internal security crisis significantly hamper its ability to pursue an effective counternarcotics campaign; to a great extent, 2002 represents a lost year. U.S. democracy-building programs serve as a foundation for all aspects of effective governance in Guyana, including counternarcotics efforts. Assistance to strengthen the GPF's and CANU's counternarcotics capabilities through INL-funded training and equipment will continue to be important. So, too, will be U.S. efforts to strengthen Guyana's weak legal structure through law reform and training for prosecutors and judges. The U.S. will continue to encourage GOG participation in bilateral and multilateral initiatives, to include taking the necessary legislative and administrative actions to implement fully international conventions and agreements.

Haiti

I. Summary

Haiti's geographical position, weak institutions, and failed economy have made it a key conduit for drug traffickers transporting cocaine from South America to the United States and, to a lesser degree, Canada and Europe. The Haitian National Police (HNP) is a weakened institution, unable to field more than 3500 officers, lacking in discipline, and increasingly corrupt. The judicial system is equally weak, its prosecutors and judges susceptible to bribes and threats.

In May 2002, the Government of Haiti (GOH) signed a counternarcotics Letter of Agreement with the United States, but moved slowly to implement it. There has been progress, however, in building a Cap Haitien facility to be manned by the Haitian Coast Guard (HCG). In September, the DEA polygraphed members of the counternarcotics unit (BLTS) and identified a vetted group. Those who failed the polygraph were reassigned. The GOH also brought into force the bilateral U.S.-Haiti maritime counternarcotics interdiction agreement which the parliament had approved in December 2001. The Financial Investigations Unit was organized in 2002 and will begin operations when President Aristide names a director general.

Corruption, weak law enforcement capability, and lack of GOH commitment combine to limit cooperation in general, although Haitian officials have cooperated in specific cases upon request by the USG. Haiti's political and economic crises preoccupied the GOH in 2002, eclipsing the fight against drug trafficking. There are serious allegations that high level officials, both police and civilian, are involved in or profit from drug trafficking. Haitian participation in Operation Hurricane II, a two-week regional counternarcotics operation, was marred by political interference.

Although Haiti passed a money laundering law in 2001, it has not been fully implemented. Under pressure from the Prime Minister, the parent anti-money laundering commission met, but did not submit names to the President and Minister of Justice of candidates for Director General and Deputy DG of the Financial Intelligence Unit (FIU). Until those officers have been appointed, the unit cannot begin to function. The FIU does, however, have an office in the Central Bank and some staff members have been trained in Martinique and Trinidad. While the BLTS cooperated with DEA on some operations, it showed little initiative in developing cases of its own. Haiti is a party to the 1988 UN drug convention.

II. Status of Country

The political impasse that stems from the flawed legislative elections of May 2000 and which inhibits international assistance, continued in 2002. The economy continued to decline, increasing reliance on income from drug trafficking. The gourde-dollar gap widened dramatically, reaching 40-to-1 at one point. The Central Bank allowed dwindling reserves, while the government continued to subsidize fuel prices. Unrest grew in several of the major cities. In Haiti's second-most populous city of Cap Haitien, on November 17, anti-government sectors joined in a march of more than 30,000 people. Rival gangs openly fought in Gonaives, where law and order have disappeared, leaving the port open to uncontrolled traffic, among other problems there.

U.S. Customs Service interdiction activities in Miami in 2002 included the seizure of 8,916 pounds of cocaine hidden in ships arrived from Haiti.

The Haitian National Police has continued to lose members and, under Lavalas pressure, to assign unqualified Aristide loyalists to key positions, relegating U.S.-trained officers to secondary positions. The government does not provide adequate resources to the police. Lack of international assistance, including

locally based advisors, has damaged both the HNP and judiciary and contributed to their erosion in numbers and effectiveness.

III. Country Actions Against Drugs in 2002

In 2002 President Aristide brought into force the agreement concerning cooperation in the suppression of illicit maritime traffic in narcotic drugs and psychotropic substances that had been signed in 1997., A U.S.-Haiti Letter of Agreement on counternarcotics cooperation was signed May 15, after two years of Haitian government recalcitrance. Haiti has been slow to implement the LOA, but toward year's end both the HNP and Haitian Customs showed renewed interest to cooperate. In November, a U.S. Customs international training team provided airport interdiction training to 27 Haitian police and customs officials. In September, DEA polygraphed all 40 members of the BLTS; 27 officers passed the exam. The 13 who did not were reassigned. The director of Haiti's national drug commission, Rene Magloire, made an effort to bring diverse groups involved in the counternarcotics effort together. The Organization of American States' drug control organization, CICAD, presented a seminar on counternarcotics strategy, which the GOH is attempting to apply.

The HNP confirmed Commissaire Jeannot François as the permanent director of the Judicial Police (DPCJ). Members of the DPCJ's nascent financial investigations unit continued to receive training from the Caribbean Financial Action Task Force (CFATF). The resignation of Justice Minister Gary Lissade dealt a blow to progress, as his successor, Jean-Baptiste Brown showed little of Lissade's enthusiasm and dedication. Brown also resigned and was replaced in October by Calixte Delatour.

Corruption. There were no serious efforts to curb drug-related corruption nor prosecutions or convictions of major traffickers. Two Colombian pilots caught with cocaine in Artibonite were quietly released in January 2002.

Accusations continued to surface that members of the government and HNP, most notably the Presidential Security Unit (PSU) and Palace Guard, were actively involved in drug trafficking. These accusations included claims that palace personnel retrieved cocaine from the suspect small airplanes that land near Port-au-Prince and in other areas with impunity.

Law Enforcement Efforts. Haitian police reported seizures of 264.16 kilograms of cocaine and 53.45 kilograms of marijuana in 2002. They arrested 19 Haitians and 18 non-Haitians for drug-related offenses. There were no arrests of major traffickers, although the HNP, accompanied by the DEA, arrested Salim Jean Batrony, well known in Port-au-Prince as a drug trafficker, on May 31 with 58 kilograms of cocaine.

The Haitian Coast Guard (HCG), quite active from July 1996 to November 2000, interdicting 15 vessels and seizing over five tons of illegal drugs, was able to claim only two interdictions in 2002. The latest one, in July, netted only four kilograms of cocaine. The GOH does not provide the HCG with funds for vessel maintenance and repair and this, combined with the termination of U.S. support and assistance, has rendered the unit ineffective.

DEA's final evaluation of Operation Hurricane II in Haiti (September 16-28) was negative. The operation was flawed at its outset by delays attributed to lack of personnel and vehicles. The operation was further impeded by judges who refused to accompany teams on enforcement missions, threats against officers, and unresponsiveness of Haitian law enforcement units. Rumors surfaced that Haiti-based traffickers were forewarned, enabling them to evade arrest. Under these circumstances, DEA believes a sustained enforcement operation is impossible in Haiti.

Haitian drug trafficking organizations operate with relative impunity. The arrival of cocaine from South America is generally unimpeded, due to the HNP's lack of human and material resources as well as high level corruption. Haiti's roads are very poor and the HNP has no air assets. The HCG had no presence on either the north or south coast.

Agreements and Treaties. Haiti is a party to the 1988 UN Drug Convention. Haiti's law on the control and suppression of illicit drug trafficking reflects most of the convention's provisions; however, there has been no serious effort to implement it. The GOH has not developed an effective asset seizure and forfeiture mechanism. There were no prosecutions and convictions of traffickers and few if any full investigations to determine drug traffickers' affiliation with organized crime groups. Haiti's judicial system is dysfunctional and cooperation with the United States and other countries is sporadic. A 1905 U.S.-Haiti extradition treaty is in force. Haitian law prohibits the extradition of nationals. However, the GOH has, in the past, cooperated with specific requests for expulsion of non-Haitians. The GOH has not acted on the OAS mutual legal assistance treaty, still under review by the Haitian foreign ministry.

Cultivation/Production. Illicit cultivation in Haiti is limited to minor amounts of marijuana. There is no information concerning production or use of precursors.

Domestic Programs (Demand Reduction). There are no viable demand reduction or rehabilitation programs. Polling data indicate that domestic marijuana and cocaine use are on the rise.

Drug Flow/Transit. Embassy Port-au-Prince estimates that the flow of cocaine through Haiti has increased, with some going to the United States through the Dominican Republic, whose 225-mile (360 km) border with Haiti is largely uncontrolled. Other cocaine shipments move directly north by ship and air. Airdrops have increased, some occurring outside of Port-au Prince during daytime hours. DEA regularly receives detailed information on fast boat deliveries to the south coast; however, the GOH lacks the means to interdict them.

IV. U.S. Policy Initiatives and Programs

The U.S. plan for combating illegal drugs in Haiti remained one of interdiction and police and judicial institution building; however, several factors worked against its successful implementation: forewarned smugglers eluded the HNP. Slow or no response by the HNP to DEA intelligence leads allowed suspect airdrops to go unchallenged. The GOH's slow acceptance and implementation of a U.S.-proposed bilateral counternarcotics assistance agreement (unsigned until mid-May) were also hindrances.

The Road Ahead. Stemming the flow of illegal narcotics through Haiti remains a cornerstone of U.S. counternarcotics policy. Key objectives to stemming the illegal flow remain improving the effectiveness of GOH law enforcement and judicial institutions and strengthening the GOH's ability to fund these institutions by encouraging development of an effective system of liquidating assets seized from arrested smugglers. A barracks and pier facility in Cap Haitien is scheduled for completion in early 2003. Both the HCG and the BLTS have pledged to staff the facility. If this facility proves to be effective in stemming the flow of illegal drugs and migrants, establishment of a similar facility on the south coast would be considered. The road ahead is clearly marked, but is obstructed by the politicization and corruption of the police and judiciary.

Jamaica

I. Summary

Jamaica is a major transit point for South American cocaine en route to the United States and also the largest Caribbean producer and exporter of cannabis. The Government of Jamaica (GOJ) has in place a National Drug Control Strategy that covers both supply and demand reduction.

During 2002, the GOJ maintained existing counternarcotics law enforcement and interdiction programs and took several steps to strengthen its counternarcotics law enforcement capability, with the support and direction of the political leadership. Jamaica Customs continued to implement its modernization program, which includes the expansion of the Contraband Enforcement Team (CET). In 2002, the Port Authority of Jamaica (PAJ) took steps to strengthen security at Jamaica's seaports. The GOJ established a special vetted unit within the Jamaica Constabulary Force (JCF) to work with DEA on narcotics investigations. GOJ cocaine seizures in 2002 increased over the previous two years, as a result of joint JCF-Jamaica Defence Force (JDF) operations. Parliament enacted legislation permitting court-ordered wiretaps and approved implementing regulations for the Corruption (Prevention) Act, the final step needed to bring that Act into force. In late 2002, the GOJ proposed to Cabinet and Parliament a package of legislation designed to enhance law enforcement powers. The GOJ continued its cannabis eradication program; however, the amount eradicated fell far short of the goal agreed to by the U.S. and GOJ. U.S. law enforcement agencies note that cooperation with the GOJ is generally good and has improved over the past year.

The GOJ has taken steps to protect itself against drug trafficking and other organized crime, but needs to intensify and focus its law enforcement efforts and enhance international cooperation in order to disrupt the trafficking of large amounts of cocaine in Jamaica and its territorial waters. Needed actions include arresting and prosecuting significant drug traffickers operating in Jamaica, dismantling drug-trafficking organizations, and increasing drug seizures and eradication. The U.S. will continue to provide equipment, technical assistance, and training to assist the GOJ to strengthen its counternarcotics capabilities. Jamaica is a party to the 1988 UN Drug Convention and during 2002 made progress towards meeting the goals and objectives of the Convention.

II. Status of Country

Jamaica is a major transit country for cocaine destined for the U.S. and European (primarily UK) markets and the largest producer and exporter of cannabis in the Caribbean. 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 (see money laundering chapter of this report). Jamaica is not a source of precursor or essential chemicals used in the production of illicit narcotics, nor a significant conduit for the transit of precursor chemicals. There is concern, however, over the vulnerability of Jamaican ports to illegal diversion of such chemicals.

III. Country Actions Against Drugs in 2002

Severe resource constraints hamper the GOJ's ability to take more aggressive actions against narcotics trafficking networks. Jamaica's economy shows only limited signs of recovering from a 1996 banking/financial crisis followed by several years of negative economic growth. Without international assistance, the GOJ is unlikely to be able to disrupt and dismantle major cocaine trafficking organizations operating in Jamaica.

Policy Initiatives. GOJ officials publicly state the government's commitment to combating illegal drugs and drug-related crimes. Following national elections in October 2002, Prime Minister Patterson and Minister of National Security Phillips unveiled a broad-based anti-crime package designed to stem the rising tide of crime and violence in Jamaica, explicitly identifying drug trafficking as the primary revenue source and the basis of organized crime in Jamaica. In line with Minister Phillips' direction to shift from a containment to a preemption strategy, joint military and police operations were launched in early December to disarm and dismantle criminal gangs operating in inner city Kingston.

In December, Prime Minister Patterson presented to the Cabinet and Parliament a proposed package of legislative reforms to enhance law enforcement and judicial powers. The reforms, some of which have been drafted, address counterterrorism, port security, firearms, expanded fingerprinting powers for the police, forfeiture of proceeds of crime (including civil asset forfeiture), and plea bargaining. Prime Minister Patterson also publicly stated his intention to introduce emergency legislation that would require the declaration of cross-border movements of currency or monetary instruments.

The GOJ announced plans to establish a National Intelligence Bureau charged with analysis and dissemination of all-source actionable intelligence among the various law enforcement agencies. Planning was underway as of year's end. The GOJ is working with international partners to modernize its law enforcement agencies, in particular the JCF. The UK government is assisting the JCF in a five-year modernization program. The GOJ enacted a Precursor Chemicals Act in 2000 that conforms with the model regulations developed by the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD), but, as implementing regulations have not yet been drafted, the GOJ lacks a control program that would enable it to detect the diversion of precursor chemicals.

Accomplishments. The GOJ operates under severe resource constraints, as well over 60 percent of the annual budget is expended for debt service. The GOJ, nevertheless, spent substantial amounts in 2002 to maintain an interdiction capability consisting of helicopters and patrol vessels. The PAJ is procuring video surveillance systems for the Kingston and Montego Bay ports and hiring an expert to provide technical assistance and oversight. The PAJ also plans to procure state-of-the-art x-ray machines for the ports and hire additional personnel to operate the security equipment. Customs continued to implement its modernization plan, which, among other things, calls for the vetting of Customs officers and expansion of the CET to a staff of 50 over the next three to five years. In 2002, additional personnel, including two managers, were hired for the CET. CET personnel continue to be stationed at the seaports on a 24-hour basis, as are JCF Narcotics Division personnel at the international airports. JCF personnel are stationed at two small domestic airports to deter the landing of drug-smuggling aircraft, although their ability to do so is limited by the lack of telephones and vehicles. The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center.

The GOJ did not arrest any significant drug traffickers in 2002, but took steps to strengthen its capability to identify, apprehend and prosecute drug traffickers and dismantle drug trafficking organizations. In February, Parliament enacted the Interception of Communications (wiretap) Act, which vests the authority to intercept telecommunications with the courts and provides for the admissibility in court of evidence collected by this means. Technical amendments to the law are needed, however, to make it more effective. In addition, the JCF assigned over 20 officers to a special vetted unit designed to work with DEA to target significant drug traffickers. In May, the GOJ signed an agreement with the Colombian government that facilitates bilateral cooperation to combat drug trafficking.

With the assistance of OAS/CICAD, Jamaica updated its National Anti-Drug Plan, which covers both supply and demand reduction, for the period 2002-2007.

Law Enforcement Efforts. Both the JCF and JDF assign a high priority to counternarcotics missions. However, limited funding for operational expenses and the purchase of new equipment severely constrains JDF and JCF counternarcotics efforts. The JDF Air Wing and Coast Guard are actively involved in maritime interdiction efforts. The JCF Narcotics Division is a competent and respected unit. The Narcotics Division is undergoing a multi-year restructuring and expansion program, which will

increase its staffing to 250 officers over the medium term. Current staffing is 165 officers island-wide, up from 106 in 2001.

In 2002, the GOJ seized 3,688 kilograms of cocaine, 26,630 kilograms of cannabis and 497 kilograms of hashish oil. Cocaine seizures increased in 2002 compared to the previous two years. The largest single cocaine seizure occurred in August when a joint JCF-JDF operation captured a go-fast boat containing over 1,500 kilograms of cocaine. Three Jamaicans arrested in connection with the seizure were scheduled for trial in December; two Colombian nationals earlier pled guilty and were sentenced to ten years imprisonment. The JDF worked with USG's Joint Inter-agency Task Force/East throughout the year to successfully disrupt a number of planned go-fast deliveries. Intelligence-driven operations coordinated with DEA and the ICF vetted unit resulted in significant seizures of cocaine, including a 350-kilogram seizure in November. During 2002, the GOJ eradicated 79.28 hectares of cannabis, far short of the eradication goal of 1,200 hectares agreed to in the Letter of Agreement between Jamaica and the U.S. under which the U.S. is providing counternarcotics assistance to Jamaica. Eradication efforts were hampered by bad weather and lack of manpower and equipment. Nonetheless, the JCF Narcotics Division destroyed over 2.5 million cannabis seedlings at 97 nurseries. The GOI has requested U.S. support for a major cannabis eradication operation that is scheduled for 2003. The JCF arrested 8,104 persons on drug charges, including 447 foreigners, in 2002. Over 300 of these arrests resulted from enhanced scrutiny, aided by the use of U.S.- and UK-provided drug detection equipment, of departing passengers at the two international airports. "Operation Swallow" targeted cocaine swallowers on direct Jamaica-UK flights, resulting in increased arrests in Jamaica and a decrease in arrests at UK airports. As a result of the operation's success, narcotics police are now scrutinizing passengers on flights to Miami and New York as well.

Corruption. Corruption continues to undermine law enforcement and judicial efforts against drug-related crime in Jamaica, and is a major barrier to more effective counternarcotics actions. In December, the Parliament approved implementing regulations for the 2001 Corruption (Prevention) Act. Jamaica is a party to the Inter-American Convention against Corruption and 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 narcotics 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 are linked by reliable evidence to drug-related activity. The GOJ has not prosecuted any senior GOJ officials for facilitating the illicit production or distribution of such substances, or the laundering of proceeds from illegal drug transactions. There are a number of on-going investigations into alleged drug-related corruption involving police personnel, and in 2002 a number of JCF and JDF personnel were arrested on drug-related charges, including a district constable and a member of the JCF narcotics branch.

The JCF conducts drug testing of recruits at their initial physical exam, but does not have a random drug testing policy. Police officers are often transferred if there is suspicion, but no proof, of involvement in drug-related activity. The JDF has a "zero tolerance" policy on involvement in drug-related activity 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 to combat 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 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. The U.S. and Jamaica have a reciprocal asset sharing agreement that provides for the sharing of forfeited assets where law enforcement cooperation has made possible the forfeiture of proceeds from criminal activity. Jamaica has signed, but not ratified, the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons, migrant smuggling and firearms.

Cultivation/Production. Jamaica is the largest Caribbean producer and exporter of cannabis. There is no accurate estimate of the amount of cannabis under cultivation or the number of harvests per year. Lack of crop survey data and baseline figures makes it impossible to quantify the effect of GOJ eradication efforts on the total crop. Previous eradication successes have caused farmers to conceal fields in swamps or remote mountainous areas. This has made cannabis 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 primary eradication method.

Drug Flow/Transit. Jamaica continues to be the leading transshipment point in the Caribbean for South American cocaine en route to the U.S. The GOJ estimates that over 100 metric tons of cocaine are transshipped through Jamaica each year, with approximately 70 percent of this amount destined for the U.S. and the remainder for the UK. Cocaine arrives in Jamaica from Colombia's north coast primarily via go-fast boats, although some also arrives concealed in commercial shipments. Smugglers use a variety of means to transport cocaine from Jamaica to the U.S. and other markets, including light aircraft, go-fast boats, concealment in commercial shipments, and couriers who board airlines or cruise ships with ingested or concealed drugs.

Smugglers are increasingly using the area surrounding the Pedro Cays as a staging/re-supply point for go-fast vessels traveling from Colombia to Mexico. Colombian drug cartels are believed to have established command and control centers in Jamaica over the past several years to direct their illicit operations. The "Colombianization" of the Jamaican drug trade is of great concern to the GOJ.

Domestic Programs (Demand Reduction). Cannabis is the drug most frequently abused in Jamaica. The use of both powder cocaine and crack cocaine is increasing, in part due to the increasing availability of both forms of the drug on the island. Consumption of cocaine, heroin and cannabis is illegal, and the GOJ has consistently rejected calls for the legalization of cannabis. The possession and use of ecstasy (MDMA) is controlled under the Food and Drug Act, not the Dangerous Drug Act, and is subject to relatively light penalties. The Ministry of National Security has recommended bringing all psychotropic substances under international control under the purview of the Dangerous Drug Act. Jamaica has several active demand reduction programs. Two of the most visible projects are those of the Ministry of Health/National Council on Drug Abuse and the NGO Addiction Alert, both of which receive U.S. funding. The UNODC works directly with the GOJ and NGOs to improve demand reduction efforts. The JCF also engages in demand reduction efforts, including seminars, exhibitions and lectures for schools and civic organizations.

A report prepared by the National Commission on Ganja in 2001 recommended decriminalization of cannabis for adults who use small quantities for private, personal use and for religious purposes; an intensive demand reduction program aimed at youth; intensified interdiction of large-scale cannabis cultivation and all illegal drugs; and diplomatic efforts to urge a re-examination of the status of cannabis. In February 2002, the Jamaican Cabinet forwarded the report to Parliament, which has not, to date, taken any action.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Jamaica cooperate in a variety of areas, including maritime interdiction, the apprehension of fugitives, and law enforcement development, including community-police relations. U.S. law enforcement agencies note that cooperation with the GOJ is generally good and has improved over the past year.

The JDF Coast Guard (JDFCG) engages in cooperative operational planning with the U.S. Coast Guard on an intermittent basis associated with joint military operations in or near Jamaica's territorial waters. During 2002, Jamaica participated in three deployments of Operation Rip Tide, a continuing U.S./Jamaica/Cayman Islands (UK) effort to deny smugglers the use of maritime smuggling routes into Jamaica and the Cayman Islands. The bilateral maritime counternarcotics agreement was successfully

exercised on several occasions during 2002, and the JDFCG for the first time requested and received U.S. operational support under the agreement. Following an incident in late 2001 in which the GOJ refused to permit pursuit and entry by a Dutch vessel with an embarked U.S. Coast Guard law enforcement detachment, the U.S. in mid-2002 proposed to the GOJ a protocol to the bilateral agreement that would improve it by adding provisions for operations from third party platforms, enhancement of safety for civil aircraft in flight, contiguous zone jurisdiction, and technical assistance. The GOJ has not, to date, responded to the proposed protocol.

The JDF currently lacks the force projection capabilities (fixed-wing aircraft and off-shore patrol boats) required to make continuous joint operational planning with the U.S. a practical activity. To augment JDFCG assets, the U.S. is donating to the JDFCG three 42-foot fast patrol boats capable of intercepting go-fast boats. In 2002, the GOJ assigned two JDFCG crew members to the Caribbean Support Tender, a U.S. Coast Guard vessel with a multi-national crew that provides training and assistance in ship maintenance and repairs to Caribbean countries' maritime forces. After some initial reluctance, the GOJ was very supportive during negotiations that led to the conclusion of the Caribbean Regional Maritime Agreement.

In 2002, the U.S. funded participation by Jamaican police, immigration, customs, defense force and other personnel in several in-country and regional training courses. The U.S. is funding an advisor to the National Firearm/Drugs Intelligence Center and a Law Enforcement Development Advisor to assist the JCF's strategic planning efforts. The USG supports the highly effective Jamaica Fugitive Apprehension Team (JFAT) with guidance from U.S. Marshals, specialized training, equipment and operational support. The JFAT is actively working on almost 200 cases, the majority involving either drug or homicide charges. In 2002, the JFAT closed 30 cases and made 16 arrests. Nine fugitives were extradited to the U.S. during the year. 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. An overburdened court system combined with the appeals process available to criminal defendants means that contested extradition requests can take two to five years to litigate fully.

In 2002, the U.S. provided ion scan machines for use by police and Customs at the international airport in Kingston and training equipment for the police academy. In November, the U.S. and GOJ signed an agreement under which the U.S. agreed to provide \$2.2 million for a Border Control Project to strengthen the GOJ's ability to monitor the flow of persons into and through Jamaica. The project will modernize the computer infrastructure at the ports of entry and provide training and technical assistance. USAID is undertaking a program of assistance to the JCF in community-police relations that will focus on strategies to reduce crime and violence.

The Road Ahead. The GOJ has taken steps to protect itself against drug trafficking and other types of organized crime. However, the GOJ needs to intensify and focus its law enforcement efforts and enhance international cooperation. The U.S. will continue to provide technical assistance and training to assist the GOJ to improve its drug interdiction, cannabis 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, and successfully prosecute significant drug traffickers. The USG will continue to provide assistance and training to the JDFCG to strengthen Jamaica's maritime interdiction efforts. The USG is committed to on-going support for the JCF special vetted unit, the JFAT and the CET through the provision of specialized training and equipment. Furthermore, the USG intends to provide helicopter airlift support to assist the GOJ with its cannabis eradication efforts in 2003.

Modern anti-crime legislation, including passage of all of the proposed legislation contained in the 2002 reform package and amendments to strengthen the Interception of Communications Act, is necessary in order to investigate, arrest and successfully prosecute drug traffickers and other criminals. The passage of a civil asset forfeiture law, in particular, would materially assist GOJ counternarcotics operations by providing an alternate source of vehicles, small boats and aircraft for Jamaican law enforcement agencies and the military. The GOJ should also revise its drug legislation to provide adequate penalties for the

trafficking and use of internationally controlled psychotropic substances and substances whose molecules have similar chemical properties. Full implementation of the Corruption (Prevention) Act should strengthen the GOJ's ability to counter official corruption. The USG is willing to provide technical assistance to the GOJ as it works to strengthen existing laws and draft new legislation.

Jamaica Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Cannabis										
Potential Harvest (ha)	Unk	unk	unk	unk	unk	317	527	305	308	744
Eradication (ha)	80	332	517	894	705	743	473	695	692	456
Cultivation (ha)	Unk	unk	unk	unk	unk	1,060	1,000	1,000	1,000	1,200
Potential Yield ¹ (mt)	Unk	unk	unk	unk	unk	214	356	206	208	502
Seizures ²										
Cocaine (mt)	3.39	2.947	1.625	4.601	1.160	0.414	0.236	0.571	0.179	0.160
Cannabis (mt)	26.63	68.46	55.87	56.22	35.91	24.00	52.99	37.20	46.00	75.00
Hashish Oil (kg)	497.00	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
Arrests										
Nationals	7,657	6,023	8,238	6,385	7,093	3,143	2,996	3,325	788	899
Foreigners	447	420	421			221	267	380	98	517
Total Arrests	8,104	6,443	8,659	6,385	7,093	3,364	3,263	3,705	886	1,416

¹ Yield is based on an estimate of 675 kilograms per hectare.

² 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 transit point for South American cocaine en route to Europe and the United States, and for MDMA (ecstasy) from Europe 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. Traffickers take advantage of Suriname's weak border controls and the lack of a law enforcement presence in the largely unmonitored interior to move drug shipments via sea, river and air. Domestic drug use continues to increase. In 2002, the Government of Suriname (GOS) enacted legislation criminalizing money laundering and strengthening Suriname's criminal code, and GOS law enforcement officials achieved some successes in drug interdiction. A high level of cooperation between U.S. and GOS law enforcement officials exists. In June, the GOS arrested and expelled to the U.S. a Colombian drug trafficker indicted in the U.S. for offenses related to cocaine trafficking. The principal obstacles to effective counternarcotics law enforcement efforts are inadequate legislation, with complicated and often time-consuming bureaucratic requirements, drug-related corruption, relative geographic isolation, and lack of resources for law enforcement. Suriname is a party to the 1988 UN Drug Convention but has not implemented legislation bringing it into full conformity with the Convention.

II. Status of Country

Suriname is a transshipment point for cocaine originating in South America and destined primarily for Europe and, to a lesser extent, the U.S. Suriname is also used to transship MDMA (ecstasy) from Europe to the U.S. However, evidence available in 2002 did not support a finding that drugs entering the U.S. from Suriname were in an amount to have a significant effect on the U.S. In the past, police have received information indicating that precursor chemicals are stored and used in clandestine laboratories in Suriname's vast interior. The GOS has not yet enacted legislation controlling precursor chemicals. The lack of resources and law enforcement capabilities, along with inadequate legislation, drug-related corruption, and a complicated and time-consuming bureaucracy, inhibit the GOS's ability to identify, apprehend and prosecute narcotics traffickers. In addition, Suriname's sparsely populated jungle interior together with weak border controls and infrastructure make narcotics detection and interdiction efforts difficult.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Venetiaan administration has adopted a tough stance on drug trafficking, although it lacks the resources to take effective action to deter the transshipment of drugs through Suriname. GOS officials continue to express concern regarding the extent of drugs transiting Suriname as well as the increase in domestic drug use. In August 2002, the National Assembly passed a package of legislation that criminalizes money laundering (see money laundering chapter) and amended Suriname's criminal code, code of criminal proceedings, and law on economic crimes. The amendments address the confiscation of illegally obtained assets, filing of criminal offenses against corporate entities, conspiracy, witness intimidation, and international requests for legal assistance. During 2002, GOS officials participated in regional counternarcotics efforts, including one region-wide counternarcotics operation. GOS officials also participated in the negotiations for a Regional Agreement for Maritime Cooperation in the Caribbean. 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. The National Anti-Drug Council is the national coordinating authority.

Law Enforcement Efforts. The Narcotics Brigade of the Korps Politic Suriname (KPS), Suriname's police force, benefits from high visibility within the police department, primarily because drug interdiction is a high-profile issue within Suriname and internationally. The Customs Service, on the other hand, is not considered a law enforcement body and receives fewer resources and less formal training, despite its active and successful role in drug interdiction. The Military Police, which is responsible for border control, also plays a role in drug interdiction efforts, particularly at the international airport. As GOS Customs agents and Military Police have no investigative function, they tend to focus on individual smugglers and couriers, or "mules," rather than organized trafficking kingpins and their networks. They rely primarily on profiling and tips from informants to apprehend small-time smugglers or decoys at major ports of entry/exit. In 2002, the Military Police arrested approximately five to six drug couriers each week attempting to board flights, primarily to Amsterdam, from Paramaribo's international airport. During the year, the GOS seized 340 kilograms of cocaine and 205 kilograms of marijuana. The GOS arrested 302 people for drug-related offenses, the vast majority of which were of Surinamese or Dutch nationality. According to a GOS official, members of the Colombian terrorist group, the Revolutionary Armed Forces of Colombia (FARC), are present in Suriname to coordinate drugs-for-arms activities, and GOS counternarcotics units confiscated several planes that were used to transship cocaine from Colombia.

In 2002, the GOS engaged in an operation with the governments of Brazil and Guyana to combat the flow of narcotics in the border area of the three countries. According to GOS law enforcement officials, several clandestine airstrips in Suriname were identified by satellite imagery; however, no airstrips within Suriname's border were eliminated.

Corruption. Public corruption, while not universal, is considered a serious problem in Suriname. Reports of money laundering, drug trafficking and associated criminal activity involving current and former government and military officials continue to abound, although such reports and accusations remain unproved. Former military 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 transshipments and drugs-for-arms deals, and is currently wanted by the GOS for his suspected involvement in the theft of weapons from Suriname's Central Intelligence and Security Service. Suriname ratified the Inter-American Convention Against Corruption in 2002, but does not yet have a comprehensive national anti-corruption plan.

Agreements and Treaties. Suriname is 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 has passed legislation that conforms to the drug interdiction portion of the Convention. The GOS ratified the OAS Convention on Mutual Legal Assistance in Criminal Matters and entered into a Mutual Legal Assistance Agreement with the Netherlands from 1976 that has been used to share information on narcotics issues. In August 1999, a comprehensive six-part bilateral maritime counternarcotics enforcement agreement with the U.S. entered into force. The U.S.-Netherlands Extradition Treaty of 1904 is applicable to Suriname, but Suriname prohibits the extradition of its nationals. Suriname is a member of the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD).

Cultivation and Production. Suriname is not a producer of cocaine or opium poppy. Cannabis is cultivated in some areas outside of the capital, Paramaribo, but there is no specific data on the number of hectares under cultivation or evidence that it is exported in significant quantities.

Drug Flow/Transit. Much of the cocaine entering Suriname is dropped by small aircraft on clandestine airstrips or "drop zones" located throughout the dense jungle interior where the lack of infrastructure, law enforcement personnel and equipment makes detection and interdiction difficult. According to DEA, traffickers also use interior roads as landing strips, along with unmanned airfields. Some of these airstrips are reportedly used for drugs-for-arms swaps. The drugs are moved from the interior via numerous river routes to the sea and overland for onward shipment to Caribbean islands, Europe and the U.S. Drugs exit

Suriname via commercial air flights (by ingestion of drug-filled balloons or body carries, and secreted in planes) and by commercial sea cargo. European-produced MDMA (ecstasy) is transported via four weekly flights from the Netherlands to Suriname; drug couriers then transport the drugs to the U.S. on flights to Miami, via Curacao.

Domestic Programs (Demand Reduction). According to Suriname's National Anti-Drug Council (NAR), domestic drug use continues to increase. Suriname has a Drug Demand Reduction Strategy, incorporated in the Strategic Master Plan, but has done little to implement it. The Bureau of Alcohol and Drugs, a department of the State Mental Health Institution, along with the NAR, police and NGOs, emphasize drug education and rehabilitation in response to growing domestic drug consumption. The National Drugs Information System, created in 2001 to collect and distribute data to positively influence policy formation, has been largely ineffective. In 2002, with the assistance of OAS/CICAD, the GOS undertook a survey to determine drug use among secondary school students. The Department of State/INL donated funding to the NAR to process and analyze the information collected from the survey, the results of which should be available in fall 2003. The European Commission in 2002 approved funding to assist the GOS in 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. In June 2002, in conjunction with DEA, the GOS arrested and expelled into the custody of U.S. authorities a Colombian narcotics trafficker under indictment in the U.S. for offenses related to cocaine trafficking in order to obtain money, weapons and equipment for the FARC.

In 2002, the USG provided both training and material support to several elements of the KPS and the military to strengthen their counternarcotics capabilities and promote greater bilateral cooperation. The Department of State, in cooperation with the DEA, continues to build on previous years' work by providing assistance to dedicated Surinamese law enforcement officials to increase their technical skills. Through successive long-term temporary duty assignments, the DEA provided continuous training and logistical support to the Narcotics Unit of the KPS. The DEA and the KPS have also been active in Caribbean-wide counternarcotics law enforcement operations. The U.S. and GOS continued to cooperate on counternarcotics matters, using USG funding provided under a Letter of Agreement (LOA) signed in 2000, which was amended in 2001 and 2002 to provide additional funding. One Surinamese crewman currently serves aboard the Caribbean Support Tender, a U.S. Coast Guard vessel with a multi-national crew that provides training and assistance in ship maintenance and repairs to Caribbean countries' Coast Guards.

The Road Ahead. The "spillover effect" from increased law enforcement efforts in Brazil and Colombia and reports of increased narcotics trafficking through Suriname by Colombian traffickers linked to terrorist groups illustrate narcotics traffickers' preference for Suriname as a transit point for drugs and arms. The U.S. will continue to encourage the GOS to enact laws that will bring about the full implementation of the 1988 UN Drug Convention and to apply forcefully the provisions already in effect. The U.S. will seek to enhance the already close relationship between U.S. agencies, including the DEA, and their counterparts in the Surinamese government, as well as continue to support GOS participation in regional counternarcotics efforts. U.S. Customs will deliver assistance with anti-corruption measures during 2003, to include integrity awareness training and assistance with setting up internal agency controls, making agency anti-corruption plans, and developing case studies. The U.S. will continue to provide equipment, training and technical support to the GOS to strengthen its counternarcotics efforts.

Trinidad and Tobago

I. Summary

Trinidad and Tobago is a transit country for narcotics transported 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 cannabis, but the amount of cannabis 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 and export of precursor chemicals that can be diverted for use in cocaine production. Precursor chemicals originating in Trinidad and Tobago have been found in illicit drug labs in Colombia. Trinidad and Tobago is an increasingly significant regional financial center. The country's growing economy, with well-developed communications and transportation systems, facilitates a significant number of sizeable financial transactions that can obscure money laundering. (For details, see the Money Laundering section of this report.)

The Government of Trinidad and Tobago (GOTT) continued to cooperate with the U.S. on counternarcotics issues. GOTT law enforcement agencies remained very cooperative with their U.S. counterparts. In 2002, the GOTT took steps to improve its counternarcotics operations, although progress was limited due to the political stalemate that resulted from the December 2001 election. The GOTT continued to provide significant resources in support of ongoing counternarcotics law enforcement efforts. The GOTT's Joint Operations Command Center (JOCC), an inter-ministerial agency, coordinated several interdiction operations, including joint operations with the U.S. In 2002, the GOTT took delivery of two sensor-modified C-26 aircraft that will greatly improve maritime/ground counternarcotics surveillance efforts when fully operational. Through the provision of technical assistance, training and equipment, the U.S. sought to help the GOTT strengthen all facets of its counternarcotics efforts. Trinidad and Tobago is a party to the 1988 UN Drug Convention and continues to work diligently toward meeting the Convention's objectives.

II. Status of Country

Situated seven miles off the coast of 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. Cannabis is grown for domestic use and possible export to other countries in the region, but not on a scale to make Trinidad and Tobago a major drug-producing country. Eradication operations conducted by the GOTT during the year reduced the amount of cannabis available for domestic consumption, likely leading to the importation of marijuana from St. Vincent and Venezuela. Trinidad and Tobago has an advanced petrochemical sector, which requires the import/export of precursor chemicals that can be used to manufacture cocaine hydrochloride. According to U.S. law enforcement officials, precursor chemicals originating in Trinidad and Tobago have turned up in illicit drug labs in Colombia.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The political impasse that followed the December 2001 election, and the resultant inability to convene Parliament until new elections were held in October 2002, limited further progress in strengthening GOTT counternarcotics capabilities. Nevertheless, the GOTT supported counternarcotics efforts through public statements by senior GOTT officials and the provision of resources for ongoing programs. During the year, GOTT officials participated actively in regional counternarcotics fora and in

the negotiations for a Caribbean regional maritime counternarcotics agreement. The GOTT continued to fund a three-person U.S. Customs advisory team, which worked closely with the GOTT's Customs and Excise Division to improve the effectiveness of its passenger and cargo processing and enforcement capabilities. The GOTT also continued to fund an Internal Revenue Service advisory team that worked with the Bureau of Inland Revenue (BIR) to strengthen penalties for financial crimes and to establish a criminal investigations division. In addition, during 2002, the GOTT took steps to strengthen its counternarcotics air and maritime surveillance/interdiction capability. The GOTT provided significant resources for the Trinidad and Tobago Defence Force (TTDF) Coast Guard air wing service which has in its fleet two U.S.-donated C-26 aircraft, upgraded at GOTT expense in 2002 with maritime sensor packages. The GOTT also contracted for the upgrading of its coastal radar net to replace the radars donated in 1998 by the USG that, because of their age, have been increasingly difficult to maintain. Although the JOCC has not had a permanent commander since March 2002, it remains a model for interministerial coordination in the area of drug interdiction operations, and it hosted orientation visits by personnel from other Caribbean countries. During the year, the JOCC coordinated several interdiction operations, including joint operations with the U.S. The GOTT has a counternarcotics master plan that covers both supply and demand reduction. The National Drug Council oversees the plan's implementation.

Law Enforcement Efforts. GOTT law enforcement officers markedly improved their interdiction efforts as a result of training, vessels and equipment provided by the U.S. This is especially apparent at the international airports where INL-funded training and equipment aided GOTT law enforcement officials in identifying and interdicting numerous drug couriers.

The TTDF, the police's Organized Crime and Narcotics Unit, and other police units carried out monthly counternarcotics operations coordinated through the JOCC. For the first nine months of 2002, GOTT law enforcement seized 227 kilograms of cocaine and 175 kilograms of cannabis. According to GOTT year-end figures, in 2001, the GOTT seized 772 kilograms of cocaine (which included one 560-kilogram seizure) and 634 kilograms of cannabis. Although there were no heroin seizures in the first ten months of 2002, GOTT law enforcement officers made three seizures totaling 14.5 kilograms of heroin in November and December. An additional 11 kilograms of heroin that had transited Trinidad and Tobago were seized by authorities in the U.S. during this time frame. The GOTT conducted cannabis eradication operations that resulted in the destruction of 9.2 million plants and seedlings in the first three quarters of 2002. During Operation Weedeater, a U.S.-supported cannabis eradication campaign, an additional 1.67 million plants and seedlings were destroyed.

Corruption. During 2002, there were no charges of drug-related corruption 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 1987 Prevention of Corruption Act and the 2000 Integrity in Public Life Act address the responsibilities and ethical rules for government personnel. The Integrity in Public Life Act requires public officials to declare and explain the source of their assets. An integrity commission is authorized to initiate investigations. In 2002, the GOTT increased the staff of the Police Special Investigations Unit from 13 to 22 officers and renamed it the Anti-Corruption Squad. Trinidad and Tobago is a party to the Inter-American Convention Against Corruption.

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. Mutual legal assistance and extradition treaties with the U.S. 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 in 2001. Trinidad and Tobago is a member of the Inter-American Drug Abuse Commission of the Organization of American States (OAS/CICAD).

Cultivation and Production. Trinidad and Tobago is not a producer of cocaine or opium poppy. Cannabis is cultivated year-round in the forest and jungle areas of northern, eastern, and southern Trinidad and, to a minor extent, in Tobago. The total amount of cultivated cannabis cannot accurately be determined because cultivation is done in small quarter-acre lots in remote areas. There have also been reports of cannabis being grown in plots with legal cash crops. Cannabis is eradicated by cutting and burning plants manually; crops are not sprayed with aerially applied herbicides. Aircraft and global positioning systems are used to detect crop areas and to facilitate ground troops in locating growing areas.

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. A network of narcotics-smuggling organizations operates in the country. Although seizures of cocaine were down in 2002, U.S. law enforcement officials believe there was a steady increase in the transit of cocaine through Trinidad and Tobago. According to U.S. law enforcement officials, there has also been an increase in the amount of heroin, thought to be from Colombia, transiting Trinidad and Tobago to the U.S.

Illicit drugs arrive from the South American mainland on small, fast fishing boats, pleasure craft, and airplanes. They are then smuggled out on yachts, in air cargo, and by couriers. Some shipments are bypassing Trinidad and Tobago, however, in favor of other islands, due in large part to the counternarcotics efforts of GOTT security forces. As previously noted, the importation of cannabis from St. Vincent and Venezuela may indicate that domestic demand is exceeding supply, which may be related to increased GOTT cannabis eradication efforts.

Cocaine has been found in both international airports, and on commercial airline flights that stopped in Trinidad and Tobago en route from Guyana to North America. Intelligence and actual seizures reveal that most of the narcotics smuggling is carried out by couriers and in air cargo. Increasingly, human couriers are being used to smuggle cocaine into the U.S. In most cases, GOTT law enforcement officers detained young naturalized American citizen couriers with newly obtained passports. As of December 2002, there were 15 American citizens in GOTT prisons, of whom 11 attempted to transport cocaine and 4 attempted to transport heroin to the U.S. DEA also reports an increase in drug swallowers transiting Crown Point Airport in Tobago to Europe.

Domestic Programs (Demand Reduction). The GOTT does not maintain statistics on domestic consumption or numbers of drug users. Programs to reduce the demand for illicit drugs are managed by the Ministry of Community Development and Gender Affairs, the National Drug Council in the Ministry of National Security, and the Ministry of Education, with assistance from NGOs. The GOTT funds the National Alcohol and Drug Abuse Prevention Program, which coordinates the activities of NGOs to promote demand reduction. In 2002, the GOTT initiated the Civilian Conservation Corps to teach job skills and foster self-esteem in high-risk youth. The GOTT police service has established several police youth clubs under its community policing branch, which the U.S. in the past supported with computers and equipment, to provide local children with positive role models and drug awareness programming. The GOTT has a D.A.R.E. program.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The key U.S. policy objective is to assist the GOTT in eliminating the flow of narcotics through Trinidad and Tobago to the U.S. The U.S. has focused on improving the GOTT's ability to interdict cocaine and other narcotics shipments, strengthen counternarcotics trafficking laws, bring traffickers to trial, attack money laundering, and protect witnesses from intimidation and murder.

Bilateral Cooperation. The USG has a cooperative relationship with the GOTT, and the GOTT has been responsive to mutually beneficial counternarcotics efforts. U.S. law enforcement enjoys excellent cooperation from GOTT law enforcement agencies.

During 2002, the GOTT and USG participated in joint counternarcotics exercises, although not as many as in the previous year since there is, as yet, no Status of Forces Agreement in place with the GOTT. The GOTT, however, rejected a U.S. request to have the H.M.S. Grafton patrol Trinidad and Tobago waters with U.S. Coast Guard and GOTT shipriders during a maritime counternarcotics operation, Caribe Venture, in July/August 2002. 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 U.S. provided funding for the maintenance of the two U.S.-donated C-26 aircraft that were upgraded in 2002, at GOTT expense, with maritime surveillance packages and for ongoing training for C-26 pilots and sensor operators.

A U.S. Customs advisory team, funded by the GOTT, is providing technical assistance to Customs and Excise in tracking/intercepting marine vessels, including cargo container ships, and improving narcotics detection. The team continued to work with the GOTT's marine interdiction unit and canine narcotics-detection program to strengthen their counternarcotics capabilities. At GOTT invitation, an Internal Revenue Service Tax Assistance and Advisory Service team was established to modernize the BIR. The team helped plan a comprehensive Criminal Investigation Division, which the U.S. is supporting with training and the procurement of computers. It is also providing technical assistance to the BIR to enforce criminal statutes relative to tax administration and related financial crimes.

In addition, the U.S. is assisting the Ministry of Health to develop further the GOTT's precursor chemical program by providing in-country training and computers/software to assist in the analysis of data obtained during inspections to determine if chemicals are being diverted into the illicit market. Large-scale analysis of data has not yet begun, however, because of a shortage of Ministry personnel to enter information into the database.

In 2002, the U.S. funded maritime counternarcotics training for GOTT law enforcement entities and provided helicopter lift support for GOTT cannabis eradication personnel during Operation Weedeater. The U.S. also funded U.S. Customs Service passenger enforcement rover training for GOTT law enforcement officers at Piarco Airport and air and sea interdiction training.

The Road Ahead. The U.S. will continue to provide support to enhance Trinidad and Tobago's air surveillance and maritime interdiction capabilities. The U.S. will support, through the provision of equipment and technical assistance, the GOTT's efforts to improve the rule of law by reducing judicial delays, improving evidentiary laws, and encouraging legal reforms. The U.S. will continue to work closely with the GOTT's counternarcotics law enforcement agencies, including the Counter-Drug/Crime Task Force, Organized Crime and Narcotics Unit and Customs, to strengthen their counternarcotics/crime capabilities. In addition, the U.S. will seek to engage GOTT judicial officials, the BIR, the Caribbean Financial Action Task Force, and Caribbean Anti-Money Laundering Program in the implementation of asset forfeiture and money laundering laws.

SOUTHWEST ASIA

Afghanistan

I. Summary

Despite strong statements by President Karzai in January 2002; an Afghan government-led, British-supported eradication campaign in spring 2002; and alternative livelihoods assistance that has begun to flow to the poppy growing areas, Afghanistan's 2002 opium cultivation was 30,750 hectares, according to the U.S. estimate. The UNODC estimated that more than twice as much land in Afghanistan was sewn to poppy. The U.S. estimate for poppy cultivation is up from the 2001 level of 1,685 hectares. The low 2001 level was a one-year deviation from a decade of high-level opium production and was the result of the Taliban poppy ban. By the time Hamid Karzai became head of the then-Interim Government in December 2001, however, the poppy crop reflected in the 2002 cultivation figures was already in the ground. Afghan farmers continued to cultivate poppy as a risk-avoidance response to continuing drought conditions and lack of credit, farm inputs, and markets for other agricultural products. Afghanistan returned to its former position as the world's largest producer of illicit opium. Also contributing to the increase was the chaotic situation in Afghanistan following the fall of the Taliban in late 2001, and the limited enforcement reach of the new government.

During 2002, the Afghanistan Interim Authority (AIA), followed by the Transitional Islamic State of Afghanistan Government (TISA), took several important first steps to control its enormous drug problem. On January 17, 2002, President Karzai issued a decree banning cultivation, production, processing, illicit trafficking, and abuse of narcotics drugs. He issued further decrees in September and October, which designated Afghanistan's National Security Council (NSC) as the body responsible for drug control, established within the NSC a Counternarcotics Department (CND), and named its Director. International drug control coordination meetings were held in Kabul in July and October, resulting in the formation of five working groups headed by line ministries to implement the five subject areas of the national drug control strategy currently in draft. With this drug control architecture in place, Afghanistan is in a good position to carry out the goals and objectives of the 1988 UN Drug Convention, to which it is a party. Unfortunately, the new government's excellent intentions and initial organizational successes in Kabul had no real short-term effect on opium production in the countryside. Effective steps to reduce opium production in Afghanistan remain a challenging future task for the new government, assisted by the international community. Help with developing alternative livelihoods for Afghanistan's opium farmers will be crucial to the success of any opium crop reduction strategy.

II. Status of Country

The size of the opium harvest in 2002 makes Afghanistan the world's leading opium producer. Trafficking of Afghan opium and heroin refined in numerous laboratories inside Afghanistan creates serious problems for Afghanistan and its neighbors. It corrupts local authorities, is a major factor in the rising heroin addiction in refugee and indigenous populations, and provides funds for those who wish to destabilize the country. Afghanistan also produces, consumes, and exports a large amount of hashish. Increasing numbers of Afghans, especially women, are found to be poly-drug abusers, generally using a combination of opium, hashish, and pharmaceutical drugs such as Valium, which are cheaply and readily available. Afghanistan does not have in place any effective laws to control precursor and essential chemicals or money laundering.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In December 2001 the Afghan Interim Authority (AIA) under Chairman Hamid Karzai was formed as the key outcome of diplomatic discussions yielding the Bonn Agreement. The

Agreement specified that the Interim Authority shall cooperate with the international community in the fight against terrorism, drugs, and organized crime. The Agreement also required that the AIA commit itself to respect international law and maintain peaceful and friendly relations with neighboring countries and the international community. Control of drugs, crime, and terrorism continued to be featured at the top of the political agenda at all international fora related to the recovery, rehabilitation, and reconstruction process in Afghanistan. In addition, two major international coordination meetings focusing exclusively on drug control issues were held in Kabul in July and October 2002. The National Development Framework drafted in April 2002 incorporates the government's determination to eliminate poppy cultivation and to reestablish security and the rule of law, including law enforcement.

President Karzai issued a decree on January 17, 2002, banning cultivation, production, processing, illicit trafficking, and abuse of narcotic drugs. On April 3, 2002, the AIA issued an executive order to eradicate opium poppy fields in the country, with compensation being paid to farmers who eradicated. The eradication process started on April 8, 2002, in Helmand and Nangarhar Provinces. Approximately 16,500 hectares were eradicated. On September 4, 2002, as the season for planting poppy for the 2003 harvest approached, President Karzai issued another very strong declaration urging farmers not to plant poppy. In addition, the TISA sought support from the provincial governors and religious leaders for implementing the poppy ban. Nevertheless, the number of hectares of poppy eventually harvested during 2002 makes Afghanistan the world's leading opium producer this year. However, cultivation in Afghanistan was reduced substantially from the record levels of the late 1990s.

Given the recent tumultuous events in Afghanistan, it should be no real surprise that the new government's efforts to organize itself to deal with Afghanistan's monumental drug problem met with some difficulties. In February 2002, the AIA reactivated the State High Commission on Drug Control (SHCDC) in Kabul as an inter-ministerial coordinating body with the objectives of eliminating cultivation of illicit drugs, and reducing drug trafficking and drug abuse in Afghanistan. However, the SHCDC received little or no donor support because the AIA quickly realized that the SHCDC was at best an inefficient, and at worst, a corrupt organization incapable of formulating and implementing a strong national drug control policy. As a result, the government declined to approve a UNODC capacity-building project intended to strengthen the SHCDC.

As preparations began for the first international drug control coordination meeting to be held in Kabul on July 23, 2002, SHCDC provided no assistance to the British (who have the lead on counternarcotics assistance for Afghanistan). Therefore, the British were forced to work with senior Afghan leaders to organize this first and very important international drug control coordination meeting. Although the meeting laid out a British-drafted strategy and framework for tackling the drug problem in Afghanistan, the leadership vacuum at SHCDC continued. Furthermore, most donors, the UNODC included, were not yet organized to begin delivering assistance to implement the draft framework.

To address SHCDC's inaction, President Karzai named his National Security Council (NSC) as the body responsible for Afghanistan's counternarcotics efforts. Unfortunately, he left the SHCDC in place. This ambiguity proved unworkable and confused donors seeking to assist the government's counternarcotics efforts. Finally, on September 19, 2002, President Karzai signed an executive order naming Haji Mirwais Yasini as Director of the Counternarcotics Department (CND) of the NSC, followed by a decree on October 7, 2002, stating: "As of now the National Security Advisor office of the Transitional Islamic Government of Afghanistan is responsible for handling activities related to preventing drug production, use and drug trafficking. The SHCDC is directed to work under this office. In addition, all national and international organizations working in the drug control field should coordinate their activities with the office of the National Security Advisor."

The NSC CND Director quickly leapt into action, with support from the UK, UNDCP and U.S., to prepare for the second international drug control coordination meeting. The NSC CND sent letters to line ministries in each of four sectors—alternative livelihoods, law enforcement, judicial reform, and demand reduction—asking them to form a working group of relevant ministry representatives, UN organizations,

and leading bilateral donors. The NSC CND itself took the lead in the area of building government counternarcotics capacity. Each working group prepared a plan of action to present at the October 17, 2002, international drug coordination meeting. These action plans, which are now incorporated in the draft National Drug Control Strategy, provide the framework within which TISA can implement the goals and objectives of the 1988 UN Drug Convention. In addition, a new drug law, intended to meet international standards, is under consideration by TISA.

Accomplishments. The Afghan-led, UK-supported eradication effort, although fraught with difficulties in fairly compensating farmers who verifiably had eradicated their poppy crops, clearly reduced the level of production in 2002 to an amount significantly below the high levels of the late 1990s. In addition, the eradication campaign apparently has had some effect on farmers' future planting decisions. There is anecdotal evidence that, as of December 2002, farmers in some areas were delaying planting to try to better assess the likelihood that, if they planted poppy, they would be able to harvest it. Alternative livelihoods assistance is beginning to be evident in poppy areas, and the Ministry of Rural Rehabilitation and Development is playing a strong role in coordinating assistance in this area. The U.S. provided \$14 million during 2002 in "Cash for Work" Programs with a direct and immediate benefit for the rural economy. Collapsed and long-abandoned infrastructure, vital to rural crops, (e.g., silt-clogged irrigation canals) were rehabilitated through this program. Longer term efforts focused on the introduction of cotton in certain areas, and grapes for raisins in others were also advanced in sub-projects under the general "Cash for Work" project. The tribal leader in Nad-i-Ali District of Helmand Province, the largestproducing district in Afghanistan, wrote a letter to the U.S. Government saying that because we were providing assistance in rehabilitating the irrigation canal system, his people promised not to plant poppy. Nevertheless, systematic and effective drug enforcement efforts are still a notable missing piece of TISA's drug control efforts, and realistically, developing alternative crop regimes to traditional poppy production in Afghanistan will be a very long term effort.

Law Enforcement Efforts. At present, drug enforcement efforts in Afghanistan are largely non-formal and regionally based. There are periodic reports of drug seizures and arrests in Kabul and the provinces. There have also been reports of the closing of opium bazaars in Nangarhar and Helmand Provinces. The Peshawar, Pakistan, Pashto language press reported in early November that poppy eradication was taking place in two districts of Nangarhar Province and also in Ghor Province, but there is no systematic collection of reliable data upon which to base judgments of progress.

Plans are in place to begin development of a separate narcotics law enforcement directorate in the Interior Ministry, which would contain three units: information collection and intelligence, investigations, and interdiction. Training for the intelligence and investigations units began as 2002 ended; interdiction unit training will take place in 2003. Locations to house the three units have been identified, and work is nearly complete on the intelligence unit buildings. Work on the site for the other two units will have to wait for spring weather. Plans are also being formulated for development of the Border Police.

Corruption. In Afghanistan's tribally based society, corruption is historic and endemic. Nepotism prevails in hiring, especially where having a personally loyal employee is critical. The perception prevails that only family members or kin can be trusted. Tribal alliances were intensified during years of conflict, especially during the civil war period when tribal warlords vied for territory and supremacy. It is in this context that President Karzai and his Finance Minister are trying to establish a transparent government that is accountable to its constituents. In early November 2002, President Karzai dismissed twenty senior officials and another eighty minor officials in the provinces for corruption. These dismissals included the heads of customs in Herat and Nangarhar Provinces and the security chief in Kandahar. Involvement in drug trafficking was one of the stated reasons for dismissal. In late November, Karzai issued a decree establishing an Office of Control and Inspection and providing for an inventory of public property. From these actions and the presidential decrees against drug production and trafficking, it is clear that, as a matter of government policy, 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. On the other hand, given the realities of Karzai's coalition government and the

limits of its authority in the provinces, it is not possible to say categorically that no senior official of TISA 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. Afghanistan is a party to the 1961 Single Convention on Narcotic Drugs, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Afghanistan intends to become a party to the 1972 Protocol to the 1961 Convention as soon as possible. The Afghan Government's National Drug Control Strategy and sectoral plans of action provide the framework for implementing Afghanistan's responsibilities for drug control under the international agreements to which it is a party. Afghanistan and the U.S. have no mutual legal assistance or extradition treaties. The 1964 Constitution, which is one of the principle sources of Afghan law, states in Article 27: "No Afghan accused of a crime can be extradited to a foreign state." The Minister of Justice and other relevant officials are aware of the potential benefits of being able to extradite Afghan citizens. The international community needs to work with the new Constitutional Commission and the Constitutional Drafting Committee on the issue of extradition and also on providing a constitutional or other legal basis for mutual legal assistance.

Cultivation/Production. During 2002, Afghanistan was the world's largest producer of opium and a major producer of cannabis. The U.S. estimated that Afghanistan produced ca. 1300 metric tons of opium gum; the UNODC estimate was roughly twice that level (ca. 3000 metric tons of opium) in 2002. The estimates also differed sharply on the amount of land planted to opium in Afghanistan, with the ratio also ca 2:1. Efforts are underway to reconcile the sharply different estimates of opium production. Following a substantial reduction in opium production in 2001 under the Taliban ban, 2002 production increased dramatically, though not to the highest levels of the late 1990s. According to UNODC estimates, three provinces—Helmand, Nangarhar and Badakhshan—accounted for 78 percent of the area under poppy cultivation and 77 percent of the tonnage of opium produced. Uruzgan and Kandahar were the fourth and fifth largest producing provinces. A disturbing trend in 2002 was detection of poppy cultivation in areas where poppy had not previously been grown, such as Ghor and Bamiyan Provinces. The large portion of opium production in Helmand Province, accounting for 40 percent of the total area in Afghanistan under poppy cultivation, justifies the current high priority for focused assistance to repair the province's extensive irrigation canal system and provide alternative crop extension services and marketing assistance.

Anecdotal reports indicate the mushrooming of morphine and heroin processing laboratories, no doubt to handle this year's large opium production. For example, there are reports of numerous labs in the Faizabad area of Badakhshan Province that are consuming enormous amounts of firewood in processing heroin, thereby driving up the price of firewood beyond local residents' ability to purchase it. Labs in Nangarhar and Helmand Provinces are reported to be numerous and highly mobile, thereby making detection and destruction more difficult. Seizures of narcotics in neighboring countries (notably Tajikistan) have also increased absolutely, and seizures continued a shift towards seizures of a higher share of heroin that began last year.

Drug Flow/Transit. In the absence of support for legitimate agricultural production and marketing during years of conflict, opium traders have cornered Afghanistan's modest agro-business sector. Their method of operation is to provide seed, fertilizer, tools, and the credit with which to buy these inputs, and then purchase the harvested opium from farmers at a price highly advantageous to them, but disadvantageous to the indebted farmers. Poppy cultivation requires less water than many other crops, which, given the last several years of drought, has further encouraged farmers to plant opium. The ease of storage of opium and its ready marketability make it an ideal store of value during times of conflict, fluctuating currencies, and lack of any formal banking or credit systems. Opium markets have been highly organized and openly conducted until relatively recently, when some opium markets in Nangarhar and Helmand Provinces were reported to have been shut down. However, in reality, there are indications that the opium markets have simply gone "underground" to less public sites.

Narcotics seizure statistics in countries bordering Afghanistan indicate heavy trafficking out of Afghanistan along well-known routes. Given the dearth of effective law enforcement measures in Afghanistan, and the traditional involvement in drug trafficking during the war years by people of influence as their major source of revenue, trafficking in Afghanistan can unfortunately be expected to continue almost unimpeded in the near future. Continued reliance on interdiction by neighboring countries will be necessary for any impact on drug trafficking out of Afghanistan.

Domestic Programs (Demand Reduction). Although there has been no formal assessment of the extent of drug abuse, anecdotal evidence indicates it is rising in Afghanistan. According to UNODC, heroin, opium, and hashish are the most commonly abused drugs, along with a wide variety of locally available, uncontrolled pharmaceuticals. A UNODC study of Afghan women in refugee camps in Pakistan indicated that poly-drug abuse consisting of opium, hashish, and Valium or other similar pharmaceutical drugs was increasingly common, often associated with post-traumatic stress. Traditional use of opium as a panacea for ailments is common in some parts of the country, especially in the North. Opium is even customarily given to babies in some areas. Heroin use is generally by mouth or inhaled, though there are reports, especially in the urban areas, of increasing use by injection, including needle sharing. An informal assessment of one area of southwest Kabul by an NGO working in the drug treatment field revealed the following estimated numbers of drug abusers within an adult population of about 4,000: 700 hashish users (17.5 percent); 400 (10 percent) female tranquilizer users; 200 (5 percent) female opium users; and 80 (2 percent) male heroin users, of whom 18 (.5 percent) are injecting.

The Afghan government struggles with its limited resources to provide in-hospital detoxification services, but often can provide no analgesics to ease the withdrawal symptoms. Nejat, an NGO operating on extremely limited funding, provides pre-detoxification counseling, in-home detoxification, and a year's support to the drug abuser and family members. In the past, UNODC has done some training of Afghan female community activists in drug awareness, basic health, and sanitation. Concerted efforts should be made to energize the Ministries of Education and Public Health to increase drug abuse prevention education and drug treatment capability as part of TISA's National Drug Control Strategy.

IV. U.S. Policy Initiatives and Programs

U.S. policy is to support the British lead on Afghan drug control by providing assistance for a wide range of counternarcotics programs in Afghanistan. Current U.S.-funded counternarcotics programs include: provision of seeds and fertilizer, quick impact cash-for-work on infrastructure improvement projects, a large alternative livelihoods project, assistance in the development of drug law enforcement capability, small programs in demand reduction and an counternarcotics public affairs campaign, and support for rehabilitation and modernization of the criminal justice system.

The Road Ahead. The U.S. will continue to support the development of Afghanistan's national drug control capacity, especially in mentoring the NSC CND as it begins to assume its role as Afghanistan's drug control policy and implementing body. In addition, the U.S. will continue to support the activities of the five sector working groups and will coordinate all U.S. counternarcotics assistance projects with the line ministries.

In the meantime, poppy cultivation can be expected to continue until rural poverty levels can be reduced via provision of alternative livelihoods and reduction of farmers' debts. However, sustained assistance to poppy-growing areas permitting diversification of crops, improved market access, and development of off-farm employment, combined with law enforcement and drug education, are expected gradually to reduce the amount of opium produced in Afghanistan. But drug processing and trafficking can be expected to continue almost unabated initially until drug law enforcement capabilities can be increased. Again, sustained assistance by the donor community over many years will be required to help an Afghan government fully dedicated to countering its drug problem to succeed.

Afghanistan Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium										
Potential Harvest (ha)	30,750	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180	21,080
Eradication (ha)	_	_	_	_	_	_	_	_	_	_
Cultivation (ha)	30,750	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180	21,080
Potential Yield ¹ (mt)	1,278	74	3,656	2,861	2,340	2,184	2,099	1,250	950	685

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¹ 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, and locally favored synthetic drugs as reported from January to October of this year also point to a marked increased level of narcotic use in Bangladesh as does the quadrupling of the upper estimate of addicts. The heroin being consumed in Bangladesh is of low quality to keep prices low. While unconfirmed reports of opium cultivation along the border with Burma exist, no evidence indicates that Bangladesh is a significant producer or exporter of narcotics. The BDG's Department of Narcotics Control (DNC) lacks training and equipment, as well as other resources to detect and interdict the flow of drugs into and through the country. 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 United Nations Drug Convention (UNDC).

II. Status of Country

Insufficient information exists to determine whether Bangladesh produces illegal narcotics or precursor chemicals. Rumors of opium production in the Bandarban District along the Burmese border have not been substantiated. The country's largely porous borders make it an attractive transfer point for drugs transiting through the region.

III. Country Actions Against Drugs in 2002

Policy Initiatives: The Bangladesh Government (BDG) continued in 2002 to support counternarcotics efforts. The BDG has worked to implement and enforce the Narcotics Control Act and this year amended the act to shorten the length of time allowed for investigations into charges related to criminal cases. New equipment was provided to the DNC and its central chemical laboratory began regular operations in 2001. In September 2002 the BDG and USG signed a Letter of Agreement (LOA) to provide \$140,000 worth of additional equipment to the laboratory. The LOA also provides for \$338,922 worth of training, via ICITAP, to law enforcement personnel involved in counternarcotics activities.

Accomplishments. The BDG, during the previous administration, the caretaker government, and the present administration, has maintained consistency and continuity in its counternarcotics efforts. As noted above, the DNC central chemical laboratory for identifying and evaluating seized drugs became operational in 2001 and its capabilities are being expanded through an agreement for U.S. State Department narcotics assistance, signed in September of this year.

Law Enforcement Efforts. Law enforcement units engaged in counternarcotics operations include the police, the DNC, the BDR, and local magistrates. According to the BDG Directorate of Customs Intelligence and Investigation, drugs seized by Bangladesh authorities from January through October 2002 are as follows: 553.319 kilograms of heroin (over 24 times the amount seized during the same period last year); 8,509.765 kilograms of marijuana; 852 ampoules of T.D. jasick injection; 113,138.76 liters of phensidyl (four times the amount seized during the same period last year); 0.023 kilogram of opium; and 14,259 ampoules of pathedine (nearly 152 times the amount seized during the same period last year). The BDG continues to seek 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 is a big problem in Bangladesh. Authorities involved in jobs that affect the drug trade facilitate the smuggling of narcotics. Corrupt officials can be found throughout the chain of command. If caught, prosecuted, and convicted most officials receive a reprimand at best and termination from government service at worst. Adjudicating authorities do not take these cases seriously.

Agreements and Treaties. Bangladesh is a party to the 1988 UN Drug Convention. It has a memorandum of understanding on narcotics cooperation with Iran and it participates in information sharing with the government of Burma.

Cultivation/Production. Unsubstantiated reports 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 in the region for smuggling drugs. Officials who have little, if any, training on counternarcotics operations, guard the country's air, sea, and land ports. 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 twelve-mile swath inside the country, are widely believed to abet 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 the auspices of APON. The BDG outpatient and detoxification centers are not very successful in dealing with the addiction problem in Bangladesh. The population of addicts is largely unknown—estimates range from 100,000 to over four million.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The USG continues to support Bangladesh counternarcotics efforts through various commodities and training assistance programs. USG strategy focuses on improvements to BDG capabilities in detection and interdiction of narcotics, especially the abilities of the border security forces to effectively do their jobs. Following the September 2002 signing of an LOA between the USG and the BDG, equipment and law enforcement courses will be provided to the police, DNC officers, and possibly members of the BDR in 2003. Other initiatives under consideration include the modernization of law enforcement training facilities in Bangladesh, and further development of anti-corruption programs within the government.

The Road Ahead. The USG will continue to provide law enforcement training for BDG officials and work with the BDG in constructing a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh counternarcotics officials.

India

I. Summary

India is one of the world's largest licit opium producers and the only country authorized to produce licit opium gum. India's strategic location, between Southeast and Southwest Asia, the two main sources of illicit opium, makes it a heroin transshipment area. India is a modest, but growing, producer of heroin for the illicit market. The Government of India (GOI) continually tightens 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. As part of its efforts to preclude diversion of licitly grown opium to the illicit market, the GOI, with U.S. assistance, is rigorously studying opium gum yields from licitly cultivated opium. The objective of this effort is to develop as accurate an estimate of legally mandated minimum yields as possible. The GOI anticipates, based on its long experience of managing licit opium production, that requiring farmers to deliver to the government all the opium they are likely to produce is the best way to avoid diversion to the illicit market. An accurate estimate of what farmers are likely to harvest, therefore is crucial to the success of this system since it allows the government to more efficiently enforce its requirement that all opium gum be sold to the state.

There is some evidence of growing international criminal interest in hashish production in the northern Indian state of Himachal Pradesh. GOI central government agencies do not currently believe this is a major problem.

India has a large, sophisticated chemical industry that manufactures a wide range of chemicals, including the narcotics precursor chemicals acetic anhydride (AA) and pseudoephedrine. These precursor chemicals are vulnerable to diversion for the manufacture of illicit narcotics. The GOI and the Indian Chemical Manufacturing Association impose strict controls and review them annually. India is a party to the 1998 UN Drug Convention.

II. Status of Country

Licit Opium Production. Licit opium poppy is grown 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 produces raw opium gum rather than concentrate of poppy straw (CPS). Although many opium factories in the U.S. are designed to process opium gum, opium gum is difficult to use because a residue remains after alkaloids have been extracted. This residue must be disposed of with appropriate environmental safeguards, adding to the cost of medicinal opiates. However, the GOI believes that this traditional labor-intensive opium production method is more suitable to India's circumstances than the more capital-intensive poppy straw process.

Under the terms of internationally agreed covenants, India must maintain licit opium production and carry-over stocks at levels no higher than those consistent with world demand. The objective is 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.

Licensed farmers are allowed to cultivate a maximum of 20 "ares" (1 are is 100 square meters, so 20 ares equals one-fifth of a hectare) and are required to remit their entire yield to the CBN. The GOI's Ministry of Finance announces the minimum-qualifying yield (MQY) per hectare (ha) at the beginning of each opium cultivation season in September or October. "Opium years" thus straddle two calendar years. The MQYs are based on historical yield levels from licensed farmers during previous crops, and increasingly on academic research in India, funded by U.S. technical assistance. Increasing the annual MQY has

proven to be an effective tool, not only in increasing productivity, but also in providing a deterrent to diversion. The GOI cannot know how much opium gum each farmer actually produces; it simply requires that each farmer deliver at least some minimum amount (MQY) to retain his status in the program. If this Minimum Qualifying Yield is too low, the farmers are allowed to systematically retain a large quantity of opium gum which, of course, finds its way to the illicit market. Thus, an accurate estimate of the MQY is crucial to the success of the Indian licit production control regime.

India's opium buffer stocks were depleted in the spring of 1998. To meet anticipated world demand for licit opium and rebuild depleted domestic stockpiles toward an International Narcotics Control Board (INCB)-recommended level of approximately 750 metric tons (90 percent solid), the GOI licensed a larger number of farmers and increased the area for poppy cultivation during 1998-99 and 1999-2000. Estimates of suspected diversion from the 1998-99 opium harvest ranged from 170 metric tons to as high as 300 metric tons, which would have represented between 15 to 25 percent of the entire crop.

Steps taken in the next crop year seemed to fix this problem. The higher implied yield in GOI-procured opium gum during the 1999-2000 season reflected the GOI's apparent success in aggressively curtailing diversion during the crop harvest and collection period. Strong enforcement efforts were also evident during the 2000/01 and 2001/02 harvests.

For the 2002 crop year, 114,487 cultivators were licensed for opium cultivation over an area of about 22,847 hectares. Only 18,447 hectares were cultivated by 101,844 cultivators. The uncultivated area was either not sown or uprooted after sowing, primarily because of weather damage. Only those cultivators who tendered the minimum qualifying yield (MQY) for the 2000/01 harvest were licensed in 2001/02 and the GOI did not tender new licenses for first-time cultivators. The GOI again increased the MQY in the 2001/02 crop year to 53 kilograms/hectare in Madhya Pradesh and Rajasthan and 45 kilograms/hectare in Uttar Pradesh. These goals appear to have been largely met, based on both CBN data (which is supported by data from the U.S supported Joint Licit Opium Poppy Survey). As a result, in 2002, the CBN procured 790 metric tons of opium (at 90 percent consistency NB. "Consistency" refers to the moisture content in opium gum-90 percent means 10 percent excess moisture-90 percent gum). The CBN attributes their success to increased controls over licit cultivation, including the reduction in time taken to procure opium (i.e., the time to collect the hundreds of metric tons of opium gum at hundreds of collection facilities throughout three Indian provinces), which was reduced from 60 days to 45 days.

The GOI continued the stricter licit opium diversion controls introduced in 1999, including 100 percent measurement of each cultivated area and re-surveys of plots after the planted crop reaches a particular stage of growth to ensure that the area under cultivation matches that licensed. The CBN destroys cultivation more than five percent above the licensed amount and the cultivator is liable to prosecution. CBN also strengthened controls during the poppy lancing period. A designated official now records daily yields in a "Procurement/Weighment Register." The CBN checks the register regularly, physically checks the cultivators' yield, and verifies the correlation between the two.

The CBN conducts preventive checks and raids 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. CBI initiated the use of satellite surveys in 2001 and refined the method in 2002 to measure licit cultivation to ensure that licit cultivators were not exceeding their allotted space. No significant quantities of concealed opium were seized during the 2001/2002 harvest.

India's traditional style of harvesting opium gum has an inherent weakness in controlling diversion. Over one million farmers and farm workers come into contact with the poppy plants and their lucrative gum yearly. Policing these farmers 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 of 18 teams of Central Excise officers with vehicles help the CBN to patrol the fields and oversee the harvest.

Though there is no reliable estimate of diversion from India's licit opium industry, Indian officials and drug enforcement officials have speculated in estimating that 10 to 30 percent of the crop is diverted. A large portion of the diverted opium is consumed domestically. CBN has estimated that India's opium addicts alone require a minimum of 80 to 100 tons of opium. Ten percent diversion of the 2002 harvest would have put some 79 tons of opium gum into the illicit narcotics markets, and would have made India the world's fourth largest producer of illegal opiates, ca. 25 metric tons behind Laos.

Illicit opium middlemen and moneylenders pay farmers prices four to five times higher than the base government price of Indian Rupees (Rs.) 630 per kilogram. GOI price increases to farmers are related to the licit export price offered by the United States and other countries, but are also influenced by GOI revenue requirements from licit opium production. 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. Some observers believe that more generous procurement prices would support GOI efforts to limit diversion. India is exploring the possibility of conversion of some of its opium crop to the CPS method to determine the feasibility of extracting additional alkaloids from already-lanced poppy straw.

III. Country Action Against Drugs in 2002

Policy Initiatives. 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 still pending. The move should 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.

Accomplishments. Indian authorities have established a continuous aerial/satellite-based system for monitoring licit and illicit opium cultivation nationwide. The system became 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.

Currently, the GOI is involved in a number of significant ongoing investigations with the DEA and the level of cooperation received regarding these investigations has been excellent.

Law Enforcement Efforts. India's domestic "drug of choice" is heroin base ("brown sugar" heroin). Indian "brown sugar" heroin is available in Nepal, Bangladesh, Sri Lanka, and the Maldives. In 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 ("white") heroin, at least part of which was produced in India, destined for Sri Lanka and Europe. Licitly produced raw opium is diverted and collected by mid-level traffickers for conversion to morphine base. The opium is then usually taken to larger population centers for further processing to heroin base before entering the regional markets. Indigenously produced Indian white heroin (injectable heroin HCL) seizures increased during the last several years. This became more evident with the November 30, 1999 seizure of an operational heroin laboratory in New Delhi and the discovery of Indian-cultivated opium being used to manufacture heroin HCL. Continuing intelligence stemming from ongoing investigations indicates that areas in Uttar Pradesh State may produce limited quantities of indigenous Indian heroin. 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 their heroin seizures are of Indian origin and acknowledge India's emerging status as a heroin-producing country.

Heroin Production. There is no reliable data on the amount of heroin produced from diverted licit opium and illegally grown opium. Illicit poppies are cultivated 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.

The GOI continues actively to pursue investigations against drug traffickers operating within India and to interdict the flow of narcotics being smuggled across its borders. In October 2001, the Customs Directorate of Revenue Intelligence (DRI) officers seized 16 kilograms of heroin that had entered India through a fenced portion of the border. Provisional reports provided by the GOI through October 2002 indicated that an estimated 636 kilograms of heroin were seized. Opium seizures determined to be of Indian origin, most of which occur in India's poppy growing regions, declinedin 2002 from 2,633 kilograms in 2001 to 1,403 kilograms through October 2002. Cannabis smuggled from Nepal is mainly consumed within India, but some makes its way to western destinations. Through October 2002, NCB seized 47,641 kilograms of marijuana and 2,079 kilograms of hashish. During 2001, Customs officers at New Delhi airport experienced first-time seizures of buprenorphine, diazepam, and phenobarbitol. Seizures of methalqualone (mandrax) reached their highest level of 11,130 kilograms through October 2002. Indian authorities speculate that heroin seizures may be down because the tightening of the border between Pakistan and India has led to a change in trafficking patterns for Southwest Asian heroin.

Through October 2002, 4,747 persons, including 55 foreigners, had been arrested for drug-related offences, a figure that is down significantly from 13,333 arrested in 2001. Through October 2002, 2,998 persons were convicted for drug trafficking, compared to 2,929 convictions in 2001.

Corruption. The Indian media continues allegations of corruption among law enforcement personnel, elected politicians, and cabinet-level ministers of the GOI. The United States receives reports of narcotics-related corruption, but lacks the information to confirm them and 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. However, despite government efforts, narcotics-related corruption probably facilitates some narcotics trafficking in India.

Agreements and Treaties. India 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. India meets most of the requirements of these three UN Drug Conventions through the NDPS Act of 1988. India has agreements with 15 countries for sharing strategic and operational intelligence and cooperation in the field of drug abuse. The United States and India signed a mutual legal assistance treaty on October 17, 2001; the U.S. Senate provided advice and consent to ratification in October 2002. The treaty will allow more efficient law enforcement and counterterrorism cooperation between the two countries. The U.S. and India cooperate under an extradition treaty that entered into force in 1999. There are currently two narcotics-related extradition requests pending in Indian courts under the treaty.

Illicit 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. No new crop eradication occurred in either 2001 or the first ten months of 2002. The CBI used satellite images to

detect illicit cultivation in the Northeastern state of Arunachal Pradesh. 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 (12-16 metric tons potential illicit opium gum production).

Drug Flow/Transit. India historically has been an important transit area for Southwest Asia heroin from Afghanistan and Pakistan and, to a much lesser degree, from Southeast Asia—Burma, Thailand, and Laos. India's heroin seizures 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 tend to 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. While there appears to be no significant level of increase in heroin trafficking directly to the United States from India, both U.S. and Indian authorities continue to target organizations involved in this activity.

Indian-produced methaqualone trafficking to Southern and Eastern Africa continues. Although South Africa is rapidly becoming a larger competitor, India is still believed to be among the world's largest known clandestine producers of methaqualone (mandrax). The primary market for Indian-produced methaqualone was South Africa, but other African countries have increasingly developed user/abuser problems as the drug shipments transit east Africa en route to South Africa. This drug is manufactured in bulk powder as well as tablet form, but recent bulk seizures by GOI authorities suggest India is playing a more important role in methaqualone manufacture. 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. Seizures of methaqualone through October 2002 totaled 11,130 kilograms, the highest seizure ever and almost ten times the average amount seized in the past five years.

Domestic Programs (Demand Reduction). In the isolated northeastern states of Manipur and Nagaland, injectable Southeast Asian heroin use was common a few years ago. Needle sharing spread the HIV virus through these two sparsely-populated states, which now rank among the states with India's highest HIV/AIDS rate. While heroin use is still significant in Northeast India, its high cost (\$2 a dose and higher) resulted in a shift to abuse of the painkiller proxyvon (about 34 cents a dose). (Proxyvon capsules are opened, the contents dissolved in water, and then injected.) In 1999, the GOI's Ministry of Social Justice and Empowerment (MSJE) and the UNDCP South Asia Regional Office began a two-year large-scale national survey on the extent, pattern, and magnitude of drug abuse in India. The major components of this study are a National Household Survey, a Drug Abuse Monitoring System and a Rapid Assessment Survey (RAS). The study also focused on specific populations such as women, rural and border areas, and prisoners. The RAS was implemented in fourteen cities throughout India, four of which are major cities.

The survey showed that drug users were predominantly young and male. More than a fourth were homeless, nearly half were unmarried, more than a fifth were illiterate, and a fifth had studied only up to the primary level. About two-thirds of those surveyed were employed, mostly in the informal sector as daily wage earners. The average monthly income in the sample was Rs.4,050 (about \$90). Many drug users, particularly those in large cities, are from impoverished families. The mean age of drug users across the fourteen sites was 23-24. The highest percentage of women drug users was found in Goa (20 percent).

The majority of those surveyed (36 percent) reported heroin (morphine base, i.e. "brown sugar," usually smoked) as their primary drug of abuse. Other opiates (buprenorphine, propoxyphne, and opium) accounted for 29 percent and cannabis 22 percent. Most subjects were polydrug abusers and were part of

strong networks of drug-using friends and associates. More than three-fourths of the total began drug use before they turned twenty. The average user began with cannabis, although a third used alcohol as the initiation substance. Injecting drug use was adopted later in the drug abuse pattern. Injecting drug use (IDU) was observed in every study. A large share of the total (43 percent) admitted to injecting drugs at some point in their drug using history, most frequently injecting buprenorphine, heroin, proxyvon and other synthetic opiates like pentazocine. The survey also noted unsafe sex as another high-risk behavior. The mean age at first sexual act ranged from fourteen to twenty-two. Many users indicated encounters with sex workers, but condom use was low. Sexually transmitted diseases were common among drug users in many sites. Only a small proportion of drug users surveyed had been tested for HIV.

Experts have formulated suggestions for intervention strategies based on the survey. The suggestions include: 1) enhancing behavior change; 2) producing changes in service delivery; 3) facilitating a community-based approach; 4) encouraging community participation; and 5) facilitating changes in the environment. The key issues of concern are: targeting services for poor drug users; preventing drug injecting; reducing drug related harm, particularly the association between high risk drug and sexual activities; improving treatment services; and increasing "quality coverage" (i.e., providing treatment services for the majority of drug users). The MSJE recently worked with the demand reduction community to establish therapeutic standards for drug abuse treatment and rehabilitation.

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. A FY 2001 project for \$300,000 to be signed with the Ministry of Finance has not yet been signed because of differences between the USG and GOI regarding one of the standard provisions. If this LOA is signed, this assistance would 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. Post 9/11, U.S.-GOI cooperation increased significantly as the GOI and USG moved forward to combat drug trafficking and transnational crime. The Ministry of Finance, the GOI lead for policy on drug control, is more actively shaping and coordinating drug and licit opium control strategies among India's various drug enforcement agencies. The Ministry will continue to be the United States' focal point for cooperative counternarcotics efforts. The GOI says it is increasingly concerned over the nexus between drug trafficking and terrorism. The GOI has recognized the need for stronger drug control efforts nationally, particularly in the Northeast. 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.

The Maldives

The Maldives is not a major producer of narcotics or precursor chemicals. No concrete evidence exists that the Maldives is a transit point for narcotics. Some Maldivian officials believe their country may become a transshipment point, however.

Consisting of approximately 1,100 islands set in the Indian Ocean, and with a population of approximately 270,000, the Republic of the Maldives has a comparatively small drug problem, but one that appears to be growing. The government is aware of the problem and is fully cooperative with the U.S. on counternarcotics issues. The fact that children under 16 constitute about 50 percent of the population makes police and UN International Drug Control Program officials wary of the high growth potential for drug use in the country. Nonetheless, the police believe they can control the sale of drugs on the streets of the capital and most populated city, Male. Police officials believe that some of 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 believed to be limited.

Although there is no evidence to indicate that the Maldives is a transshipment point at this time, international observers and some government officials fear that the Maldives has the potential to become a transshipment point for smugglers. Most drugs are believed to come into the country by sea, but the Customs Service and police find it impossible to search all ships adequately. In late 2002, the government participated in training with Sri Lanka on using drug-sniffing dogs to help search vessels.

The U.S. has assisted the Maldives in counternarcotics activities, including via direct training or through the Colombo Plan. With U.S. government funding, the Maldivian government began to computerize its immigration record-keeping system in 1993 in an attempt, among other purposes, to track the movements of suspected drug traffickers. Starting in 1996 the U.S. has contributed \$33,000 to implement and then expand this computer system.

In November 1997, the Maldivian government established a Narcotics Control Board (NCB) under the Executive Office of the President. The Board's Commissioner, a military officer, has concurrent duties in the Maldivian National Security Service. The NCB principally oversees rehabilitation of addicts and coordinates the efforts of NGOs and other individuals engaged in counternarcotics activities. He also coordinates drug interdiction activities.

In 1997, the government established the country's first drug rehabilitation center, with space for several dozen clients. With the expansion of the rehabilitation program, and a move to the land previously occupied by the national prison, the center now houses up to 300 clients at any one time. The center cannot keep pace with the number of people ordered to undergo rehabilitation, however. At times there are as many people under house arrest and awaiting a position in the Center as there are individuals undergoing treatment. In addition to the Center, the NCB has established a continuing prevention program designed to prevent relapse. The government also launched an ongoing drug awareness campaign in 1998. In conjunction with the national effort, the government sent teams to 11 of the 19 atolls to conduct awareness campaigns and to assist in drug detection.

The Republic of the Maldives has no extradition treaty with the United States. The Maldives is a party to the 1988 UN Convention. The South Asian Association for Regional Cooperation (SAARC) Convention on Narcotic Drugs entered into force in the Maldives in 1993.

Nepal

I. Summary

Although Nepal is not a significant producer of, nor a major transit route for, narcotic drugs, small amounts of cannabis, hashish and heroin are trafficked to and through Nepal every year. An increase in the apprehension of Nepalese couriers suggests that the country's citizens are becoming more involved in trafficking. Customs and border controls remain weak, but 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 in narcotics investigations. 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. Police have confirmed that production of cannabis is on the rise in the southern areas of the country, and that most is destined for the Indian market. Police have also intercepted locally produced hashish en route to India, in quantities of up to 285 kilograms at a time, and media reports have speculated that Nepal's Maoist guerrillas may be involved in drug smuggling to finance their insurgency. Abuse of locally grown and wild cannabis and hashish, marketed in freelance operations, remains widespread. Licit, codeine-based medicines continue to be abused. Nepal is not a producer of chemical precursors.

III. Country Actions Against Drugs in 2002

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 developed, in association with the UNODC, a master plan for drug abuse control (MPDAC). UNODC funding for the program ended in 1998.

Legislative action on mutual legal assistance and witness protection, developed as part of the MPDAC, remained stalled in 2002, as the focus of the government has been on the Maoist insurgency and parliament has been dissolved. 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 cooperates 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 Kathmandu's international airport and at Nepal's regional airports with direct flights to India 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. 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. Though crop destruction efforts have been hampered by the reallocation of resources to fight the Maoist insurgency and the lack of security in the countryside, final statistical data for 2001 and data up to November 2002 indicate that destruction of both opium plants and cannabis increased in 2002.

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. There is some small-scale cultivation of opium poppy, but detection is difficult since it is interspersed among licit crops. Nepali drug enforcement officials believe that almost all heroin seized in Nepal originates elsewhere.

Nepal produces no precursor chemicals. Importers of dual-use 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 both from east and west in equal quantities. Seizures of cannabis increased in 2002. Media reports claim that most is bound for India, and 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 Tribhuvan International Airport (TIA). Smaller quantities of heroin and opium were seized in 2002 than in the previous year, and the absolute quantity (a total of approximately 6 kilograms) remained small. Most Nepali seizures of heroin, hashish, and opium in 2002 occurred in various neighborhoods of Kathmandu or at TIA as passengers departed Nepal.

Arrests of Nepalese couriers in other countries suggest that Nepalese are becoming more involved in trafficking and that Nepal may be increasingly used as a transit point for destinations in South and East Asia. The United States has been identified as a final destination for drugs transiting Nepal, typically routed through Bangkok, but in small quantities thus far.

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, UNODC, other 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, 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 of countries coordinating narcotics assistance. Cooperation between the NDCLEU and U.S. authorities has been excellent.

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 2002 the United States sponsored a police professionalism project designed to increase the efficiency and effectiveness of Nepal's law enforcement personnel, and funded locally administrated demand reduction projects. Nepal exchanges

drug trafficking information with regional states and occasionally with 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 UNODC to strengthen the NDCLEU; will support improvements in the Nepali customs service; and will work with both the Colombo Plan and the Ministry of Home Affairs on rehabilitation and demand reduction. The United States will encourage the GON to enact stalled drug legislation.

Pakistan

I. Summary

Pakistan is home to marginal amounts of opium poppy cultivation and is an important transit country for Afghan opiates and hashish. Pakistani traffickers also play an important role in opium production in Afghanistan. In 2002, NAS (Narcotics Assistance Section) estimated through an aerial survey that Pakistan's opium poppy cultivation rose slightly to 622 hectares (cultivated in tribal areas bordering Afghanistan) from the record low figure of 213 hectares in 2001. The Government of Pakistan's (GOP's) cooperation on drug control with the United States remains excellent. GOP counternarcotics efforts are led by the Anti Narcotics Force (ANF), but include at least eleven different law enforcement and paramilitary agencies. Although there were a slight increase in heroin seizures, opium seizures were down by 54 percent in 2002, due in part to the fact that the GOP has prevented the re-emergence of poppy cultivation and heroin/morphine processing laboratories in Pakistan.

There was little progress in 2002 on several extradition cases in which the USG seeks alleged narcotics traffickers and other fugitives, which cases have been pending before judicial authorities for a number of years. Efforts currently underway to enhance border security as a measure against terrorism should help improve law and order along the western border and, if all goes well, 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). Pakistan is a party to the 1988 UN Drug Convention.

II. Status of Country

Pakistan maintained restrictions on opium poppy cultivation in 2002, largely preserving the gains made since the mid 1990s. An aerial opium poppy survey, conducted in April by NAS, estimated cultivation at 897 hectares, a slight increase from the record low of 213 hectares in 2001. Since that time, NAS verified GOP eradication of at least 275 hectares, leaving a balance of 622 hectares as of the end of the year. This increase in cultivation, which took place in areas along the Afghan border, is linked to the broader resurgence of opium poppy cultivation in Afghanistan. This cultivation takes place in rugged, isolated areas, where tribal populations harbor little sympathy or support for GOP law enforcement programs. The majority of the remaining cultivation is concentrated in inaccessible areas of Khyber Agency, although poppy also was cultivated (and eradicated) in Mohmand and Bajaur Agencies and the Dir District. There were also reports in 2002 of incipient cultivation in areas south of Khyber along the Afghan border.

Pakistan remains a substantial trafficking country for heroin, morphine, and hashish from Afghanistan. This creates enormous problems for GOP border control efforts along the remote 1,450-mile border. Pakistani traffickers also play an important role in financing and organizing opium production in Afghanistan. Successful interdiction operations occur, but drug convoys are small, well guarded, and mobile, with good communications capability and the ability to take advantage of difficult terrain and widely dispersed law enforcement personnel to smuggle drugs through Pakistan. The steady flow of drugs transiting Pakistan has left a social toll, fueling domestic addiction and contributing to persistent low-level corruption. Pakistan has established a chemical controls program that monitors the importation of controlled chemicals. While some diversion of precursors may occur in Pakistan, it is not thought to be a major precursor transit country. No major seizures of acetic anhydride have been made in Pakistan since 1998.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, the GOP began a major initiative to increase the security and control of its Afghanistan border region. The project is aimed at strengthening security along Pakistan's border by building the capacity of the law enforcement agencies and strengthening their capabilities with a package of much-needed equipment and training. Central to the border security project is the Ministry of Interior's U.S.-supported Air Wing, which is based in Quetta. The Air Wing, built from the ground up in 2002, includes trained pilots and mechanics for five U.S.-supplied Huey II helicopters and will be supplemented in early 2003 by three fixed-wing reconnaissance aircraft. Around the clock air mobility and appropriate unit training will permit Pakistan border security forces to monitor more closely the movement of people and goods across the border and to interdict heavily armed traffickers of narcotics and other contraband.

Pakistan was declared a "poppy-free nation" by the United Nations during the year 2001. Although cultivation levels rose in 2002, the GOP has taken assertive steps to fend off any reversion to the thousands of hectares of poppy grown in the mid-1990s. Countermeasures range from alternative development to forced eradication, fines, arrest of intransigent growers, and even threatened destruction of property. The GOP is engaged with the international community to consolidate the success of alternative development programs in the traditional growing areas and to inhibit the spread of cultivation into new areas. Through U.S.-funded crop control programs in Mohmand and Bajaur agencies, the GOP's Works and Services Department has supervised the construction of roadways and now oversees maintenance and upkeep of these avenues of legitimate commerce. The United States and Pakistan also agreed to a multi-year alternative development program in Khyber Agency and began the construction of roads in previously inaccessible areas within the Agency to implement alternate development programs and to strengthen law enforcement.

Accomplishments. In 2002, the GOP was able to keep the level of opium poppy cultivation very low while it began to strengthen border controls to cut back on trafficking in the face of increased supply from Afghanistan. GOP officials continue to take measures to prevent the re-emergence of heroin or morphine base laboratories. Five special narcotics courts established in 2001 continued to produce commendable results despite limited resources. As of October 31, 2002, the ANF registered 473 narcotics cases in the GOP's court system during the year 2002 and 414 narcotics-related, previously-pending cases were decided, with a 92 percent conviction rate.

Law Enforcement Efforts. The ANF is Pakistan's leading narcotics law enforcement agency. During 2002, the ANF made efforts to address staffing shortfalls, but remains short of personnel, particularly inspectors and constables. The ANF reports that it is operating at 86 percent of authorized strength, with 1,653 of 1,934 authorized personnel. 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. In 2002, the SIC established operations in Lahore, Karachi, and Peshawar and arrested a total of 74 individuals during 2002. The SIC is in the process of adding ten more members to its current squad of 44 personnel. The SIC's performance continues to steadily improve with increasingly sophisticated operations against international drug trafficking organizations.

Pakistan's opium and hashish seizures decreased slightly during 2002, but heroin seizures increased from the previous year. During 2002, GOP security forces seized 8.9 metric tons of heroin, 2.4 metric tons of opium, and 70.7 metric tons of hashish, compared to 8.7 metric tons of heroin, 5.2 metric tons of opium, and 75.9 metric tons of hashish seized in 2001. The number of drug-related arrests also dropped 41 percent from the 2001 level. The GOP attributes the lower seizure rates to the virtual elimination of opium poppy and heroin manufacturing laboratories on national soil.

Other contributing factors that impaired the movement of drugs were the decreasing supply of opiates from Afghanistan during Taliban rule, and the presence of coalition forces in Afghanistan paired with deployment of Pakistani troops along the Pak-Afghan Border. ANF-Baluchistan and the Frontier Corps Baluchistan (FCB) covering the major trafficking routes from Afghanistan, were responsible for more

than 70 percent of the seizures. The United States continues to encourage better interagency coordination among these agencies. Customs offices at Pakistan's international airports have been effective in interdicting heroin couriers of all nationalities belonging to foreign trafficking organizations, many with a Nigerian connection, mostly traveling to Africa, the Middle East (particularly the UAE), and Thailand. Preferred methods of shipment were via ingested capsules or through the use of legal objects (speakers, cards, spools of thread, etc.) impregnated or soaked with heroin and sent through commercial courier services.

Through November 2002, total frozen drug traffickers' assets stood at U.S. \$88.47 million. A total of U.S. \$7.59 million in property belonging to convicted drug traffickers has been forfeited. During the first eleven months of 2002, 21 narcotics smugglers' assets were frozen and 10 narcotics smugglers had their assets forfeited.

Several cases proceeded against major drug traffickers in 2002. Haji Sakhi Dost Jan Notazai was sentenced to life imprisonment, fined \$35,000, and had all of his property confiscated, although the High Court of Baluchistan reduced this punishment upon appeal to 16 years and \$1,750 in fines. The ANF has in turn filed an appeal against the High Court's decision, which appeal will be heard by the Supreme Court of Pakistan. Munawar Hussain Manj, a former member of Pakistan's National Assembly, whose case was concluded in 2001 after five years of proceedings, awaits an appeal in Lahore High Court against his death sentence. The ANF also filed a criminal petition on drug charges against Muhamand Asim Kurd, an ex-Provincial Assembly Member, in an effort to move the case to a jurisdiction where an unbiased trial is more likely. Despite the pending charges, Mr. Kurd ran for office and was re-elected Member of Provincial Assembly, Baluchistan and has been inducted in the Provincial cabinet as a Minister.

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 corruption, the President of Pakistan promulgated the National Accountability Bureau (NAB) (Amendment) Ordinance 1999. During the year 2002, the NAB investigated a total of 1,167 cases of corruption, out of which 407 were completed, 198 were closed, and 562 remain in progress. Through this process, the NAB has recovered to date a total of U.S. \$1.6 billion from politicians, businessmen, and civil servants found guilty in special accountability courts.

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, we cannot rule out some narcotics-related corruption.

Agreements and Treaties. Pakistan 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 Convention on Psychotropic Substances. The United States is providing counternarcotics and law enforcement assistance to Pakistan under a letter of agreement (LOA) that provides for cooperation in the areas of border security, opium poppy eradication, narcotics law enforcement, and drug demand reduction.

Extradition is carried out under the terms of the 1931 U.S.-U.K. Extradition Treaty, which continued in force for Pakistan following its independence. Several pending U.S. extradition requests have been awaiting court action for many years and no extraditions occurred in 2002. However, the extradition of one individual was approved in the fall of 2002 and GOP investigators and the SIC-assigned prosecutor have stated that they will aggressively pursue newly submitted extradition packages. Nonetheless, lack of

action on those requests by the GOP continues to be a thorn in the side of the U.S.-Pakistan law enforcement relationship.

Under a 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, during periods of reduced tension, to discuss operational cooperation and cross border flows of precursor chemicals.

Cultivation/Production. 622 hectares of opium poppy were cultivated in the North West Frontier Province (NWFP) in 2002, compared to 213 hectares in 2001. 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 2002 at ca. 14 metric tons, compared to five metric tons in 2001.

Both Afghan-origin hashish and opiates transit through Pakistan. Afghanistan opium poppy cultivation surged to 30,750 hectares in 2002 from an estimated 1,685 hectares in 2001. Due in part to the post-Taliban spike in cultivation across the porous border, Pakistan's importance as a transit country has increased, particularly as a conduit to Turkey and Iran. 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. Pakistani traffickers are also an important source of financing to the poor farmers of Afghanistan who otherwise would not be able to produce opium.

Although seizures were low, intelligence has established that stockpiling continues and that traffickers have adapted a new methodology of transportation. An increase in the price of white heroin in Pakistan to U.S. \$6,000 per kilogram has resulted in the cross border transportation of smaller quantities to reduce the size of seizures and potential loss of investment. This "shotgun" approach has increased the number of transporters who move smaller loads; the seizures of 100-kilo shipments of several years ago have been replaced by seized shipments of 20-100 kilos.

Intensive counternarcotics efforts by the Government of Iran have forced traffickers to find alternative routes, increasing the pressure on routes through Central Asia. 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.

Domestic Programs (Demand Reduction). In 2002, the UNDCP published the results of a National Drug Abuse Assessment Survey in Pakistan that was undertaken in 2000. This survey partially addresses the paucity of reliable information on the extent of drug addiction within Pakistan. The survey confirms that Pakistan is faced with a significant drug abuse problem, with approximately 500,000 hard-core heroin users and a dangerous shift in use towards injection by needle. The UNDCP has agreed to fund 16 drug treatment and rehabilitation centers throughout Pakistan to treat hard-core and other addicts. However, GOP funding to expand the country's drug treatment facilities and to raise awareness of the dangers of drug abuse remains inadequate.

IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics policy objectives for 2003 are: to work with the GOP to strengthen the security of its borders along Afghanistan, encourage the GOP to eliminate remaining pockets of opium poppy cultivation and discourage any spread of cultivation; to increase interdiction of opiates from Afghanistan; to dismantle major trafficking organizations; to expand demand reduction efforts; to enhance cooperation

regarding the extradition of narcotics fugitives; and to encourage GOP efforts against white collar crime such as money laundering.

Bilateral Cooperation. The United States provided U.S. \$2.37 million in narcotics control assistance to Pakistan in 2002. This amount included U.S. \$1.5 million for the Khyber Area Project and \$500,000 from DEA funds for the Special Investigative Cell (SIC) within the ANF. The United States is assisting GOP efforts to strengthen the security of its borders with Afghanistan under the Border Security Project. This U.S.-funded \$73 million project is providing aviation and ground equipment support to various law enforcement agencies deployed along Afghanistan's border with Pakistan. In addition to narcotics law enforcement, the United States continues to fund crop control projects in Mohmand, Bajaur, and Khyber 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 investigates complex international counternarcotics cases and coordinates its investigations with U.S. and other international law enforcement agencies. These cases resulted in numerous arrests and seizures and in the disruption of major drug trafficking organizations. To build on this success, the GOP began the process of expanding the SIC in 2002. Strengthening interagency 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 2002. Principal among these sources was UNDCP. UNDCP is completing a very successful alternative development project in the Dir District begun in 1994. UNODC's three-year, U.S. \$5.2 million narcotics law enforcement program begun in 1999 has provided modern drug testing equipment, law enforcement training, and computer hardware and networking for a national drug intelligence information system at ANF Headquarters. The UNODC is helping to establish a network of drug treatment and rehabilitation centers, supports drug abuse prevention activities, and has initiated a pilot project to prevent HIV/AIDS transmission among injecting drug users in Karachi.

The Road Ahead. Even with the provision of air and ground mobility and communications capacity through the border security program, the GOP will face an immense challenge in the coming year to interdict the increasing supply of drugs from Afghanistan that pass through an extensive and permeable border into Pakistani territory. The GOP will need to work with the U.S. to develop a strategy to utilize new resources wisely, increase the coordination among the eleven agencies that have counternarcotics responsibilities, and put training to best use. In coordination with the border security program, the U.S. will work with the GOP to put greater emphasis on the development of drug intelligence as it directly relates to trans-border trafficking activity and to target kingpin smuggling operations.

Continued efforts to streamline and reform law enforcement, to investigate and prosecute corruption, and to speed up the pace of the counternarcotics judicial process will also be key to greater success against the drug trade in the future. The United States will continue to work with the GOP to expedite extradition requests and to strengthen Pakistan's ability to attack money laundering, particularly by encouraging the passage of money laundering legislation that meets both UN and Financial Action Task Force standards. 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

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium										
Potential Harvest (ha)	622	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)	622	1,697	2,219	2,767	5,224	4,754	4,267	6,950	7,733	7,136
Potential Yield (mt)	5	5	11	37	65	85	75	155	160	140
Seizures										
Opium (mt)	2.4	5.2	7.84	16.32	5.02	8.54	8.08	215.52	14.36	4.40
Heroin (mt)	8.9	6.0	7.41	4.98	3.33	5.07	4.05	18.04	6.20	3.9
Hashish/Marijuana (mt)	70.7	53	108.16	81.46	65.33	108.50	201.55	543.58	178.29	189.00
Labs Destroyed	0	0	0	2	0	4	10	15	18	13
Acetic Anhydride (ltr)	0	0	43	422	10,000	5,383				
Arrests	TBD	TBD	35,969	45,175	37,745	50,565	51,119	59,081	48,296	39,763
Users (thousands)										
Opium/Heroin	TBD	TBD						196	1,080	1,080
Opium (since 1995)	TBD	TBD	126	118	110	103	96			
Heroin (since 1995)	TBD	TBD	2,280	2,131	1,992	1,862	1,740			
Cannabis	TBD	TBD	1,307	1,222	1,142	1,068	998	1,745	1,000	1,000
Other Drugs	TBD	TBD	506	473	442	413	386	485	50	50

Sri Lanka

I. Summary:

Sri Lanka has a comparatively modest drug problem. The government maintains a solid counternarcotics record, including a strong nation-wide demand reduction program. The U.S. government has a close relationship with the Sri Lankan government on counternarcotics issues. Supported by the U.S. Embassy, efforts at public education on drug abuse continued during the year. Sri Lanka remained an effective regional player in counternarcotics cooperation. An ongoing ceasefire with the Liberation Tigers of Tamil Eelam (LTTE) has enabled the government to commit more officials to counternarcotics efforts, thus strengthening Sri Lanka's counternarcotics activities. The government continued to make available to other nations in the South Asian Association for Regional Cooperation (SAARC) a U.S. government-funded database on narcotics arrests and related information. Sri Lanka has signed the UN Drug Convention, although Parliament still had not considered the enabling legislation for the convention as of the end of 2002.

II. Status of Country:

Sri Lanka is not a major producer of narcotics or precursor chemicals. Some evidence exists that Sri Lanka may be a transit point for a limited amount of narcotics. With respect to its domestic situation, Sri Lanka has a modest drug problem with continued consumption of heroin and cannabis.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, the Sri Lankan government continued to maintain a good track record on counternarcotics issues. One primary change affecting operations during 2002 was the December 2001 transfer of jurisdiction of the police—who are responsible for counternarcotics and demand reduction activities—from the Ministry of Defense to the Ministry of Interior. The change in leadership coincided with a cessation of hostilities with the LTTE and was implemented by the new government elected on December 5, 2001. During the 19-year conflict with the LTTE, the police were often called on to assist in prosecuting the war effort against the LTTE. This was clearly evident in the decrease in personnel in police bureaus, including the Police Narcotics Bureau (PNB). The past year has seen the PNB refocus on the Sri Lankan counternarcotics master plan drafted with the assistance of the UN Drug Control Program (UNDCP) and initially implemented in 1994. The PNB increased its staff from approximately 150 officers to just over 200. With the cessation of hostilities between the government and the LTTE, PNB officers were able to focus on counternarcotics investigations instead of being constantly pulled aside for additional duties.

At the end of the year, the government had not yet submitted to Parliament the comprehensive counternarcotics legislative package drafted by the National Dangerous Drugs Control Board (NDDCB), the government agency responsible for coordinating national drug policies. The proposed legislation was being reviewed by the Attorney General's office at year's end. During 2002, the NDDCB, in anticipation of the eventual implementation of its legislative package, was developing monitoring mechanisms for current and upcoming counternarcotics policy goals.

Accomplishments. In January 2001, the Sri Lankan government signed an extradition treaty with the United States. Sri Lanka continued to work with SAARC on regional narcotics issues.

Law Enforcement Efforts. The PNB, the Customs Service, and the Department of Excise share responsibility for discouraging cannabis production. At mid-year, the PNB was forecasting a reduction in the annual seizure rate of narcotics. At year's end, however, a series of seizures, including approximately 20 kilograms of heroin in November, dramatically increased the total amount of narcotics seized.

Corruption. Although there were rumors (nothing confirmed) of bribery of low-level government officials by narcotics dealers in 2002, there was no evidence that public officials engaged in narcotics trafficking. In one case a former police officer was arrested for narcotics trafficking and was awaiting trial at year's end. In 1994, the government established a permanent commission to investigate charges of bribery and corruption against public officials. No narcotics-related corruption cases were reportedly reviewed by this body during 2002.

Agreements and Treaties. Sri Lanka has signed the 1988 UN Drug Convention, and the 1990 SAARC convention on Narcotic Drugs and Psychotropic Substances. Enabling legislation for both conventions, initially drafted by the NDDCB in 1997, still had not reached Parliament at year's end. The Attorney General's office was reviewing the legislation. In January 2001, the Sri Lankan government ratified a new extradition treaty with the United States. Sri Lanka has also signed the following agreements: World Customs Organization Convention; the International Convention on Investigation and Repression of Customs Offences (the Nairobi Convention); the Single Convention on Narcotic Drugs, along with the 1972 Protocol Amending the Single Convention on Narcotic Drugs; and the 1971 Convention on Psychotropic Substance (signed in 1993).

Cultivation and Production. Sri Lanka is only known to produce 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 previous areas of conflict. The police have an active program to find and destroy cannabis crops.

Drug Flow/Transit. Some heroin reportedly transits Sri Lanka. Unlike 2001, no major seizures occurred at Colombo's international airport. Customs officials and the PNB suspect that narcotics are brought into Sri Lanka by ship from India. During 2002, India reported large-scale seizures of heroin headed for Sri Lanka in Chennai. The PNB regularly stressed their country's vulnerability to transshipment of heroin from India due to Sri Lanka's long coastline. Sri Lanka has no coast guard and the primary operations of Sri Lanka's naval vessels were in efforts to prevent the inflow of weapons to the LTTE. This lack of seagoing capability hinders interdiction efforts.

Domestic Programs. The government has an excellent record on demand reduction. The NDDCB continued its aggressive national public education campaign. In addition, the PNB in conjunction with NGOs, and after U.S. government-funded training through the Colombo Plan, initiated an counternarcotics education campaign in late 2002 in schools nation-wide. The NDDCB, through international and local funding, provides training on prevention techniques and has established four free treatment and rehabilitation centers in Sri Lanka. The courses offered by NDDCB are directed at judicial officers, police officers, students, teachers, and parents. The Colombo Plan also continued extensive rehabilitation and prevention training programs. Until 2002, the Colombo Plan worked primarily with NGOs in Sri Lanka. Due to the ongoing cease-fire, the PNB has been able to allocate more time to training for its personnel and has worked with the Colombo Plan to expand the police officers' focus from only interdiction to include prevention techniques.

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. In addition to providing 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 co-operation among law enforcement and other government officials working on narcotics issues in Sri Lanka and the region. In 2002, several PNB officers participated in an Anti-Terrorist Assistance training program in the United States and Sri Lanka. The U.S. government is the principle contributor to the Colombo Plan's Drug Advisory Program (DAP), providing over \$300,000 to the program in 2002. The funding was used to conduct regional and country-specific training seminars with government and NGO representatives on education, awareness, rehabilitation, and prevention techniques. The DAP also contributed directly to awareness campaigns in Colombo.

Bilateral Cooperation. In previous years, the U.S. government assisted several Sri Lankan organizations in their counternarcotics efforts. In 1998, the U.S. government provided close to \$7,000 for equipment purchases to the NDDCB, the Federation of Non- Governmental Organizations Against Drug Abuse (FONGOADA), and the Sri Lanka Anti-Narcotics Association. In August 2000, more than 30 participants from narcotics enforcement agencies in four countries attended an counternarcotics investigative techniques course in Colombo funded by the U.S. government and conducted by the Drug Enforcement Agency (DEA). In 2002, the U.S. continued to provide training to the Sri Lankan government. In December, for example, the DEA conducted a training program on airport interdiction techniques for 26 participants from Sri Lanka and four participants from the Maldives.

Road Ahead. The U.S. government will continue to work with Sri Lankan counternarcotics organizations whenever possible, particularly by participating in seminars addressing the drug problem. The overall level of U.S. counternarcotics assistance to Sri Lanka is expected to incrementally increase in 2003. The U.S. expects to continue its support of the Colombo Plan, and already has agreements to conduct additional training with the PNB and other government officials involved in counternarcotics efforts.

SOUTHEAST ASIA

Australia

I. Summary

Australia is a committed partner in international efforts to combat illicit drugs. Australia accords high priority to drug issues, both internationally and domestically. Australia pursues an approach to drug issues that manages the diverse health, social and economic consequences of drug use through comprehensive and consistent policies of demand reduction, supply reduction and harm reduction. Australia is a party to the 1988 UN Drug Convention, as well as, the 1961 Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

II. Status of Country

Australia is a consumer country with respect to illicit drugs. There is no evidence of narcotics destined for the United States transiting Australia. U.S. and Australian law enforcement agencies have excellent cooperation on narcotics matters. Cannabis (marijuana) and ecstasy (MDMA) are the most abused drugs in Australia, although usage is rising for cocaine, methamphetamine and other Amphetamine Type Substance (ATS). Heroin, however, remains at the forefront of concern for the law enforcement, social service, and health care communities in Australia.

III. Country Action Against Drugs in 2002

Policy Initiatives. Australia's National Drug Strategic Framework for 2002-04, which was endorsed by the Ministerial Council on Drug Strategy, presents a "shared vision", a framework for co-operation, and a basis for coordinated action to address drug issues. As part of its "Tough on Drugs" strategy, the Federal government has committed funding totaling \$354 million.

On December 31, 2002, the Prime Minister pledged additional resources to his 2001 initiative to fight drug use in Australia through comprehensive law enforcement efforts, boosting spending to U.S. \$122 million over four years. On April 5, 2002, the Federal Government brought together state and federal officials at a Leaders' Summit on Transnational Crime and Terrorism. The Summit resulted in a reorganization of the Australian National Crime Authority (NCA, now the Australian Crime Commission) and increased the cooperation between state and federal investigators in responding to serious crimes such as drug trafficking and ensuring prosecution at the appropriate state or federal level.

Accomplishments. The Australian Government continues to pursue strong programs to combat drug trafficking and use, which target the drug trade at all levels of production, distribution, and end use. The Australian Government works closely with the United States on a range of drug issues, including through mutual legal assistance and extradition.

Law Enforcement Efforts. Law enforcement agencies continued aggressive counternarcotics law enforcement activities in 2002. Responsibility for these efforts is divided between the federal government—primarily the Australian Federal Police (AFP), the Australian Customs Service (ACS) and the National Crime Authority (NCA)—and the respective state police services. The AFP maintains overseas liaison posts to assist in narcotics-related investigations. Liaison officers, particularly those in the Pacific Island nations, also assist local law enforcement agencies in training and institution building. The AFP, both in Australia and overseas, has a close working relationship with U.S. agencies, such as the DEA and the FBI. In October 2001, the Prime Minister announced plans to deploy additional overseas liaison positions. The AFP has nearly doubled its overseas presence, allowing it to be more proactive in transnational drug trafficking. Seizures of cocaine by Australian Federal Police increased in the fiscal year ending June 30, 2002 to 1032.2 KG. State authorities seized 52 KG of cocaine in 2000-'01; state seizure

figures for '01-'02 are not yet available Federal Police heroin seizures also increased this FY to 433.4 KG from 233.6KG in the preceding FY. State authorities seized 248.1 KG of heroin during FY00-FY01.

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 such activities. Although some individual police force officers have been investigated concerning drug-related corruption, corruption is not common.

Agreements and Treaties. The United States and Australia cooperate in law enforcement matters under a bilateral mutual legal assistance treaty and an extradition treaty. Australia 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. The USG has a Customs Mutual Assistance Agreement (CMAA) with Australia. Australia signed the UN Convention Against Transnational Organized Crime in December 2000, but has not yet ratified it.

Cultivation/Production. The only significant illicit drug cultivation in Australia involves cannabis. There is no evidence that Australian illicit cannabis production reaches the United States in quantities sufficient to have a significant effect. Australia has a significant licit opium crop, primarily on the island of Tasmania. Controls against diversion of that crop are excellent. The majority of amphetamines and methamphetamines consumed in Australia are produced domestically in small, often mobile, laboratories.

Drug Flow/Transit. Australia has been and continues to be a target for Southeast Asian heroin trafficking organizations and South American cocaine traffickers. Laos, Burma, and Thailand continued to be the principal source of heroin trafficked into Australia. Law enforcement authorities estimate that around 80 percent of imported heroin comes from Burma. Until recently, Latin American countries had not been identified as sources of heroin imported into Australia. Some seizures between 1997 and 2002 have originated from that area, however. There has been an increase in detected amounts of amphetamine-type substances (ATS, a category that includes ecstasy and methamphetamines), imported from Asia. Ecstasy is mainly imported from Europe. The U.S. Embassy continues to examine whether these drugs are transiting Australia to the United States, but to date there has been no information that this is occurring.

Domestic Programs. The Federal Government continues to pursue the "Tough on Drugs" Strategy to reduce the supply of, and demand for, illicit drugs in Australia through comprehensive efforts in law enforcement, prevention, treatment, and education. This strategy provides U.S. \$230 million toward demand reduction programs including education, prevention, treatment, monitoring, evaluation and research programs. Some of the key elements include: the diversion of illicit drug users from the criminal justice system into assessment, education, and treatment programs; a national drug information service to disseminate drug and alcohol information to all sectors of the community; enhanced drug education in schools; expanding and upgrading treatment services; and a comprehensive community wide education and information campaign.

Under the Australian federal system, the Federal Government has responsibility for national health and crime issues, while the States and Territories have responsibility for the delivery of health and welfare services. The Ministerial Council on Drug Strategy brings together the Federal, State and Territory Ministers responsible for health and law enforcement to determine national policies and programs to reduce the harm caused by drugs in Australia.

Although the Federal Government opposes supervised injecting rooms, the legal authority to provide injecting rooms rests with the health and law enforcement agencies in the States and Territories. In May 2001, the State of New South Wales passed legislation to enable the licensing and operation of an injecting center for a trial period of 18 months. The center, which is now in operation, provides for medically supervised heroin injections. The original trial period has been extended for an additional 12 months, and

the center is licensed to operate until October 2003. The Australian Capital Territory has passed similar legislation but has not opened a similar center.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. counternarcotics activities in Australia feature strong ongoing U.S.-Australian collaboration in investigating, disrupting, and dismantling international illicit drug trafficking organizations. In mid-2002, the United States and Australia signed a Memorandum of Understanding to codify these objectives.

Bilateral Cooperation. Cooperation between U.S. and Australian authorities 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 United States can expect excellent ongoing bilateral relations with Australia on the counternarcotics front, and the two countries should continue to work well together in UNODC and other multilateral forums.

Burma

I. Summary

With Afghanistan's re-emergence as the world's largest producer of illicit opium, Burma fell to second place in 2002. Burma remains the primary source of amphetamine-type stimulants (ATS) in Asia, producing hundreds of millions of tablets annually. Although still a major producer of illicit opium, Burma's overall production in 2002 declined substantially for the sixth straight year. According to the joint U.S./Burma opium yield survey, opium production in Burma totaled no more than 630 metric tons in 2002, down more than 26 percent from a year earlier, and less than one-quarter 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 government has elicited "opium-free" pledges from each group and, as these pledges have come due, has stepped up law enforcement activities in areas controlled by these groups. However the date for the Wa to end opium production and trafficking is 2005, and the government has done little to curb them. Major Wa traffickers continue to operate with apparent impunity, and UWSA involvement in methamphetamine production and trafficking remains a serious concern. The USG once again found that Burma failed demonstrably to meet its international counternarcotics obligations.

Over the past several years, the Burmese government has significantly extended its counternarcotics cooperation with other states. In 2001, it signed counternarcotics MOUs with both China and Thailand, and, in both 2001 and 2002, joined with China in joint operations in the northern and eastern Shan State which resulted in the destruction of several major drug trafficking rings, including one group which the Chinese called one of the largest "armed drug smuggling groups in the Golden Triangle area." Cooperation with Thailand was interrupted by border tensions during the summer of 2002, but began to revive toward year's end as tensions eased.

In 2002, Burma also responded to rising international concerns regarding the quality of its anti-money laundering regime by enacting a powerful new money-laundering law that criminalizes money laundering in connection with virtually every type of major criminal activity. The first investigations under this law began in July, resulting in the seizure of several hundred thousand dollars in assets.

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 is the world's second largest producer of illicit opium. A sustained drought in opium producing areas, and limited eradication efforts, have combined to depress cultivation levels and yield over the past several years. According to the joint U.S./Burma opium yield survey, the total land area under poppy cultivation in Burma was 77,000 hectares in 2002, a 26 percent decrease from the 105,000 hectares under cultivation in 2001. Estimated opium production in Burma totaled approximately 630 metric tons in 2002, a 27 percent decrease from 865 metric tons in 2001, and less than a quarter of the 2,560 metric tons produced in Burma in 1996. In 2002, yields remained low (approximately 8 kilograms/hectare), or barely half the level recorded in 1996.

Burma also plays a major role in the regional traffic in amphetamine-type stimulants (ATS). Drug gangs based in the Burma/China and Burma/Thailand border areas annually produce several hundred million methamphetamine tablets for markets in Thailand, China, and other Southeast Asian states on the basis of precursors imported from neighboring states. Burma itself does not have a chemical industry and does not produce any of the precursors for methamphetamine or other artificial drugs. Neither is there any significant market in Burma for ATS. In 2002, ATS seizures declined from previous modest levels of

approximately 10 million tablets. Aside from these seizures and the closing of a few production labs, the government did not take significant steps to stop ATS production and trafficking.

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 2002, the Burmese government continued its crackdown in the Kokang region controlled by Peng Jiasheng's Myanmar National Democratic Alliance Army (MNDAA), which had pledged to be opium-free by 2000. The government modestly increased pressure on the Wa in 2002, closing down Wa liaison offices along the Thai border and arresting several Wa traffickers. The government claims it cannot crack down faster on the Wa because the Wa's opium-free pledge does not come due until 2005, and doing so would jeopardize Burma's national security, as the UWSA is a formidable military force. 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 expand its modest police presence in the Wa territories in 2002. The government also took a more aggressive stance on traveling in Wa territory, informing UWSA officials of such visits rather than seeking their permission in advance. Nevertheless, the government has yet to put significant pressure on the Wa to stop illicit drug production or trafficking.

Despite agreements with the ethnic groups to set dates by which to be opium free, the results remain 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 government 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 government 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.

Burma has a small, but growing drug abuse problem. While the government maintains that there are only about 70,000 registered addicts in Burma, surveys conducted by UNODC, among others, suggest that the addict population could be as high as 300,000 (i.e., still less than 1 percent of the population), with opium the major source of addiction. 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.

Money laundering is also an area of concern. While international money flows through Burma are small, given the undeveloped state of its banking system and tight government controls on all fund transfers, the Financial Action Task Force in June 2001 placed Burma on its list of non-cooperating territories, because of concerns regarding weaknesses in Burma's anti-money laundering regime. Burma has since responded by enacting a powerful new money laundering law, seizing assets, and preparing prosecutions in several major cases.

III. Country Actions Against Drugs in 2002

Policy Initiatives. 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 to be taken on during the first five years of the program.

The government has received very limited international assistance in support of these efforts. The most significant is the UN Office of Drugs and Crime's (UNODC) Wa Alternative Development Project (WADP), which is financed by the United States, Japan and, since 2002, Germany. A five-year, \$12.1 million program, this project encourages alternative development in a small portion of the territory controlled by the United Wa State Army. There is also a small, U.S.-financed project in Northern Shan State (Project Old Soldier) and a Japanese effort to establish buckwheat as a cash crop in the Kokang and Mong Ko regions of northeastern Shan State. In addition, the Thai government agreed in 2001 to extend its own alternative development projects across the border into the Wa-controlled Southern Military Region of Shan State.

Narcotics Seizures. Summary statistics provided by the Burmese police indicate that the Burmese police, army, and the Customs Service together seized approximately 1,631 kilograms of raw opium, 285 kilograms of heroin, and 8.8 million methamphetamine pills during the first ten months of 2002. This compares with seizures of 1,629 kilograms of raw opium, 98 kilograms of heroin, and 32.4 million methamphetamine pills during all of 2001. The three-fold increase in heroin seizures reverses a four-year decline in such seizures. Although the explanation for decreased ATS seizures is unclear and may be related to adjustments in trafficking patterns, the relatively tiny amount seized had virtually no effect on the scope of the problem.

In 2002, the Ministry of Health issued notification No. 1/2002 identifying 25 substances as precursor chemicals and prohibiting their import, sale, or use in Burma. Seizures of precursor chemicals during the first nine months of 2002 included 1,220 kilos of ephedrine, 2,908 kilos of acetic anhydride, and 21,552 kilos of other chemicals. In 2001, the totals were 3,922 kilos of ephedrine, 12,318 liters of acetic anhydride, and 174,191 liters of other chemicals. Major cases in 2002 included the following:

In cooperation with Thailand, Burmese police contributed to the seizure of 116 kilograms of heroin and 7.8 million methamphetamine tablets in February. Two of the principals behind this shipment were also eventually convicted in Rangoon and sentenced to "indefinite" (i.e., life) terms in prison.

- During January, Kokang based trafficker, Liu Ming, was found after an engagement dead. Liu's associate, Liu Quan, was subsequently arrested by Burmese authorities.
- In cooperation with China, Burmese police have contributed to a series of arrests and seizures throughout 2002 all along the Chinese border. Since 2001, Burma has turned over 22 fugitives to China, including members of one group (Tan Xiao Lin and company), which China described as the "largest armed drug-trafficking gang in the Golden Triangle."
- In cooperation with the United States Drug Enforcement Administration (DEA) and China, Burmese police contributed to the seizure of 12.5 kilograms of heroin in Hong Kong on July 11,. Evidence collected in that case will provide the basis for one of the first prosecutions in Burma under the government's new money laundering law.
- In cooperation with Thailand and the U.S. DEA, Burmese police arrested Yang Chia-ho, a Kokang Chinese who is reportedly a confederate of the notorious Wa captain, Wei Hsueh Kang. Yang Chia-ho was taken into custody together with more than 5 million methamphetamine tablets and 41 kilos of heroin in Tachileik, Burma on October 4.

Arrests and Prosecutions: Burma arrested 4,148 suspects on drug related charges, according to official statistics. These include nearly 250 police officials and members of the military.

Refineries. The government destroyed 7 heroin labs through the first nine months of 2002, compared to 14 in all of 2001. It also destroyed six meth labs during the first nine months of 2002, compared to three in all of 2001.

Eradication. The government eradicated more than 50,000 acres (20,000 hectares) of opium poppy over the past two crop years. Of this, 25,862 acres were destroyed during the 2001/2002 crop year; 26,113 acres were destroyed during the 2000/01 crop year. In addition, the government burned 164,000 kilos of poppy seeds capable of seeding more than 40,000 hectares during the six month period between April and October. According to the Burmese government, the destruction of those seeds, together with law enforcement actions is expected to reduce the acreage under opium cultivation by about half in 2003.

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.

With assistance from UNODC, the Burmese government is in the process of drafting a new Mutual Legal Assistance Law, which should lay the groundwork for judicial and law enforcement cooperation across borders in the prosecution of money laundering and other cases.

In 2001, for the first time, the government established a police and military intelligence presence in the Wa territories. In March 2002, it demanded that new counternarcotics decrees be issued by the Wa, the Kokang Chinese, and other cease-fire groups. Those decrees outlawed participation in any aspect of the narcotics trade. In April and May 2002, the GOB also demanded and received cooperation from the United Wa State Army in bringing to heel several major fugitives wanted by China. In addition, it has closed down the liaison offices of armed groups like the United Wa State Army, and of companies associated with those groups in Tachileik, Myawaddy, and other towns on the Thai/Burmese border. Finally, the GOB continued efforts to hold cease-fire groups to their pledges to end opium production in their territories. U Sai Lin's Special Region No. 4 around Mong La has been opium-free since 1997 and the Wa are, thus far, on track to eliminate opium by 2005. The Kokang Chinese missed their opium-free target (scheduled for the year 2000), but have paid a heavy price for that failure in terms of increased attention from both the Burmese and the Chinese police. Several of these same trafficking armies also control amphetamine production labs and extensive trafficking operations. These remain largely intact, and are a major factor in amphetamine trafficking in Southeast Asia and beyond.

The government continued its crackdown begun in 2001 on the array of militias (some government-sponsored village defense forces, and others the remnants of former insurgent bands) that the government 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 scale back their privileges, including the right to grow and traffic in opium.

Corruption. There is no direct evidence that senior officials in the Burmese Government are directly involved in the drug trade. However, lower level officials, particularly army and police personnel posted in outlying areas, have been prosecuted for drug abuse and/or narcotics-related corruption. According to the Burmese government, over 200 police officials and 48 Burmese Army personnel have been punished for

narcotics-related corruption or drug abuse between 1995 and May 2002. Of the 200 police officers, 130 were imprisoned, 16 were dismissed from the service, 7 were forced to retire, and 47 were demoted. To our knowledge, however, no Burma Army officer over the rank of full Colonel has ever been prosecuted for drug offenses in Burma. This fact, the prominent role in Burma of the family of notorious narcotics traffickers (e.g., Lo Hsing Han Clan), and the continuance of large-scale narcotics trafficking over years of intrusive military rule have given rise to speculation that some senior military leaders protect or are otherwise involved with narcotics traffickers.

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. In addition, Burma is also one of six nations (Burma, Cambodia, China, Laos, Thailand, Vietnam) that are parties to UNODC's subregional action plan for controlling precursor chemicals and reducing illicit narcotics production and trafficking in the highlands of Southeast Asia.

In 2001, Burma signed additional counternarcotics MOUs with China (in January) and Thailand (in June). The MOU with China, in particular, laid down the ground rules for joint operations, which in turn led to a series of arrests and renditions of major traffickers during the spring and summer of 2002.

Burma's MOU with Thailand commits both countries to closer police cooperation in narcotics control. In August 2001, both countries also agreed to establish joint "narcotics suppression coordination stations" in the Chiang Rai/Tachileik, Mae Sot/Myawaddy, and Ranong/Kawthoung border areas. In addition, during Secretary Khin Nyunt's September 2001 visit to Thailand, Thailand also offered 20 million baht (about \$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.

This nascent counternarcotics cooperation between Thailand and Burma was interrupted by tensions on the border during the summer of 2002. However, as tensions have eased, cooperation has resumed.

Cultivation and Production. According to the US/Burma Joint Opium Yield Survey, opium production declined in Burma for the sixth straight year in 2002. The survey found that the maximum potential yield for opium in Burma in 2002 totaled 630 metric tons, down 235 metric tons (or approximately 26 percent) from 2001. Over the past six years, opium production in Burma has declined by more than 75 percent, from an estimated 2,560 metric tons in 1996 to 630 metric tons in 2002. The area under cultivation has dropped by more than half, from 163,100 hectares in 1996 to approximately 77,000 hectares in 2002. Yields have similarly been cut by more than half, from an estimated 17 kilograms per hectare in 1996 to levels (about 8.0 kilograms per hectare in 2002) that are now comparable to those in neighboring states such as Laos.

Results from a UNODC-sponsored census survey throughout Shan State in 2002 largely corroborated these results. According to UNODC, Burma produced approximately 828 metric tons of opium on 81,000 hectares of land in 2002.

Drug Flow/Transit. Most ATS and heroin in Burma is produced in small, mobile labs located in the Burma/China and Burma/Thailand border areas, primarily in territories controlled by active or former insurgent groups. A growing amount of methamphetamine is reportedly produced in labs co-located with heroin refineries in areas controlled by the United Wa State Army, the Kokang Chinese, and the Shan State Army—South. Heroin and methamphetamine produced by these groups are trafficked primarily through China, Thailand and, to a lesser extent, Laos, India, Bangladesh, and Burma itself.

Precursors for refining these narcotic drugs are primarily produced in India, China, Thailand, and other regional states. Burma does not have a chemical industry and does not produce ephedrine, acetic anhydride, or any of the other chemicals required for the narcotics trade. Similarly, the major markets for all of these narcotic drugs lie in neighboring states. Relatively little is sold in Burma itself.

Demand Reduction. The overall level of drug abuse is low in Burma compared with neighboring countries. According to the GOB, there are only about 70,000 "officially registered" drug abusers in Burma. While this is undoubtedly an underestimate, even UNODC estimates that there may be no more

than 300,000 people (still less than 1 percent of the population) who abuse drugs in Burma. Most, particularly among the older generation, use opium, but use of heroin and synthetic drugs is rising, particularly in urban and mining areas.

Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register and can be prosecuted if they fail to register and accept treatment. Altogether, more 21,000 addicts were prosecuted for failing to register between 1994 and April 2002.

Demand reduction programs and facilities are strictly limited, however. There are six major drug treatment centers under the Ministry of Health, 49 other smaller detox centers, and eight rehabilitation centers which, together, have reportedly provided treatment to about 55,000 addicts over the past nine years. There are also a variety of narcotics awareness programs conducted through the public school system. According to UNODC, approximately 1,200 high school teachers participated in seminars, training programs, and workshops connected with these programs in 2001. In addition, the government has established demand reduction programs in cooperation with NGOs. These include programs with CARE Myanmar, World Concern, and Population Services International, all of which focus on injecting drug use as a factor in the spread of HIV/AIDS.

IV. U.S. Policy Initiatives and Programs

Policy and Programs. Direct USG counternarcotics assistance to Burma has been suspended since 1988, when the Burmese military suppressed the pro-democracy movement. The USG now engages the Burmese government in regard to narcotics control only on a very limited level. DEA, through the U.S. Embassy in Rangoon, shares drug-related intelligence with the GOB and conducts joint drug-enforcement investigations with Burmese counternarcotics authorities. Other U.S. agencies have conducted opium yield surveys in the mountainous regions of the Shan State in 1993, 1995, 1997, 1998, 1999, 2000, 2001, and 2002 with essential assistance provided by Burmese counterparts. These surveys give both governments an accurate understanding of the scope, magnitude, and changing geographic distribution of Burma's opium crop.

The U.S. Government regularly urges the Burmese government to continue to take steps to curb narcotics production and trafficking. Specifically, the USG has encouraged the Burmese government to:

- Comply with the provisions of UN Drug Conventions by taking demonstrable and verifiable actions against high level drug traffickers and their organizations;
- Increase opium eradication and significantly increase seizure rates for opium, heroin, and methamphetamines; control the diversion of precursor chemicals; and destroy significantly more heroin and methamphetamine laboratories;
- Continue cooperation with China and Thailand and expand cooperation to other neighboring countries such as India;
- Enforce existing money laundering laws, including asset forfeiture provisions, and fully implement and enforce Burma's new money laundering legislation;
- Prosecute drug-related corruption, especially corrupt government and military officials who facilitate drug trafficking and money laundering; and
- Expand demand reduction, prevention and drug treatment programs to reduce drug use and control the spread of HIV/AIDS.

The Road Ahead. The Burmese government has committed itself in recent years to expanded counternarcotics measures, has found major regional allies (particularly China) in this fight, and has built up the capacity to identify and punish drug traffickers and major trafficking organizations, even within the context of very limited resources. 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—would help curb drug production and trafficking in Burma. However, recurring human rights problems have limited international support of all kinds, including support for Burma's law enforcement efforts. The USG believes that the Government of Burma should continue to reduce opium cultivation and production, combat corruption, enforce its narcotics and money-laundering legislation, and deal with drug abuse. Its efforts have produced measurable results. The USG strongly urges the GOB to sustain and intensify those efforts so that its counternarcotics efforts are commensurate with the scope of the problem. The USG also urges the GOB to take efforts to combat the production and trafficking of ATS, and to expand its law-enforcement campaign to the most prominent trafficking groups and their leaders. In addition, the USG encourages the GOB to continue its expanded efforts to cooperate with other countries in the region. Continued and intensified, these efforts could lead to a sustained reduction in all forms of narcotics production and trafficking from an area that has been one of the world's major drug trafficking centers.

Burma Statistics

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium										
Potential Harvest (ha)	78,000	105,000	108,700	89,500	130,300	155,150	163,100	154,070	146,600	165,800
Eradication (ha)	25,862	9,317	0	9,800	16,194	10,501	0	0	3,345	604
Cultivation (ha)	103,862	114,317	108,700	99,300	146,494	165,651	163,100	154,070	149,945	166,404
Potential Yield (mt)	630	865	1,085	1,090	1,750	2,365	2,560	2,340	2,030	2,575
Seizures										
Opium (mt)	1,863.28	1,629.06	1.528	1.445	5.200	7.884	1.300	1.060	2.265	2.265
Heroin (mt)	0.334	0.097	0.171	0.273	0.386	1.401	0.505	0.070	0.347	0.300
Marijuana (mt)	0.282	0.284		0.274	0.160	0.288	0.259	0.239	0.290	0.600
Ephedrine (mt)	3.9220	1.723	2.671	6.485	3.819	_	_			_
Acetic Anhydrid e (ltr)	12,318	2,953	3,945	1,620	424	2,137	5,082	1,159	1,191	1,016
Other Data										
Heroin Labs Destroy ed	na	7	_	23	32	33	11	3	4	0
Meth Labs Destroy ed	na	3	_	6						
Narcotics Arrests		_	_	6,413	4,456	4,522	4,522	5,541	7,134	7,520
Heroin Users (thousan ds)	300	300	_	300	300	300	150	100	30	30
Opium Users (thousan ds)	120	120	120	120	120	120	120	120	120	120
Arrests	4,148	_	4,881	6,413	4,845			_	_	_

Cambodia

I. Summary

Cambodia's progress in improving law enforcement and limiting corruption in 2002 was limited; 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 UNODC. The Cambodian government recognizes that its counternarcotics efforts are spotty and often ineffective, and there is widespread recognition that the authorities need to be more aggressive in trying to stem the flow of illegal narcotics. The government is particularly concerned at the increasing use among youth of amphetamine-like stimulants. Cambodia is not a party to the 1961 Single Convention and its 1972 Protocol, or the 1988 UN Drug Convention.

II. Status of Country

Cambodia is not a major producer of opiates or coca-based drugs and, until recently, the scope of Cambodia's domestic drug abuse problem was less serious than in neighboring countries in Southeast Asia. However, the rapid increase in recent years in the use of amphetamine-type stimulants (ATS) in Southeast Asia has affected Cambodia, as well. This rapid increase in ATS abuse has been most noticeable 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 2002, the government counseled 522 children caught sniffing glue, compared to 377 in 201.

Marijuana is cultivated primarily for export, with some domestic consumption. There are no reliable figures available from either the Cambodian government or the UNODC on the 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. Marijuana is grown using traditional farming methods, with the harvest normally occurring between late December and early January. Much of the production is reputed to be "contract cultivation" by 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. However, the amount entering the United States is not large enough to constitute a significant problem for the U.S.

Aside from marijuana, Cambodia's role 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, both for local distribution and export. There are 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 2002

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. Since the end of factional fighting in late 1998, the final demise of the Khmer Rouge and the formation of a new coalition government, Cambodia has had sufficient stability to permit the government to begin to combat crime and illegal narcotics. However, coordination remains poor among various government agencies and ministries. Ideally, the National Authority for Combating Drugs (NACD) will be strengthened sufficiently to play the central coordinating role in order to initiate 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 backing of the Cambodian government, UNODC launched in April 2001 a two-phase, four-year \$2.3 million "NACD Support Project" that is 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, as well to establish procedures for planning, operations and administration and to provide staff training, technical advice, basic transportation, communications and office equipment. In 2002, the NACD received two trucks, computers, drug testing equipment, motorbikes and office equipment from the UN and other donors. However, the UN suspended assistance in late 2002 amid allegations of diversion of assistance intended for the NACD. The allegations are currently under investigation.

Accomplishments. On January 9, 2002, the RCG held a ministerial level meeting of the NACD, which agreed on a four-point strategy for dealing with Cambodia's drug problem: 1) demand reduction; 2) production and distribution reduction; 3) law enforcement; and 4) international cooperation. It also recommended amendment of the Drug Control Law to correct shortcomings.

Cambodia discontinued the use of an Internet-based ship registry system, which was allowing potential drug smugglers and other international criminal elements to quickly obtain Cambodian registry for their vessels.

Law Enforcement Efforts. In the first 11 months of 2002, 240 persons were arrested for drug-related offenses, compared to 109 persons in 2001. This total included 16 Vietnamese and one Thai, in addition to a Taiwanese woman who was apprehended at the airport with 1.9 kilograms of heroin wrapped around her body. Six persons (two cases) were arrested for production of ATS.

Seizures of ATS have almost doubled every year since 1997. In 2002, police seized 130,000 tablets, versus 75,576 in 2001. Police seized only 1.9 kilograms of heroin in 2002, but destroyed 195,656 marijuana plants. Most of the plantations were along the Mekong River and adjacent to the Thai and Vietnamese borders.

Enforcement efforts have not targeted major traffickers and their organizations. The lack of police training and resources, coupled with widespread corruption, doom such efforts to failure in the current environment. Although counternarcotics is a priority for the government, the government's lack of resources cripple serious efforts to combat trafficking.

Corruption. Corruption (and a concomitant absence of rule of law) continues to be one of the most serious obstacles to meaningful suppression of crime, including drug trafficking. As a result, Cambodia remains highly vulnerable to drug traffickers and foreign crime syndicates. Senior Cambodian government officials say that they want to combat trafficking and production; however, several factors constrain

sustained advances in effective law enforcement: 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 there is no effective management structure in any of the law enforcement agencies that could benefit from and implement outside training and the establishment of investigative and administrative standard operating 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.

Agreements and Treaties. Cambodia is not a party to the 1961 Convention on Narcotic Drugs and its 1972 Protocol, the 1971 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 the provisions of the Conventions. Currently, the Cambodian government is in active discussions with UNODC regarding technical assistance that would facilitate Cambodia's signing the three UN Drug Control Conventions, hopefully in the near future.

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 crimes, 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. The Cambodian government views bilateral and regional cooperation with neighboring states and with UNODC to be essential in its efforts to combat narcotics trafficking.

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, totaling about 83,000 square meters, 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. The NACD has reported that drugs entered Cambodia in 2002 from the northern provinces of Stung Treng and Preah Vihear. Some heroin and marijuana are believed to enter and exit Cambodia via the deep water port of Sihanoukville (also known as Kampong Saom), the coastline of Koh Kong (near the Thai border) and Kampot (near the Vietnamese border) provinces, and the river port of Phnom Penh. In November, Hong Kong Customs Officers seized 360 kilograms of marijuana in a container shipped from Cambodia. 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.

Domestic Programs (Demand Reduction). With the assistance of UNODC, 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. The government has sought outside assistance for programs on drug treatment and 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). The DAF and UNODC produces 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, plus posters and other materials.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. 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. U.S.-Cambodia bilateral counternarcotics cooperation is hampered by restrictions on official U.S. assistance to the central government that have remained in place since the political disturbances of 1997. 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.

The Road Ahead. Mid-level Cambodian law enforcement officers have been attending training courses at the International Law Enforcement Academy in Bangkok (ILEA) since mid-2000, which 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. However, after their training they return to an environment of scarce resources and pervasive corruption. This situation will require a long period of sustained investment to change the culture.

Funding assistance is needed to allow working level Cambodian officials to participate in regional counter drug 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 UNODC.

In sum, Cambodia is making incremental progress toward more effective institutional law enforcement against illegal narcotics trafficking. 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 drug-transit country, but it continued to take strong measures to stem the production, abuse, and trafficking of narcotics in 2002. PRC authorities clearly understand the threat posed by drug trafficking in the PRC and in the region, and they continued to take steps to integrate the PRC into regional and global counternarcotics efforts in 2002. The amount of illicit narcotics seized by PRC authorities rose in 2002. Preliminary figures suggested that heroin seizures would not be as large as they were in 2001, although they would still be significant, while seizures of amphetamine-type stimulants (ATS) appeared to have risen over those registered in 2001.

Throughout 2002, PRC authorities continued to provide U.S. counternarcotics officials with samples of drugs seized, including drugs en route to the United States. The United States and the PRC made requests for assistance in criminal matters under the U.S.-PRC Mutual Legal Assistance Agreement (MLAA), which entered into force March 8, 2001. The PRC is a party to the 1988 UN Drug Convention.

II. Status of Country

The PRC is situated adjacent to both the "Golden Triangle" and the "Golden Crescent." The PRC seizes more Southeast Asian heroin than any other single country in the world. Drug abuse in general continues to rise in the PRC. As it has reported in previous years, the PRC government reported that there were over 900,000 registered drug addicts in 2002, an increase of over 200,000 in three years. Officials privately admit that the actual number of users is likely far higher.

The PRC is a major producer of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone (PMK), and ephedra. The PRC monitors all 22 of the precursor chemicals listed in Table I and Table II of the 1988 UN Drug Convention (the "watch list"), but there is clear evidence that diversions continue to occur. The PRC 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.

III. Country Actions Against Drugs in 2002

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 2002, PRC counternarcotics authorities continued to follow this strategy.

Accomplishments. The PRC cooperates actively with countries in the region in the fight against drug trafficking. In partnership with the UN Office of Drugs and Crime (UNODC) (formerly the UN Drug Control Program, UNDCP) and five Southeast Asian nations (Cambodia, Laos, Burma, Thailand, and Vietnam), the PRC is a participant in a Memorandum of Understanding (MOU) committing the six member-countries to cooperate regionally to combat illicit narcotics production, trafficking, and use. The PRC continues to support crop-substitution initiatives for farmers in Burma and Laos, as well as demand reduction efforts in areas bordering Yunnan province. The PRC participates in the UNODC-sponsored action plan "ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD)." The ACCORD program targets all aspects of the drug problem, including demand reduction, alternative development/supply reduction, and law enforcement/control measures-oriented projects, with the goal of making the region drug-free by 2015. Separately, the PRC participates in the "Six plus Two" Drug Control

Mechanism program, with Iran, Pakistan, Tajikistan, Turkmenistan, Uzbekistan, Russia, and the U.S. The PRC continues to cooperate with the Drug Enforcement Administration's (DEA) chemical control initiatives, "Operation Purple" and "Operation Topaz" and strictly regulates the import and export of precursor chemicals.

Law Enforcement Efforts. Preliminary figures suggest that seizures of heroin by PRC law enforcement personnel in 2002 were up in virtually all areas of the country compared to the previous year, but overall seizures still declined in comparison to record seizures registered in 2001. The PRC accounts for more heroin seizures than all other East Asian countries combined. While heroin seizures were not as high as the 13,200 kilograms in 2001, the 6,400 kilograms seized during the first nine months of 2002 are still significant for the PRC. ATS seized in 2002 will likely also exceed the quantity seized in 2001.

In 2002, PRC authorities increased their level of cooperation with the U.S. in sharing drug-related strategic intelligence in several key investigations. Ministry of Public Security (MPS) officials routinely facilitated trips for U.S. law enforcement personnel based at the U.S. Embassy in Beijing. On several occasions, MPS provided vital intelligence information on suspected drug traffickers that resulted in the identification of several major suppliers to the U.S. drug market.

For details on the PRC's anti-money laundering initiatives in 2002, please see the Money Laundering section of this report.

Precursor Chemical Control. The PRC is a major producer of precursor chemicals. The PRC monitors all 22 of the chemicals on the 1988 UN Convention watch list. Several provinces, including Yunnan (which shares a border with Burma), have even more stringent controls than the Convention requires. In June 1999 and May 2000, the government issued regulations further tightening controls on transportation licenses for ephedrine. One result of this was to drive up the price and create a black market in the PRC for ephedrine. The PRC cooperates closely with the United States on chemical control issues. The two sides have in place a strong pre-export notification program for ephedrine, pseudoephedrine, and PMK 3,4. The PRC is a participant in "Operation Purple," a worldwide initiative to stem the diversion of potassium permanganate to cocaine syndicates, and in "Operation Icebreaker," a cooperative effort to combat the diversion of precursor chemicals for the production of crystal methamphetamine.

Corruption. PRC officials admit that corruption is one of the most serious problems the country faces. Continuing anticorruption campaigns have led to the arrest of hundreds of mostly low-level officials. Most official graft in the PRC involves misappropriation of funds, abuse of power, and embezzlement. Cases of narcotics-related corruption in the PRC are seldom reported in the press, and there is no indication that this problem is pervasive. The fact that large quantities of narcotics regularly transit the PRC suggests, however, that corruption in the PRC plays an important role in narcotics trafficking. As a matter of government policy or practice, the PRC does not encourage or facilitate the laundering of proceeds from official drug transactions, nor do any senior officials of the PRC engage in laundering the proceeds from illegal drug transactions.

Demand Reduction. Education and rehabilitation are important components of the PRC's counternarcotics strategy. According to official statistics, there were over 900,000 "registered" addicts in 2002, a figure PRC officials have cited for several years. The actual number of drug addicts is likely significantly higher. Individuals identified as addicts are subject to compulsory rehabilitation. The PRC continues to provide counternarcotics education to all school children, and has also taken steps to warn citizens about the link between intravenous drug use and HIV/AIDS. The PRC 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. The PRC has signed more than 30 mutual legal assistance treaties with 24 countries. On March 8, 2001, a mutual legal assistance agreement between the PRC and the United States entered into force. It constitutes a powerful tool for obtaining evidence important to the U.S. investigation and prosecution of transnational criminals, including narcotics traffickers. In 1999, the PRC and the

United States signed a bilateral customs mutual assistance agreement, but the PRC has not taken the steps needed to bring it into force. This agreement, if brought into force, would facilitate cooperation by customs officials and enhance the flow of narcotics intelligence. A May 1997 U.S.-PRC MOU on Law Enforcement Cooperation allowed the two sides to provide assistance on narcotics investigations and prosecutions on a case-by-case basis.

Illicit Cultivation/Production. The PRC's effective eradication program has largely eliminated commercial cultivation of drug-related crops. (Such cultivation was never significant.). 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 the PRC. The government tightly controls exports of this key precursor.

Faced with a growing threat from methamphetamine and synthetic drugs such as ecstasy, the government continues to make closing down illicit drug laboratories a top priority. These efforts halted many illicit operations, but new ones continue to spring up, especially in the PRC's more remote locations.

Drug Flow/Transit. The PRC shares a 2000-kilometer border with Burma. The majority of heroin produced in Burma travels through the PRC en route to the international market. Reflecting the PRC's importance as a transshipment route, most seizures of Burmese heroin now take place inside the PRC's borders. Smaller quantities of heroin enter the PRC from Laos, Vietnam, and Southwest Asia, including an increasing flow from the neighboring "Golden Crescent" countries.

IV. U.S. Policy Initiatives and Programs

Bilateral counternarcotics cooperation at both the working and policy levels improved further in 2002. The June 2000 visit to the PRC by then ONDCP Director McCaffrey was followed up by an August 2001 visit by ONDCP's former Director of Intelligence, who reinforced the USG's commitment to work with the PRC to combat illicit narcotics trafficking. These visits culminated in the first Sino-U.S. intelligence sharing meeting held in October 2002 in Beijing. The two sides have agreed to hold future intelligence-sharing meetings on a regular basis. At the working level, PRC and U.S. officials continued to cooperate closely in conducting trans-national investigations, exchanging information on existing and emerging threats, and developing Chinese law enforcement capabilities.

DEA Beijing and MPS counternarcotics officers worked cooperatively to share strategic information in 2002. They shared a greater number and variety of drug samples than in 2001. In 2002, PRC police attended counternarcotics and general law enforcement training courses at the joint U.S.-Thai International Law Enforcement Academy (ILEA) in Bangkok. This important regional forum brought together police and other law-enforcement officials from throughout the region to improve technical capabilities and establish ties among regional counternarcotics and law-enforcement bodies. MPS counternarcotics officers regularly attended ILEA training courses, such as the Narcotics Unit Commanders Course and the Transport Interdiction Course, and they attended a training course organized by DEA for forensics officials.

The Road Ahead. Despite many significant advances, there is still room for improvement in U.S.-PRC cooperation on narcotics control. For example, the PRC authorities have thus far been unwilling to sign a Letter of Agreement (LOA) that the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) requires as a matter of policy in order to provide in country counternarcotics and law-enforcement training and technical assistance programs in the PRC. Arriving at an early agreement on an LOA remains a key goal. Also, while considerable progress has been made in the sharing of drug samples, the United States continues to encourage the PRC to increase the number of seized narcotics samples that it is willing to share.

The United States will continue to monitor both the transshipment of Burmese heroin through the PRC and the threat posed by the explosive growth of methamphetamine trafficking in and from the PRC. PRC counternarcotics officials have consistently expressed the desire to expand and deepen cooperation with

DEA, especially in the PRC's drug-plagued Yunnan, Guangzhou, and Fujian Provinces. DEA is presently preparing to meet this challenge by seeking PRC approval to bring additional personnel to the PRC to handle its increased workload.

Fiji and Tonga

I. Summary

Neither Fiji nor Tonga is a major producer or a significant consumer of narcotics. There are some indications that drug syndicates are using both Fiji and Tonga 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

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.

While both Fiji and Tonga have passed money-laundering legislation that deals specifically with proceeds from narcotics-related crimes (Fiji in 1997 and Tonga in 2000), neither country has made an arrest nor secured a conviction under their respective laws.

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; evidentiary requirements under the law might well exceed the capacity of local investigative officials.

III. Country Actions Against Drugs in 2002

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.

As the economy continues to worsen, an increasing number of farmers are switching to cannabis. 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. Cannabis seizures fell in 2002 from 2001's record 183.8 kilograms to 1.15 kilograms. However, record-keeping is complicated by the Government's practice of recording both grams of cannabis seized (in ready-to-sell form) and whole plants seized. While the kilograms of finished product

seized in 2002 fell more than 94 percent from 2001, the number of whole plants seized increased from 515 in 2001 to 2,010 (or by 290 percent) in 2002.

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, as amended by the 1972 Protocol, 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.

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. Of particular concern in Fiji are the low salaries and status enjoyed by customs and immigration officials. The presence of increasing numbers of illegal migrants in Fiji has been connected with increased vulnerability to narcotics trafficking and, potentially, transiting terrorists.

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 23 criminals were deported to Tonga from the United States in 2000 in accordance with U.S. law requiring the deportation of criminal aliens. Twenty-five more were deported in 2001, and between 15-20 in 2002. 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 they were 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.

IV. U.S. Policy Initiatives and Programs

U.S. Government counternarcotics initiatives in Fiji and Tonga have concentrated on helping both countries secure their borders from the multiple and related threats of people smuggling, narcotics smuggling and possible transit by international terrorists. FAA and U.S. Customs officials conducted a number of seminars in Fiji in 2002 to which officials of both Fiji and Tonga were invited. While in Fiji, U.S. Customs officials also inspected port facilities in Suva that are considered by other regional governments to be particularly vulnerable to smuggling operations. Further cooperation in the fields of airport and port security is planned with both Fiji and Tonga.

The Road Ahead. The U.S. will continue to provide training in narcotics detection techniques in Fiji and Tonga.

Hong Kong

I: Summary

Hong Kong is no longer a major transit/transshipment point for illicit drugs to the United States because of its efficient law enforcement efforts, the availability of alternate transport routes, and the development of port facilities elsewhere in southern China. Some traffickers continue to operate out of Hong Kong to arrange shipments from nearby drug-producing countries to the international market, including to the United States, and there have been some cases in which drugs transited Hong Kong to Australia. The government of the Hong Kong Special Administrative Region (HKSARG) actively combats drug trafficking and abuse through legislation and law-enforcement, treatment and rehabilitation, preventive education and international cooperation. The 1988 UN Drug Convention, to which the PRC is a party, applies to Hong Kong.

II: Status of Hong Kong:

Hong Kong's position as a key port city in close proximity to the Golden Triangle historically made it a natural transit/transshipment point for drugs moving from Southeast Asia to the international market, including to the United States. In recent years, Hong Kong's role as a transit/transshipment point has diminished due to law enforcement efforts and the availability of alternate routes in Southern China. A limited amount of drugs, however, continues to transit Hong Kong to the United States and the international market.

Hong Kong and U.S. law-enforcement officials enjoy an excellent relationship in the fight against drugs. Hong Kong is not a producer of illicit drugs and drugs seized in Hong Kong are smuggled in mostly for local consumption and to a lesser extent for further distribution in the international market.

Hong Kong experienced an overall decrease in drug abuse in 2002. According to the Hong Kong Central Registry of Drug Abuse (CRDA), there were 11,911 registered drug abusers in Hong Kong in the first half of 2001 (January-June 2001). This number dropped by 6.6 percent to 11,124 during the same period in 2002. The most significant decrease was recorded in 21-and-under abusers, which decreased 33 percent. Overall use of psychotropic substances, such as ketamine, ecstasy, cannabis and methamphetamine also decreased significantly in 2002 by 18.2 percent.

III. Actions Against Drugs in 2002:

Policy Initiatives. Hong Kong has in place an effective legal system to counter drug trafficking and drug abuse in accordance with the 1988 UN Drug Convention. Under the Dangerous Drugs Ordinance, the import, export, manufacture, supply, storage and possession of drugs are subject to strict control. The Control of Chemicals Ordinance prescribes tight control over 25 precursor chemicals to prevent their diversion for illicit manufacture of narcotics. The Drug Trafficking (Recovery of Proceeds) Ordinance (DTROP) and the Organized and Series Crimes Ordinance (OSCO) provide a legal framework for tracing, restraining and confiscation of proceeds from drug trafficking. The HKSARG strengthened both DTROP and OSCO in July 2002 by amending the Drug Trafficking and Organized Crimes Ordinance. The amendment lowers the threshold for initiating restraining and confiscation orders against persons or properties suspected of drug trafficking.

Hong Kong passed the Drug Dependent Persons Treatment and Rehabilitation Centers (licensing) Ordinance in April 2002. The ordinance makes it a statutory requirement for any drug- treatment and rehabilitation organization to apply for a license from the Director of Social Welfare. To follow-up on recommendations by the Task Force on Psychotropic Substance Abuse (established in 2000), an inter-

departmental working group was established in October 2002 to review existing counternarcotics laws. In November 2002, places of Public Entertainment Ordinance, which will more strictly control the licensing of entertainment venues, was passed in order to control drug-abuse at rave parties and late-night entertainment venues.

Law Enforcement Efforts. Hong Kong's law-enforcement agencies accord high priority to the objectives of the 1988 UN Drug Convention. Their counternarcotics efforts focus on the suppression of drug trafficking and the control of precursor chemicals. The Hong Kong police has adopted a three-level approach to combat narcotics distribution: at headquarters-level, the focus is on high-level traffickers and international trafficking. The regional police force focuses on trafficking across police district boundaries. Responsibility for eradicating street-level distribution lies with the district police force. The Narcotics Bureau of the Hong Kong Police cooperates with the PRC, 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 in the Hong Kong domestic market. Hong Kong Customs and Excise Department(HKCED)'s Control Chemicals Group (CCG) closely tracks and controls the usage of precursor chemicals in Hong Kong. CCG's programs have had a positive impact on precursor chemical control in the Far East region as a whole. Hong Kong works closely and cooperatively with U.S. law enforcement agencies.

To strengthen counternarcotics intelligence support, HKCED established an Intelligence Bureau in July 2002. The creation of the new Intelligence Bureau has strengthened coordination between all departments on counternarcotics intelligence collection, and enhanced the efficiency of intelligence processing and dissemination. Furthermore, a dedicated Operational Intelligence Unit has been created to support frontline operations.

HKCED has expanded its Narcotics Canine Unit in 2002. The Narcotics Canine Unit at present has 32 officers and 25 detector dogs, including eight passive alert dogs with two additional passive alert canine teams on the way. The detector dogs are deployed at passenger and cargo terminals, airport, border control points and container terminals. The enforcement capability of customs officials has been enhanced by installation of new, advanced detection equipment at border/control points. For example, HKCED has upgraded the container inspection facilities at Lok Ma Chau border in 2002 (busiest border control between Hong Kong SAR and PRC) by installing two sets of fixed x-ray vehicle inspection systems.

Corruption. There is no known narcotics-related corruption among senior government or law-enforcement officials. 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. Nor are there any known senior government officials engaging in, encouraging, or facilitating the illicit production or distribution of such drugs or substances, or laundering money related to illegal drug transactions.

The HKSARG does not encourage or facilitate illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Agreements, Treaties and International Cooperation. Hong Kong maintains close links with the United Nations, the World Health Organization (WHO), the Financial Action Task Force (FATF), Interpol and the World Customs Organization (WCO) as well as individual governments around the world. As of October 2002, Hong Kong had mutual legal assistance agreements with the U.S., France, Australia, the U.K., New Zealand, Italy, South Korea, Switzerland, Canada, the Philippines, Portugal, Ireland and the Netherlands. Hong Kong signed its agreement with the Netherlands in 2002. Hong Kong has also signed Surrender of Fugitive Offenders Agreements with 13 countries including the U.S., and Transfer of Sentenced Persons Agreements with eight countries, including the U.S. Hong Kong law-enforcement agencies enjoy a close and cooperative working relationship with their mainland counterparts, and counterparts in many countries, in the fight against narcotics trafficking. Through their

established liaison channels, they exchange operational intelligence on drug trafficking, money laundering and control of precursor chemicals.

Drug Flow/Transit:. Although Hong Kong's role as a major drug transshipment/transit point has diminished over the years, a limited amount of drugs continue to flow through Hong Kong for the overseas market. Traffickers use land routes through mainland China to smuggle heroin into Hong Kong from the Golden Triangle for transit to the overseas market by utilizing Hong Kong's transportation and shipping infrastructures.

There were several seizures in 2002 of drugs transiting Hong Kong to the United States. In May 2002, U.S. authorities in Guam seized 5.2 kilograms of methamphetamine from Hong Kong. In August, Hong Kong authorities seized 5 kilograms of methamphetamine destined for the United States.

In an effort to eradicate Hong Kong's role as a transit/transshipment point for illicit drugs, the HKSARG has developed a database of information on all cargoes, cross-border vehicles, and shipping. The Air Cargo Clearance System, the Land Border System and the Customs Control System are all capable of quickly processing information on all import and export cargoes, cross-border vehicles and vessels.

Demand Reduction/Domestic Programs. While supply reduction remains Hong Kong's primary strategy against drug abuse, Hong Kong's domestic programs focus on preventive education aimed at youth and parents. Hong Kong provides a comprehensive drug prevention program through its existing education system. The Hong Kong Narcotics Division of the Security Bureau tasks Non-Government Organizations (NGO) to conduct drug educational programs at public schools and institutions. The Narcotics Bureau also sponsors programs aimed specifically at better educating parents and employees of youth organizations on drug abuse.

The Hong Kong government in 2002 launched new television programs aimed at curbing psychotropic substance abuse, strengthened the intervention services targeting high-risk groups, such as youth and school dropouts, and organized a new pilot program providing overnight facilities for drug abusers.

Cultivation and Production. Hong Kong is not a producer of illicit drugs.

IV: U.S. Policy Initiatives And Programs.

U.S. law-enforcement officials continue to emphasize joint investigations with their counterparts in Hong Kong law- enforcement to develop prosecutable cases—either in Hong Kong, The United States or other jurisdictions—against major traffickers based in Hong Kong and East Asia. The U.S. Government and the HKSARG continue to promote sharing of proceeds from joint counternarcotics investigations.

Hong Kong officials participated in several US-sponsored programs on narcotics. In 2002, Hong Kong sent approximately 10 law-enforcement officials to the International Law Enforcement Academy (ILEA) in Bangkok, Thailand. These officials participated in "Supervisory Criminal Investigator Course," "Airport Programs and Controlled Deliveries Course," and "Narcotics Unit Commander Course."

The Road Ahead. The Hong Kong government has proven to be a reliable and competent partner in the fight against drug trafficking and abuse. Hong Kong law enforcement officials, arguably some of the most effective in the region, continue to cooperate with their U.S. counterparts. The U.S. Government will continue to encourage Hong Kong to keep playing an active role in counternarcotics efforts.

Indonesia

I. Summary

Indonesia is not by international standards a major drug producing, consuming, or drug transit country. However, local use of drugs produced or manufactured elsewhere in Southeast Asia is on the rise. To combat this trend, the Indonesian National Police (INP) have participated in several international training programs and have attempted to commit more resources to drug interdiction.

The INP received much needed equipment, put more cops on the beat, and improved its relationship and interaction with NGOs dealing with drug users and rehabilitation. That said, only 288 officers are assigned to the Narcotics Detective Unit of Greater Jakarta, a city with a population of nearly fifteen million. Although this is a substantial increase from last year, it would not seem nearly enough to deal with the situation. Corruption also inhibits enforcement efficiency, as do severe resource constraints. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

Methamphetamine-type drugs continue to be the narcotics of choice among Indonesian drug abusers. These include methamphetamine, ecstasy and especially ice (crystal methamphetamine), also know as "shabu-shabu." Police (INP) and NGO statistics indicate an increase in the use of these and other narcotics since 2001. INP reports handling 1,206 methamphetamine, MDMA and or 'ice' investigations during CY 2001. By contrast, INP reports handling 1,550 such cases in CY 2002. Heroin, cocaine and marijuana use is also reportedly up 90 percent from 2000, although usage of these drugs still remains comparatively low among Indonesians. Compared to CY 2001, the INP has experienced a 41.6 percent increase in cocaine, heroin and marijuana investigations. All of 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 are becoming known for their tolerance of drug trafficking.

Marijuana continues to be harvested in North Sumatra, particularly Aceh. The INP alleges that the Free Aceh Movement (GAM), a separatist organization, traffics in marijuana domestically to support its insurgent operations. However, the INP has produced no evidence to support this allegation. Arrests for distribution and possession of marijuana have increased significantly throughout the archipelago.

The coordinator of the National Anti Narcotics Movement (Indonesian acronym: "GRANAT"), the most prominent drug prevention NGO in Indonesia, confirms that heroin use is on the increase, particularly in metropolitan Jakarta. The INP reports that the majority of heroin seized in Indonesia comes from Afghanistan, by way of Pakistan. Transit from Thailand to Indonesia is the most favored route, either Bangkok to Jakarta or Bangkok to Singapore to Jakarta. Nigerian organized crime groups control heroin trafficking to Indonesia. These traffickers use Indonesian and Thai females as couriers.

While some drugs are produced domestically, international trafficking still represents the most prolific source of illicit drugs. Burma is the primary source of ecstasy and methamphetamine. They enter Indonesia through any one of hundreds of entry points throughout its vast archipelago. None of these entry points, including Jakarta, have adequate detection or enforcement mechanisms. Neither the Airport Police, the Navy, nor the Directorate of Customs and Excise are trained, equipped, funded or otherwise adequately supported to deter or detect drugs being smuggled by air or sea. The same can be said of the entities responsible for domestic enforcement—they are not up to the challenge.

Cocaine also is being trafficked to Indonesia, with the INP reporting growing seizures of the drug in 2002. However, DEA Singapore believes the user base for cocaine within Indonesia is very small. Arrest, rehabilitation and hospital statistics also indicate that cocaine is not yet a drug of choice among Indonesian

drug abusers. It is therefore possible that cocaine seized in Indonesia is being transshipped to other countries.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Indonesia has not passed any new counternarcotics legislation since 1997. Nevertheless, Indonesia's current counternarcotics code is sufficiently inclusive to enable the police, prosecutors and the judiciary to successfully arrest, prosecute and adjudicate narcotics cases. The lack of contemporary detection, enforcement and investigative methodologies and technology, as well as endemic corruption, are the greatest hindrances to successful interdiction.

Law Enforcement Efforts. The National Narcotics Bureau (BNN) is tasked with coordinating the activities of the various Indonesian government agencies involved in drug related programs. The BNN also has the authority to form a joint task force made up of officers from other Indonesian law enforcement agencies, if the individual case warrants. Enforcement efforts focus on the airport, using sniffer dogs and some limited contemporary equipment to interdict narcotics.

The Indonesian Navy is trying to police Indonesian waters more aggressively, including drug enforcement and interdiction, among their objectives. The realities of resource constraints, and the formidable challenge of an island nation impose stark constraints on this effort.

The Indonesian District Court which handles drug cases has sentenced at least 21 drug traffickers to death since January 2000. None of the convicted has been executed yet.

Drug seizure statistics show seizures are almost random, while official reports indicate a growing drug abuse. This fact suggests the need for substantial improvements in Indonesia's efforts to constrain the flow of narcotics.

Corruption. Corruption is endemic in Indonesia and hinders the effort against narcotics. Government officials at senior levels are aware of the debilitating effects of corruption on many aspects of life in Indonesia, but are beset by many problems, and are unable to undertake the wide range of basic reforms necessary to have a significant impact on corruption.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. supports improved law enforcement and administration of justice in Indonesia through several programs. In addition to USAID assistance, the State Department's INL Bureau funds a narcotics assistance program for the INP's narcotics branch, and funds a separate police assistance program supervised by the Department of Justice's International Criminal Investigative Training and Assistance Program (ICITAP). The INP also receives assistance from the Anti-Terrorism Assistance (ATA) program run by the State Department's Bureau of Diplomatic Security, with policy direction from the State Department's Office of Coordinator for Counterterrorism.

Hundreds of police officers have been trained with U.S. support. The U.S. Embassy in Indonesia has a senior U.S. police advisor to oversee the Department of Justice's ICITAP office, and to support the DEA Singapore Country Office's assistance to the INP narcotics branch. In addition, USAID assistance to Indonesia includes improvements in administration of justice among its objectives, with an effort focused on judicial/prosecutor training and reform.

The Road Ahead. Over the short term, drug abuse in Indonesia is likely to increase. The Indonesian government will respond to this challenge with the assistance of the U.S. and other international donors. The U.S. will continue to assist Indonesian efforts at police and judicial reform.

Japan

I. Summary

Although Japan is not a major producer of drugs, it is one of the largest methamphetamine markets in Asia, with approximately 600,000 addicts and 2.18 million casual users nationwide. During 2002, Japanese authorities seized 168 kilograms of methamphetamine. Through November, authorities seized over 129,000 tablets of MDMA (ecstasy), a significant increase over last year's figures. Authorities also seized 288 cc of liquid methamphetamine.

II. Status of Country

Japan is not a significant producer of narcotics. Very modest scale 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 involve this substance. In spite of this significant methamphetamine abuse problem, there is no evidence of clandestine manufacturing in Japan. Ephedrine, the primary precursor for the manufacture of methamphetamine in Asia, is strictly controlled under Japanese law.

Authorities continue to estimate methamphetamine trafficking into Japan to be between 10-20 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 2002, 168 kilograms of methamphetamine were seized. Authorities believe the majority of the methamphetamine smuggled into Japan is refined and/or produced in the PRC, Taiwan, the Philippines, and North Korea.

Methamphetamine trafficking remains a significant source of income for Japanese organized crime. The illegal immigrant population in Japan also participates actively in drug trafficking. Importation of heroin from Southeast Asia through Japan increased in the final three months of 2002, although heroin, marijuana and hashish use remains significantly lower than use of other illegal drugs in the country. In April, the Narcotics Control Law was amended to prohibit the cultivation, importation, distribution, sale and possession, and advertising of certain hallucinogenic plants.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Amendment of the Narcotics Control Law to outlaw the cultivation, importation, distribution, sale and possession, and advertising of certain hallucinogenic plants closed the legal loophole that had inadvertently allowed the sale of psilocybin or psilocin containing mushrooms (magic mushrooms) for "ornamental" or "research" purposes.

Accomplishments. The United States and Japan are working on a final text for a mutual legal assistance treaty (MLAT). Once concluded, the MLAT is expected to expedite and strengthen law enforcement cooperation.

Japan, an active participant in, and financial supporter of the United Nations Office of Drug Control Program (UNODC) major donors group, provided important financial support to many UNODC programs.

Law Enforcement Efforts. Japanese authorities seized 168 kilograms of methamphetamine in the first eleven months of 2002. Authorities also seized 288 cc of liquid methamphetamine. Police counternarcotics efforts tend to focus on Japanese organized crime groups, the main smugglers and distributors of drugs. Police and prosecutors are 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 13,725 reports of suspicious transactions in 2002.

Between 1992, when the Asset Seizure Law took effect, and 1999, the NPA has seized a total of about \$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 levy fines, impose tax penalties, or order the outright confiscation of narcotics related proceeds, but statistics on these actions are not maintained.

Corruption. There were no reported cases of drug-related corruption in Japan in 2002.

Agreements and Treaties. Japan became a party to the 1988 UN Drug Convention in 1992. Japan 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. An extradition treaty and a customs mutual assistance agreement are in force between the United States and Japan. The United States and Japan are seeking to conclude a Mutual Legal Assistance Treaty.

Cultivation/Production. Although Japan is not a significant cultivator or manufacturer of controlled substances, it is a major producer of 60 types of dual-use precursor chemicals, which also have legitimate industrial uses. For example, Japan is one of only a handful of countries that produce ephedrine, a chemical used to create nasal/breathing problems. 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 National Police Agency, the PRC, the Philippines, Taiwan and North Korea are principle 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 support 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 a 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 ads that run on television, radio and electronic scoreboards used at major sporting events. The plan also promotes drug education programs at the community level, including a program 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

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;
- Encouraging effective use of anticrime legislation and government agencies responsible for financial transaction oversight

Road Ahead. The United States and Japan will continue to work to conclude a Mutual Legal Assistance Treaty and to explore new cooperative counternarcotics initiatives.

Laos

I. Summary

With Afghanistan's return to large-scale opium production, Laos is almost certain to rank as the world's number three illicit opium producer in 2002. Opium production in Laos still lags far behind Burma. Estimates of the potential quantity of opium production in Laos vary from ca. 180 MT (U.S. estimate) to ca. 112 MT (UNODC estimate). Efforts are underway to rectify these differences.

The Government of Laos (GOL) has adopted a much stricter policy approach to drug control since 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, practical Lao efforts at law enforcement still fall well short of these ambitious policy goals. Lao law enforcement authorities, once again, failed to arrest any major drug traffickers. The GOL devoted few of its own resources to fighting drugs, relying overwhelmingly on the donor community for what was accomplished.

In April, 2001 the government passed new legislation imposing the death penalty for certain crimes relating to drug production and trafficking. Several traffickers have received this sentence although it is unclear whether the sentences will actually be carried out.

The USG remains the principal source of counternarcotics funds -now even underwriting some UNODC and other projects. In the past, Laos also cooperated with the German government on several cropcontrol projects and in the area of demand reduction. Several of these projects are now USG funded.

No new counternarcotics law enforcement offices (CNOs) were opened this year, as the U.S. has withheld further CNO funding until performance improves at existing CNOs, and/or the GOL allows the creation of a model CNO, which could be used to develop effective ways to improve overall counternarcotics efforts by the police. The amount of heroin and opium seized declined, and the Lao police provided no useful information to U.S. officials on any cases. Police performance in general, 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

Although Laos was the third largest producer of illicit opium in 2002, far less opium is produced in Laos than in Burma, the second largest producer. Lao opium is grown by small-scale subsistence farmers without access to fertilizer, irrigation, or other agricultural improvements. UNODC estimates that the Lao yield per hectare increased by 33 per cent, from six to eight kilograms per hectare, in 2002. 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 even further and with them overall production.

Laos' location in the Golden Triangle makes 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 and enhance their ability to combat traffickers and their organizations, as well as fight narcotics-related corruption.

According to the UNODC, Laos also has the second highest rate of opium addiction in the world, behind Iran. The abuse of amphetamine type stimulants (ATS) has grown to epidemic proportions in the more urban areas and has finally caught the attention of influential policy makers.

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 2002

Policy Initiatives. The GOL has repeatedly re-enforced its commitment to eventually eliminate opium production in Laos. The current target date is 2005. The President has personally told all the provincial governors (who hold almost feudal powers within their districts) that the continuation of their jobs depends directly on their ability to reduce drug cultivation in their provinces. The GOL followed up with efforts throughout the year to train government personnel and inform the public of its counternarcotics goals. It reinvigorated ongoing programs of preventive education. The Prime Minister's Office launched a major new initiative regarding methamphetamine abuse.

The GOL continued to work closely with the UNODC on a master strategy for opium elimination that includes alternative development, law enforcement, and demand reduction elements. A couple of projects under that strategy, such as a UNODC designed drug treatment center in Vientiane, were started with USG funding. Most of the plan, however, has 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 UNODC 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 showed increased willingness to discuss regional drug issues with their neighbors, and with outsiders. The counternarcotics police in Phongsali have an ongoing operational level relationship with their Yunnanese counterparts, but this seems based more on personal contacts rather than any broader policy. 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 focused on the Mekong. This initiative also involves Thailand and Burma, since the planned development of the Mekong River as an international waterway is sure to bring about increased drug transport by boat. A number of Lao police have received training at the PRC police academy in Kunming.

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 235 cases in 2002, resulting in the arrests of 472 suspects, of whom 142 were female and 8 were foreign nationals. This represents a substantial increase over 2001's 196 cases with 350 arrested. Most arrests were of small-scale traffickers. These cases lead to the seizure of 19.2 kilograms of heroin, 260 kilograms of opium, 1,488,395 methamphetamine tablets, and 3,008 kilograms of cannabis. Trafficker vehicles, weapons, and cash were confiscated in some cases.

Total seizures for heroin and opium decreased markedly from 2001, by 63 percent and 46 percent, respectively. However, seizures were up for methamphetamine, confirming that trafficking of methamphetamine has increased substantially. The police handled 19 per cent more cases than they did in

2001. These cases resulted in the arrest of 34 per cent more suspects than were arrested in 2002. Of the foreigners arrested, one was Ghanaian, one was Vietnamese and six were Thai. In the meantime, the governments of Vietnam and Thailand continue to report 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 enforcement, 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. The Lao government publicized the arrest of a Vientiane police officer for trafficking heroin and methamphetamine in March 2002; other officials were reportedly transferred or "kicked upstairs" when suspected of involvement in trafficking. Laos has not demonstrated a commitment to enforce its counternarcotics legislation against high-ranking or well-connected individuals.

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. A new MOU for demand reduction was implemented this year. 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.

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 is committed to becoming a party to the Convention in the near future, and is working with UNODC 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 a life-or-death crop for the area's subsistence farmers, many of whom are tribal people. Efforts to present these poor farmers with viable alternatives are truly challenging and important. Crop substitution and alternative development programs to provide subsistence farmers with viable alternatives are an essential element of any counternarcotics strategy in Laos.

For the 2002 growing season, the United States estimated Laos' potential production at 180 metric tons, a 14 percent decrease from 2001's potential production of 210 metric tons. However, poppy cultivation increased by five percent, from 22,000 hectares in 2001 to 23,200, returning it to the same levels as 2000. U.S. data indicates that Phongsali and Houaphan provinces continue to be the largest producers of opium poppy. The UNODC survey, on the other hand, shows an 18 per cent reduction in cultivation: down from 17,255 ha. in 2001 to 14,052 ha in 2002, with the largest cultivation in Huaphan and Luang Prabang. Actual Opium produced was estimated to have declined from 134 MT in 2001 to 112 Mt in 2002.

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, and expertise. It also is hard for central government personnel even to reach 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 grow 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. The USG plans to provide two x-ray machines to monitor and deter use of this trafficking route.

Domestic (Demand Reduction and Treatment) Programs. The Abuse of amphetamine type stimulants (ATS) has grown sharply in Lao cities and has, at last, captured the attention of the GOL. This is primarily an urban problem among the Lowland Lao (many of them the children of the GOL elite) whereas opium abuse is found in older, rural hill tribe populations. The GOL (with the help of UNODC, the U.S., and others) is formulating a national demand reduction strategy that will focus on the ATS epidemic.

Opium addiction is still the main drug use problem in Laos, and the UNODC 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 as a folk panacea, because they have no access to health care. In its 2002 opium survey, UNODC estimates nationwide opium addict population of 56,613, a slight decrease from last year's estimate of 58,000. According to UNODC calculations, 2.18 percent of the population above 15 years is addicted to opium. 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.

Due to a lack of donor funding, the GOL did not carry out any new drug use surveys in 2002. According to a 1999 UNODC 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 UNODC 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 also spreading to outlying villages.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States focuses on helping the GOL achieve three primary counternarcotics objectives: elimination of opium poppy cultivation, suppression of illicit drug and precursor chemical trafficking, and drug education and treatment programs. The USG has addressed the first goal through bilateral crop control projects. The USG works closely with the UNODC 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 President.

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 was modeled after the successful Lao-American Project in Huaphan province. The road building portions of several new projects have begun in Luang Prabang and Xayaboury. The USG also is supporting a new Lao initiative in the area of demand reduction for methamphetamine abuse, particularly among teenage students. Through December of 2002, 67 GOL police received in-country DEA training. More DEA and U.S. Customs training is planned for 2003, including special training on two U.S. purchased x-ray machines. 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 320 Lao officials have been trained at ILEA since the academy began operations in February 1999-120 in 2002, alone.

The Road Ahead. In order to meet its goal of completely eliminating opium production, Laos must change the age-old practices of isolated, culturally distinct highland farmers—no easy task. In addition,

Laos needs to upgrade its law enforcement capacity, before social and economic modernizations exacerbate 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 UNODC and other interested donors. The GOL also must make efforts to arrest major traffickers and the officials who support them. The GOL also needs to improve coordination between law enforcement bodies to translate enhanced capabilities into additional and more effective law enforcement operations, including significant seizures. 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)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium ¹										
Potential Harvest (ha)	23,200	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)	180	200	210	140	140	210	200	180	85	180
Seizures										
Opium (mt)	0.260	.478	0.078	0.226	0.442	0.200	0.216	0.194	0.054	0.054
Cannabis (mt)	3.08	1.96	1.86	2.19	0.41	4.16	1.18	0.64	6.14	0.26
Heroin (mt)	0.019	0.052	0.020	0.015	0.080	0.072	0.016	0.043	0.062	0.001

¹ 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.

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 of illegal drugs reaches the U.S. Market through Malaysia. Domestic drug abuse, especially of synthetic drugs, continues to grow. Malaysia's competent counternarcotics officials and police officers have the full support of senior government officials. Overall, narcotics-related arrests and seizures rose again in 2002. A significant trend for this year is the steady increase in cocaine and psychotropic pill seizures. Cooperation with the U.S. on combating drug trafficking is excellent. Malaysia is a party to the 1988 UN Drug Convention.

II. Status of Country

Malaysia does not produce a significant amount of illicit drugs. Some heroin and opium from the nearby Golden Triangle area transit Malaysia, but there is little evidence that a significant amount of this heroin reaches the U.S. market. Increasing amounts of other drugs, primarily psychotropic pills (amphetamine type stimulants or ATS) and crystal methamphetamine, also transit Malaysia. Statistics from Malaysia's national narcotics agency indicate there are approximately 212,000 drug users in the country. Between January and October 2002, 25,637 cases of drug addiction were detected by the authorities compared to 25,146 cases during the same period in 2001, an increase of 1.95 percent. Of the 2002 cases, 13,468 were new cases and 12,169 were relapse cases. Anecdotal reports indicate that domestic drug abuse, primarily of heroin, psychotropic pills (ATS), including ecstasy, and crystal methamphetamine is growing. An inhaled cocktail of heroin and crystal methamphetamine continues to be popular. 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 cited in the UN drug convention. The Ministry of Health is pursuing legislation to increase penalties relating to the diversion of precursor chemicals.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The National Narcotics Agency (NNA) is the policy arm of Malaysia's counternarcotics strategy. In response to increased seizure and abuse of methamphetamine in previous years, the NNA continued to expand the scope of a year 2000 demand reduction and public awareness campaign against ecstasy to include all types of methamphetamine and synthetic drugs. 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, joined in this effort.

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 continued to coordinate 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. 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 (known as felda settlers) are also being targeted because of the increased incidence of drug abuse and trafficking among these settlements. According to a Ministry of Health official, the ministry is working with the attorney general's chambers to draft amendments to the poisons act to strengthen existing laws against the diversion of precursor chemicals.

Accomplishments. A solid institutional and policy foundation supports Malaysian counternarcotics efforts. Prime Minister Mahathir and other senior Malaysian officials routinely speak out against drug use. Existing Malaysian law provides for the seizure of assets from the proceeds of narcotics crimes. Law enforcement efforts were focused on the sale, transport and distribution of narcotics, especially ATS, within Malaysia and abroad. The Malaysian parliament in 2002 passed legislation that allows Malaysia to enter into negotiation with the U.S. on a mutual legal assistance treaty (MLAT). An extradition treaty between the U.S. and Malaysia entered into force in 1997, but has not yet been tested.

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 ten months of 2002 were generally above year 2001 levels. Cocaine heroin and psychotropic pill seizures rose sharply. However, ecstasy and opium seizures declined. Between January and October 2002 law enforcement officers seized 398.6 kilograms of heroin, compared to 221.3 kilograms in the first ten months of 2001. During the same period, ecstasy seizures decreased from 345,254 pills in 2001 to 169,306 pills in 2002. However, seizures of psychotropic pills increased sharply from 108,042 pills in 2001 to 1,584,360 pills between January and October 2002. Drug-related arrests through October 2002 totaled 21,551 persons, a fifteen percent increase over total arrests during the corresponding period in 2001. Narcotics-related detentions without trial under Malaysia's "special preventive measures" between January and October increased from 1,665 in 2001 to 1,821 in 2002. Seizures of clandestine labs during this period increased to 23, up from 17 in 2001.

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 2002 and there was no evidence that the government tolerates or facilitates the production, distribution, or sale of illegal drugs.

Agreements and Treaties. While the U.S.-Malaysian Extradition Treaty is relatively new, initial cooperation has been good. The Malaysian police are cooperating with U.S. officials in several cases that may ultimately lead to formal extradition of a suspect to the United States. Malaysia is a party to the 1988 UN Drug Convention.

Drug Flow/Transit. Malaysia's geographic proximity to the heroin production areas and methamphetamine labs of the Golden Triangle leads almost naturally to smuggling routes across Malaysian borders, primarily destined for Australia. While heroin and methamphetamines 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 modest shipments of heroin bound for the United States.

Domestic Programs (Demand Reduction). Demand reduction programs in public schools and a drug-free workplace prevention program initiated in 1999 continued in 2002. Since available evidence indicates that abuse of methamphetamine and other synthetics is growing, the NNA expanded the scope of its anti-ecstasy demand reduction drive to include methamphetamine. Fifty percent of publicly funded drug treatment centers use the therapeutic community (TC) approach for treating drug addiction. 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:

- continue to pursue a mutual legal assistance treaty (MLAT).
- urge the government to enact anticonspiracy 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. U.S. counternarcotics training continued in 2002 via the International Law Enforcement Academy (ILEA) in Bangkok and the "Baker-Mint" counternarcotics training program sponsored by the U.S. Department of Defense. The Baker-Mint program aims to raise the operational skill level of local counternarcotics law enforcement officers. ILEA Bangkok training addressed various topics such as chemical precursors, financial investigations (money laundering), controlled deliveries, and operational planning of narcotics investigations. The U.S. also funded drug treatment training in 2002 for local drug treatment professionals.

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 treatment programs will continue. The U.S. will continue to pursue an MLAT with Malaysia. A mutual legal assistance treaty would assist U.S. law enforcement in obtaining information and investigative assistance from Malaysian counterparts.

Mongolia

I. Summary

Drug trafficking and abuse are not widespread in Mongolia, but continue to rise and draw the attention of the government and concerned NGOs. Mongolia's burgeoning young urban population is especially vulnerable to the growing drug trade. The government continues to implement the National Program for Fighting Narcotics and Drugs adopted 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, and raising public awareness of this issue.

II. Status of Country

Mongolia's long unprotected borders with the Russian Federation 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 traffic in drugs. Police suspect that trafficking in persons and prostitution are also connected to the drug trade.

III. Country Actions Against Drugs in 2002

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 continuing assistance to the GOM's own efforts to gain better control of its borders. A lack of financial and technical capacity and resources, along with growing corruption hinder Mongolia's ability to patrol its borders, detect illegal smuggling, and investigate transnational criminal cases.

Mongolia is a party to the 1961 UN Single Convention, its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. However, it is not a party to the 1988 UN Drug Convention, although consideration of becoming a party to the Convention continues. The Government of Mongolia attempts to meet the goals and objectives of international initiatives on drugs. The United States and Mongolia have in force a customs mutual legal assistance agreement.

Sporadic reports indicate that the availability and abuse of marijuana, heroin, amphetamines, and certain over-the-counter drugs have increased. The Mongolian government, now alert to precursor chemical production and export issues, has closed facilities suspected of diverting chemicals to elicit uses, but foreign (Chinese and Russian criminal groups') interest in the production, export, and transit of precursor chemicals in Mongolia continues to be reported, for example, in connection with planned investments, etc.. The weakness of the legal system and financial institutions 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. Mongolia's inexperienced law-enforcement agencies find it difficult to deal with sophisticated criminal groups from Russia and China.

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 to develop the capacity to address narcotics and related criminal activities before they become a serious burden on Mongolia's development.

IV. U.S. Policy Initiatives and Programs

U.S. government 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 Drug Enforcement Agency, the U.S. Customs Service, the Internal Revenue Service, and the U.S. Secret Service

The Road Ahead. The U.S. has tried to assist Mongolia's own efforts to improve border control, and will continue to assist those efforts in the future.

North Korea

Summary

For years during the 1970s and 1980s and into the 1990s, citizens of the Democratic People's Republic of (North) Korea (DPRK), many of them diplomatic employees of the government, were apprehended abroad while trafficking in narcotics and breaking other laws. More recently, police investigation of suspects apprehended while making large illicit shipments of heroin and methamphetamine to Taiwan and Japan have revealed a North Korean connection to the drugs. Police interrogation of suspects apprehended while trafficking in illicit drugs developed credible reports of North Korean boats engaged in transporting heroin and uniformed North Korean personnel transferring drugs from North Korean vessels to traffickers' boats. These reports raise the question whether the North Korean government cultivates opium illicitly, refines opium into heroin, and manufactures methamphetamine drugs in North Korea as a state-organized and directed activity, with the objective of trafficking in these drugs to earn foreign exchange.

Developments in 2002

There were fewer reports of drug seizures linked to North Korea this year than last. But there were reports of two large seizures—one of 79 kilograms of heroin on Taiwan and another of 150 kilograms of methamphetamine in Japan—typical of recent years' seizures with a DPRK connection. There is still no evidence that even a single incident of trafficking from the DPRK has had any impact on the U.S. Evidence of large-scale illicit poppy cultivation in the DPRK is either old or circumstantial. Shortages of fertilizer, energy, and insecticides make all agriculture, including poppy cultivation, in the DPRK difficult. The International Narcotics Control Board (INCB) lists only 63 hectares of licit poppy cultivation in the DPRK. Since the USG has been unable to confirm wide-scale illicit cultivation, we have dropped estimates of possible illicit cultivation included in this report in the past.

The DPRK government, it is alleged, illicitly produces narcotic drugs and traffics in them to earn foreign exchange. Since such allegations are not made of other countries, it is appropriate to ask if other known actions of the DPRK give credence to such an allegation. During 2002, the DPRK government admitted involvement in kidnappings of Japanese nationals and admitted years of deception of the international community, as the regime attempted to develop nuclear weapons. Salvage of a sunken DPRK gun boat in waters off Japan also added to our knowledge of amphetamine trafficking to Japan from the DPRK. Collectively, these developments tended to strengthen suspicion that the DPRK might be involved in state-directed trafficking by demonstrating other sorts of rogue activities the DPRK is willing to engage in. It, nevertheless, remains possible that criminal elements, or some rogue military organization in the DPRK, are trafficking on their own, without formal state direction.

Two Drug Seizures With a DPRK Connection

On July 2, 2002, authorities on Taiwan apprehended nine men on suspicion of attempting to smuggle 79 kilograms of heroin with an estimated street value of NT 300-400 million dollars (\$9-\$12 million) from North Korea. The arrests came in the wake of a tip police on Taiwan received in 2001 indicating the existence of a North Korea-Taiwan smuggling scheme. Police on Taiwan note that the ring had already smuggled into Taiwan as much as 200 kilograms of heroin in the past four months.

The heroin seized in this incident had been placed on a North Korean naval vessel from which it was transferred to a Taiwan fishing vessel. Authorities on Taiwan report that corrupt North Korean naval officers facilitated the transaction. Police on Taiwan, who had been monitoring the fishing vessel, arrested seven of its crew along with two other suspects after it discharged its cargo in Keelung on Taiwan.

Authorities on Taiwan were aware of this incident of trafficking well before the apprehension, and they have firmly established the connection between this incident and the DPRK.

On January 6, 2002, the Japanese Coast Guard seized 150 kilograms of methamphetamine from a Chinese ship off the coast of Fukuoka. The drugs seized were neatly packaged in one kilogram, vacuum packed bags with 15 bags to a crate. The drugs were of high purity, leading police to suspect DPRK manufacture. According to Japanese police, the Chinese vessel carrying the drugs had rendezvoused with a North Korean vessel in North Korean territorial waters to pick up the drugs. They were loaded aboard the Chinese fishing vessel by ten North Koreans in uniform. There were indications that the traffickers involved in this large-scale methamphetamine trafficking operation had connections to Hong Kong and Japanese organized crime and had earlier been involved in methamphetamine smuggling to the Philippines.

Both of the above seizures involve at-sea rendezvous with North Korean vessels and the presence of apparently official (i.e., uniformed) North Korea nationals and the use of state-owned assets (i.e., boats). Organized crime elements in Japan and Hong Kong and on Taiwan, depending on the incident, were also apparently involved with the North Koreans in on-going trafficking on a large scale. This pattern is typical of many recent trafficking incidents to Japan and to Taiwan, and suggests that similar trafficking is succeeding in both places, and perhaps elsewhere (viz., Philippines). Japanese police continue to point to North Korea as the source for a considerable share (ca. one-third) of the large quantities of methamphetamine smuggled into Japan.

No DPRK Trafficking to the U.S.; No Conclusive Evidence of Illicit Opium Production in North Korea

There is no single case of drug trafficking with a North Korean connection to the United States. U.S. enforcement authorities remain vigilant and any future incident will be noted in future editions of this report.

Indications from North Korean defectors that the DPRK produces illicit opium on a large scale and refines at least some share of that production into heroin continue, but even recent defector reports refer to events that are now more than ten years old, and remain unconfirmed by any independent evaluation. Heroin trafficking with a DPRK connection also continues, suggesting the possibility of illicit production of heroin in the DPRK, but the USG has not been able to confirm illicit opium cultivation or heroin production. The crisis in DPRK agriculture, with energy, fertilizer, and insecticides in short supply, suggests that even large-scale illicit cultivation in the past cannot be sustained under current conditions. In the absence of any confirmation, past estimates included in this report of large-scale illicit opium cultivation in the DPRK have been dropped this year.

At least 63 hectares of opium poppy is licitly cultivated in the DPRK. DPRK officials readily acknowledged this cultivation, and showed it to recent visitors from the International Narcotics Control Board. It is apparently intended for domestic medicinal use. News reports after the INCB visit to North Korea noted that DPRK officials told the visiting INCB team the DPRK was considering becoming a party to international narcotics conventions.

Allegations of State-Sponsored Drug Trafficking

The major question dealt with in this report is whether drug trafficking with a DPRK connection is state-directed. The context for analyzing the limited information we have about this issue has changed significantly in the past year. Allegations of kidnapping of Japanese nationals and their forced re-settling in North Korea—viewed by many as too bizarre to receive serious consideration—have been confirmed. High-level North Korean officials have also admitted that for years the DPRK has attempted to develop nuclear weapons, while denying publicly that the DPRK was doing so.

A DPRK vessel, apparently scuttled by its crew when capture by the Japanese Coast Guard seemed imminent, was salvaged by the Japanese government. Reports indicate that the boat was similar in design, indeed perhaps identical, to DPRK vessels suspected of being engaged in drug smuggling. Moreover, a cell phone recovered from the vessel apparently contained stored phone numbers of known criminal elements (Yakusa) in Japan. These and other revelations from the DPRK (viz., famine deaths, refugee departures) suggest an increasingly desperate situation and/or a lack of concern for responsible state behavior, which might well include a willingness to engage in state-directed drug trafficking for profit. Nevertheless, it certainly remains possible, as investigators on Taiwan suggested in the incident described above, that criminal, rogue or corrupted elements among the DPRK population are trafficking for personal profit, without state involvement or direction.

Allegations of North Korean state complicity in the illicit narcotics trade and in other criminal enterprises remain profoundly troubling. 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 the North Korean government is involved in manufacturing and trafficking in illegal drugs.

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 a not a major drug trafficking or producing country, nor 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 that 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 2002

In 2002, Felix Maidesil and Frankie Borja, both former police officers, were sentenced to 50 years imprisonment and a US\$100,000 fine, and 30 years imprisonment and a US\$50,000 fine, respectively. In the same year, a Hong Kong citizen, Liu Man Cheun, a.k.a. Eddie Liu, was sentenced to 50 years imprisonment and US\$150,000 fine. Mr. Liu was considered to be the biggest importer of illegal drugs, including methamphetamine, from Asia. On January 6, 2003 he escaped from the local jail.

The Ministry also conducted cannabis drug busts in 2002. Over 50 cannabis farms were raided and plants with estimated value of US\$3.5 million, street value, were seized.

IV. U.S. Policy Initiatives and Programs

DEA works closely with Palau authorities on cases of mutual interest. No other direct U.S. narcotics assistance is planned.

The Road Ahead. The U.S. will continue to cooperate with the authorities of Palau on specific narcotics cases of mutual interest.

Papua New Guinea, Solomon Islands, and Vanuatu

I. Summary

Drug trafficking does not occur on a significant or commercial scale in Papua New Guinea (PNG), Solomon Islands, or Vanuatu. However, Australian law enforcement authorities have identified the Highlands Provinces of Papua New Guinea as a small-volume source of cannabis that makes its way into Australia via the Western Province and over the Torres Strait. In the three countries drug abuse among urban youth is a growing concern, with cannabis usage and glue or solvent sniffing the most popular drugs of abuse in PNG and the Solomon Islands, especially by poor, and usually unemployed, urban youth. Vanuatu authorities have in recent years made infrequent and small seizures of amphetamine and some synthetics (such as Ecstasy (MDMA)), which they assert were imported from Asia and were intended for the country's affluent youth.

There are no reliable quantitative measures of either trafficking or abuse in these three countries. Beyond the regular activities of their poorly resourced and poorly managed law enforcement agencies, none of the countries has a centrally directed narcotics control strategy. Though PNG passed legislation creating a Narcotics Control Board in 1992, it has yet to be established or staffed. Papua New Guinea is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The Solomon Islands is a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. None of the three countries is a party to the 1988 UN Drug Conventions.

II. Status of the Countries

There is no evidence of significant levels of illicit drug production or transit in Papua New Guinea, 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 evidence of small-scale cannabis cultivation and export, primarily to Australia. This activity may also be related to smuggling of small arms into Australia. None of these countries is a source of precursor chemicals.

In one case in 2000, a local 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 irregularities in its issuance. The potential involvement of organized drug-traffickers in the case was investigated by PNG law enforcement agencies though the findings were never made public.

III. Country Actions Against Drugs in 2002

Due to the very limited extent of drug trafficking and abuse in Papua New Guinea, 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 an assessment of the governments' performance in these areas. In general, however, the law enforcement agencies of all three countries have shown themselves to be willing to cooperate with other countries on narcotics enforcement as needed, given resource constraints. There is no evidence of narcotics-related corruption in these countries.

The Philippines

I. Summary

After many years of hard work, the Government of the Philippines (GRP) passed and signed into law comprehensive counternarcotics legislation during 2002. The new law establishes a high-level Dangerous Drug Board (DDB) responsible for formulating policy and a Philippine Drug Enforcement Agency (PDEA) responsible for implementation and enforcement. The law also significantly increases all drug-related penalties and introduces penalties related to precursors and essential chemicals. While this legislation is a major accomplishment in the Philippines' ability to combat drugs, the country continues to serve as a transit point and producer of crystal methamphetamine and cannabis, and increasing evidence indicates links between terrorist organizations and drug trafficking activities.

II. Status of Country

Crystal methamphetamine, known locally as "shabu", is the most commonly abused drug in the Philippines. Domestic production of methamphetamine is a growing problem, but most of the supply is smuggled into the Philippines from surrounding countries, primarily the People's Republic of China (PRC). Authorities estimate that the wholesale price of methamphetamine ranges from 800,000 to 1,000,000 pesos per kilogram (\$16,000 to 20,000). The same methamphetamine sells on the street for twice that amount. The Philippines also serves as a transshipment point for further export of "shabu" to Japan, Australia, Korea, the U.S., Guam, and Saipan.

The Philippines also produces, consumes and exports cannabis. Authorities continue to encounter difficulties stemming production. Cannabis is generally cultivated in areas inaccessible by vehicles and/or controlled by insurgent groups. Corruption and inefficiency among government officials also complicate eradication efforts. Most of the cannabis produced in the Philippines is consumed locally, with the remainder smuggled out to Australia, Japan, Malaysia, Taiwan and Europe. The wholesale price of cannabis is estimated around 1,160 pesos per kilogram (\$23.20). Street price varies according to the quality of the product. Methyldioxymethamphetamine (MDMA), commonly known as Ecstasy, is rapidly becoming a popular recreational drug in the Philippines. GRP authorities report a surge in Ecstasy use among young, prosperous adults, particularly in bars and clubs. The street price for an Ecstasy tablet is estimated to be 1,500 pesos (\$30).

III. Country Actions Against Drugs in 2002

Policy Initiatives. In her July 2002 State of the Nation Address, President Gloria Macapagal-Arroyo vowed to "build a strong republic" by enhancing peace and order. She went on to promise that drug lords would be considered "enemies of the state." Following on Arroyo's announcement, National Security Advisor Roilo Golez listed the drug menace as "Public Enemy No. 1 of the entire Filipino people."

On June 7, the President signed a comprehensive counternarcotics law. The new legislation, titled the "Comprehensive Dangerous Drugs Act of 2002," replaces the antiquated "Dangerous Drugs Act of 1972" and dramatically strengthens the Philippines' counternarcotics efforts. Before the new law, GRP counternarcotics efforts were decentralized. Separate narcotics units existed in each Philippine law enforcement agency, competing for funding and jurisdiction. The new law established a "Philippine Drug Enforcement Agency" (PDEA) modeled after the U.S. DEA. Under its mandate, PDEA will absorb existing counternarcotics units and their responsibilities, with extensive screening of all officers. Following on the guideline of the Dangerous Drugs Act, President Arroyo appointed a PDEA Director General with the rank of Undersecretary, tasked with directing all counternarcotics-related operations.

An increase in the penalties (including the death penalty) for possessing small amounts of narcotics proved to be the most controversial elements of the law. For example, possessing over 10 grams (instead of the previous threshold of 40-50 grams) of opium, morphine, heroin, cocaine, cannabis resin, and designer drugs (like Ecstasy) now carries a penalty of life imprisonment or death (there is nothing in between presumably). The same penalties apply to possession of over 50 grams of crystal methamphetamine (only 25 percent of the previous threshold of 200 grams) or over 500 grams of cannabis (previously 750 grams). The accompanying fine for possessing these quantities remains at the Philippine peso equivalent of \$10,000 to \$200,000.

Persons who test positive for use of dangerous drugs will be required to complete 6 months of community service and rehabilitation for the first offense. The penalties for the second offense are 6 to 12 years in prison and a \$1,000 to \$4,000 fine. Noteworthy as well are requirements for drug testing for applicants for drivers or firearms licenses, and random drug-tests for students and government workers.

Accomplishments. In 2002, law enforcement agencies joined together with units from the Armed Forces of the Philippines to launch cannabis eradication operations. Some of the eradication campaigns took place in territory controlled by armed insurgent movements. Using manual techniques to eradicate cannabis, government entities successfully uprooted and destroyed 865,768 plants, 71,381 seedlings and 150 grams of seeds.

Philippine authorities estimate they seized record amounts of chemical and controlled precursors during 2002. GRP figures peg the amount of the confiscated goods at \$48,638,908. Also seized was a significant number of state-of-the-art laboratory equipment used to produce crystal methamphetamine. One such laboratory seized in Valenzuela City in December 2002 yielded 400 kilos of crystal methamphetamine and 600 kilos of methamphetamine in liquid form. Authorities dismantled three other labs during the year, arresting several Chinese nationals.

Law Enforcement Efforts. In 2002, Philippine authorities drew clear linkages between drug trafficking activities and terrorist organizations. According to government estimates, the New People's Army (NPA), a U.S.-designated terrorist organization that operates throughout the Philippines, receives money for providing safe-haven and security for many of the cannabis growers in the northern Philippines and collects "revolutionary taxes" on the sale of drugs. The Abu Sayyaf Group (ASG), another terrorist gang operating in the extreme southwest, collects money from drug smugglers by acting as protectors for foreign trafficking syndicates and controls a thriving cannabis production site in Basilan. In Moro Islamic Liberation Front-controlled areas in Central and Western Mindanao, mounting evidence indicates the presence of several clandestine methamphetamine laboratories. The drugs produced by these labs are distributed within the Philippines and possibly exported to other countries. PDEA, in consultation with other Philippine law enforcement agencies and U.S. DEA, is working to investigate such terrorist group involvement in drug trafficking.

Philippine law enforcement officials arrested 25,076 individuals in counternarcotics operations including 14,297 users, 10,733 pushers, 43 financiers, and 3 cultivators. Of this total, 37 are foreign nationals.

Corruption. Corruption, among the police, judiciary, and elected officials, continues to be a significant impediment to Filipino counternarcotics law enforcement efforts. The GRP takes steps to investigate specific instances of corruption brought to the attention of authorities. In 2002 prosecutors charged laboratory technicians with stealing drug evidence and prison officials for aiding and abetting known drug dealers. It is often difficult to distinguish between corruption and negligence, as illustrated by one heavily publicized case where a suspected trafficker escaped from his detention cell at the former Philippine National Police Narcotics Group headquarters.

Agreements and Treaties. The Philippines is a party to the 1988 UN Drug Convention ,the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The Philippines also 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 U.S.-Philippines extradition and mutual legal assistance treaties of 1996 also remain in force.

Cultivation/Production. While the majority of the methamphetamine currently available in the Philippines is smuggled into the country, indigenous production of the drug continues to expand. Ephedrine, the main chemical used in the production of methamphetamine, clandestinely enters the Philippines from boats originating in China. The chemical is subsequently distributed to labs around the country.

Authorities calculate 98 identified cannabis plantation sites spread throughout nine different regions of the Philippines. The mountainous areas of northern Luzon, central Visayas, and central, southern and western Mindanao, account for the largest areas of cultivation.

Drug Flow/Transit. The Philippines is also an important transshipment point for narcotics heading elsewhere. Illegal drugs enter the country through seaports, economic zones, and airports. The Philippines, a nation with over 36,200 kilometers of coastline, is a smugglers' paradise. With over 7,000 islands, vast stretches of the Philippine coast are unpatrolled and uninhabited. Capitalizing on this phenomenon, drug traffickers use shipping containers, fishing boats, and cargo vessels, which off-load to smaller boats, to transport multiple hundred-kilogram quantities of methamphetamine and precursor chemicals. The country is also a transshipment point to further export of crystal methamphetamine to Japan, Australia, Korea, the U.S., Guam, and Saipan. Commercial air couriers and express mail services remain the primary means of shipment to Guam and to the mainland U.S., with a typical shipment size of one to four kilograms.

Traffickers using human couriers or "mules" to smuggle drugs sometimes use the Philippines as a transit point for heroin, but much less frequently than for the transshipment of methamphetamine. Heroin that is transshipped through the Philippines transits Thailand and Pakistan and is sometimes destined for mainland U.S., Guam, and Europe. In response to successful law enforcement efforts to stem courier activities, traffickers are looking for alternate shipment methods including using express mail services.

Personal use and transshipment of cocaine continues in the Philippines albeit at much lower levels compared to methamphetamine. As in previous years, law enforcement officials seized express mail parcels containing cocaine. This cocaine originated in South America and was apparently destined for the Philippines and other countries in Southeast Asia.

Domestic Programs (Demand Reduction). The Comprehensive Dangerous Drugs Act of 2002 also includes provisions mandating drug abuse education in schools, the establishment of provincial drug education centers, and drug-free workplace programs. Abusers who voluntarily enroll in treatment and rehabilitation centers are exempt from prosecution for illegal drug use. 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), GRP law enforcement agencies are still studying the issue to determine the number of addicts or abusers involved in each drug category.

IV. U.S. Policy Initiatives and Programs

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) promote the development of PDEA as the focus for effective counternarcotics enforcement efforts in the Philippines; 3) halt the shipment of crystal methamphetamine to the U.S., including Guam and the Northern Mariana Islands; and 4) prevent the transshipment of heroin and/or other illegal drugs to the U.S.

Bilateral Cooperation. Counternarcotics cooperation between U.S. and GRP entities strengthened during 2002. U.S. DEA continues to work side by side with GRP counterparts to strengthen domestic counternarcotics capabilities and reduce the flow of drug to the U.S. In 2002, the International Law

Enforcement Academy in Bangkok (cosponsored by the U.S. and Thai governments) provided training to 17 GRP drug enforcement personnel, including 12 from the newly formed PDEA. The U.S. Agency for International Development conducted good governance programs to reduce corruption.

The Road Ahead. The upcoming year promises to be a pivotal period in the Philippines' war on drugs. The GRP will need to find ways to fully implement the Comprehensive Dangerous Drugs Act of 2002. This includes addressing PDEA's funding and staffing requirements. The USG plans to continue to work with the GRP to promote law enforcement institution building and encourage anticorruption mechanisms. Strengthening the counternarcotics bilateral relationship serves the national interests of both nations.

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. Overall, Singapore is experiencing an increase in both drug trafficking and abuse. Seizures of heroin, MDMA (Ecstasy), ketamine, and methamphetamine all substantially increased in 2001 and 2002. Singapore is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2002, there was no known production of illicit narcotics or precursor chemicals in Singapore. The Central Narcotics Bureau (CNB) works with the DEA to closely track the import of the modest amounts of precursor chemicals for legitimate processing and use in Singapore. CNB's precursor unit monitors and investigates any suspected diversion of precursors for illicit use. CNB also 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 and methamphetamine abuse in Singapore is growing. In 2001, Singapore CNB seized 106.7 kilograms of white (injectable) heroin, a 127 percent increase compared to 2000. The amount of "ice" (a crystal form of methamphetamine that is usually smoked) that law enforcement authorities seized in 2001 grew to 2.2 kilograms, more than double the 759 grams seized in 2000. Seizures of Thai methamphetamine tablets called "yaba," also rose. The number of "yaba" tablets seized in 2002 more than doubled from 2001, with the seizure of approximately 51,000 tablets, mainly from Thai trafficking organizations operating in Singapore. "Yaba" 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 2002

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 Singapore's accession to the 1988 UN Drug 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 remifentanil, 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, to which Singapore is also a party.

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.

Law Enforcement Efforts. After a steady decline in total number of people arrested on charges of possession, use and trafficking in narcotics for six years, 2001 saw a rise in arrests. According to the most current statistics available, seizures for Ecstasy) more than doubled in 2001 compared to 2000 drug seizure statistics. Almost 24,000 MDMA tablets and 0.26 kilogram of powdered MDMA were seized in 2001. The Singapore Central Narcotics Bureau (CNB) reports that 24 of the 48 major operations it mounted in 2001 were against drug syndicates. In 2001, authorities seized over 106 kilograms of heroin, 23,845 tablets of Ecstasy, 8.9 kilograms of ketamine, and almost 1 million dollars worth of assets.

Corruption. The 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; in 2002 one joint case resulted in a \$1.9 million seizure of assets in Singaporean bank accounts.

The DDA has also facilitated the exchange of banking and corporate information on drug money laundering suspects and targets. This includes access to bank records, testimony of witnesses, and service of process. The DDA is the first such agreement Singapore has undertaken with another government. 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 2002.

Drug Flow/Transit. Singapore has the busiest (in tonnage) seaport 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. 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 entry port.

Domestic Programs (Demand Reduction). Singapore uses a combination of punishment and rehabilitation against first-time drug 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 discourage Singapore citizens form using drugs during travel 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 antirecidivist 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 2002, approximately 35 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 Singapore authorities on all narcotic trafficking and money laundering matters. In 2002 the United States signed a Container Security Initiative with Singapore which allows U.S. customs personnel to review port shipping data that will allow for increased transshipment monitoring efforts at the Singapore container port. While this initiative is primarily aimed at ensuring weapons of mass destruction do not enter the U.S., the increased information and scrutiny should also aid drug interdiction.

South Korea

I. Summary

The availability of illicit drugs for domestic use, primarily methamphetamine, appears to have increased by 11.3 percent based on seizures, and arrests for usage of illicit drugs have also increased. Prevalence of club drugs, like ecstasy, continues to increase, especially in metropolitan areas. The Korean Supreme Prosecutors Office and the Korean Customs Service have worked together diligently to increase drug awareness and otherwise reduce demand for drugs.

Cocaine and heroin transiting through South Korea increased by 20.4 percent from 2001 to 2002, based on seizures, but usage within the country seems to be marginal. Some diversion of heroin precursor chemicals seems to have occurred, but not in significant amounts. Precursor chemical diversion is of concern to Korean Law Enforcement Agencies, which are continuing to develop their enforcement skills through an ongoing precursor chemical diversion training program provided by the Drug Enforcement Administration. The ROK is a party to the 1988 UN Drug Convention.

II. Status of Country

In the past, the ROK has had a relatively moderate drug problem in comparison to other countries with similarly sized populations and land mass. But this situation is perhaps changing. Methamphetamine use is increasing and various club drugs, including ecstasy, methamphetamine in pill form from Thailand (Yaba), and ketamine are increasingly prevalent. Importation of heroin and cocaine for local consumption seems to have decreased, based on seizures. The overall drug user population (identified by arrests for usage) in Korea increased by more than eight percent over the past year. With 47 million people, Korea reported slightly over 10,000 drug arrests for 2001. But drug arrests for January through October of 2002 have already reached more than 10,000.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Supreme Prosecutors Office created Korea's very first national narcotics task force in 2001. The Joint Narcotics Intelligence Task Force (JNITF) was at first used strictly as an intelligence gathering unit, which passed collected data onto other investigative and enforcement agencies (local District Prosecutors Offices). The JNITF is presently being re-structured in order to become an operational enforcement unit capable of conducting its own follow-up investigations using the information it gathers. The Korean Customs Service also continues its own strong initiatives towards combating narcotics, not only in support of the aforementioned JNITF, but also through its airport and seaport narcotics units.

Agreements and Treaties. During 2002, the ROK signed a mutual legal assistance treaty with Indonesia in March. In February, the ROK and Japan signed an extradition treaty and the Korean National Assembly ratified this agreement in June.

Illicit Cultivation and Production. While methamphetamine was previously produced in the ROK, evidence suggests that this is no significant current production. In 2002, the Korean National Anti-Drug Program targeted domestically-produced marijuana and poppy. Between January and October, 18,446 poppy plants and 14,576 marijuana plants were seized, a marked increase from 2001. Marijuana is cultivated legally as hemp in Korea, and is used for fabrics and fertilizer. It is grown in the northeast and southwest regions of the ROK. A portion of the licit marijuana crop is diverted for illegal use.

Demand Reduction. The Supreme Prosecutors Office continues to actively support train-the-trainer programs to reduce demand for drugs. They send knowledgeable representatives throughout Korea to

instruct school teachers on the perils of drug usage, how to identify drugs, and how to recognize and counsel students suspected of using drugs. Teachers then instruct their students about drugs during the regular school year. Additionally, a National Anti-Drug Association, operating as a civilian foundation, has begun an counternarcotics campaign through television and newspaper ads.

Law Enforcement Efforts. The Korean National Police Administration has begun to upgrade its narcotic enforcement efforts by the creation of an estimated 68 new drug investigation units, with 221 police officers being assigned to these new units. These units are to be assigned to each of the 68 major police stations in the country in an effort to combat the apparent rising drug problem. In 2002, the total amount of drugs seized upon entry at Korea's largest international airport increased more than 10 times in comparison with 2001. A total of 152 kilograms of drugs were seized, with 137.5 kilograms of that number cannabis. Seizure of Amphetamine Type Stimulants also increased sharply at Korea's main airport with 12.1 kilograms registered during 2002, up by 164 percent over 2001.

Corruption. Although isolated reports of official corruption appear in the ROK's vigorously free press. There continues to be no evidence that any official corruption adversely influenced narcotics law enforcement in Korea.

Drug Flow/Transit. Methamphetamine, mostly from China, but also reportedly from North Korea, is used in the ROK and also transits the country. Cocaine and heroin are also used in Korea and transit to other areas. Transiting methamphetamine is often destined for the U.S., moving from China and the Philippines, but not in large quantities. South East and South West Asian heroin have both been seized in Korea, but heroin abuse in Korea remains a minor problem. Cocaine seems to be used as a kind of club drug in Korea to substitute for methamphetamine. Yaba (Thai methamphetamine in pill form) has also been recently discovered entering the country. While locally grown marijuana is available, South African imported marijuana appears to dominate on the domestic market.

Investigations show that "club drugs" are continuing to increase in popularity among Korean youth. There were significant seizures of MDMA (ecstasy) on their way into Korea in 2002.

IV. U.S. Policy Initiatives and Programs

DEA and USCS continue to work very closely with all Korean narcotic law enforcement authorities. Both agencies have given support to Korean investigations through exchange of intelligence and hands-on-guidance in actual cases. In a continuing effort to target transit narcotics and precursor chemicals trafficking through Korea, DEA held in 2002 its second precursor chemical diversion training program. During 2002, the Director of the Narcotics Division of the Supreme Prosecutors Office and a Director of the Korean Customs Service Narcotics Division attended the DEA, Drug Unit Commanders Academy, in Fredricksburg, VA.

The Road Ahead. The U.S. will continue to work closely with Korean anti narcotics enforcement officials, especially in the Supreme Prosecutors Office and in the Customs service to assist enforcement efforts and to share lessons learned.

Taiwan

I. Summary

There is no evidence that Taiwan is a transit point for quantities of drugs that have a significant effect on the U.S. destined for the United States. Taiwan authorities in 2002 increased their law enforcement efforts to combat local drug use and to intercept heroin and methamphetamine being smuggled from the PRC, North Korea, and Thailand. Bilateral law enforcement cooperation with U.S. law enforcement agencies, including the DEA, was enhanced by the entry into force in March 2002 of a mutual legal assistance agreement (MLAA) between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office in the United States (TECRO). TECRO has signaled its interest in concluding a memorandum of understanding on counternarcotics cooperation with AIT, and the authorities on Taiwan are seeking necessary legislative permission to permit police to perform undercover operations and controlled deliveries in narcotics cases. The DEA conducted a week-long drug enforcement training seminar in August 2002 for 162 Taiwan law enforcement officers and prosecutors from a cross-section of law enforcement agencies. 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 consistent with the goals and objectives of the Convention.

II. Status of Taiwan

Taiwan is not a cultivator or producer of illegal narcotics. The PRC continues to be the primary source of drugs smuggled into Taiwan, primarily heroin and methamphetamine. Approximately 95 percent of methamphetamine and 80 percent of heroin the origin of which could be identified entered Taiwan from the PRC. Stringent law enforcement procedures along with enhanced customs inspection and surveillance methods have all but cut off serious flows of heroin from Taiwan to the U.S. At the same time, the opening of major container ports in southern PRC has diminished Taiwan's place in the drug trade.

III. Actions Against Drugs in 2002

Policy Initiatives. A comprehensive plan to combat drug abuse is in place and is being implemented. In view of a generally perceived rise in the use of illegal drugs (especially "ecstasy" and other designer drugs) on Taiwan, the Minister of Justice is emphasizing preventive education, especially for teenagers.

Accomplishments. With an eye to laying the foundation for the conclusion of an AIT-TECRO MOU on counternarcotics cooperation, the Minister of Justice initiated draft legislation for consideration by the Legislative Yuan, which would permit controlled deliveries and undercover operations in narcotics cases. The draft legislation is currently with the Legislative Yuan. At the same time, a provision permitting samples of seized narcotics to be shared with other law enforcement authorities, including for DEA's "signature program" (drug origin), is now in effect.

Law Enforcement Efforts. The Ministry of Justice plays the main role in formulating counternarcotics policies and drafting/proposing enforcement legislation. The Ministry of Justice Investigative Bureau (MJIB) and the National Police Administration's (NPA) Criminal Investigation Bureau (CIB) are the lead counternarcotics agencies on Taiwan. In 2000, the Coast Guard Administration was given enhanced counternarcotics enforcement authorities, and since then has made significant contributions in arrests and seizures. Counternarcotics law enforcement is a priority on Taiwan and the relevant agencies have the necessary resources.

In 2002, Taiwan authorities seized 172.53 kilograms of heroin, 23.93 grams of morphine, 5.55 kilograms of cocaine, 490.16 grams of marijuana and 1052.50 kilograms of methamphetamine.

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 political, economic, and judicial corruption one of its highest priorities. There is no indication that either the Taiwan authorities, as a matter of policy, or senior officials on Taiwan 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.

Agreements. In 1992, AIT (which represents the United States in dealings with Taiwan) and its Taiwan counterpart, TECRO, signed a Memorandum of Understanding on Counternarcotics Cooperation in Criminal Prosecutions, and in 2001, AIT and TECRO signed a Customs Mutual Legal Assistance Agreement. In March 2002, the AIT-TECRO Mutual Legal Assistance Agreement (MLAA) entered into force.

Drug Flow/Transit. The PRC remains the principal source for heroin and methamphetamine for Taiwan. The Taiwan islands of Kinmon, Matsu, and Penghu have been identified as major transshipment points for drug shipments from the PRC. Fishing boats and cargo containers are still the primary means of smuggling both types of drugs into Taiwan from the PRC. North Korea also seems to be a source of drugs for Taiwan. However, the MJIB has continued to see couriers posing as tourists with drugs strapped to their bodies or hidden in their clothing.

Domestic Programs. The Ministry of Education provides training for teachers on how to discourage drug use. It is also 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S.' main counternarcotics policy goal with respect to Taiwan is to ensure that 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 counternarcotics authorities on Taiwan regularly share information with the DEA and enjoy a close working relationship with DEA's Hong Kong office and AIT's regional security office. The Regional Security Officer in AIT's Taipei office and the DEA have both noted improved cooperation with the MJIB, which they attribute at least in part to the entry into force of the AIT-TECRO MLAA. The MJIB, Coast Guard, and NPA police units have all actively participated and cooperated in DEA investigations. Events such as the week-long counternarcotics seminar presented by the DEA in Taipei for four different counternarcotics units and prosecutors have encouraged networking and cooperation among the Taiwan agencies and between them and AIT, DEA, and other USG agencies.

Road Ahead. AIT and TECRO will work on the proposed MOU on counternarcotics cooperation, covering undercover operations, controlled deliveries, maritime search and seizure, and the provision of samples of seized narcotics for the DEA's signature program. DEA hopes to conduct additional training with counternarcotics agencies on Taiwan, to continue to enhance its relationship with them to share intelligence in a timely manor, and to conduct more joint investigations.

Thailand

I. Summary

Thailand has become a leader in effective drug control efforts, and cooperation with the United States and the International Community in measures against illicit drugs has been outstanding. Thailand actively promotes regional cooperation against drug trafficking and other transnational and organized crime, and is co-sponsor with the U.S. of the Southeast Asia International Law Enforcement Academy (ILEA) in Bangkok. The US-Thai extradition relationship continues to be excellent, and cooperation with U.S. drug and other law enforcement authorities is excellent.

In 2002, epidemic abuse of amphetamine-type stimulants (ATS), particularly among school-aged youth, remained Thailand's most serious illegal drug problem. Thai authorities estimate that some three million people use some illicit drugs, of whom about two and a half million use ATS. Drug abuse is acknowledged 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(14 percent compounded annual growth rate), and over 65 percent of inmates are incarcerated for narcotics-related offenses. In the first ten months of 2002, over 200 individuals were sentenced to death for drug offenses, although only three were actually executed. Thailand continues to accord high priority to demand reduction through drug abuse prevention and treatment. In 2002, 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.

As a result of its successful three-decades of crop control programs, Thailand is no longer a major producer of opium poppy. Net poppy cultivation is estimated by the USG at less than 1000 hectares for the fourth successive year. Opiate 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 U.S. and international markets. Public corruption is a major problem for law enforcement agencies and the judiciary. Thailand signed the United Nations convention against transnational organized crime in December 2000, and became a party to the 1988 UN Drug Convention on May 3, 2002.

II. Status of Country

Thailand is not a major producer of heroin, methamphetamine, ecstasy, cannabis or cocaine, although each of these drugs is trafficked in the Kingdom or transits en route to the international market place. Heroin and methamphetamine continued to be the most commonly trafficked drugs throughout Thailand, although there was an increase in the trafficking of ecstasy and cocaine during 2002. In recent years, individual heroin seizures in Thailand were normally 25 kilos or less. However in 2002, the size of seizures began to increase and seizures of 40-80 kilos of heroin at a time are now not unusual. In September 2002, a shipment of 140 kilos of heroin was seized in Bangkok. Although seizures reflect shipments of larger quantities, the bulk of heroin departing the Golden Triangle continues to transit southern China. Routes continually change in response to law enforcement pressure, with maritime smuggling now believed to be a major factor.

The most commonly abused drugs in Thailand in 2002 were cannabis and Amphetamine-type Stimulants (ATS). In Thailand, the most often encountered forms of ATS (called "yaba") are pills or tablets whose purity in 2002 averaged about 25 percent. ATS is usually cut with caffeine, which led the Thai government to pass new legislation during 2002 that controls caffeine throughout the country. ATS abuse in Thailand is epidemic. Fueled by over-supply and low price, ATS abuse has become widespread across all socio-economic boundaries and ages. A particular concern is school-aged children. This significant growth in abuse and shift in abuse patterns has led the Thai government and public to view ATS abuse as a major national security problem for Thailand and an important threat to the safety and health of the Thai people.

In his 75th birthday address to the nation His Majesty, the King, singled out narcotics abuse as Thailand's most serious problem.

Most of the ATS consumed in Thailand is produced and smuggled from Burma, where many traditional heroin trafficking organizations, especially the United Wa State Army (UWSA), dominate the lucrative ATS manufacturing and smuggling trade. From January through September 2002, the Royal Thai Government (RTG) reported seizing almost six metric tons (ca. 13,500 lbs.) of ATS drugs. Outside Southeast Asia, seizures of Golden Triangle ATS increased considerably in the United States during the past year. In one especially noteworthy case, over 75,000 UWSA-produced ATS tablets were seized in Sacramento, California from a single mail shipment that had originated in Thailand. 450,000 UWSA-produced ATS tablets were seized in Switzerland.

Although ATS is the principal drug of abuse in Thailand, there has been a rapid expansion in the availability and use of both cocaine and ecstasy. While ecstasy remains expensive, its retail price is slowly declining. Most ecstasy seized in Thailand is trafficked from Europe, often via neighboring countries, but there have been increasing indications of regional ecstasy production. Regional production may result in lower retail prices, even for European produced tablets, as suppliers compete for market share. Ketamine is another "club drug" that has been increasingly abused. Most Ketamine appears to originate in Pakistan.

Like ecstasy, cocaine experienced a growth year in 2002. Previously incidents of cocaine seizures were limited to a few occasions per year. During the past year though, cocaine was more commonly seen, often in seizures with other drugs. The West African trafficking community, dominated by Nigerian traffickers, still controls the bulk of the cocaine market in Thailand.

Thailand is no longer a significant source of opiates in the international illicit market. Its harvestable opium poppy crop for the year 2002 is estimated by the USG as less than 1000 hectares for the fourth 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 U.S. and other international markets.

Thailand produces limited quantities of cannabis, primarily in its northeast region. Quantities produced have been limited in recent years by RTG drug suppression activities, and by competition from growers in Cambodia and Laos who have lower production costs and are less affected by law enforcement. There are many allegations that Thai traffickers finance and organize "contract" cultivation. Cannabis from these countries continues to transit Thailand on the way to international markets. There continue to be some reports of cannabis cultivation in the northern and southern regions of Thailand.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2001, the Royal Thai Government (RTG) issued a nine point national drug control strategy called, "Concerted Effort Of The Nation To Overcome Drugs". A seven-point action plan covering supply and demand reduction was added in 2002. This action plan targets 30,000 villages in 76 provinces.

Effective October 9, 2002, the Thai Office Of The Narcotics Control Board (ONCB) was transferred from the Office of The Prime Minister to the Ministry of Justice. ONCB has continued to function as an effective institution for coordination of national drug control strategy, planning and intelligence. In December 2002, Thailand announced a joint command center to coordinate suppression of narcotics by different agencies would be established, reporting to Deputy Prime Minister and former Army Commander, Chavalit Younchaiyudh.

Thailand is a leader in the six-country sub-regional MOU among Burma, Cambodia, China, Laos, Thailand and Vietnam developed under the auspices of UNODC and other important regional efforts to coordinate counternarcotics efforts.

Hostilities on the border during May resulted in temporary suspension of bilateral counternarcotics cooperation between Thailand and Burma, but such activities resumed in October. Thailand offered a 20 million baht (U.S. \$450,000) grant for poppy replacement, alternative development activities in a Wa controlled area of Burma near the border; preparation for construction of a school and health clinic is proceeding. Thailand considers effective action against drug trafficking and production in Burma indispensable to the success of its own national drug control strategy.

Accomplishments. During 2002 the RTG amended essentially all of its basic narcotics legislation. One change permits the use of wire tap evidence in narcotics cases. Drug users charged for first offenses may now be assigned by courts to mandatory substance abuse treatment, as an alternative to penal incarceration. Camps where such mandatory treatment will be provided have been established by all three services of the Royal Thai armed forces. Changes in law, which would allow other effective investigative methods, including witness protection, co-conspirator testimony, and greater use of electronic evidence, remain under consideration. U.S. experts have helped to influence many of these initiatives. In October, the chairman of the U.S. House of Representatives Narcotics Committee organized two State Department funded seminars on legislative reform for senior Thai officials and opinion leaders.

By the end of 2002, ILEA/Bangkok had trained over 3,000 law enforcement and judicial officials from most countries in the region. Since its establishment, the ILEA has operated in temporary facilities. In November 2001, the RTG offered a site for construction of a permanent facility for the ILEA. Architectural and design studies are being completed and ground breaking is scheduled for 2003.

The Thaksin Government has visibly increased demand reduction and drug prevention efforts with grass roots programs around the country. While drug trafficking is viewed as an evil to be suppressed with forceful measures, drug abuse is now more clearly recognized as a health issue. Over the course of 2001-2002, the RTG established a network of community-based and national level prevention and rehabilitation programs.

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.

Close cooperation between the Thai police and the U.S. Drug Enforcement Administration has been sustained for almost 40 years. In concert with its Thai counterparts, DEA routinely conducts in-depth, joint investigations of the most active and most important drug trafficking organizations operating out of the Golden Triangle.

While the bulk of Burmese-produced heroin formerly transited Thailand on its way to international markets, for the last several years traffickers have begun using new routes. UNODC now estimates that about 60 percent of the heroin leaving the Golden Triangle passes through southern China. This is to a large extent, the result of effective interdiction by the Thai police. So successful have Thai police undercover operations been, that traffickers now frequently refuse to deal with new customers, require advance payment, and insist on payment in U.S. dollars.

During 2002, (figures are January-September), Thai authorities reported a total of 119,215 persons arrested for drug trafficking offenses. 525.0 kilograms of heroin, 6494.0 kilograms of methamphetamine or other ATS drugs, 7056 kilograms of cannabis, 33 kilograms of ecstasy and 675 kilograms of inhalants were reported seized. During 2002, over 200 defendants were sentenced to death for drug trafficking, and three 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 100 grams (.036 oz) of heroin or pure amphetamines.

As part of a global DEA-advised/State department-funded program, the Royal Thai police have established specially selected, trained and equipped units targeted on trafficking to the U.S. The most recent of these units was formed to operate against the threat of maritime heroin smuggling.

Corruption. Public corruption is 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. Low public sector salaries create the same incentives for corruption in Thailand as they do in many other countries. 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 have contributed to corruption in law enforcement and judicial institutions.

In its 2002 annual report, ONCB states that: "Major drug traffickers are still hiding themselves in Thai society. Those people include corrupt politicians and governmental officials who use their authorities to protect or facilitate the drug business. Most drug traffickers arrested in Thailand are still minor traffickers. Corrupt government officials who are involved in drug trafficking were from various organizations... including law enforcement agencies." Forty-one officials were arrested for narcotics-related corruption, and almost 300 other officials were fired for it. A national corruption and drug complaint center was opened in early 2002 to elicit information from the public. The Prime Minister also set up a team to investigate politicians and government officials allegedly involved in the drug trade or other illegal businesses. In December, a former commander of a prison in Korat had assets seized by the Anti-Money Laundering Office for alleged involvement with a prison inmate in a narcotics deal in which 1.8 million ATS tablets and 31 kilograms of heroin were seized in Bangkok.

During the past year, DEA received credible information of corruption pertaining to 27 Thai Provincial Police officers assigned in northern Thailand. In mid-2002, two police officers, a Sgt. Major and a Lt. Col., were removed from their positions and placed under arrest in connection with the theft and resale of over 600,000 seized methamphetamine tablets.

In the past several years, the historical acquiescence toward many forms of public corruption has diminished. Recent laws have established a requirement for declaration of assets by cabinet ministers and over 900 senior officials. Such officials must also disclose assets and liabilities of their spouses and minor children. A national countercorruption 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 Office of the Narcotics Control Board and the Police Narcotics Suppression Bureau, have exhibited a comparatively high degree of professionalism and honesty. Security of complex investigations against major drug traffickers sought for extradition to the U.S. has been maintained. Since the formation of Sensitive Investigative Units in Thailand in 1998, DEA has relied heavily on these units to advance U.S. and Thai counternarcotics operations. 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.

Agreements and Treaties. Thailand became a party to the 1988 United Nations Drug Convention in May 2002.

Thailand has been highly cooperative with the United States under the bilateral extradition treaty.. During 2001, Thailand delivered one individual in response to a U.S. request for extradition. Thailand also routinely responds to requests from the USG for assistance under the bilateral mutual legal assistance treaty.

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 programs in the world. The Royal Project which promotes reduction in the poppy crop by providing alternative licit

livelihood to growers began in the early 1960s. In the 1990's, sustained alternative development efforts were complemented by systematic annual destruction of cultivated poppies by the Royal Thai Army and Border Patrol Police. The Thai Government reports that during the 2001-2002 growing season, there were an estimated 1,257 hectares cultivated in opium, a 13.91 percent increase in cultivation over the previous growing season. However, the government eradicated 79 percent of the crop, leaving a post-eradication production of 6.83 metric tons of opium gum. This is an insignificant fraction of opium production in the region, and is insufficient to supply even the domestic Thai population of opium and heroin users, who are now dependent on opiates trafficked from elsewhere.

Opium farmers, supported by financiers, increasingly used irrigation, fertilizers and other inputs on the crop to increase yield per hectare. They replanted some areas as many as four times following eradication. Planting at various intervals allowed the crop to mature at different times, complicating the eradication planning process. As a result of these techniques, ONCB estimated a hectare yield of 25.5 kilograms of opium for the 2001-2002 seasons versus an estimated 12.5 kilograms per hectare in the previous growing season. Thailand's annual survey of the illicit opium crop is technologically sophisticated and accurate. The ONCB survey chief is a consultant to the UNODC for applying Thailand's methodology in other developing countries with illicit drug crop cultivation problems.

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. In its 2002 annual report, ONCB reported that seizures of dried cannabis from Laos increased from 3.5 metric tons in 2000 to 4.2 metric tons in 2001. It estimated that 1-2 tons of cannabis was smuggled into northeast Thailand each month. The report indicated that 35.95 tons of cannabis was destroyed by government troops during 2001/2002 compared to 18.77 tons the previous year. About 60 percent of this eradication occurred in Sakon Nakhon Province along the Mekong.

Production in Thailand of refined opiates has ceased with the substantial elimination of large-scale poppy cultivation. There is some production in Thailand of methamphetamine for domestic sale. During 2002 Thai authorities reported seizing six small mobile methamphetamine labs including one in Bangkok. However, DEA has no evidence to suggest that so-called "kitchen labs" are widely in use in Thailand. The large majority of ATS drugs sold in Thailand are produced in clandestine laboratories in Burma.

Drug Flow/Transit. Methamphetamine and opiates enter Thailand for consumption and for transit to the U.S. and other world markets. Thailand is, therefore, both a consuming and a transit country. Although methamphetamine remains Thailand's biggest abuse problem by far, DEA has observed substantial increases in trafficking of heroin, cocaine and ecstasy. Recent reports suggest that the Burmabased United Wa State Army is producing ecstasy that sells in Thailand for about one fourth the cost of European produced ecstasy.

Methamphetamine produced primarily in Burma continues to flood Thailand via overland routes from the north, northwest and west. Transportation of drugs across the border can take 5-10 days using hill tribe couriers mostly from villages on the Thai side of the border. Couriers are given vests loaded with up to 200,000 ATS tablets, although most loads are less. Couriers travel up to 15 kilometers a night through mountainous jungle. Some couriers are provided with automatic weapons and shootouts with Thai military and police officials are becoming an increasingly common phenomenon. A substantial number of Thai troops and police and an even larger number of couriers have been killed or wounded in firefights. After arriving at a drop-off site in Thailand, the couriers are paid and the drugs unloaded and consolidated for onward shipment via the excellent road transportation system in Thailand. Couriers are paid about \$100 for overnight trips and over \$200 for longer trips.

Methamphetamine seizures indicate that Golden Triangle produced ATS is making its way through Thailand or China to the world market. Mailed parcels from Thailand to Thai or Laotian nationals living in north-central and southern California have been found to contain methamphetamine tablets; the quantities being seized increased during 2002. In July, Chinese authorities intercepted a parcel bound for Vacaville, California, that contained 24,000 ATS tablets and in another case 75,000 ATS tablets from the

region were seized in Sacramento, California. In addition, Swiss authorities seized 450,000 Wa-produced ATS tablets in 2001.

Neither Thai nor regional 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. More and more destinations are being observed and more and more diverse concealment techniques are being used. During the past several years, there have been indications of an increase in the use of alternative smuggling routes for heroin through southern China, Laos, Vietnam and Cambodia. Maritime routes are also increasingly popular. The adoption of smuggling routes which avoid Thailand suggest traffickers respect Thai enforcement efforts. The international postal and express mail services, and human "mules" using commercial air carriers, remain common methods of smuggling heroin out of Thailand. One of the most difficult issues facing law enforcement is the level and sophistication of maritime heroin shipments.

Chinese, Thai, and Burmese traffickers still dominate the bulk heroin trafficking while West Africans remain the preeminent brokers of smaller quantities using a bevy of couriers. Russian and East European women, and females of other nationalities working for West Africans are carrying heroin out, and cocaine into Thailand. Nepalese traffickers have developed their own smuggling networks. U.S. and other foreign immigration officials in Bangkok have established at the international airport a 24-7 office to assist Thai authorities to identify mala fide travelers, including drug couriers, seeking to board flights to international destinations.

Domestic Programs/Demand Reduction. Drug prevention measures were targeted at three major groups; schools, communities and work place groups. From October 2001 to March 2002, 832,148 people from these groups participated in government drug prevention programs.

Demand reduction is based on parallel efforts to prevent potential abusers from ever starting, and reducing the number of current illicit drug users and addicts by drug abuse treatment programs. This includes a large 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 four month drug abuse treatment programs in camps operated by the armed forces. Military trainers in the rehabilitation camps receive a "Fast Model" four-week training course in drug treatment and rehabilitation. During 2001-2002 a total of 400 military personnel from all three services received the training. Over 5,000 prisoners nearing the end of their sentences have received training at the camps. According to ONCB statistics, a total of 39,931 drug abusers received voluntary treatment at hospitals and drug abuse clinics in 2001.

The RTG through the Ministry of Interior began a "Social Order" campaign in 2001 which is designed to reduce social evils such as underage drinking, prostitution, and drug use by youth at entertainment sites, night clubs, etc. Police and government officials inspect such locations and subject patrons to urine tests for narcotics. If suspects test positive, they may be sent for non-voluntary drug rehabilitation.

ONCB and the Ministry of Public Health have general responsibility for coordinating prevention and treatment programs, with participation by other agencies and non-governmental organizations through a national NGOs Anti-Narcotics Coordinating Committee. A permanent substance abuse epidemiological network has been established to support design of effective prevention strategies with timely information about use patterns and motivations among affected sub-populations.

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.

The Thai Ministry of Public Health is implementing a curriculum of substance abuse treatment directed at ATS abuse. 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. 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 also implemented therapeutic community treatment programs in juvenile corrections and intake centers throughout Thailand.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. goals in Thailand are:

- Assist Thailand to develop legislation that will allow the use of more effective investigative and prosecutorial methods;
- Help identify, target ,and investigate the most significant mid and high-level trafficking organizations operating in Thailand;
- Cooperate with Thailand to assist in the development of the countercorruption, drug
 enforcement and anti-money laundering capabilities of the Special Investigative Division
 and the Anti-Money Laundering Office (AMLO) including increasing the number of
 predicate offenses for money laundering;
- Continue working with China and Burma to curb the ability of drug traffickers in areas
 controlled by the United Wa State Army and other groups to obtain precursor chemicals
 and produce and traffic narcotics;
- Help expand Thai drug intelligence collection and analysis capabilities and foster greater interconnectivity between drug intelligence databases;
- Continue to use the ACCORD process to increase regional cooperation on drug trafficking;
- Assist Thailand to enhance its capabilities to deter maritime narcotics smuggling, particularly in the Andaman Sea and along the Mekong River;
- Cooperate closely with Thai Government organizations and NGOs to enhance their demand reduction programs and capabilities. Help develop an Addiction Technology and Transfer Center;
- Continue to provide excellent law enforcement specialized and senior training to regional countries through the Bangkok ILEA and begin construction of a permanent ILEA facility.

Among numerous major cases, Thai and DEA colleagues dismantled a major West African drug ring, which had been supplying heroin to the Midwestern U.S. The head of the ring was the highest-level West African trafficker ever arrested in Thailand. Other accomplishments included successful cooperation to amend a number of major counternarcotics trafficking laws and new legislation to regulate the sale, transport and distribution of precursor chemicals particularly caffeine and potassium permanganate.

State Department-funded counternarcotics program in Thailand in 2002 includes four projects: The narcotics law enforcement project enhances the capabilities of Thai drug law enforcement institutions to effectively investigate and prosecute major drug trafficking organizations. The crop control project provides support to the Royal Thai Third Army region, the BPP, ONCB and other institutions to survey, locate and eradicate illicit opium poppy cultivation in northern Thailand. The demand reduction project assists Thai authorities to improve and expand drug abuse prevention and treatment programs, and to support increased engagement by non-governmental organizations 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.

DEA, Customs, FBI, INS and Secret Service offices in the U.S. Mission in Thailand cooperate closely with Thai authorities in investigations of drug trafficking organizations and related offenses. The

Department of Defense has cooperated with U.S. and Thai agencies particularly in border control and antismuggling projects, and assisted in the establishment of three regional counternarcotics intelligence centers.

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, 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 U.S. 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 the Mekong River.

Thailand will continue its efforts to promote and enhance regional counternarcotics cooperation with particular emphasis on neighboring countries and China.

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

(1993–2002)

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Opium										
Potential Harvest (ha)	750	820	890	835	1,350	1,650	2,170	1,750	2,110	2,880
Eradication (ha)	507	832	757	808	715	1,050	880	580	0	0
Cultivation (ha)	1,257	1,652	1,647	1,643	2,065	2,700	3,050	2,330	2,110	2,880
Potential Yield ¹ (mt)	9	6	6	6	16	25	30	25	17	42
Cannabis										
Potential Harvest (ha)	_									
Eradication (ha)	_	_	0	0	0	0	85	80	85	80
Seizures										
Opium (mt)		2.053	0.630	0.440	1.500	0.720	0.620	0.920	0.600	2.200
Heroin (mt)	0.525	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
Other Data										
Heroin Labs Destroyed	0	0	0	0	1	3	2	1	0	2
Meth Labs Destroyed		9	9	14	13	19	1			
Narcotics Arrests (thousands)	119	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	60.0	53.0	53.0
Heroin Consumed (mt)	4.0	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	111	35	35
Heroin Users (thousands)	220	220	220	220	220	220	220	220	220	220

¹ Figure based on December 1991-February 1992 Opium Yield Study. Average yield hectare is 11.5 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

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2002. Specific actions included: sustained efforts of counternarcotics law-enforcement authorities to pursue drug traffickers; increased attention to interagency coordination; continued cooperation with the United Nations Office on Drugs and Crime (UNODC); adoption of drug treatment decrees to implement the 2001 counternarcotics law; an increased tempo of public awareness activities; and additional bilateral cooperation on HIV/AIDs, an issue closely related to intravenous drug use in Vietnam. However, cooperation with the Drug Enforcement Administration's (DEA) Hanoi Country Office was minimal and little progress was made on a long-delayed counternarcotics Letter of Agreement (LOA) with the U.S. government (USG). Vietnam is a party to the 1988 UN Drug Convention.

II. Status of Country

Vietnam meets the U.S. legal definition of a "major drug-producing" country (at least 1,000 hectares of poppy cultivation). However, the GVN and the UN Office of Drugs and Crime (UNODC) (formerly the UN Office of Drug Control Programs, UNDCP) do not consider cultivation a major problem. Based on survey data obtained in 2000, the USG estimates 2,300 hectares of poppy are cultivated in the northern and western provinces of Lai Chau, Son La, and Nghe An, primarily in remote mountain areas. The GVN claims that only 315 hectares are used for opium poppy cultivation. There appear to be small amounts of cannabis grown in remote regions of southern Vietnam. Anecdotal evidence also suggests that there may be larger commercial crops of hemp in remote regions in the south.

Vietnam is not a source or transit country for precursor chemicals and does little to control precursor chemicals. According to UNODC, impediments to Vietnam adopting a more coherent precursor control policy are (1) several ministries have varying levels of authority over the use of different precursors, and (2) Vietnam lacks a specific legal framework related to precursor chemical control.

More significant drug issues in Vietnam are drug transshipment to other markets and the rising popularity of amphetamine-type stimulants (ATS) in Vietnam itself. Heroin from the Golden Triangle transits Vietnam from neighboring countries, such as Cambodia and China, enroute to Taiwan, Hong Kong and, increasingly, Australia. Heroin transiting Vietnam may also reach the United States through third countries.

GVN authorities are particularly concerned over the rising availability and use of amphetamine-type stimulants (ATS) among urban youth and, during 2002, increased the tempo of enforcement and awareness programs that they hope will avoid a youth epidemic similar to that in neighboring countries, such as Thailand. Trafficking and trading of synthetic drugs such as ATS and ecstasy is now occurring in 53 (of 61) provinces.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Combating illicit narcotics is a high national priority in Vietnam, one that warranted increased government action and attention in the state-owned media. During 2002, the GVN regularly emphasized the importance of fighting drugs at a variety of fora, with high-level officials, such as the prime minister, announcing intensified campaigns to combat illicit drugs and drug use.

In December 2000, the National Assembly passed a national law, which went into effect on June 1, 2001, on drug suppression and prevention. With UNODC assistance the GVN is developing implementing

regulations to enable law-enforcement authorities to use techniques such as controlled deliveries, informants, and undercover officers.

Accomplishments. The Standing Office for Drug Control (SODC) reported several GVN steps in 2002 considered important in the fight against drugs. They also represented steps towards full compliance with the 1988 UN Drug Convention, for example: Deputy Prime Minister Khiem approved the allocation of \$5.3 million for the period from 2002 to 2004 to provide the border defense forces engaged in combating the smuggling of drugs and other goods with technical and communications equipment at border posts.

The GVN issued two new decrees concerning drug treatment implement provisions of the 2001 counternarcotics law. Decree 34 lengthens the required stay in drug treatment centers from one to two years, and Decree 56 provides assistance for family and community-based treatment. GVN officials are optimistic that the decrees will provide a better policy framework for drug treatment issues.

With assistance from UNODC and support from several foreign donors, including the U.S., the GVN made progress in developing its long-term counternarcotics master plan. The plan includes many projects designed to improve enforcement, reduce opium poppy cultivation, and improve drug treatment. Three typical projects are crop substitution programs in the Ky Son District, strengthening law-enforcement's capacity to collect and deal with drug information, and enhancing the capacity to treat and rehabilitate addicts.

The GVN appears to have increased its counternarcotics spending in 2002. However, a direct comparison with 2001's figure (U.S. \$6.3 million) is not possible because in 2002 SODC for the first time included expenditures at the provincial, district, and commune levels. According to SODC, the GVN at all levels expended approximately U.S. \$13 million for counternarcotics activities in 2002.

Law Enforcement Efforts. GVN 2002 seizure statistics (January 1 to November 30) are mixed compared to a similar period for 2001. The GVN reported that poppy cultivation, especially in remote northwest mountainous areas, rose from about 200 hectares in 2001 to about 315 hectares in 2002. Opium seizures increased by approximately four percent, from 589.4 kg in 2001 to 612.6 kg in 2002. Heroin seizures increased by about 44 percent, from 40.3 kg in 2001 to 57.7 kg in 2002. Marijuana seizures dropped by over 80 percent, from 1,275.5 kg in 2001 to 243 kg in 2002. SODC attributed this decline to effective eradication and actions to prevent cultivation. ATS seizures in 2002 rose by about 11 percent over amounts seized in 2001, from 49,369 tablets in 2001 to 47,852 tablets in 2002. This rise reflects the increasing use of ATS in the country. The total number of drug cases increased slightly (2.8 percent) while the number of persons arrested, overwhelmingly low-level street dealers, declined by about one percent. The total number of registered addicts rose from 101,036 to 142,000, an increase of about 36 percent. In September GVN officials admitted publicly for the first time, however, that the number of addicts might be closer to 200,000. The addict population spends approximately \$133 million on illegal drugs, according to GVN figures.

The GVN continued a policy of strict punishment for drug offenses. "World Security" newspaper reported that between 1997 and September 2002, there had been 335 death sentences for drug offenses. Between 1997 and 2001, there were also 285 life sentences and 7,489 jail terms between 10 and 20 years, according to the same report.

Drug laws remain very tough in Vietnam. Possession of 300 grams of heroin or 10 kilograms of opium or cannabis resin or 75 kilograms of cannabis or opium plants may result in the death penalty. For possession or trafficking of 600 grams (ca. 1.35 lbs.) or more of heroin, death by a seven-man firing squad is "mandatory," according to another press report. Despite the tough laws, SODC reported in its 2002 report, "Drug Control Activities in Vietnam," that "drug trafficking continues to rise."

Foreign law enforcement sources do not believe that major trafficking groups have moved into Vietnam. Instead, relatively small groups—perhaps five to 15 individuals who are often related to each other—usually traffic narcotics in and through Vietnam. For example, in Nghe An province, one of Vietnam's drug "hotspots," a drug ring was exposed after one member, Nguyen Duc Luong, was arrested in Ho Chi

Minh City and confessed. Typical of Vietnam trafficking organizations, Luong's relatives formed the core of the ring. Another 23 members of Luong's ring were previously found guilty of trafficking about 40 kilograms of heroin and 247 kilograms of opium from Laos to Vietnam over several years in the mid-to-late 1990s. As Vietnam becomes a more attractive transit country, however, larger trafficking groups could become more prominent.

Resource constraints among GVN counternarcotics police continued to be a major problem during 2002, especially among provincial counternarcotics police. Lai Chau province, comprising over 17,000 square kilometers, has only 20 officers at the provincial level. In addition, each of Lai Chau's six districts can deploy only about five to eight counternarcotics officers. Transportation and communication resources are also weak, computers almost nonexistent, and drug-testing kits outdated. Local officials stressed the need for additional specialized counternarcotics training.

Despite Vietnam's limited resources and technical expertise, GVN counternarcotics officials and law-enforcement officers are reluctant to cooperate with DEA. DEA has not been permitted to work with GVN counternarcotics investigators or exchange drug-related case information. In April, the counternarcotics police declined to cooperate with DEA on a cross-border operation that could have netted 70 kilograms of heroin and broken two trafficking organizations. Vietnamese officials have not responded to other approaches from DEA to conduct joint operations or share information.

Corruption. Vietnam, as a matter of government policy, 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. There is no information linking any senior official of the GVN 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. However, many observers are convinced that narcotics trafficking could not have reached the level it has in Vietnam without significant corruption, some of it at higher levels of the government and party.

The GVN has demonstrated a willingness to prosecute mid-level, and even some higher level officials, involved in narcotics-related corruption. A large corruption scandal, known locally as the "Nam Cam" case, has resulted in a number of senior officials, including two Communist Party Central Committee members and two Vice Ministers of Public Security, having been fired, demoted, or expelled from the Communist Party. Prime Minister Khai said in June that "anyone involved in the Nam Cam case will be brought to justice." Notwithstanding the Prime Minister's statement, there is increasing skepticism among law enforcement authorities on how far up the hierarchy the investigation will reach. Deputy Prime Minister Dung publicly denied that any officials above the Deputy Minister-level have been implicated in the case, contrary to press reports. The trial, originally scheduled for July was set back to November and then December. It is currently scheduled no earlier than February 2003.

Agreements and Treaties. The USG has no law-enforcement or counternarcotics treaties or agreements with Vietnam, although negotiations continued on a bilateral letter of agreement (LOA) in 2002. The GVN has also expressed an interest in negotiating a mutual legal assistance treaty with the USG.

Vietnam is a party to the 1988 UN Drug Convention. Vietnam is currently precluded by statute from extraditing Vietnamese nationals, but the GVN is contemplating changing its law, according to a Ministry of Foreign Affairs (MFA) official. However, in 2001 at the request of the USG Vietnam deported two non-citizens to the U.S., where they were wanted for various white collar and money laundering crimes.

Cultivation/Production. GVN and UNODC confirm that opium is grown in isolated 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 2002. GVN estimates are much lower. UNODC and law enforcement sources do not view opium or heroin production as a significant problem in Vietnam. While the GVN does not admit that synthetic drugs are manufactured in the country, there have been unconfirmed reports in past years

and more recent DEA information concerning limited ATS production as well as some seizures of equipment (i.e., pill presses). Small amounts of cannabis continue to be cultivated in Dong Nai province in southern Vietnam. According to an October "World Security" press report, law enforcement authorities uprooted about 16,000 marijuana plants in that province in southern Vietnam during the first eight months of 2002, compared to about 13,000 during all of 2001. Anecdotal evidence also suggests that there may be commercial crops of hemp in remote regions in the south.

As part of its efforts to comply with the 1988 UN Drug Convention, the GVN continued to eradicate poppy, when found, and to implement crop substitution, introducing other crops to replace opium poppy cultivation. Complete eradication is probably unrealistic, given the remoteness of mountainous areas in the northwest and extreme poverty among ethnic minority populations who sometimes still use opium for medicinal purposes. The GVN supports several projects to find alternatives to poppy with its own budget resources.

Drug Flow/Transit. While law enforcement sources and UNODC believe that significant amounts of drugs are transiting Vietnam, DEA has not yet identified a firm case of heroin entering the U.S. directly from Vietnam, although it appears some may be entering via Canada. More commonly, drugs, especially heroin and opium, enter Vietnam from the Golden Triangle, 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. Taiwan law enforcement authorities in May seized about 60 kilograms of heroin from a ship that originated in Ho Chi Minh City. Also in May, a Taiwan citizen and a Vietnamese accomplice were executed for producing and trafficking methamphetamine in Ho Chi Minh City, according to a press report. UNODC and DEA also believe that significant amounts of heroin and ATS enter Vietnam from China's Yunnan province. The GVN has also reported ATS shipments entering the country via Malaysia, Hong Kong, Laos, and Cambodia. Australian Federal Police (AFP) reported heroin and methamphetamine brought to Australia by Vietnamese couriers. There appear to be increasingly strong ties between drug criminals in Vietnam and the Vietnamese community in Australia.

In its 2002 drug activity report, SODC noted that the Vietnam—Lao border (particularly via the northwestern provinces of Lai Chau and Son La and the northern central provinces of Nghe An, Ha Tinh, and Thanh Hoa) is the main route for illicit drugs entering Vietnam and accounts for over 60 percent of the country's confiscated heroin and other addictive drugs. In Lai Chau, police in May arrested 30 traffickers, who admitted to trafficking about 5.5 kilograms of heroin from Laos to various northern locations, including Hanoi. The GVN also estimates that 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. 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 SODC report. Drugs also transit Vietnam from Laos via Nghe An Province and on to Vinh, which serves as a major port for land-locked Laos. Since there is considerable legitimate commerce from Laos, law enforcement sources reported that it is fairly easy to employ different concealment techniques.

Domestic Programs/Demand Reduction. The GVN views demand reduction as a key component of the fight against drugs as well as an integral part of its efforts to comply with the 1988 UN Drug Convention. The GVN carries out awareness activities in schools. Counternarcotics material is available in all schools and the government sponsors workshops and campaigns at all school levels. In February, over 15 million students entered a contest on "knowing the drug law." On several provincial trips, U.S. embassy officers heard from local citizens (not in the presence of GVN officials) that they are aware of drug issues through media campaigns directed at the general public as well as school students.

Recognizing the close link between drug use and HIV/AIDS (the GVN estimates 70 percent of the 56,000 confirmed cases of HIV/AIDS are drug related), the GVN in 2002 continued a public information campaign regarding HIV/AIDS awareness and the connection between drugs and HIV/AIDS. Press

reports have stated the figure of sero-positives is around 150,000, but international experts estimate that the total number of cases could be as high as 600,000.

Vietnam has a network of drug treatment centers. There are 73 centers at the provincial level, which have a capacity of between 100 to 3,000 addicts each. A new decree issued in 2002 require addicts to undergo treatment for one year. However, GVN officials have admitted that the centers are often inadequate, and that the high recidivism rate of from 80 percent-95 percent is "unacceptable." Drug center conditions ranged from good to very poor. Drug treatment outside of centers is often community based; counselors make visits to addicts being treated at home, providing advice and some medicines, if needed. During 2002, Ho Chi Minh City opened six additional drug treatment centers, three in partnership with the city's Young Pioneers, a mass organization sponsored by the Party. Even with that increase, city authorities estimated that there are "several thousand addicts" who need treatment but cannot yet be accommodated.

IV. U.S. Policy Initiatives and Programs

GVN officials continued to discuss a proposed bilateral LOA covering U.S.-funded counternarcotics and law-enforcement training and assistance programs. The USG currently funds training for GVN law enforcement officers and criminal justice officials to attend courses at the International Law Enforcement Academy (ILEA) in Bangkok. About three dozen Vietnamese receive training at ILEA each year.

The USG also contributes to counternarcotics efforts through UNODC. During 2002, the USG made contributions to two ongoing UNODC projects: the National Drug Control Master Plan, which is intended to assist the NCADP to develop a 2001-2010 Master Plan for controlling drugs (Sweden and Italy are also donors); and the Ky Son Phase Two, a socio-economic development project to replace opium poppy cultivation (Germany, Luxembourg, Sweden and Japan are also donors.

The Road Ahead. The GVN is acutely aware of the threat of drugs and Vietnam's increasing domestic drug problem. However, there appears to be reluctance and sometimes suspicion of foreign law enforcement assistance in the counternarcotics arena, especially from the U.S. Vietnam still faces many internal problems that make fighting drugs a challenge. The USG looks forward to enhanced counternarcotics cooperation with Vietnam.

EUROPE AND CENTRAL ASIA

Albania

I. Summary

Drug trafficking is a significant issue for Albania. Organized crime groups use Albania as a transit point for drug and other types of smuggling due to the country's 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-Albania, and on to Italy and Greece. Cocaine is smuggled from South America, sometimes via Spain and the Netherlands, then passes through Albania before distribution throughout Western Europe. Although Albania is not a major transit country for drugs coming into the United States, it remains an important factor in the worldwide drug trade. Drug abuse in Albania 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 due to a lack of resources as well as endemic 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 the Illegal Trafficking of Narcotics and on the Establishment of the Inter-Ministerial Drug Control Committee. In March 2002, Parliament approved the Law on the Control of Chemicals Used for the Illegal Manufacturing of Narcotic and Psychotropic Substances, regulating the import and use of precursor chemicals.

In November 2002, Albania ratified the UN Convention on Psychotropic Substances of 1971. In September 2001, Albania became a party to the UN Drug Convention of 1988 and the UN Single Convention on Narcotic Drugs of 1961.

II. Status of The Country

The Albanian 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 still weak and subject to corruption. The government of Prime Minister Fatos Nano has undertaken several measures to combat trafficking. Working with Italian law enforcement, the Albanian police and military had some success against clandestine speedboat trafficking/smuggling across the Adriatic in August 2002. There have been no reports of renewed trafficking via that route since that time.

Plagued by severe unemployment, crime, and lack of infrastructure, the Albanian public focuses little attention or debate on the problem of drug abuse. There are no independent organizations that compile data on drug use in Albania. According to the government, there are an estimated 30,000 drug users in Albania, though NGOs believe this number is inflated. No significant government assets are dedicated to tracking the problem. The country is experiencing an upsurge in drug abuse among younger Albanians, though illicit drugs were only introduced to the country within the last decade. Heroin and marijuana abuse is growing; cocaine and crack are also available but expensive, keeping use of these drugs limited. Heroin is imported from the Former Yugoslav Republic of Macedonia, but originates in Turkey or Afghanistan; marijuana is produced domestically. Cocaine is smuggled from South America, sometimes via Spain and the Netherlands. The UN Drug Control Program (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 2002

Policy Initiatives. On March 29, 2002 the GOA approved the Law on the Control of Chemicals Used for the Illegal Manufacturing of Narcotic and Psychotropic Substances, regulating the import and use of precursor chemicals. In 2001, the GOA approved the law on the Prevention of the Illegal Trafficking of Narcotics and on the Establishment of the Inter-Ministerial Drug Control Committee. 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 unit, originally established in 1998. The Ministry of Public Order, however, has not yet drafted the internal regulations to fully implement this law. In addition, the Inter-Ministerial Drug Control Committee established under the law has never met. The GOA approved a National Drug Demand Reduction Strategy in 2000, but still has no national strategy to address supply reduction.

The counternarcotics unit currently includes 100 police officers and agents and a network of 12 regional offices, but it remains understaffed and ill equipped. There is no on-line communication between the headquarters and the regional offices, and the unit lacks critical technology, such as a computer database. In 2002, the UNDCP provided the counternarcotics unit with some off-road vehicles, a van with detection equipment, and training on drug identification and profiling techniques. The U.S. Embassy's ICITAP program provided U.S. \$130,000 in surveillance equipment to the Organized Crime Directorate, which includes the counternarcotics unit, and training in surveillance and profiling techniques. Most regional counternarcotics offices, though, 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, but this center has not produced results and is losing its international support. 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 Southeastern Europe Cooperative Initiative (SECI).

Law Enforcement Efforts. Organized crime plays a significant role in drug trafficking. 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 unit develops. Authorities report that through October 2002, police arrested 295 persons for drug trafficking, 5 of them foreign citizens. The police seized 71 kilograms of heroin, 5.6 grams of cocaine, 13,717 kilograms of marijuana, 980 grams of cannabis seeds, and 600 ml of hashish oil. Police also destroyed 7 cannabis labs. Heroin and marijuana seizures increased significantly from previous years, but still represent a tiny fraction of the drugs transiting Albania. While Albanian police seized 71 kilos of heroin, Italian police seized an estimated two tons of heroin that had passed through Albania.

Illicit Cultivation and Production. With the exception of cannabis, Albania is not known as a major producer of illicit drugs. According to authorities of the Ministry of Public Order's Counter-Drug Unit, cannabis is currently the only drug grown and produced in Albania, and is typically sold in Belgium, France, Germany, Greece, and Italy. Metric ton quantities of Albanian marijuana have been seized in Greece and Italy. The Counter-Drug Unit, with the assistance of three Italian helicopters and their crews, is in the final phase of a plan to determine marijuana crop sizes and yields in Albania. They estimate that planted areas are down from previous years, but the regions of Shkodra, Vlora and Fier remain problematic. During 2002, police destroyed 115,673 marijuana plants throughout Albania.

Precursor Chemical Control. Albania is not a producer of significant quantities of precursor chemicals. The Law on the Control of Chemicals Used for the Illegal Manufacturing of Narcotic and Psychotropic Substances was passed in 2002 and regulates precursor chemicals.

Drug flow/Transit. Heroin and cocaine are the main drugs that transit Albania. Authorities report that heroin typically follows the "Balkan Route." Traffickers also use Albania as a distribution point for Europe when smuggling South American cocaine through Spain and the Netherlands. Domestically

produced marijuana is smuggled to Belgium, France, Germany, Greece, and Italy. High quality hashish produced in Albania is also shipped to Turkey to exchange for heroin.

Agreements and Treaties. The U.S. has had an extradition treaty with Albania since November 13, 1935. The USG considers this treaty valid and has used it successfully several times in recent years. Albania has no mutual legal assistance treaty with the U.S. Albania signed the U.N Convention Against Transnational Organized Crime and its Protocols in December, 2000. In 2001, Albania became a party to the 1988 UN Drug Convention and the 1961 UN Single Convention as amended by the 1972 Protocol. In November 2002, Albania ratified the UN Convention on Psychotropic Substances of 1971.

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 activities. The GOA estimated that there were as many as 30,000 drug users in Albania in 2000 (the most recent year for which it has an estimate), 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 70 percent were injection drug users in 2002, 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. Despite the widespread perception that the police are complicit in this smuggling, there were only two arrests of police officers for involvement in drug trafficking in 2002. Low salaries and social acceptance of graft make it difficult to combat corruption among police, magistrates, and customs and border officials.

IV. U.S. Policy Initiatives and Programs

The GOA continues to welcome assistance from the United States and Western Europe. The U.S. is intensifying its activities in the areas of public order and legal reform with expanded programming and additional staff members at the U.S. mission in Tirana. U.S. ICITAP and OPDAT advisors work closely with the Ministry of Public Order, the Ministry of Justice, and the General Prosecutor to combat organized crime and trafficking and to improve border control. In November 2002, the USG launched the Three Port Strategy, placing two U.S. advisors to work with police, customs, and security officials at each of Albania's three major ports of entry—Rinas Airport and the Adriatic ports at Durres and Vlora—to bring interdiction operations up to international standards and disrupt trafficking through Albania. Other nations, including Italy, Greece, Turkey, and the UK, are expected to provide four additional international advisors for each port. The GOA has welcomed this initiative, adding it to the National Strategy to Combat Trafficking in Human Beings. 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 U.S. will continue to urge the GOA to make progress on curbing illegal drug trafficking, to use law enforcement assistance efficiently, and to support legal reform. EU, UNDCP, and other international efforts will provide the GOA with additional support.

Armenia

I. Summary

Armenia is not a major drug-producing country and its domestic abuse of drugs is relatively small. The Government of Armenia (GOAM), recognizing its potential as a transit route for international drug trafficking, is attempting to improve its interdiction ability. The Parliament passed a bill aimed at strengthening the police mandate to combat drug sales and trafficking in 2002. 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. Country Status

As a Caucasian crossroads 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 Police Service expects an increase in drug traffic with the full opening of the borders. (In 2002, the Armenian Ministry of Interior was restructured into the National Police Service (NPS).) The principal transit countries through which drugs pass before they arrive in Armenia include Iran (opiates, heroin), Georgia (opiates, cannabis, hashish), and the Russian Federation (opiates, heroin.) (Armenia's borders with Turkey and Azerbaijan remain closed owing to the Nagorno-Karabakh conflict; however, according to ADD information, opiates and heroin are smuggled to Armenia from Turkey via Georgia. When these borders open, drug transit could increase significantly.) ADD experts have accumulated a significant database on drug transit sources, routes and the people engaged in transit; scarce financial and human resources, however, limit the Police Service's ability to combat drug trafficking.

Drug abuse does not constitute a serious problem in Armenia, and the local market for narcotics, according to the ADD, is not large. The principal drugs of abuse 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, while cocaine abuse has remained flat. The Police Service, the Office of Procurator General, and the Republican Narcotics Dispensary gather statistics on drug use and trafficking. Two NGOs started working on counternarcotics programs in 2002 and continue to be very active in this area. Their assessment of the number of drug addicts in Armenia is much higher than official estimates. Statistics from all sources show an upward trend during 2002 in drug abuse and seizures compared with previous years.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, the GOAM, UNODC and the European Union launched the second project under the South Caucasus Anti-Drug Program (SCAD.) Initiated in 2001, SCAD strives to harmonize counternarcotics legislation in the three Caucasus countries and improve counternarcotics cooperation. The program has a total budget of 959,000 Euros (ca. U.S. \$1.04 million). The first phase calls for a review of the existing legal and institutional framework. The second phase will improve drug abuse statistics and drug abuse prevention at schools.

Accomplishments. In 1999, the Interior Ministry deployed joint teams of Armenian police and Customs representatives at each Customs post and checkpoint. The Ministry also obtained fifteen drug-sniffer dogs from Western Europe to aid interdiction efforts. The canine program began well; however, training of the dogs has not been adequately maintained and they are not exercised on a regular basis, resulting in steadily decreasing skills of the dogs in the program.

Law Enforcement Efforts. Armenian authorities seized 76.8 kilograms of drugs during the first nine months of 2002. This compares with 8.177 kilograms for the first nine months of 2001. The ADD reports that in 2002, 154,128 kilograms of green hemp and 774 kilograms of poppy were eradicated by the police. In 2001 a combined total of 177,359 kilograms of green hemp and poppy were destroyed.

The ADD reports that, in 2002, there were 453 cases of drug-related crimes, compared with 497 for the previous year. Police experts explain this decrease as the result of the suspension of enforcement of the prior requirement (see above) to treat abusers as criminals.

Corruption. Although corruption is endemic in Armenia, there were no cases reported of government officials being involved in drug-related corruption in 2002.

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 UN Convention on Psychotropic Substances.

Cultivation and Production. Hemp and opium poppy grow wild in the northern area of Armenia, particularly in the Lake Sevan basin and in some mountainous areas. No illicit labs producing synthetic drugs were discovered in 2002.

Drug Flow/Transit. Main drug routes run from Iran to Russia and Ukraine; no estimates of the total amount of drugs transported through Armenia are available.

Demand Reduction. Estimates of the number of drug addicts in Armenia vary from 1,000 to 25,000. (Armenia's population is 3,200,000.) The share of drug abusers consuming opiates is estimated at 50 percent of the total drug abusing population. Deputy Police Chief Armen Yeritsian, who oversees the ADD, says that there are only about a thousand drug users listed in the Armenian police database, and that their number shows no signs of increasing at the moment. The senior law-enforcement official insists that drug addiction essentially does not exist among young people.

The Anti-Drug Civil Society NGO, which launched an outreach regional program in 2002, assesses the number of drug addicts at close to 25,000. The chairman of the parliamentary Standing Committee on State and Legal Issues, MP Victor Dallakian, said during recent parliamentary debates over the draft law on narcotics and drugs that there are currently about 20,000 drug addicts in Armenia. According to experts at the Republican Narcotics Dispensary, which was established to detoxify and reform addicts, fewer than 300 addicts are officially registered with the Dispensary, while some 700 more persons are on probation for using drugs. Under current legislation, a person detained for drug abuse for the first time is released on a 6-month probation. Repeated drug abuse during the probation period is, however, considered a criminal offense. The average cost to the state for treatment of one drug addict, the Dispensary said, is U.S. \$250.

IV. U.S. Policy Initiatives and Programs

The U.S. encourages Armenia to focus on drug interdiction. Armenia was the first country in the region to sign a Letter of Agreement (LOA) with the USG, providing for assistance to its narcotics control and law enforcement efforts. The agreement provided for State Department counternarcotics assistance programs, including equipment for a forensics analysis capacity, such as drug testing. During 2002, the USG also funded two legal consultants to present a series of seminars on corruption, drug trafficking and money laundering to the Office of Procurator General and the Parliament.

The Road Ahead. The USG hopes to continue aiding Armenia's own efforts against narcotics trafficking. Armenia will need to focus attention on its border with Turkey, when that border is fully opened.

Austria

I. Summary

Austria is primarily a transit country for drug trafficking along major trans-European routes. Organized drug trafficking is dominated by foreign criminal groups, primarily Mafia-type gangs from Russia and other former east bloc countries. Austria's own illegal markets are supplied by these groups. Consumption of illegal drugs does not constitute a severe problem in Austria; production and cultivation remain insignificant.

Austria enacted a series of legislative initiatives in 2002 which, inter alia, target drug-related organized crime. Austria also reorganized its law-enforcement structures to better enforce narcotics laws. Its revised national security doctrine passed in 2002 also includes policy strategies to fight drug-related organized crime. Austria launched a central Asian initiative with the support of the EU and the U.S., which seeks to enhance border security in the region. Cooperation with U.S. authorities remained excellent during 2002, and was enhanced further by the visit of Interior Minister Strasser to Washington in July 2002. Austria is a party to the 1971 and 1988 UN Drug Conventions.

II. Status of Country

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.

The federal institute for health affairs estimates the number of illicit drug abusers to range between 15,000 to 20,000. A 2001 field study extrapolated that 20 percent of Austrians above 15 had had "some experience" with cannabis, 4 percent with ecstasy. One percent have tried opiates. One gram of street heroin (purity between 8 percent and 16 percent) sold for Euros 40-50 in 2002, one Ecstasy tablet was sold for Euros 15.

III. Country Actions Against Drugs in 2002

On the legislative side, Austria's center-right government in 2002 enacted a comprehensive reform of the criminal code and criminal procedures code that, apart from its focus on anti-terrorism legislation, also contains provisions to target drug-related organized crime.

- In spring 2002, parliament adopted a new national security doctrine, which also addresses key national strategies to combat drug-related organized crime.
- Throughout 2002, the Interior Ministry worked to finalize establishment of a centralized criminal intelligence service which bundles investigative agencies in order to be able to combat crime more effectively. The Ministry for Social Affairs streamlined its counternarcotics unit and provided additional staff, including personnel for the nationwide coordination of drug-related policies.
- Austria enacted legislation in 2002 that mandates obligatory blood tests for drivers suspected to be under the influence of illicit drugs. Under existing legislation, first-time users of cannabis may avoid criminal proceedings if they agree to therapy. Apart from severe penalties for drug traffickers, the government of Austria's strategy at the same time includes a commitment to intensify drug prevention education.

Under the narcotic substances act amended by the Austrian government in 2001, drug dealers of a criminal organization may face up to life imprisonment for large-scale drug dealing with a minimum penalty of 3 years imprisonment. The law for the first time penalizes the promotion of illicit drug

consumption on the Internet. The so-called limit quantity of heroin after which possession becomes criminal was reduced from 5 grams to 3 grams. Overall, Austrian drug users tend toward multiple-drug use. While the use of opiates and cocaine remained stable at low levels in 2002, experts note an increasing trend among young and first-time users toward synthetic substances.

As in past years, media reports in 2002 continued to expose drug-related arrests of asylum seekers in the wake of police raids of asylum homes in and near Vienna. In response, conservative policy-makers decreed a somewhat more restrictive handling of asylum requests, called for swift expulsion of asylum seekers caught drug-dealing. A proposal by the Green Party to allow sale of cannabis at public outlets became a controversial issue during the fall 2002 election campaign.

Austria's Central Asian Initiative supported by the U.S. and the E.U. calls for thorough training of border control officials in five central Asian countries at the senior management level.

Law Enforcement Efforts. Seizure statistics for 2001 (latest available figures) show that cocaine seizures (20.3 kilogram in 2000) increased dramatically to 108.2 kilogram in 2001, heroin seizures rose from 230.7 kilograms in 2000 to 288.3 kilograms in 2001, and confiscation of "MDMA/ecstasy" (162,000 units in 2001) also increased to 256,299 units in 2001. Cannabis seizures dropped from 140 kilograms in 2000 to 84 kilograms for 2001.

The 21,302 drug-related offenses in 2001 represent a 21-percent increase over the previous year. Of these offenses, 560 were related to illegal possession of synthetic substances. Overall, estimates place drug-related crime at about 30 percent of all offenses in Austria.

No comprehensive seizure statistics are available for 2002. Law enforcement officials expect slightly higher amounts of cocaine, cannabis, and "ecstasy" seizures, while heroin confiscation in 2002 is projected to remain below the 2001 level.

Corruption. The GoA's public-corruption laws recognize and punish the abuse of power by a public official. The U.S. Government is not aware of any high-level Austrian government officials' involvement in drug-related corruption.

Agreements and Treaties. The U.S.-Austrian Mutual Legal Assistance Treaty, signed in 1995, entered into force in August 1998. An updated U.S.-Austrian Extradition Treaty entered into force in January 2000, replacing a 1930 extradition treaty and a 1934 supplementary convention.

Austria ratified the 1988 UN Drug Convention as well as the 1971 UN Convention on Psychotropic Substances. Austria is also a party to the 1961 Single Convention on Narcotic Drugs and its 1972 protocol. In spring 2002, the International Narcotics Control Board (INCB), based on a fact-finding trip to Vienna the previous year, lauded Austria's consistent record on implementing UN drug Conventions. It recommended maintaining the country's proven balance between pertinent health/social policies and law enforcement efforts.

Cultivation/Production. The U.S. Government is not aware of any significant cultivation or production of illicit drugs in Austria.

Drug Flow/Transit. Austria is not a source country for illicit drugs. Organized drug trafficking is carried out primarily by foreign criminal groups (Turks, Albanians, and citizens of former Yugoslavia), which are well established on major European drug routes, particularly along the Balkan Route. The nearby Slovak capital of Bratislava has served as a temporary heroin depository for traffickers for years. The illicit trade increasingly relies on central and east-European airports, including Austria's. Couriers are mostly individuals from source countries, from black-African nations, but also Croatian, Yugoslav and Romanian nationals. Over 90 percent of the heroin that enters Austria (mostly for transit) comes by way of the Balkan Route. Trafficking and consumption of MDMA (ecstasy) products, originating in the Netherlands, continued to rise in 2002. Illicit trade of amphetamines, carried out by criminal groups from Poland and Hungary, as well as of cocaine, also increased in 2002. In a new development, biogenic drugs (mushrooms, cacti (peyote), etc.) have become popular among young drug users in certain regions of the country.

Domestic Programs (Demand Reduction). The number of drug-related deaths declined from 227 in 2000 to 184 in 2001. Experts point out, however, that the percentage of drug deaths from "drug cocktails" has been steadily rising in past years. 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. The government has taken a somewhat more restrictive approach by lowering the permissible amount of heroin from 5 to 3 grams in 2001. 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, greater attention to older victims and to immigrants.

Primary intervention starts at the pre-school level, extends to apprenticeship institutions and includes outof-school youth programs. Special emphasis is placed on multipliers. Each of Austria's nine states maintains pertinent addiction prevention units, which, inter alia, use the Internet as a venue. The national 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 a prime target of new treatment and care policies.

Austria has syringe exchange programs in place for HIV prevention. Most recent available data (for 2001) indicate a stable HIV prevalence rate at a low level (0 percent to 5 percent) while the hepatitis prevalence rates 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), which has been in place for over a decade, continued in the period 2001-2002.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Austrian cooperation with U.S. investigative efforts is excellent. The July 2002 visit of a senior Interior Ministry delegation led by Minister Strasser to Washington and various U.S. destinations deepened existing excellent cooperation. In Washington, Strasser met with the FBI, the CIA, as well as with Attorney General Ashcroft.

The Road Ahead. The U.S. will continue to support Austrian efforts to create more effective tools for law enforcement. Promoting a better understanding of U.S. Drug policy among Austrian officials will remain a priority.

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 2002, the main drugs seized were cannabis and opium. President Bush waived restrictions on assistance to the Government of Azerbaijan contained in Section 907 of the FREEDOM Support Act for the first time in 2002 and extended that waiver for a second year in 2003. Azerbaijan is a party to the 1988 UN Drug Convention.

II. Status of Country

Azerbaijan's main narcotics problem is the transit of drugs through its territory. Azerbaijan emerged as a narcotics transit route several years ago because of the disruption of the "Balkan Route" due to regional conflicts in several countries of the former Yugoslavia. Narcotics from Afghanistan and South Asia enter from Iran or cross the Caspian Sea from Central Asia and continue on to markets in Russia and Europe. Azerbaijan shares a 611-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 15,000 persons registered in hospitals for drug abuse or treatment in Azerbaijan. The actual level of drug abuse is estimated to be many times higher. Government authorities suspect that persons displaced by the Nagorno-Karabakh conflict have been drawn into drug trafficking due to acute economic pressure. The Government of Azerbaijan (GOAJ) claims that parts of Azerbaijan occupied by Armenia are used for drug cultivation. According to Armenian press reports, law enforcement personnel in Nagorno-Karabakh seized 3,677 kilograms of hemp in 2001 and drug related arrests in 2001 increased three-fold over the previous year. The GOAJ also maintains that narcotics are transported across the approximately 100 km of Azerbaijan's border with Iran that is under the control of Armenian forces. The United States does not have independent confirmation of these allegations.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The "State Commission on Combating the Illegal Trade of Narcotics and Drug Substances" headed by Deputy Prime Minister Ali Hasanov, continues to lead counternarcotics policy initiatives. This committee is responsible for the implementation of the national counternarcotics plan announced in July 2001, which attempts to implement Azerbaijan's commitments arising from United Nations Treaties and General Assembly resolutions relating to drug control. In July 2002 the UN donated a mobile narcotics detection lab and other equipment worth over U.S. \$200,000 as part of its South Caucasus Drug Control Program, a five-year regional initiative. The Ministry of Internal Affairs has continued its program in the south 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. In 2002 the Ministry of Internal Affairs conducted "Operation Hash-Hash," a successful poppy and cannabis cultivation and storage eradication program, in several parts of the country which increased significantly the amount of illegal narcotics seized and destroyed during the first ten months of the year.

Law Enforcement Efforts. There were 1,940 drug-related arrests during the first ten months of 2002, mostly small-time traffickers and users. Police lack basic equipment and have little experience in modern counternarcotics methods. Border control capabilities on the border with Iran and Azerbaijan's maritime border units are inadequate to prevent narcotics smuggling.

Corruption. Corruption permeates the public and private sectors, including law enforcement. Government officials have remarked on the gravity of the problem. Current legislation has proven inadequate to address police and judicial corruption, as salaries remain low, and many officials turn to corruption to supplement inadequate incomes to support themselves and their families.

Cultivation and Production. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan. During the first ten months of 2002, law enforcement authorities discovered and destroyed 501 tons of hemp and poppies that were under cultivation on 390 hectares of land.

Drug Flow/Transit. Narcotics traffickers seem to rely on familiar transit routes. Opium and poppy straw originating in Afghanistan and South Asia 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.

Demand Reduction. Opium and cannabis 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. U.S. law enforcement exchange of information and cooperation with Azerbaijan increased in 2002. Nonproliferation assistance to the Border Guards and Customs is providing modest, indirect help to the government's efforts to fight drug trafficking. Counternarcotics assistance programs have increased since the waiver of Section 907 of the FREEDOM Support Act. In June the GOAJ participated in "Operation Containment," an international enforcement program from the Balkans to Central Asia designed to coordinate and focus participating countries' narcotics interdiction efforts at locations identified as high risk for potential smuggling. As part of this effort, representatives from the U.S. Drug Enforcement Agency conducted a direct narcotics interdiction sampling program at Baku's international airport and ferry terminal. U.S. Customs presented an International Border Interdiction Training to supervisory and mid-level managers from Azerbaijan's border agencies at a southern land border site in the United States. Related training in basic weapons of mass destruction (WMD) border interdiction, laboratory analysis and investigation, together with the delivery of specialized detection equipment, was conducted by U.S. Customs during 2002. In addition, the U.S. Coast Guard conducted maritime law enforcement training for boarding officers in September.

The Road Ahead. The U.S. and Azerbaijan signed a letter of agreement on law enforcement and counternarcotics assistance on January 3, 2003. This assistance will initiate a concerted U.S. effort to help Azerbaijan increase its counternarcotics capabilities. Cooperation between DEA and the GOAJ is increasing, and in the coming year DEA plans to begin training local law enforcement in conducting drug investigations, airport interdictions, narcotics forensics and provide ion-scanners used to detect narcotics at strategic points in the country, including along the southern border crossing with Iran.

With the letter of agreement signed, the United States is beginning several law enforcement assistance programs with Azerbaijan. These include helping the Government of Azerbaijan modernize its criminal records system and training and exchanges for Azerbaijan's law enforcement officials. Other assistance is projected in the areas of counternarcotics/drug enforcement, police training, and forensic lab development.

Belgium

I. Summary

Belgium remains an important transit point for a variety of illegal drugs, especially ecstasy, of which it is also one of the world's major producers. The production and transshipment of ecstasy that began in significant quantities in 1999 continued to grow in 2002. Belgium is also a transit point for a variety of chemical precursors used to make illegal drugs. Traffickers utilize Belgium's busy seaports, international airports, and central location to move drugs to their primary markets in the United States, the United Kingdom and the Netherlands. Belgium takes a proactive approach to drug interdiction efforts, and cooperates closely with U.S. officials. Belgian authorities seized more than 5.1 million tablets of ecstasy and 17,000 cannabis plants in 2002. Belgium is party to the 1988 UN Drug Convention, contributes to the UNODC's budget, and is part of the Dublin Group of countries concerned with combating narcotics trafficking.

II. Status of Country

Belgium is a producer of synthetic drugs and cannabis and remains a key transit point for illicit drugs bound for the United States, particularly Ecstasy. Airline passenger couriers remained the principal means of transporting ecstasy to the United States, while the mailing of pills via both express and regular mail seemed to decline. Recent discoveries of major amounts of ecstasy intended for shipment through the port of Antwerp indicate that sea freight may be an emerging method for shipping larger amounts of ecstasy from Belgium to the United States.

Belgian authorities continue to a make a concerted effort to stem the tide of ecstasy headed for the United States. More than 5.1 million tablets were seized in 2002. Still more tablets were discovered by Belgian authorities, but allowed to continue to the United States (after alerting U.S. law enforcement) so the shipments could be tracked to their U.S. distributors.

Turkish groups continue to control most of the heroin trafficked in Belgium. This heroin is principally shipped through Belgium to the U.K. market, but also supplies Belgian and French users. Authorities estimate that Turkish traffickers control perhaps 80 percent of the Belgian heroin market.

Hashish and cannabis remain the most widely distributed and used illicit drugs in Belgium. Although the bulk of the cannabis consumed in Belgium is produced in Morocco, cultivation in Belgium continues to increase. A 2002 directive from the Minister of Justice directed Belgian authorities not to pursue criminal prosecution for minor possession of cannabis for personal consumption. In addition to the domestic demand for cannabis, Dutch distributors also provide a market for Belgian cannabis cultivation.

Although Belgium is not a major producer of precursor 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 chemical precursors used in the production of Ecstasy; and potassium permanganate used in cocaine production.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Following a nation-wide reorganization of the police services into one federal force in 2001, a new Federal Prosecutor's Office was established in 2002. This new office, which has jurisdiction over cases with national or international implications, has already enhanced U.S. counternarcotics cooperation with Belgium. The Office can serve as a central liaison for cases where primary jurisdictional responsibilities remain with local authorities throughout the country, as well as provide guidance to these authorities on matters of international cooperation.

As part of a national drug control strategy approved in 2001, Belgium's counternarcotics efforts focused on synthetic drugs. Work centered on three principal objectives: 1) dismantling illicit labs; 2) enhancing the interdiction of drugs to be shipped abroad (noting the United States as the primary destination); and 3) implementing joint investigations with neighboring countries. A new inter-agency national Synthetic Drugs Cell was established to provide policy advice for the reduction of drug demand and supply.

During its EU presidency (July-December 2001), Belgium, along with France and Finland, proposed an EU initiative to track precursor chemicals used in the production of illegal synthetic drugs. The European Commission decided not to fund the initiative, but Belgian authorities report that Belgium plans to resubmit the project to the Commission in 2003.

Accomplishments. Belgian authorities improved their interdiction efforts in 2002, particularly on ecstasy shipments bound for the United States. The DEA Brussels Office documented the seizure of more than 5.1 million tablets of ecstasy in Belgium in 2002. Belgium's largest ecstasy bust to date occurred in October 2002, when 1.4 million tablets were uncovered. The pills were hidden inside diamond-polishing machines that were to be shipped to the United States by sea, but the pills were uncovered before the equipment left the warehouse.

Increased efforts at Belgium's primary airport also reaped dividends in 2002. At Zavantem International Airport, Belgian authorities reported the seizure of more than 161 kilograms of ecstasy (644,000-800,000 tablets) found on the passengers, in the luggage, or hidden in airfreight.

Belgian Police also continued to locate and seize Amphetamine Type Stimulants (ATS) labs within Belgium. Nine labs were shut down in 2002, up from six in 2001.

Despite a continued shift away from criminal prosecution for the possession of cannabis for personal use, Belgian authorities made a concerted effort to shut down cannabis growing facilities. Police made 22 such seizures totaling more than 17,000 plants in 2002, compared to seven seizures in 2001.

For the first time in Belgium, authorities also seized a facility producing both cannabis and ecstasy under the same roof.

Law Enforcement Efforts. Belgian Law Enforcement authorities actively investigate individuals and organizations involved with illegal narcotics trafficking into and through Belgium. In keeping with Belgium's 2001 drug control strategy, authorities focused their efforts on combating illicit synthetic drugs. Belgian authorities continued to cooperate closely with DEA officials stationed in Brussels. The exchange of information between the U.S. and Belgian authorities continued to expand in 2002.

At Brussels Zaventem airport, non-uniform personnel trained by the Federal Police to help detect drug couriers were increasingly effective. Belgian authorities also took a more proactive approach to searches and inspections of U.S.-bound flights at the airport in 2002. Teams targeted several of these flights with an especially thorough examination of not only passengers, but also luggage and air freight.

The resources Belgium devotes to the inspection of sea freight, however, remains inadequate. While 3,000 to 4,000 containers are loaded and unloaded at the port of Antwerp each day, fewer than a dozen (roughly 0.03 percent) of these containers are searched each week. Two major discoveries of ecstasy intended for transport through Antwerp to the United States were an indication that the port may be utilized for major shipments of Ecstasy. In 2002, however, port inspectors found no shipments of Ecstasy. (Nearly two million tablets readied for shipment through Antwerp were uncovered, but before they were sent to the port.)

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 and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. In December 2000, Belgium signed the UN Convention Against Transnational Organized Crime and its protocols, but it has not yet been ratified. The United States and Belgium have an

extradition treaty, as well as a Mutual Legal Assistance Treaty (MLAT) that entered into force in January 2000. In 2002, Belgium also signed a bilateral agreement proposed by United States as part of the U.S. Container Security Initiative. Under the agreement, U.S. Customs officials will be assigned to Belgium to serve as observers and advisors to Belgian Customs inspectors on U.S.-bound sea-freight shipments.

The Belgian Navy and the U.S. Coast Guard signed a Memorandum of Understanding in March 2001 formalizing Belgian Navy participation in the Caribbean Maritime Counterdrug Initiative. The MOU provides the terms and conditions for U.S. Coast Guard law enforcement detachments to embark in Belgian navy ships deployed to the Caribbean to participate in multinational efforts (led by the United States) to detect, monitor and interdict drug smuggling by sea and air in the Caribbean.

Cultivation/Production. Belgium's role as a transit point for major drug shipments, particularly Ecstasy, is more significant than its own production of illegal drugs. Nevertheless, Belgian authorities believe that the production of both ecstasy and cannabis has been on the rise the last few years.

Belgian authorities believe that Dutch suppliers increasingly look to Belgiam for opportunities to expand their stocks of cannabis. Dutch distributors openly appeal to Belgians to grow cannabis, advertising marketing opportunities and start-up packages on the Internet. Belgian officials have previously reported that there is a misconception among some Belgians that growing cannabis is not illegal. A 2002 directive from the Minister of Justice instructing authorities not to pursue criminal prosecution for the personal possession of cannabis undoubtedly adds to the confusion.

Dutch traffickers are also linked to Belgium's production of Amphetamine-Type Stimulants (ATS). As Dutch law enforcement pressure mounts on producers of ecstasy and other ATS in the Netherlands, some Dutch producers either look to Belgian producers to meet their supply needs or establish their own facilities in Belgium. Authorities report that when Belgian ATS production facilities are uncovered, there is often a connection to Dutch traffickers.

Drug Flow/Transit. Belgium remains an important transit point for drug traffickers because of its port facilities (Antwerp is Europe's second-busiest port), international airports, excellent highway links to cities throughout Europe, and proximity to the Netherlands. Illicit drugs from Belgium flow to three primary destinations: the United States, the United Kingdom, and the Netherlands.

Israeli drug traffickers, perhaps partly due to longstanding ties to Antwerp, continue to figure prominently in the transportation of major shipments of ecstasy from Belgium. Two of Belgium's largest ecstasy busts in 2002 were connected to Israeli traffickers. A fast-growing trend in 2002, however, was the connection of airline passenger drug couriers to Dominican crime organizations. Couriers were often either Dominican immigrants resident in Belgium, or Europeans recruited by Dominican drug traffickers. The couriers were recruited both in the Dominican Republic and Belgium to transport ecstasy from Brussels to New York.

Couriers continued to employ a wide variety of methods in their efforts to conceal the drugs, including false-sided luggage, hidden compartments sewn into clothing, and ingestion. Meanwhile, authorities report an increase in the use of couriers and a decrease in the use of express and regular mail packages for transporting illegal drugs.

Turkish groups continued their domination of the Belgian heroin market, aided by the logistical help of some Turks resident in Belgium. Heroin is typically smuggled into Belgium via Italy or Eastern Europe. While authorities believe that the United Kingdom remains the primary destination of heroin moving through Belgium, new distribution trends also emerged in 2002. The Belgian cities of Ghent and Antwerp are growing domestic distribution centers, with Antwerp also increasingly serving French buyers. According to Belgian authorities, some French buyers are opting for Antwerp heroin over that available in the Netherlands because of the city's proximity and the higher quality heroin available there.

Demand Reduction. 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. The Belgian system contrasts with the U.S. approach in that Belgium directs and targets its programs at individuals who influence young people versus young people themselves. Teachers, coaches, clergy, and the like are thought to be better suited to deliver the counternarcotics message to the target audience because they already are known and respected by young people.

Following a 2000 "train the trainer" seminar conducted by the U.S.-based D.A.R.E. program for Belgian officials, the D.A.R.E. program is now utilized in Belgium. Belgian officials have since visited more than 600 schools and conducted the program for more than 20,000 Belgian students.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officials in Belgium continue to describe Belgian cooperation as outstanding. Belgian and U.S. authorities cooperated through numerous Mutual Legal Assistance Treaty (MLAT) requests, International Controlled Drug Delivery (ICD) agreements, and informal exchanges of information. ICDs were used on six occasions in 2002, informing U.S. authorities of the pending movement of a large quantity of illicit drugs and agreeing to allow the delivery to proceed.

In addition to cooperation on specific cases, the DEA office in Brussels and the Belgian federal police regularly exchange intelligence information concerning trends and techniques employed by traffickers of ecstasy and other illicit drugs. This exchange of information has enabled both countries to anticipate emerging patterns of drug transportation.

The Road Ahead. The United States looks forward to continued close cooperation with Belgium in combating illicit drug trafficking and drug-related crime, with a growing emphasis on systematic consultation and collaboration on operational efforts. The United States also welcomes Belgium's active participation in multilateral counternarcotics for 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 inter-entity (i.e., the entities (the Federation and Republika Srpska, established by Dayton Peace Accords) law enforcement cooperation, gradual improvements in oversight of the financial sector, several drug seizures, and some legal reform, local authorities are politically divided, law enforcement efforts are poorly coordinated, and the justice system still is 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 some corrupt public officials. Bosnia and Herzegovina is a party to the 1988 United Nations Drug Convention, and is attempting to forge ties with regional and international law enforcement agencies. Border controls have improved, but significant 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.

II. Status of The Country

Bosnia and Herzegovina occupies a strategic position along the historic Balkan smuggling routes between drug production and processing centers in Southwest Asia and markets in Western Europe. Narcotics trafficking emerged as a serious problem during the 1991-1995 war, both as a reflection of the general breakdown of law and order and as a means for 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 an inefficient—and still largely politicized—justice system, widespread public sector corruption, the lack of specialized equipment and training in combating criminal networks that support illicit drug trade, and poor coordination between law enforcement authorities. Bosnia and Herzegovina is increasingly becoming a storehouse for drugs en route to Western Europe. Information on domestic consumption is not systematically gathered, but anecdotal evidence and law enforcement officials' reports indicate that demand is steadily increasing. No national drug information system focal point exists, and the collection, processing, and dissemination of drugrelated data is neither regulated nor vetted by a state-level regulatory body. Moreover, Bosnia and Herzegovina lacks a comprehensive state-level strategy to stem narcotics trafficking and use; an interministerial coordination body does not exist. There is also no federation-level control over confiscated drugs.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Although Bosnia and Herzegovina has neither a national police force nor a national counternarcotics control strategy, the full deployment of the State Border Service (SBS) this year has improved counternarcotics efforts. 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 USG's bilateral law enforcement assistance program continues to emphasize task force training, and other measures against organized crime, including narcotics trafficking. The Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP) and U.S. Customs programs provided specific counternarcotics training to entity Interior Ministries and the SBS.

Accomplishments. Under close supervision by the international community, Bosnian law enforcement agencies have taken initial steps toward increased cooperation on the counternarcotics front, most notably with the formation of an inter-entity joint task force. The state-level criminal procedure and criminal codes are undergoing a major overhaul and are set to be enacted in the early months of 2003, with the entities (the Federation and Republika Srpska) reportedly set to harmonize their codes soon thereafter. In particular, the new criminal procedure code would permit court-ordered communications surveillance, use of informants, undercover police work, etc., but there is expected to be a significant time lag before these new techniques bear fruit. Recent improvement in relations with the Federal Republic of Yugoslavia, working-level cooperation with Slovenian and Croatian law enforcement authorities, and an upgrade in Sarajevo's Interpol office may also presage progress in the fight against narcotics related crimes.

As of this year, the SBS is now responsible for all of Bosnia's borders. Forty-seven official international border crossings are now manned by SBS personnel and three of four international airports are under SBS control. Tuzla's airport is set to be re-opened, under SBS authority, to international traffic in early 2003. However, there are still a large number of illegal crossing points that the SBS does not control. Five SBS Mobile Support Units working under the authority of regional SBS headquarters are responsible for policing roughly four hundred unofficial entry points, such as dirt paths and river fords, over Bosnia's more than 1600-km border. Moreover, most official checkpoints are minimally staffed and many crossings are severely understaffed, bordering on unsafe manning levels. Though the task of building a border control that meets European standards remains far from complete, less porous borders achieved with better SBS deployment should help stem the flow of illicit goods through Bosnia. The SBS, meanwhile, has recently established a Central Investigative Office, as well as units for control and intelligence, and established a program to train police dogs.

With significant USG and international community financial assistance and technical support, computerized tracking information systems have been installed at Sarajevo, Banja Luka, and Mostar international airports. But the SBS lacks adequate command, control, and communication expertise, technology and equipment, as well as professional training. The U.S. has begun the process of supplying the SBS with a secure radio communications network that will greatly enhance the ability of headquarters and regional offices to direct, control, and coordinate operations with mobile and fixed border crossing units.

Each of the ten Federation cantons has an counternarcotics enforcement unit, ranging in size from eleven persons in Sarajevo Canton to two persons in smaller cantons. Yet information exchange among the ten cantons' police forces—vitally important for effective law enforcement—is limited. Each canton is separately administrated and budgeted, essentially independent of Federation-level coordination or control. However, consistent with a new law on internal affairs, inspectors of the Federation Interior Ministry's (FMUP) and Cantonal Ministries counternarcotics departments signed an agreement on October 30. The agreement outlined a strategy whereby information on the apprehension of the perpetrators of drug-related criminal acts and intelligence on organized groups that commit these crimes would be shared. The agreement also emphasized the need to improve cooperation with the SBS and authorized institutions in the Republika Srpska, Brcko District and neighboring countries. In addition, the establishment of FMUP field offices in each canton during the last year has improved Federation-wide coordination of major investigations.

Despite the existence of information-sharing agreements and recent legislation (i.e., the "Law on Legal Assistance among Entities and Brcko" that was imposed by the High Representative (Apr 23) and passed by the BiH (Bosnia and Herzegovina) Parliament (Jul 3)) regulating contacts, provision of evidence, and information sharing and testimony between court systems, legal and law enforcement cooperation is primarily informal and ad hoc. Mutual legal assistance is severely limited by judicial bureaucracy, and serious legal and bureaucratic obstacles to the effective prosecution of criminals remain in place. In November, an Una Sana Cantonal investigative judge released two Bosnian citizens, taken into custody by the SBS, who were wanted on an Interpol narcotics-related warrant issued at the request of Austrian authorities. Neither the Republika Srpska (RS) nor the Federation has made significant progress in

addressing the legal environment that allows criminals to act with virtual impunity. Neither entity has pursued new legislation to adequately enforce or reinforce existing asset seizure/forfeiture or money-laundering statutes. However, under international community pressure, an aggressive judicial reform process is underway to vet and reappoint (only those with demonstrated competency and highest integrity) all judges and prosecutors in the country. The process is expected to take at least a year to complete.

Law Enforcement Efforts. Counter-narcotic efforts have improved but remain inadequate given suspected trafficking levels. In the Federation, drug-related arrests have decreased by 48 percent, while the number of minor offense reports has skyrocketed to 1408 incidents against 1615 persons. Federation counternarcotics operations have resulted in the seizure of approximately 80 kilograms of marijuana (a net 62 percent decrease over 2001 levels), 1,133 grams of heroin (a 116 percent increase), and 1047 ecstasy pills (a 78 percent increase). From data through December 1, 2002, arrests in the RS are down twelve percent compared to 2001 levels. RS police operations have resulted in the seizure of approximately 91 kilograms of marijuana (a net 64 percent decrease), 2,135 grams of heroin (almost 20 times less than last year), and 82 ecstasy pills (a 92 percent decrease). Preliminary figures indicate that the SBS seized approximately 90 kilograms of marijuana, 1.35 grams of heroin, and 32 ecstasy pills through December 16, 2002.

On June 4, the Banja Luka Basic Court sentenced Slobodan Solaja, former director of the Banja Luka firm Intergames, to eight and a half years imprisonment for trafficking 164 kilograms of pure cocaine, valued at approximately U.S. \$15 million. On September 20, 2000, Solaja was caught transporting 144 parcels of cocaine imported from Panama in jars. Subsequent to the cocaine seizure, a large cache of weapons and ammunition was found at Solaja's residence.

On Aug 1, an SBS Trebinje unit confiscated 42 packages of marijuana totaling 41.310 kilograms. After an SBS official approached the vehicle for a routine inspection, the driver (a Croatian citizen) fled the border area to Montenegro, leaving travel documents and vehicle behind. The SBS subsequently issued a warrant through Interpol. On December 12, members of the SBS seized 17.9 kilograms of marijuana in the border area with Croatia near Posusje, arresting two Croatian citizens. The SBS said the two tried to smuggle the drugs hidden in their car. The Cantonal Prosecutor is expected to press charges against the suspects, who are repeat offenders.

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, alien smuggling, and human trafficking. Authorities have yet to focus systematically on major narcotics traffickers, and have yet to bring a major case involving a criminal network to trial, or bring adequate resources to bear.

Corruption. Bosnia and Herzegovina 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.

Agreements and Treaties. There is no bilateral agreement between Bosnia and Herzegovina and the United States specifically pertaining to counternarcotics. Bosnia and Herzegovina is a party to the 1988 United Nations Drug Convention and is developing bilateral law enforcement ties with neighboring states to combat narcotics trafficking.

Drug Flow and Transit. Bosnia authorities believe that significant heroin and marijuana shipments pass through Bosnia and Herzegovina along several well-established overland routes. Local officials believe that Western Europe—not the U.S.—is the destination for this traffic. Judging by reported seizures, cocaine use and trafficking is minimal, while the market for designer drugs, especially Ecstasy, in urban areas is rising 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, Croatia, Austria, Germany, and Italy.

Cultivation and Production. Officials believe that domestic cultivation is limited to small-scale marijuana crops grown in southern and western Bosnia. However, cannabis production is reportedly going down, largely as a result of the ready import of cheaper and better quality cannabis from Albania through Montenegro. There are also indications that there is increasing production of synthetic drugs, like ecstasy, on a small but rapidly increasing scale. Though Bosnia and Herzegovina does not have the industrial infrastructure that could support large-scale illicit manufacturing, a modest level of synthetic drugs produced in clandestine labs cannot be ruled out given that the production and possession of chemical precursors to synthetic narcotics are currently legal under Bosnian law. This legislative loophole will be closed under the new criminal code.

Domestic Programs. 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 terms of rehabilitation, the Non-Governmental Organization known as UG PROI—The Citizen's Association for Treatment, Support, and Re-Socialization of Drug Addicts—is very active in developing therapeutic communities. UG PROI seeks assistance (both financial and political) to realize its goal of establishing Bosnia's first non-governmental and ecumenical rehabilitation center, based on the Daytop concept, in Lepenica, Ilidza municipality. The Sarajevo Canton Health Ministry purchased 15,000 square meters of land (for approximately U.S. \$37,000) in Rakovica, and will begin construction of a government-operated therapeutic center for recovering drug addicts next year.

Once power and water are re-connected and an access road improved, the facility, donated (along with surrounding rural acreage) to UG PROI by a generous Bosnian family whose parents recently passed away, is expected to house twelve recovering addicts and two care providers. The Sarajevo Canton Health Ministry purchased 15,000 square meters of land (for approximately U.S. \$37,000) in Rakovica, and will begin construction of a government-operated therapeutic center for recovering drug addicts next year.

In June, the UNODC launched a new project aimed at helping

Southeastern European countries gather, analyze and share intelligence regionally on narcotics trafficking. The objective of the U.S. \$2.2 million project is to increase the capacity of states in intelligence collection and analysis contributing to their ability to identify traffickers and disrupt their networks. Since 1999, the UNODC established a field operations unit in Sofia, Bulgaria, initially covering Bulgaria, Romania, and the Former Yugoslavian Republic of Macedonia. But the new project announced in June will expand coverage to the Federal Republic of Yugoslavia, Croatia, Slovenia, and Bosnia and Herzegovina. Meanwhile, Bosnia's UNODC office is currently seeking voluntary contributions from donor governments and has put forward several counternarcotics proposals, covering supply reduction, interdiction (i.e., strengthening surveillance and border control capacities), enhanced regulation and control of chemical precursors, school-based drug abuse awareness and prevention, and laboratory and forensic science support. The UNODC is planning a school-based drug prevention program; the project is awaiting approval from UNODC headquarters. The UNODC proposed a similar project dealing with all stages of drug prevention to both entity governments more than two years ago but determined that the country was not ready to accept such a joint community project at that time.

IV. U.S. Policy Initiatives and Programs

Policy Aims. USG policy objectives in Bosnia and Herzegovina include reforming the criminal justice system, strengthening the rule of law, depoliticizing the police, improving local governance, introducing economic reforms and free-market initiatives, and strengthening the bank regulatory authorities. The USG will continue to work closely with Bosnian authorities and the international community to combat

narcotics-trafficking and money-laundering, and remains committed to providing the counternarcotics training and support needed to foster independent law enforcement operations by Bosnian authorities.

The Road Ahead. As the EUPM takes over for the IPTF, building local capacity becomes even more of an imperative (as the EUPM will have far fewer officers; approximately one-third the IPTF's size). The

EUPM will concentrate on monitoring mid- to upper-levels of law enforcement management, placing special emphasis on advanced specialized policing skills, in areas such as counternarcotics, organized crime and counterterrorism. However, coordination among the international community is complicated by a lack of continuity and frequent turnover of international personnel; as international experts depart, knowledge leaves with them.

Strengthening the rule of law, and reforming the judiciary remain top USG priorities. The USG will continue to focus its bilateral programs on organized crime, public sector corruption, and border controls. The adoption and full implementation (as well as providing appropriate training and technical assistance) of the new criminal and criminal procedure codes are pivotal U.S. and international community goals for next year. The international community is also working to increase local capacities and to encourage interagency cooperation by mentoring and advising the local law enforcement community.

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, people, contraband and money in either direction. Heroin moves through Bulgaria from Southwest Asia, while chemicals used for making heroin move from the former Yugoslavia to Turkey and beyond. Marijuana and cocaine also pass through Bulgaria. 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. In 2001, Bulgaria seized roughly as much heroin as all other European countries combined.

In 2002 the government issued a national counternarcotics strategy and encouraged the creation of an counternarcotics coalition involving 60 non-governmental organizations (NGOs). At the same time, the government has continued to make steady, if not spectacular, progress in improving its law enforcement capabilities and customs service. 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. Bulgaria is a party to the 1988 UN Drug Convention.

II. Status of Country

Bulgaria is a significant drug-transit country centrally located on three traditional Balkan routes between Turkey and, respectively, 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. Acetic anhydride (heroin precursor) diverted illicitly from its normal use, is transported from Bulgaria to Turkey. As elsewhere in the region, those involved in illegal drug trafficking may also be linked to smuggling weapons, cigarettes and human beings.

The Government of Bulgaria has emphasized its commitment to combat serious crime including corruption and drug trafficking. Despite some progress, there were no major convictions for drug trafficking, organized crime, or money laundering during 2002. Among the problems hampering counternarcotics efforts are poor inter-agency cooperation, weak witness and victim protection mechanisms, inadequate equipment to facilitate the search for drugs, corruption and a weak judicial system.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Bulgarian Government issued a national drug prevention strategy in 2002 and continued efforts to interdict the flow of narcotics through Bulgaria, but was hampered by a general lack of resources. Additional measures begun in 2002 included the creation of an counternarcotics coalition involving some 60 NGOs, and work on establishing "prevention information centers" in various municipalities.

The year also saw the stabilization of management at the Bulgarian Customs service, and efforts continued to enhance that agency's ability to seize contraband, combat corruption, and increase revenue collection. With support from the British firm Crown Agents, mobile inspection teams were finally deployed in the summer of 2002 to stop and search for drugs in any vehicle in the country. The principal investigative agency in this area is the National Service for Combating Organized Crime (Bulgarian acronym NSBOP), which collects and analyzes information from all agencies, and has national jurisdiction. The Customs

Service and NSBOP continued to receive support and training from the international community, including the EU and UN.

Accomplishments. 2002 saw the creation a broad-based counternarcotics coalition, as well as the elaboration of a national counternarcotics strategy. Plans include creation of a national information center within NSBOP and including representatives of the Customs and financial intelligence services.

Law Enforcement Efforts. From January to December 15, 2002, Bulgarian Customs seized 663.8 kilograms of drugs, including 424 kilograms of heroin and 225.6 kilograms of marijuana and nine kilograms of amphetamines. Some 1,500 kilograms of precursor chemicals were taken in an operation between June 10 and July 10. This compares to roughly 2,000 kilograms of drugs seized in 2001 (including some 1,500 kilograms of heroin) and 2,541 kilograms of narcotics in 2000 (of which 1,785 kilograms were heroin). The drop in seizures may indicate that successful Bulgarian interdiction efforts have prompted traffickers to find alternate routes into Europe.

As in 2001, there was a brief, sharp "war" between groups seeking to control the Bulgarian drug market. Following three gangland-style shootings in August, Bulgarian authorities detained over 1000 people allegedly connected to drug trafficking and other crimes in raids on over 797 locations that also netted significant quantities of drugs, arms and ammunition. Prior to that, from January through June 2002, the National Police detained 770 persons for possession of narcotics, while 210 were arrested for drug dealing.

Corruption. The government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, nor the laundering of proceeds from illegal drug transactions. This year the government unveiled an "action plan" to implement its 2001 anti-corruption strategy. Despite some progress, however, corruption in various forms remains a serious problem. The Customs Service is widely considered the most corrupt government agency. However, there was no evidence that senior government officials engaged in, encouraged or facilitated the production, processing, shipment or distribution of illegal narcotics.

Agreements and Treaties. Bulgaria is a party to the 1988 UN Drug Convention, the 1961 Single Convention and its 1972 Protocol, the 1971 Convention on Psychotropic Substances.

The 1924 U.S.-Bulgarian 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 U.S. had requested. As a result of these difficulties, consultations were conducted in 2001 with Bulgaria regarding implementation of the treaty. The U.S. and Bulgaria signed a narcotics assistance cooperation agreement in 2000, and the Bulgarian Government has indicated a strong desire to negotiate a Mutual Legal Assistance Treaty (MLAT) with the U.S.

Cultivation and Production. Law enforcement officials do not routinely calculate crop size or yields for illegal narcotics crops, but most observers view narcotics production in Bulgaria as marginal.

Drug Flow/Transit. Heroin from Southwest Asia sources (e.g., Afghanistan) remains the main illegal drug transiting Bulgaria. There is also some transit of marijuana and cocaine. 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, Bulgarian officials noted the transiting of apparently increasing amounts of cocaine from Brazil. Precursor chemicals for the production of heroin pass from the Federal Republic of Yugoslavia through Bulgaria to Turkey.

Domestic Programs (Demand Reduction). The most popular illicit drugs are reportedly cannabis, heroin, synthetic drugs and cocaine, in that order. Law enforcement agencies estimate that the monthly consumption of heroin in Bulgaria is 60 kilograms, of which 20 to 25 kilograms are consumed in Sofia alone. Although Bulgaria's drug abuse problem is not growing as rapidly as some observers had anticipated, it is growing in part because drug traffickers "pay" local criminal organizations in kind.

Experts estimate that, in this country of slightly less than eight million, there are up to 50,000 heroin users, fewer than 10 percent of whom are in treatment. Cocaine is too expensive for all but the wealthy. Marijuana has traditionally been used in rural areas. Ecstasy is an important and growing problem among university students. As in previous years, drug consumption (including glue sniffing) among marginalized groups such as the Roma (gypsies) remains a serious problem.

Demand reduction has received government attention for several years. The Ministry of Education requires that schools nationwide teach 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 (NCA) provides training seminars on drug abuse for schoolteachers nationwide. There are also municipal demand reduction programs co-sponsored by the NCA and the Institute of Public Health in six major cities and a number of smaller communities. Three universities provide professional training in drug prevention. In 2002 the Government also created a coalition bringing together 60 counternarcotics NGOs and government agencies.

For drug treatment, there are 35 outpatient units and 10-12 inpatient facilities nationwide. The NCA has psychiatric units in 20 regional centers. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by UNODC(funded by the U.S. State Department and the Government of Italy), EU/PHARE and the Council of Europe's Pompidou Group.

IV. U.S. Policy Initiatives and Strategies

U.S. assistance to Bulgaria targets 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. A Department of Justice (DOJ) Resident Legal Advisor works with the Bulgarian Government on law enforcement issues including trafficking in drugs and persons. A DOJ/Central and East European Law Initiative advisor advises Bulgarian prosecutors and investigators. USAID's assistance to the training of magistrates also serves to reinforce Bulgaria's counternarcotics effort.

The Road Ahead. Among the most important steps the U.S. would like to see taken by the Government of Bulgaria are: overhaul of the cumbersome Code of Criminal Procedure; structural reforms to the judicial system; increased resources for training investigators, prosecutors and judges; greater cooperation between police and prosecutors; successful prosecution of organized crime figures (especially but not limited to drug traffickers); implementation of the anti-corruption program; continued progress in reforming the Customs service; proper limits on magistrates' immunity, and the establishment of adequate witness protection mechanisms.

Croatia

I. Summary

Croatia is not a producer of narcotics. However, narcotics smuggling—particularly heroin—through the "Balkans Route" to Western Europe remains a serious concern. The "Balkans Route" appears to be the source of narcotics for most of Croatia's domestic consumption of heroin. Ecstasy and other pill-form drugs are smuggled into Croatia from Western Europe—the Netherlands appears to be a primary source. Croatia has moved 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 domestic 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.

In December 2001, Croatia's new counternarcotics law went into effect, creating an interagency commission to fight drug abuse and a new office of drug control policy. The new office of drug control policy will serve as a resource for the commission and for ministries dealing with drug-related issues.

II. Status of Country

Croatia, astride the most direct route to Europe from Western Asia and with limited resources for securing its extensive coastline and land borders, offers significant possibilities for smuggling narcotics and other contraband. Police officials note a steady increase in smuggling from the east. Croatian police estimate 60 to 70 percent of heroin destined for European markets is smuggled through the notorious "Balkans Route," although some traffic flows through alternative routes that go as far north as Russia.

Domestic narcotics abuse remains a priority area of attention. Drug abuse is centered in major urban areas. Along with Zagreb, the port cities of Split and Rijeka are major centers of drug abuse.

III. Country Actions Against Drugs In 2002

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. In 2002 the government also strengthened controls over narcotics precursors.

Croatia is moving to strengthen and expand its 1998 national strategy for combating narcotics abuse. 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.

Since coming to power in 2000, the current Croatian government has taken some steps to strengthen the criminal code. However, Croatian law enforcement would benefit from additional legal tools such as plea bargaining and witness protection to boost its effectiveness against organized crime and narcotics trafficking.

Croatia has intensified its cooperation with neighboring and Western European states to improve the control and management of its still porous borders. Cooperation with neighboring states is generally described as excellent. However, officials complain that overlapping jurisdictions and significant legal loopholes in Bosnia and Herzegovina limit the utility of cooperation. The United States is providing technical assistance to the Croatian customs directorate in support of its participation in a World Bank/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.

Law Enforcement Efforts. Major seizures of narcotics in Croatia during the first ten months of 2002 include 35 kilos of heroin—19.5 kilos in one seizure—16 kilos of amphetamines and over 24,000 tablets of ecstasy. Additionally, on December 14, 2002, police announced the seizure of 42,000 ecstasy pills being smuggled into Croatia, apparently from the Netherlands. Overall, police report 7,432 narcotics offenses involving 6,552 persons in the first ten months of 2002. This represents an increase of over 10 percent in comparison to the same time frame in 2001. Because of the high price of cocaine, heroin and marijuana appear to remain the local drugs of choice, although the use of ecstasy appears to be increasing rapidly. Street prices of ecstasy have fallen by over two-thirds since 2001. Because of Croatia's small market and its relatively porous border, Croatian police report all drugs are available in Croatia; the Ministry of Interior has not detected any indigenous narcotics labs.

The Croatian government created a special office within the office of the state attorney (prosecutor's office) to combat organized crime and corruption. This office is given enhanced powers to detain suspects, freeze assets and use plea bargaining to attack organized crime. However, after more than a year of operation, the Croatian Government has not yet found the resources to staff and equip fully this important law enforcement office. More positively, the government is developing new legislation on witness protection and a thorough overhaul of the penal code is underway.

Corruption. Narcotics-linked corruption does not appear to be a major problem in Croatia. The Croatian prosecutor's office is seeking to prosecute a number of businessmen and politicians linked to the rightwing HDZ party for corruption, smuggling and financial crimes during the party's rule in the 1990s. Some of the smuggling offenses reportedly involved narcotics, according to local press reports.

Agreements and Treaties. In 2001 and 2002 Croatia entered into a number of agreements with neighboring states on law enforcement cooperation, including Slovenia, Bosnia and Herzegovina, Yugoslavia and Hungary. It also continued to intensify its cooperation with Austria, Germany, Italy and Slovenia on border control. In 2000 Croatia entered the Southeast Europe Cooperative Initiative's (SECI) agreement to prevent and combat trans-border crime. Extradition between Croatia and the United States is governed by the 1902 extradition treaty between the U.S. and the Kingdom of Serbia, which remains in force between the United States and Croatia. The Croatian Constitution prohibits the extradition of Croatian citizens, except to the Hague War Crimes Tribunal for the Former Yugoslavia.

Cultivation/Production. Small-scale production of cannabis for domestic use is the only narcotics production within Croatia.

Demand Reduction. Croatia's new law on drugs will enable the Health Ministry to support the efforts of non-governmental (primarily church-based) drug treatment programs. According to the Center for Prevention and Outpatient Addiction Treatment, 6,786 persons underwent drug addiction treatment in 2001, a 30 percent increase from the previous year. The number of first time treatment seekers rose by 7.6 percent to 1,270 in 2001 from 2000. Overall the government estimates that Croatia has between 14,000 and 16,000 heroin addicts. There were 53 drug-related deaths in Croatia. Ninety-five percent of the addicts are believed to have either hepatitis B or C.

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 accommodate all those needing

treatment. The ministry of health operates in-patient detoxification programs as well as 14 regional outpatient methadone clinics. The government of Croatia announced that it would allocate nearly 7 million Kuna (U.S. \$900,000) in budgetary support for demand reduction in 2003, triple the 2002 allocation. The GOC also will sponsor the creation of expert advisory groups that will work with local governments to counter drug abuse. 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

Croatia's democratic transition in 2000 opened the door to enhanced bilateral law enforcement cooperation. Since that time the USG has stationed a resident legal advisor (RLA) in Zagreb whose portfolio includes intensive work with the Ministry of Justice and the State Prosecutor's Office. The RLA also is coordinating the provision of technical assistance to the GOC and the courts on issues such as 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.

The Road Ahead. The U.S. will continue to work closely with Croatian authorities to improve narcotics law enforcement.

Cyprus

I. Summary

Although Cypriots do not produce or consume significant amounts of narcotics, there continues to be increasing concern on the island about an increase in drug use. The Government of Cyprus traditionally has had a low tolerance toward any use of narcotics by Cypriots and continues to utilize a public affairs campaign to remind Cypriots that narcotics use carries heavy costs, and risks stiff criminal penalties. Drug traffickers use Cyprus to a limited extent as a trans-shipment point due to its strategic location and its relatively sophisticated business and communications infrastructure.

Cyprus monitors the import and export of dual-use precursor chemicals for local markets. Cyprus' geographic location and its decision to opt for free ports for its two main seaports continue to make it an ideal transit country for legitimate trade in chemicals and most goods between Europe and the Middle East. Cyprus customs authorities have implemented changes to their inspection procedures, including computerized profiling and expanded use of technical screening devices, such as portal monitors to deter those who would attempt to use Cyprus free ports for narcotics smuggling. The police established a new unit in 2002 to coordinate with foreign law enforcement authorities. 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 Country

Cyprus' small, population of soft-core drug users continues to grow slowly. Cannabis is the most commonly used drug, followed by heroin, cocaine, and MDMA (Ecstasy), all of which are available in major towns. Reports of heroine overdoses, sometimes resulting in death, have increased. The use of cannabis and Ecstasy by young Cypriots and tourists continues to grow. The Government of Cyprus has traditionally adopted a low tolerance 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 creates an unavoidable liability for Cyprus, as Cyprus is a convenient stopover for narcotics traffickers moving from Southwest Asia to Europe. Precursor chemicals are believed to transit Cyprus in limited quantities, although there is no hard evidence. Cyprus offers relatively highly developed business and tourism facilities, a modern telecommunications system, and the fifth largest merchant shipping fleet in the world. Drug-related crime, still low by international standards, 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 2002

Policy Initiatives. The Cyprus Police established a new unit at its Headquarters to coordinate liaison matters with foreign law enforcement agencies. The new unit is called the Operational Center of International Police Co-operation and Support Unit. The Unit is responsible for the national coordination of all international police co-operation activities carried out by the Cyprus Police (National Central Bureau of INTERPOL, the EUROPOL National Unit and the S.I.R.E.N.E (SCHENGEN)). The

Unit is also responsible for cooperating with foreign liaison officers appointed to Cyprus as well as Cypriot liaison officers appointed abroad.

Cultivation/Production. Cannabis is the only illicit substance cultivated 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 continued to cooperate with the DEA office in Nicosia on several international investigations initiated in 2001. These cases are expected to go to trial in 2003. Cypriot police cooperation and information sharing led to the initiation in 2002 of three new international narcotics investigations.

Tourism to Cyprus is sometimes accompanied by the import of 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 transport 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 continue their policy of close cooperation with international efforts to combat organizations responsible for the trafficking of narcotics. In the past, Cypriot authorities believed that there was no significant retail sale of narcotics occurring in Cyprus; however, with new information, that belief changed in 2002. Last year, arrests of Cypriots for possession of narcotics with intent to distribute were more than double the number of arrests of non-Cypriots on similar charges.

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. The Cyprus Customs Service no longer has the responsibility of receiving manifests of transit goods through Cyprus. This responsibility now rests with the Cyprus Ports Authority. Goods entering the Cypriot free ports of Limassol and Larnaca can be legally re-exported using different transit 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.
- Cyprus established a new unit for coordinating with foreign law enforcement agencies.
 Cyprus also increased by 20 percent the number of investigators assigned to the counternarcotics unit.
- 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) is not recognized by the United States, or any other country, except Turkey. The U.S. Embassy in Nicosia, including in particular the DEA office within the Embassy, works 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.

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. An extradition treaty between the United States and Cyprus entered into force in September 1999. The mutual legal assistance treaty (MLAT) between the United States and Cyprus entered into force on September 18, 2002.

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. Marijuana 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 to promote demand reduction programs actively through the school system and social organizations, with occasional participation from the DEA office in Nicosia. Drug treatment is available.

IV. U.S. Policy Initiatives and Programs

The U.S. Embassy in Cyprus, through the regional DEA office, works closely with Cypriot police to coordinate international narcotics investigations and evaluate local narcotics trends. Utilizing its own regional presence, DEA assists the new coordination unit in establishing strong working relationships with its counterparts in the region. DEA also works directly with Cypriot customs, in particular, on development and implementation of programs to ensure closer inspection and interdiction of transit containers.

In 2002, DEA provided training in drug interdiction techniques at international airports to senior narcotics investigators assigned to Cyprus' two international airports. DEA also provided two-weeks of training for a senior drug unit commander, funded through the Fulbright program. The USG seeks to provide additional local and regional training in narcotics investigative techniques to support the new international coordination unit and the expansion of the existing narcotics unit.

The Road Ahead. The USG receives close cooperation from the Cypriot Office of the Attorney General, the Central Bank, the Cyprus Police, and the Customs Authority in drug enforcement and anti-money laundering efforts. In 2003, the USG will continue to work with the Government of Cyprus to strengthen enforcement of existing counternarcotics laws and enhance Cypriot participation in regional counternarcotics efforts.

Czech Republic

I. Summary

The Czech Republic remains both a transshipment and destination country for illegal narcotics. Both Czech and foreign criminal elements produce pervitine (a Czech-created methamphetamine), primarily for in-country consumption. Cannabis is abused more than any other drug in the Czech Republic.

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

Cannabis remains the most widespread illegal drug used in the Czech Republic. It is both imported (i.e. from India, Pakistan, Morocco, Afghanistan, Nigeria, the Netherlands, and Lebanon) and grown locally (indoors and outdoors).

While the use of cannabis and Ecstasy continued to increase in 2002, heroin has also strengthened its position on the market. Heroin is imported from the south, mostly from Afghanistan via Turkey. It transits to the Czech Republic via the Balkan Route, and then moves on to Northern and Western Europe. Czech authorities attribute most of the heroin smuggling activity to ethnic Albanian organized crime (OC) groups, some of which maintain warehouse operations in the Czech Republic. Vietnamese-, Arabic-, Russian-, and Czech-speaking OC groups provide distribution to local users.

Cocaine also reaches the Czech Republic, albeit mostly in transit to Northern and Western Europe. Use of cocaine in the Czech Republic is mainly restricted to the middle-and upper classes because the drug is expensive. It arrives in the Czech Republic most often with Czechs returning from visits abroad.

Along with Ecstasy, which is the favorite club drug, other Ecstasy-like drugs have begun to appear on the Czech market. One called PMA has caused several deaths. A liquid version of Ecstasy, probably produced in Poland, has also appeared, particularly along the Czech-Polish boarder. It is becoming popular due to its lower price and ease of concealment(a clear liquid, as opposed to more familiar ecstasy pills).

Pervitine is still produced in the Czech Republic, mainly by Czechs and primarily for local consumption. But Czech counternarcotics police believe Russian-speaking and Asian gangs now control more than a half of the pervitine market and are trying to gain control of the entire organization of pervitine production. The amount of exported pervitine going to neighboring countries (Germany, Poland, and Austria) has increased; according to the National Anti-Drug Center (NADC) 10-20 percent of total production is exported.

Toluene (a solvent) is still used for inhaling, mainly by poorer and younger segments of the population.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In November 2001, a report entitled "PAD—Project Analysis of the Results of the Amendment of Drug Legislation" was presented to the Czech Government. This project was requested and financed by the National Drug Commission, based on concerns that the Amended Drug Act was proving counterproductive. The report concluded that implementation of the new crime "possession of illicit drugs for personal usage" had not attained any of claimed benefits and was not cost effective. Although the director of NADC argued that the statistics on which the report was based were suspect, the Czech Government undertook an initiative to improve the law. As of 2003, illegal drugs will be divided into categories according to the danger they present to health and society. In addition, the Government

will pay greater attention to suppressing the supply of "hard drugs"—particularly heroin—and to ensuring that police at the regional and local levels will not be overloaded with other work. The Government plans to use the results of the project analysis for preparation of new amendments to the Czech Criminal Code and for revision of the penalties for drug-related crimes.

Since mid-2002, the Czech Republic has defined "spreading addiction" as a crime; those convicted of contributing to the spread of drugs through the media or Internet face up to five years in prison. Another Criminal Code amendment allows the confiscation and forfeiture of illegally acquired property. The amendment has already proved useful in the prosecution of drug cases.

The National Drug Commission is seeking an amendment to the Drug Act that would distinguish more between possession/use for trafficking and personal use of drugs (and would allow the application of alternative punishments for drug users). The Ministry of Health, Ministry of Labor and Social Affairs, and Ministry of Education appear to support such changes, but the Ministries of Interior and Justice have been hesitant to endorse the proposal.

A new law on the protection of witnesses came into effect during 2001. Although the Czechs expected this law would encourage witnesses to testify in court, and thus help the prosecution of drug cases, it appears that witnesses continue to avoid testifying in courts because of 1999 legislation under which an admission of drug possession could result in the witnesses' prosecution. On January 1, 2002, an amended residence law came into effect, giving the authorities more options for expelling illegal aliens (including drug dealers and producers).

Rohypnol, used to prolong the effects of cocaine, used to be available without prescription in Czech pharmacies. By the middle of 2003, Rohypnol will be available only with a prescription.

Accomplishments. One of the most successful cross-border operations initiated in 2002 is operation "Crystal." This working group consists of Czech and German police and customs representatives who fight cross-border pervitine trafficking between the Czech Republic and Germany.

Law Enforcement Efforts. Cooperation between NADC and the "Gains Group" of the Unit for Combating Financial Criminality and for State Protection (UFKOS) has been strengthened recently. The Gains Group was established in July, 2001, to track the flows of illicit profits, including those from drug trafficking, and to assist the NADC with investigations and assets forfeiture. In 2001, the Gains Group cooperated with NADC on seven cases that resulted in seized assets valued at 4.16 million CZK (approximately U.S. \$143,000). In 2002, they assisted with 25 cases and successfully seized assets totaling 26.64 mil CZK (approximately U.S. \$915,000. The Gains Group is slated to get additional specialists, increasing its current staff of 13 to roughly 40 experts in the near future.

In 2002 NADC had 74 operations in which the NADC policemen arrested 174 criminals. In total the NADC seized 6.07 kilograms of heroin, 1.67 kilograms of methamphetamine, 4.02 kilograms of cannabis, 1.49 kilograms of cocaine, 5.65 kilograms of Ecstasy and 23 kilograms of paracetamol and caffeine. They also discovered several warehouses, and laboratories, including mobile laboratories.

There were several very successful operations led by NADC policemen. In operation "Zebra" 13 gangsters from Germany, Czech Republic, Algeria and Tunisia were arrested after several years of investigation. This group distributed heroin to Germany (Bavaria) for at least five years. Operation "Synek" seized 10 kilograms of pervitine, and 26 Czech nationals were arrested, together with an organizer, a producer and a head of a distribution network. In cooperation with the Gains Group, some assets (e.g. cars in the value of 2.5 million kroner (apx. U.S. \$86,000) were forfeited. In operation "Jana Vali", two important heroin traffickers were arrested.

Corruption. In 2002, eight police were investigated for narcotics-related corruption. Most of the accused policemen were found to be drug users themselves.

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. An extradition treaty and an MLAT are in force between the U.S. and the Czech Republic..

Cultivation/Production. Cannabis cultivation used to be primarily for personal use only. However, in 2002, the police found 14 illegal laboratories where the drugs were cultivated hydroponically; the THC content was very high (30 percent).

The Ministry of Agriculture monitors licit opium poppy cultivation for poppy seeds. Poppy seeds are exported or used in traditional Czech cooking. Total production in 2001 was 21,300 tons (in 2000 it was 15,700 and in 1999 it was 28,500 tons).

Pervitine production is essentially divided into two parts. One is a production in small home laboratories where all equipment and sources are provided by small groups of people grouped around the "cook" and the pervitine is for their personal use. The second kind is organized production, controlled mainly by Russian-speaking gangs and Asian gangs.

The main precursor for pervitine production is ephedrine (or, to a lesser extent, pseudo-ephedrine). Ephedrine, produced industrially in a factory not far from Prague, is diverted from licit pharmaceutical use, and used mainly for organized production, while small home laboratories tend to extract ephedrine from pills that are freely available or available with a medical prescription.

Drug Flow/Transit. Heroin, cocaine, and cannabis transit the Czech Republic, having arrived from the south (Turkey and the Balkans) and Southwest Asia. It moves toward Northern and Western Europe. Ecstasy and some other manufactured drugs move to the Czech Republic from the Netherlands and Germany, and then southward and eastward. As reported by NADC, the amount of drugs seized during 2002 was smaller than in past years. Individual drug shipments to the Czech Republic are smaller. Retail drug dealers are also more careful. Drugs are now rarely offered on streets, as dealers have moved to private flats and clubs, and Internet cafes: They work only with prepaid cell phones, they change phones often, and meetings, often arranged from Internet cafes, take only a few minutes.

Domestic Programs (Demand Reduction). According to a study done by the National Drug Commission, there were approximately 37,500 problem drug users in the Czech Republic in 2001: 15,000 heroin users; and 22,500 pervitine users. Lifetime prevalence of any drug use for people in the 15-64 age group was 16 percent (1,150,000 people), with an upward trend (mostly because of marijuana use). HIV infection rates among injecting drug users in the Czech Republic are declining and are now considered negligible. Although the level of injecting drug use is still relatively low, there is strong potential for spread of drug-related infectious diseases (such as HIV and hepatitis C) among injecting drug users, due to users' risky behavior. NDC reported 84 deaths in 2001 caused by drug overdoses. As reported by the NADC, the prevention, treatment and repression of illegal narcotics costs the Czech Republic at least 2.8 billion CZK per year (U.S. \$96.2 million). About 80 percent of the costs go to support the work of police, courts and prisons.

The Road Ahead. The United States will continue to cooperate closely with Czech officials. The USG expects to continue training programs aimed at improving Czech law enforcement, judicial, and anticorruption capabilities.

Denmark

I Summary

Denmark's strategic geographic location and status as Northern Europe's primary transportation point make it an attractive drug transit country. The Danes cooperate closely with their Scandinavian neighbors, the EU, and the USG 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. There have been substantial heroin seizures throughout the Scandinavian/Northern Baltic region. Authorities attribute the heroin trade's return to "normal" levels, after a short disruption, to traffickers solution of logistical problems caused by U.S. military operations in Afghanistan. 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 U.S., although the amount flowing to the U.S. is relatively small. Seizures of all drugs except amphetamines this year are significantly higher than last year, although these statistics are only through June. Results for the first six months already exceed 2001 final figures in most categories. Serbian nationals have gained an important position in Denmark's heroin market at the expense of ethnic Albanians. Police authorities do not believe Denmark to be a significant factor in the diversion of precursor chemicals.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Within the past year, the Danish National Police completed a reorganization. As part of this administrative restructuring, the police unit responsible for counternarcotics activity received augmented powers to pursue national and international investigations. Added to these expanded powers, the counternarcotics unit also can employ a new 2002 law requiring that telecommunications companies provide information pertaining to drug-related crime.

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 Nordic Police Customs Council Agreement (PTN Agreement). Denmark's officer is stationed in Lithuania.

Accomplishments. The aggressive counternarcotics efforts of Danish police have continued unabated in 2002 and, in view of higher seizure rates, may even have been increased in advance of Denmark's assuming the EU Presidency in the second half of this year. Denmark continues to effectively employ 1996 legislation making it easier to incarcerate drug dealers and expel foreign dealers who reside illegally in Denmark. The Nordic-Baltic PTN Agreement continues to be an effective law enforcement tool in combating drug trafficking in the region.

Danish authorities continue to view narcotics-related money laundering as a manageable problem despite Denmark's role as a major financial center. Danish law permits forfeiture and seizure of assets in drug-related criminal cases. Authorities strongly employ existing asset seizure and forfeiture law and cooperate with foreign authorities in such cases. No information is available regarding recent asset seizures.

There is little or no cultivation of organic raw materials for narcotics in Denmark, or significant commercial narcotics production. Isolated, small laboratories making MDMA and amphetamines are not widespread and police have a good record of finding these and shutting them down. Denmark is, therefore, neither a source of nor a destination for significant amounts of precursor chemicals.

Law Enforcement Efforts. The National Police's switchover to a new computer system has delayed the compilation of regional seizure data enough to impede comparison of 2002 statistics with those from last year. However, authorities report that seizures of all narcotics, except amphetamine, have increased this year. Through June seizures of heroin rose to 38.8 Kg from 24.6 Kg and hashish/marijuana from 653 Kg v. 224 Kg, while cocaine was at 4.5 Kg (compare to 4.7 Kg for all of 2001. Seizures of ecstasy, approximately 29 kilos in 2001 compared to 22.3 kilos through the first six months of 2002, place this year on track to exceed last year's seizure activity substantially. Last year's results were distorted by a single 25-Kilo-100,000 tablet seizure during a single airport bust. Amphetamine seizures of 16.4 kilos are down significantly from 92.3 kilos last year.

Unlike their experience of several large seizures last year, authorities report a greater number of smaller seizures this year in Denmark. Not yet logged in this year's cumulative statistics is a September 900 kilo marijuana seizure from a truck just south of Copenhagen. Danish customs at Kastrup Airport reported what is believed to be the first ever arrest/seizure of an individual attempting to smuggle drugs into Denmark by means of swallowing (500 grams of heroin).

Denmark continues to bolster the interdiction capabilities of the Baltic States. One of the bases of operation is the Baltic island of Bornholm, Denmark's easternmost territory, where a continuing project involving the customs services and police, in cooperation with the Danish Navy, works to interdict narcotics, other smuggled contraband, and illegal migrants.

Domestic distribution of narcotics previously associated with the two principal motorcycle gangs, the Hells Angels and the Bandidos, is being challenged by Albanian traffickers, who are themselves now under pressure from Serbian heroin smugglers. Danish authorities issued an ultimatum earlier this year to residents of the self-proclaimed "Free State of Christiania" (founded by 1970s-era squatters on an abandoned Copenhagen naval facility and allowed to develop as a grand social experiment), infamous for permitting the open sale of hashish/marijuana, to bring their behavior into strict compliance with the law within a year or have the police make a more concerted eradication effort than the sporadic "nuisance" raids of years past.

Corruption. The USG has no knowledge of any involvement by Danish government officials in drug production or sale, or in the laundering of their proceeds. Danish laws regarding public corruption in general are very stringent. 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. The USG has previously signed a Customs Mutual Assistance Agreement, a Mutual Legal Assistance Treaty, and an Extradition Treaty with Denmark Denmark participates in the Dublin Group of Nations Providing Narcotics Assistance.

Cultivation/Production. There is no substantial narcotics cultivation or production in Denmark. What authorities believe to have been the only laboratory producing amphetamine and MDMA (Ecstasy) in quantity was shut down last year. Although MDMA production is increasing in the Nordic/Baltic region, Danish authorities report that only small production labs exist in Denmark and these are vigorously pursued, shut down, and their operators prosecuted.

Drug Flow/Transit. According to law enforcement officials in Denmark, drugs transit Denmark on their way to neighboring European nations and, in small quantities, on their way to the U.S. The ability of the Danish authorities to interdict this flow is slightly constrained by European Union open border policies. Continued international cooperation, including information sharing among EU members' national police

counterparts, has helped solve the open border problem by allowing better detection (at origin) and tracking (to destination) of attempted narcotic smuggling efforts.

Domestic Programs (Demand Reduction). Denmark's Ministry of Health estimates that there are approximately 14,000 "heavy narcotics abusers" (up from last year's estimate of 10,000-12,000 in Denmark), which includes only those people who are officially registered as addicts enrolled in government programs. Of this total, 5,500 are in methadone rehabilitation programs. The country maintains an extensive counternarcotics education program in schools and youth centers. This year saw continuation of the enhanced drug prevention intervention program begun in 2001 directed at the so-called "Rave" culture. Besides targeting traffickers in party settings, 2002 initiatives focus on increasing counseling and treatment services provided to young addicts.

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. Since 1996, the government has funded programs that involve the treatment of addicts through a medically supervised reduction program as an alternative to serving prison sentences. The debate on a proposal to permit doctors to supply some addicts with heroin continues, but support seems to be waning.

IV. U.S. Policy Initiatives and Programs

U.S. Goals. U.S. goals in Denmark are to serve as a liaison with the Danish authorities on drug-related issues, assist with joint investigations, and to coordinate USG counternarcotics activities with the eight countries of the Nordic-Baltic region.

Bilateral Cooperation. There is no bilateral narcotics agreement between the U.S. and Denmark. However, the USG enjoys excellent cooperation with its Danish counterparts on drug-related issues.

The Road Ahead. Danish authorities expect to reap the benefits of the restructuring of the National Police to combat more effectively the inherently international nature of the illicit narcotics trade. They will continue to pursue close cooperation with Nordic neighbors Norway and Sweden to interdict drug shipments. This means continued reliance on the PTN Agreement to increase information sharing and counternarcotics efforts. In addition, the recent accession to the EU of the Baltic States signals the impending weakening of international barriers when visa-free travel is fully implemented and concomitant increased opportunity for smuggling. The Danes will seek to expand their cooperative efforts to successfully meet the new smuggling threat. At the same time, the USG will continue its liaison with Danish authorities and work to deepen the regional cooperation against drug trafficking.

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 fold from 1990 to 2000. For the first time in about a decade, drug seizures and arrests were down in 2002. Police attribute this to increased sophistication of drug traffickers and a lack of police manpower rather than to a reduction in drug use. 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 and almost disappeared entirely in 2002. Effective controls on the Russian/Finnish border have prevented the overland route from developing into a trafficking conduit, though there is some drug trafficking over this border. The police remain concerned, however, about heroin and Ecstasy (MDMA) shipments arriving from the St. Petersburg area and the Baltic countries, respectively. Finland is a major donor to the UNODC, 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 of an exceptionally high quality. In 2001 new legislation allowed the police to fine violators for possession of small amounts of narcotics; police implemented this legislation aggressively in 2002. Police issued approximately 5,000 such fines in 2002.

Finland has Europe's lowest cannabis-use rate, but amphetamine, methamphetamine, other synthetic drugs, and heroin are increasingly popular. Cocaine use is rare, but police believe it is on the increase. Ecstasy use is up significantly, and the police are also concerned about the use of gamma-hydroxybutyrate (GHB). The police admit that lack of manpower and restrictive Finnish laws on undercover work make penetrating the drug trade difficult. Police report a significant decrease in the purity of heroin imported to Finland since the conflict in Afghanistan began in late 2001. The purity of a number of seizures prior to this was as high as 75 percent; some recent seizures had purity as low as five percent.

Authorities suggest a link between the increase in use of heroin and its increased purity in past years and the sharp increase in the number of drug-related deaths beginning in the late 1990s. Drug deaths declined significantly in 2001 and 2002, in police view, confirming the lower quality of heroin available domestically. Indeed, the police report only one to two deaths from heroin overdoses this year. The percentage of new HIV cases related to drug use also declined in 2002.

Perhaps as a result of the difficulty of obtaining high-quality heroin—and the risk of overdose—some users are turning to Subutex (buprenorphine), which they obtain primarily from France. According to the police, French doctors can prescribe up to three weeks supply of Subutex. Finnish couriers travel frequently to France to obtain their supply, which they sell on the Finnish market with a high markup. Possession of Subutex is legal in Finland with a doctor's prescription. According to the Finnish police, there are about two dozen 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 in Finland, which, as of March 2001, allows the free movement of people and cargo throughout most member states within the EU, might increasingly make Finland a transit country for drugs being trafficked by organized crime groups.

III. Country Actions Against Drugs in 2002

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. There are still a number of restrictions on using these techniques, however. The Finnish Government has released its new drug strategy for 2003, which calls for additional emphasis on stemming the flow of drugs before they reach Finland's borders.

Law Enforcement Efforts. For the first time in about a decade, the police report a decline in arrests and seizures of drugs in 2002. 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.

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, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. A 1976 bilateral extradition treaty with the U.S. is in force, 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 makes an impressive international effort to combat drug trafficking and other organized crime. The Finnish police maintain 10 liaison officers in seven European cities (six in Russia, four elsewhere).

Cultivation/Production. During 2002, there were no seizures of indigenously cultivated opiates, no recorded diversions of precursor chemicals, and no detection of illicit amphetamine, cocaine, or LSD laboratories in Finland. 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 amphetamine 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.

Domestic Programs (Demand Reduction). The GOF 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 GOF 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 and Programs

U.S. Policy Initiatives. The United States has pursued cooperation with Finland in a regional context, coordinating with Finland and the other Nordics assistance to the Baltic States. Bilateral 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 is a transshipment point for drugs moving in Europe. Given France's shared borders with trafficking conduits such as Spain, Italy and Belgium, and given France's proximity to North Africa, France is a natural distribution point for drugs moving towards North America from Europe and the Middle East, as well as drugs originating in South America moving towards Western Europe from Spain. France's own large domestic market is, of course, interesting to traffickers, and France's participation in the Europe-wide Schengen open border treaty, makes the traffickers task unavoidably easier. Specifically, ecstasy (MDMA) originating in the Netherlands and Belgium, heroin originating in southwest Asia, cocaine originating in South America, and cannabis originating in Morocco (source for 60 percent of cannabis in France) all find their way to France.

French officials are concerned at the continuing rise in the number of users of ecstasy and the large quantities of this synthetic drug that are entering France. Large-scale ecstasy production labs have not been detected in France so far, but important sources in Belgium and the Netherlands are close at hand. Ecstasy use is prevalent among high school/college age young people at rave parties, but also is easily obtainable in some night-clubs and bars. The use of crack cocaine is negligible in France. The use of cannabis (primarily hashish) continues to rise, particularly among young people, making it the most widely used illegal drug in France. Like other European countries, France is increasingly facing the problem of multiple drug use and addiction. France is a party to the 1988 UN Drug Convention.

II. Status of Country

According to French authorities, French young people are turning to synthetic drugs at alarming levels. Over the last six years, cannabis seizures have tripled and the quantities of powder cocaine being seized are also rising. In 2001, cannabis seizures increased by 300 percent, cocaine and heroin seizures stabilized, while ecstasy seizures increased exponentially. Cannabis and ecstasy continue to be the most widely abused illegal drugs in France. A compilation of statistics published in 2002 by the French Observatory for Drugs and Drug Addiction recapitulates the total amount of drug-related arrests between 1990-2000; it is an interesting barometer of drug abuse in France. Roughly 90,000 narcotics-related arrests were made in the ten year period with the following break-down:

III. Country Actions Against Drugs in 2002

France's drug control agency, MILDT ("La Mission Interministerielle de Lutte Contre la Drogue et la Toxicomanie" or 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. The French also participate in regional cooperation programs initiated and sponsored by the EU. France has been focusing on the relationship between narcotics abuse and death on highways. Since October 2001, a systematic drug testing initiative, jointly sponsored by the Ministry of Health and the Ministry of Transportation, has been carried out in cases involving deadly road accidents. After a period of two years ending October 2003, a full review will take place before "driving under the influence of narcotics" punitive measures are implemented.

Accomplishments. French law enforcement officials seize large quantities of narcotics destined for the French domestic market, or transiting France to markets elsewhere.

Law Enforcement Efforts. French counternarcotics authorities are efficient and effective. In 2002, French authorities made notable seizures of narcotics. In addition, they dismantled several drug rings across France.

In January the French customs authorities in Montpellier seized 40 kilo (kilograms) of heroin. 15,600 tablets of ecstasy were intercepted near the Belgian border. In February, 400 kilograms of cocaine were seized offshore in Vendee as it was being offloaded from a speedboat. A money-laundering ring was also broken up in the Paris suburb of Nanterre. French authorities suspected this ring of laundering at least 1 million Euros (about 1 million dollars) from cannabis trafficking originating in Morocco. Similar incidents occurred throughout the year, for example: 30 kilograms of various drugs were intercepted in Cannes on the French Riviera, in April, a Gabonese diplomat was stopped with 29 kilograms of cocaine as he was attempting to board the London-bound Eurostar train. Aided by sniffer dogs, police at Charles De Gaulle airport found 16 kilograms of cocaine hidden in a passenger's suitcase full of presents. In June, five tons of cocaine were intercepted on a boat off the French coast and a further 23 kilograms seized in Cayenne, French Guiana. The "Winner" boat was interdicted on the high seas off the coast of Africa by the French military. More than 80 kilograms of cocaine were seized but as much as 2-3 tons were thrown overboard. French law enforcement continued their vigilant efforts and met with similar notable successes throughout 2002.

Corruption. Narcotics-related corruption among French public officials is not a problem. The USG is not aware of any involvement by senior officials in the production or distribution of drugs or in the laundering of drug proceeds.

Agreements and Treaties. France is a party to the 1988 UN Drug Convention, and the other UN drug conventions. The USG and the GOF have narcotics-related agreements, including a 1971 agreement on coordinating action against illegal trafficking. In 1996, the U.S. and France signed a new extradition treaty to replace the 1911 treaty and 1970 supplementary treaty then still in effect. The U.S. Senate ratified the new treaty in 1998, and the French Senate did so in 2001. The treaty went into force in 2002. A new Mutual Legal Assistance Treaty (MLAT) entered into force in 2001. The U.S. also has a Customs Mutual Assistance Agreement (CMAA) with the GOF.

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 as pharmaceuticals. It reports its production of both products to the International Narcotics Control Board (INCB) and cooperates with the U.S. Drug Enforcement Administration (DEA) to monitor and control those products.

Drug Flow/Transit. France is a transshipment point for illicit drugs to other European countries. Most of the heroin consumed in, or transiting France originates in southwest Asia (Afghanistan) 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 (mostly Nigerian) are also using France as a transshipment point for heroin and cocaine. These traffickers move heroin from both southwest Asia (primarily Afghanistan) and Southeast Asia (primarily Burma) to the U.S. through West Africa and France, with a back-haul of cocaine from South America to France through the U.S. and West Africa. Law enforcement officials believe 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 Europe. There is no evidence that heroin or cocaine entering the U.S. from France is in an amount sufficient to have a significant effect on the U.S. 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.

Domestic Programs/Demand Reduction. MILDT is responsible for coordinating France's demand reduction programs. Drug education efforts target government officials, counselors, teachers, and medical personnel, with the objective of giving these opinion leaders the information they need to assist those

endangered by drug abuse in the community. The GOF is continuing its experimental methadone treatment program. Although there continues to be public debate concerning decriminalizing cannabis use, 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. Recent examples of this strong U.S./French cooperation are the "Winner" ship seizure, and the exchange of information concerning ecstasy labs in the U.S. The Winner ship was intercepted on the high seas by the French military as a result of U.S. information, and a request by U.S. authorities to act urgently. Although only about 80 kilograms of cocaine were seized, an estimated 2 to 3 more tons were thrown overboard just before or as the French military stormed the boat. As a result of solid French intelligence, two ecstasy labs in the United States were closed. Very strong cooperation continues between the U.S. and France in several other cases still underway.

The Road Ahead. The U.S. will continue its cooperation with France on all counternarcotics fronts, including through multilateral efforts such as the Dublin Group of Countries Coordinating Narcotics Assistance and UNODC.

Georgia

I. Summary

Georgia remains a secondary transit route for narcotics flowing from Afghanistan, transiting 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. Despite recent efforts at reform and personnel changes, law enforcement agencies remain overstaffed, underequipped, poorly paid, and have a reputation for corruption. In response to Government of Georgia (GOG) requests, the United States Government (USG) continues to provide 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 Office of Drug Control and Crime Prevention(UNODC).

II. Status of Country

Georgia is believed to be a secondary transit route for heroin smuggled from Afghanistan to Europe. Afghan morphine base destined for Turkey is also presumed to transit Georgia. Given Georgia's geographic location and its ambition to be a key element in a future overland trade corridor between Europe and Asia there is a possibility it could also emerge as a major drug trafficking route. No reliable statistics on the current domestic or transit drug traffic in Georgia exist.

Additional trafficking to Georgia from Russia through South Ossetia and from Azerbaijan is believed to feed the domestic Georgian drug market. It was previously believed that these drugs were repackaged in the Pankisi Valley. Georgian law enforcement operations in Pankisi during 2002 are believed to have diverted drug flow through Pankisi to other neighboring areas of the country without reducing the flow of drugs. While involvement in drug trafficking by Georgian nationals remains limited; 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 efforts at reform, Customs remains liable to corruption.

III. Country Actions Against Drugs in 2002

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 2002, in large part due to the lead agencies being fully tasked for other priorities involving Georgian national security.

Law Enforcement Efforts. Drug seizures and arrests rose by a modest amount from 2001 to 2002. 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 underequipped and poorly trained. Command lines are vague both between and within these organizations. The number of criminal drug cases opened during 2002 was 1855, vs. 1783 cases opened in 2001. This represents a sustained growth rate in criminal cases over the past two years. An additional 1,464 drug cases were resolved through administrative fines. These cases were predominantly concerning possession or use of small quantities of drugs or those using controlled drugs without a doctor's prescription.

Corruption. Corruption has been the most 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. A plan for change within the law enforcement ministries was prepared during 2002

and forwarded to the Georgian National Security Council, however, no significant changes occurred during that year. In any case, none of these proposed measures would have responded to the underlying low wages of officials and poor example from those in charge that nourish wide-scale low level corruption.

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.

Cultivation and Production. Estimates by the GOG on the extent of narcotics cultivation in Georgia are unreliable and do not include those areas of the country outside the central government's control. Given the small amount of low-grade cannabis grown mainly in the foothills of the Caucasus Mountains, largely for domestic use, Georgia is not demonstrably a significant producer of narcotics. Approximately 112.5 tons of cannabis was reported as seized and destroyed in Georgia during 2002. 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.

Drug Flow/Transit. The Government has no reliable statistics on the volume of drugs transiting Georgia. The Ministry of Internal Affairs (MOIA) has previously reported that 95 percent of illegal drugs that enter Georgia are for non-Georgian consumption. Prices for drugs in Georgia are currently estimated at wholesale price of U.S. \$200-\$300 for 1 gram of heroin with an end user price of U.S. \$500-600. The current street price of opium is estimated at U.S. \$15 per gram, as opposed to U.S. \$50-\$80 per gram a year ago. This indicates a relatively constant price for heroin over the past two years and a steadily decreasing price for opium.

Demand Reduction. An averaging of the number of registered drug addicts reported by independent and official sources would indicate that there were at least 60,000 drug users in Georgia during 2002. The increase in cannabis confiscation figures from 2002 to 2000, vs. a reduction in confiscation of heroin and opium from the year 2000, could indicate an increasing emphasis on cannabis by Georgian users. The national program prepared by the MOIA's counternarcotics unit is comprehensive; however, program implementation has been constrained due to a lack of resources and corruption within the Georgian system. 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 dedicated U.S. \$17 million in fiscal year 2002 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. U.S. officials also distributed approximately 50 field drug test kits to elements of the Ministry of Internal Affairs and State Security for use in enforcement operations, however, no other training or assistance programs are currently planned.

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 focused training 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 provision for anticorruption reform, and must be closely monitored for progress.

Germany

I. Summary

Although not a major drug producing country, Germany continues to be a consumer and transit country for narcotics. Cannabis and ecstasy consumption continues to be relatively high, especially in the states of the former East Germany. The most recent official data of the Federal Criminal Police Office (Bundeskriminalamt/BKA) of September 2002 indicate three trends. First, narcotics-related deaths declined in the first half of 2002 by almost 30 percent compared to the previous year. Second, first time heroin and ecstasy consumption decreased by 25 percent compared to August 2001. Third, the amount of ecstasy pills confiscated doubled. Almost 90 percent of the ecstasy seized was produced in the Netherlands, of which 80 percent was destined for Canada, the United States and Australia. Led by the Ministry of Health, the German federal government in 2002 developed a proposal for a new action plan to combat narcotics that would create a new comprehensive strategy and supersede the 1990 national plan. The product of an inter-agency effort, the plan should be finalized by 2003. Germany is a party to the 1988 UN Drug Convention.

II. Status of Country

Germany is not a cultivation or production country. However, Germany's location at the center of Europe and its well-developed infrastructure make it a major transit hub. Cocaine and ecstasy transit through Germany from the Netherlands to Scandinavia, East and Southern Europe; heroin transits Germany from Eastern to Western Europe. In 2002, 80 percent of ecstasy seizures in Germany were destined for third countries, namely, Canada, the U.S. and Australia. Organized crime is very involved in drug trafficking. Germany continues to be a leading manufacturer of pharmaceuticals, making it a potential source for precursor chemicals used in the production of illicit drugs.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Health Ministry introduced a proposal for a new "Action Plan on Drugs and Addiction" in June 2002 to replace the outdated 1990 "National Plan to Combat Narcotics". This new proposal would target new risk groups (e.g. immigrants), and respond to abuse trends in the states of the former East Germany. The plan is expected to be finalized in early 2003. Implemented in coordination with the states and other Government agencies, the new plan will outline a comprehensive strategy to combat narcotics, focusing on research and international cooperation, with emphasis on prevention and early diagnosis. A National Drug and Addiction Council will review implementation of the plan.

The Drug Commissioner at the Federal Health Ministry continues to coordinate drug policy. Key components of the government's drug policy continue to be prevention, therapy and counseling, and interdiction and supply reduction. The following 2002 initiatives are also in line with Germany's key policy pillars:

- Drug Consumption Rooms: Operated by state governments, the Health Ministry views
 "drug consumption rooms" as one solution to promoting survival and stabilizing the
 health of drug addicts, while simultaneously facilitating treatment.
- According to a 2002 Health Ministry study, drug consumption rooms contribute to reducing drug related deaths. The numbers of drug consumption rooms have increased over the last year to 21 rooms in nine cities. The federal government implemented legislation in 2000 allowing the states to pass corresponding regulations to establish drug consumption rooms.

- Substitution Based Treatment: Substitution-based treatment has been expanded and improved in 2002. About half of the estimated 120,000 opiate addicts are treated with methadone substitutes. New binding regulations adopted in October 2002 facilitate access to substitution-based treatment and improve the quality of such treatments (e.g., special licenses for medical doctors, central anonymous registers). In March 2002, the first heroin based treatment pilot project commenced offering assistance to seriously ill, long-term opiate addicts. This project is also being conducted as a medical study.
- Research: In order to promote research on drug addiction and on therapy, the first Berlin Brandenburg Academy on Addiction was founded in October 2002. It is unique in Germany, since universities and clinics have not traditionally established separate centers for advanced training for addiction treatment.

Law Enforcement Efforts. German law enforcement agencies, often working with other countries, scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers. For example, the BKA seized 1 million ecstasy pills coming from the Netherlands and bound for Australia. This was one of the largest ecstasy seizures to date in Germany. Working with the Dutch police, the BKA also broke up an international trafficking ring of German/Turkish drug dealers, who were arrested for smuggling heroin from the Netherlands to Germany. In another joint operation with the Spanish police, almost 300 kilograms of cocaine were seized in the Canary Islands in August. Spanish police also arrested and extradited a Colombian drug dealer to Germany on the basis of a German arrest warrant.

Corruption. Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs. No cases of drug-related corruption have come to the USG's attention.

Agreements and Treaties. A 1978 extradition treaty and supplement is in force between the U.S. and Germany. Negotiations for a mutual legal assistance treaty (MLAT) between the U.S. and Germany are expected to resume in 2003. There is a customs mutual legal assistance agreement (CMAA) in force between the U.S. and Germany. Germany is party to the 1988 UN Drug Convention. Germany signed the UN Convention Against Transnational Organized Crime and its protocols in December 2000, but ratification is still pending.

Cultivation and Production. Germany is not a country of major hashish/marijuana cultivation or significant production. Although there have been reports of synthetic drug labs operating in Germany (ecstasy and amphetamine), production remains minimal.

Drug Flow/Transit. Germany's central location in Europe and its well-developed infrastructure make it a major transit hub. Traditionally, cocaine and ecstasy transit through Germany eastward and northwards, i.e., from Western Europe to Scandinavia, East and Southern Europe. Heroin transits from Eastern Europe to Western Europe. In 2002, 80 percent of the 2002 Ecstasy seizures in Germany were destined for other countries, namely Canada, the U.S. and Australia. Source countries for drugs seized in Germany continue to be Colombia and the Netherlands. In Germany, the primary source of drugs remain Colombia (cocaine and marijuana), North Africa (hashish), Southwest Asia and Turkey (heroin), and the Netherlands (ecstasy). Other synthetic stimulants, such as amphetamines, are often trafficked from Poland and the Baltic countries.

Domestic Programs/Demand Reduction. The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's drug policies and programs. Drug consumption is treated as a health and social issue. Education is the key preventive measure for Germany. Internet based information and other education programs continue to be developed and expanded. In response to the growing number of drug related deaths among young immigrants, special programs were developed to educate these groups in 2002. DEA participates in outreach programs at local schools, youth organizations, and youth and professional sports clubs.

Drug treatment programs continue to focus on substitution. In 2002, new regulations improved treatment standards and laid the foundation to expand treatment to reach more addicts. About half of the estimated

120,000 opiate addicts are treated with methadone substitutes. About ten thousand opiate addicts went through a drug free treatment program.

In October 2002, the Federal Committee of Medical Doctors introduced new binding regulations for evaluating substitution-based treatment that facilitate access to such treatment and increase the quality of these programs. The Health Ministry has long advocated these changes and fully supports their implementation as vital for survival assistance and rehabilitating addicts. Previous regulations required a secondary disease, such as HIV, for health insurance coverage of substitution-based treatment. The new regulations have removed this precondition. In addition, the first heroin-based treatment pilot project started to offer assistance to seriously ill, long-term opiate addicts in March 2002.

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. Close cooperation to curb money laundering continues between DEA, the Federal Bureau of Investigation (FBI), the Internal Revenue Service (IRS), and the U.S. Customs Service, and their German counterparts. German agencies routinely cooperate with their U.S. counterparts in joint investigations. German U.S. cooperation has led to effective programs (Operation "Purple" and "Topaz") designed to stop diversion of chemical precursors for cocaine production. A DEA liaison officer is assigned to the BKA headquarters in Wiesbaden to facilitate cooperation and joint investigations. Two DEA offices, the Berlin Country Office and the Frankfurt Resident Office, facilitate information exchanges and operational support between German and U.S. drug enforcement agencies.

Road Ahead. The U.S. will continue its cooperation with Germany on all bilateral and international counternarcotics fronts, including the Dublin Group of Countries Coordinating Narcotics Assistance and the UNODC. Completion of an MLAT remains a priority for both the U.S. and Germany and would further improve law enforcement cooperation.

Greece

I. Summary

Greece is a "gateway" country in the transit of illicit drugs. Although Greece is not a major transit country for drugs moving 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 per capita 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 was the first 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 2002

Policy Initiatives. Greece participates in the Southeast European Cooperative Initiative's (SECI) anticrime initiative, in the work of the regional Anti-crime Center in Bucharest and in 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 passed legislation in 2001 which ensures that a convicted drug trafficker will serve 4/5 of the sentence imposed by a court in a criminal trial before he qualifies for release. This legislation tightens loopholes in the Greek justice system, which previously allowed drug offenders to be released after serving little more than half their sentences. The Greek Parliament also passed legislation in 2001 with a good definition of criminal organizations that allows courts to impose 10 year sentences to drug dealers convicted of being members of criminal networks.

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 2001 INCSR. In June 2002, French authorities, working with Greek authorities and DEA, boarded a Greek ship that was attempting to smuggle 2 tons of cocaine to Latin America. Police arrested 18 individuals, including 4 Greek nationals.

In spring 2002 Greek authorities dismantled an operation to smuggle cocaine and hashish from Central America to Europe, seizing 220 kilograms of cocaine and 702 kilograms of hashish. The operation resulted in the arrest of five Greek nationals; more arrests are pending.

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 improved during 2002.

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. 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. A mutual legal assistance treaty (MLAT) between the United States and Greece entered into force in November 2001. 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. Cocaine also transits through Greece to other parts of Europe.

Domestic Programs (Demand Reduction). Drug addiction continues to climb in Greece. The most commonly abused 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 22,000 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 1,146 addicts in six methadone treatment centers, while 2,500 addicts remain on the waiting list for admission. OKANA launched a buprenorphine pilot substitution project in 2001 and has plans to extend it in major public hospitals in the future.

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.

The Road Ahead. The United States will encourage the GOG to continue to participate actively in international organizations such as the Dublin Group of Countries Coordinating Counternarcotics Assistance. The GOG has stated that one of the priorities for its 2003 EU presidency will be the Balkans, including measures to interdict narcotics trafficking in the region. The DEA will continue to organize 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 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 consumption country as well. According to the Hungarian National Police there are an estimated 200,000 drug users in Hungary. Drug abuse shot up in the 90's, and is still increasing, but at a much slower pace. The drugs of choice in Hungary are heroin, marijuana, amphetamine, and ecstasy. Anti-drug legislation passed in late 1998 that went into effect in early 1999 introducing stiff penalties for using and/or selling narcotics has slowed down the growth in drug abuse, but not completely halted it. An amendment to the 1998 legislation presently under discussion would provide greater emphasis on treatment programs, grant judges more flexibility in sentencing, and allow police/prosecutors to differentiate between large scale and small scale drug offenses. At present, drug traffickers may be punished with life imprisonment. Hungary is a party to the 1988 UN Convention; the USG and GOH have a mutual legal assistance treaty (MLAT) and an extradition treaty in force since 1997. A data-sharing memorandum of understanding to further improve U.S.-Hungarian law enforcement cooperation was concluded in January 2000.

II. Status of Country

Hungary continues to be used as a major transit country for illegal narcotics smuggled from Southwest Asia and the Balkans to Western Europe. Hungarian authorities report that narcotic smuggling is especially active across the Romanian and Yugoslav borders. The Hungarian National Police (HNP) reported a significant increase in the amount of cocaine confiscated in 2002 due to a single large seizure. A steady decline in the amount of heroin seized over the last nine years apparently resulted from a change in the heroin trafficking routes. The most popular narcotic among drug users in Hungary is marijuana, followed by amphetamines heroin, and ecstasy.

A key element of the national drug strategy is the creation of the National Drug Prevention Institute (NDPI). The NDPI provides financial and technical support to combat drug abuse to Hungary's outlying regions with populations over 20,000. The NDPI encourages the creation of regional forums composed of local government institutions, law enforcement agencies, schools and non-governmental organizations. These forums then create drug strategies, formulated for their specific regions. Out of 64 regions with populations of over 20,000, 56 have thus far established counternarcotics forums to discuss strategies. As of December 2002 many cities in these regions had also developed their own drug strategies.

III. Country Actions Against Drugs in 2002

Hungarian drug law contains some anomalous provisions, for example, all drug consumers in Hungary, including casual users, are subject to criminal penalties, but addicts may be exempted from prosecution. Hungarian civil rights leaders claim that this provision, among the toughest on users in Europe, is misguided. An amendment to existing counternarcotics legislation, which is expected to go into effect in early 2003, is designed to respond to some of these criticisms. The amendment encourages police/prosecutors/ judges to place drug users in government funded treatment or counseling programs instead of prison. Drug addicts will be encouraged to attend treatment centers while casual users will be directed towards prevention and education programs. The amendment also provides judges with more alternatives and flexibility when sentencing drug users.

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). Eastern Hungary has seen initial steps toward joint border control efforts with Romanian and Ukrainian counterparts, while modern electronic detection equipment provided by the European Union for certain high threat border posts will hopefully improve border interdiction of all types of contraband.

Corruption. The USG is not aware of systematic corruption in Hungary that facilitates narcotics trafficking. The Hungarian Government enforces its laws against corruption aggressively, and takes administrative steps (e.g., re-posting of border guards) to reduce the temptation for corruption whenever it can.

Agreements and Treaties. Hungary is party to the 1961 UN Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 Drug Convention. A treaty on mutual legal assistance and an extradition treaty between the U.S. and Hungary entered into force in 1997. A bilateral data-sharing memorandum of understanding was signed in January 2000. This agreement paved the way for even closer cooperation between U.S. and Hungarian law enforcement agencies.

Illicit Cultivation. GOH authorities claim that marijuana (mostly cultivated in Western Hungary), ecstasy and LSD are locally produced; all other illegal narcotics are imported into Hungary.

Drug Flow/Transit. The Hungarian government believes that primarily foreign groups control transit and sale of narcotics in Hungary, particularly nationals of Albania, Turkey and Nigeria. Many of these traffickers have been resident in Hungary for many years. Ferihegy International Airport in Budapest is becoming an increasingly important stop for the transit of cocaine from South America to Europe. Synthetic drugs are transported into Hungary, usually by car, from the Netherlands and other Western European Countries.

Demand Reduction. 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, if unequal, economic performance. In response to this growing problem, the GOH adopted a national drug strategy on December 5, 2000. The strategy expanded prevention programs. Prevention programs in Hungary were influenced by a USG-financed pilot project to train teachers to identify and counsel students using drugs. Hungarian prevention has focused on the teen/twenties age group delivering more complete information about the dangers of drug use, while emphasizing more productive lifestyles as a way of limiting exposure to drugs and a desire to experiment with them. National drug treatment capabilities have also been expanded.

Although the national drug strategy called for 17 billion HUF (roughly U.S. \$56 million) to be used to implement the plan over a three year period, only HUF 5 billion was actually allotted. The government provided 1.5 billion HUF in 2002 and approximately 2.5 billion HUF was budgeted for 2003. As part of the national drug strategy more than one-third of Hungary's junior high and high schools received drug prevention programs in 2001.

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 small bilateral program developed especially for Hungary by the U.S. Embassy in Budapest. DEA maintains a regional office in Vienna that is accredited to Hungary and works with local and national authorities.

The Road Ahead. The USG supports Hungarian legislative efforts to stiffen criminal penalties for drug offenses, and will continue to support the GOH through training at ILEA and in country programs.

Iceland

I. Summary

Few illegal drugs are produced in Iceland. The exceptions are small amounts of marijuana and amphetamines for domestic use. Icelandic authorities believe that most illegal drugs are smuggled into the country by airline passengers, through the mail or inside commercial containers. While Iceland is not considered to be a major transit point for drugs moving between North America and mainland Europe, in 2001 and 2002 several airline passengers transiting Iceland on their way to the United States were found to be carrying large quantities of illegal drugs. Iceland is a party to the 1988 UN Drug Convention.

II. Status of Country

Due to the harsh climate and lack of arable land, narcotics are rarely produced from plants in Iceland. The exception is marijuana. Authorities believe that home production of marijuana is becoming more common in Reykjavik, and, according to the head of Reykjavik Police Drug Department, the majority of the marijuana sold in Iceland seems to be domestically produced. In 2002 over one thousand marijuana plants were seized. Authorities have also shut down a few amphetamine factories.

The vast majority of illegal drugs found in Iceland originate from outside the country, mainly Denmark and the Netherlands. There have also been individual cases of drugs being brought in from France, Germany, Ireland, and Sweden. Authorities are recognizing a trend of foreigners attempting to smuggle drugs into Iceland. Since January 2001, a total of 23 foreign citizens have been caught smuggling drugs through Keflavik International Airport. This number included eleven Danes, six Germans, and citizens of Britain, France, and Holland. Icelandic authorities are also recognizing a growing threat of drugs originating from Poland and the Baltic States via Western European countries. Officials give varying explanations for this trend. Some believe it is due to a mistaken belief by foreigners that the Schengen system has made it easier to smuggle drugs through member countries.

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, which has an average annual flow of over 85,000 containers, and Keflavik International Airport. For example, as of December 1, 2002, 60 percent of Customs' cannabis seizures were from commercial containers and 38 percent from air passengers.

To compensate for decreased passport controls at the airport, the Icelandic police have received more funding to implement increased surveillance of foreigners inside the country. This additional surveillance has resulted in some discoveries of criminal activity that most likely would not have been noticed before. Customs authorities have also modified their control procedures at the ports of entry to make up for the lack of passport controls. Previously passport control was used to identify suspicious persons entering the country. Now Customs has reorganized and changed its working practices, for example by focusing more on luggage.

Traditionally, Iceland's geographic isolation in the harsh environment of the far 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. In the past there have also been instances of drugs being thrown overboard from ocean-going ships approaching Iceland. These drugs are in sealed containers attached to buoys that are later picked up by accomplices in small boats.

Icelandic experts on domestic drug abuse believe there has been a general decrease in drug usage in the country. A recent survey shows the average number of 16 year olds that has ever tried marijuana has shrunk from 17 percent in 1984 to 11 percent in 2002.

III. Country Actions Against Drugs in 2002

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, spearheaded a national effort against drug abuse in 2002. The Council's primary efforts consist of drug prevention and education programs. Established in January 1999, the Council reached the end of its charter period in 2002 and received mixed reviews. In polls, 86 percent of the population recognized the Council's name, and a majority was generally satisfied with the program's goals and message. However, critics argued that the program was too ambitious and should have been better publicized.

Accomplishments. Thus far in 2002, there has been a decline in the number of drug seizures at Icelandic ports of entry. While it is always difficult to determine if this is due to less trafficking through Iceland or to drug traffickers using more sophisticated methods to beat the system, Icelandic officials say that sources have informed them that traffickers are recognizing Iceland's advances in customs procedures and are seeking less risky transit countries.

In the largest seizure in 2002 at Keflavik, a 58-year old German man, traveling from Hamburg via Copenhagen, was caught attempting to smuggle 1.5 kilograms of cocaine into Iceland. He is currently in custody and awaiting trial. One month before, one kilo of hashish was seized from a German woman who was traveling the same route

The most outstanding drug discovery case of 2001 came to a close in 2002 when an Austrian national was sentenced to 12 years in prison for attempting to smuggle 67,485 ecstasy tablets from Amsterdam to New York. This is the longest sentence for a drug offense in the history of Iceland. The seizure and prosecution reflected Icelandic Customs' policy, in cases not involving controlled deliveries, of seizing any narcotics it knows are being transferred through the Keflavik International Airport rather than merely warning authorities at the final destination.

In one of the biggest cases Iceland has ever seen involving hashish, an Icelandic court sentenced four men to prison for smuggling 30 kilos in a container originating in Denmark. At year's end the court was still reviewing the case of a sailor on a cargo ship who was caught throwing a large amount of drugs into the ocean near Reykjavik harbor.

Law Enforcement Efforts. Throughout 2002 Iceland continued to expand its counternarcotics capability. Many techniques are useful in Iceland's counterterrorism efforts as well. Customs and police at the Keflavik International Airport have been the primary beneficiaries of the advances in technology that are used in counternarcotics efforts. The airport has received a new biometrics system called FACE-IT. The FACE-IT system scans the faces of individuals coming into Iceland and compares them to a database of individuals who are known criminals. Customs officials refer to FACE-IT as being extremely effective in counternarcotics interdiction efforts when used in tandem with other confidential customs procedures. Officials speculate that the intense media interest in the FACE-IT system may be contributing to 2002's decrease in known narcotics trafficking. Furthermore, numerous advanced X-ray machines installed in response to the terrorist attacks of September 11 have also benefited customs officials in screening checked baggage for illegal drugs.

During the past five years the government has more than doubled the number of policemen dealing specifically with the drug problem. Working facilities have improved, technical resources increased and improved, and additional training has been provided, both at the Police College and with the assistance of police officers from the U.S. and Europe. During the past two years the number of search dogs has risen from two to seven. Four more dogs will be added in early 2003. There is an agreement between all police units in Iceland to ensure that the police and customs authorities in all districts of the country will be able

to use the narcotics search dogs whenever necessary. A new phone taping system has also recently been installed for narcotics investigations.

Icelandic customs officials closely cooperate with the Faeroe Islands Police in stopping drug shipments coming to Iceland aboard a ferry that goes from Denmark to Iceland via the Faeroes. Icelandic officials believe this ferry has the potential to be a major drug smuggling route into Iceland.

Corruption. The Icelandic government 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 Government of Iceland is known to engage in, encourage, or facilitate the illicit production or distribution of drugs or other illegal substances, or the laundering of proceeds from illegal drug transactions. Iceland's General Penal Code criminalizes active and passive bribery of public officials. Public corruption with respect to 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.

Reykjavik customs officers are currently only able to inspect less than 20 percent of cargo containers entering the country. To maximize their success rates, customs officials are implementing a new risk analysis system based on experiences from other countries, including the U.S., in cooperation with the World Customs Organization.

Drug Flow/Transit. Icelandic authorities are seeing evidence that Iceland is being used as a transit point for ecstasy going to the U.S. from production centers in Denmark and the Netherlands. In March 2002, three French citizens arriving in New York via Iceland were caught with 201,000 ecstasy tablets. Icelandic officials speculate that Iceland is being used as a transit point because travelers coming from Iceland to the U.S. receive less scrutiny from U.S. customs officials than do travelers coming from traditional European drug centers. Although none has been intercepted this year, Icelandic customs officials suspect that small private planes may be using the same route to transport illegal drugs in order to avoid the same scrutiny.

Domestic Programs (Demand Reduction). The National Alcohol and Drug Abuse Prevention Council's "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.) Now that the National Alcohol and Drug Abuse Prevention Council has reached the end of its charter period, the Minister of Health has proposed a new bill to the parliament that calls for the establishment of a new national treatment center for the promotion of public health. It remains to be seen whether the Council will become a part of the new national treatment center or remain independent and continue in its present role.

In 2002, Reykjavik Customs developed a drug education program featuring a customs officer and a drug dog traveling to schools throughout the Reykjavik area. Over the year, the officer has spoken with over 3,000 teenagers about the harmful effects of drugs, about Icelandic Customs' efforts to stop drug smuggling, and about how customs officers and drug dogs work together to find drugs being smuggled into Iceland.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. experts travel frequently to Iceland to discuss their counternarcotics experience, and Icelandic law enforcement officials visit the United States for professional exchanges. In June 2002, DEA officials traveled to Iceland to coordinate controlled deliveries to the U.S. via Iceland. In

September, Iceland's government hosted a 10-day narcotics seminar that focused on ecstasy smuggling through Iceland. Participants shared information on smuggling techniques, surveillance techniques, and controlled delivery procedures.

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 attaches in Copenhagen, will also work to make the exchanges 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 and is not a transshipment point for narcotics to the United States. Ireland is a party to the 1988 UN Drug Convention. According to the Garda Siochana (the Irish national police), drug use has leveled off in the past two years, following a steady increase over the past decade. The Irish government's National Drug Strategy, introduced in 2001, is in the early stages of implementation.

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 2002

Policy Initiatives. In 2002, the Government of the Republic of Ireland (GOI) began to implement its National Drug Strategy. The Strategy sets out policy targets in the areas of drug supply, abuse education, prevention, treatment, and research. Under this plan, regional drug task forces have been established throughout the country to develop policies that reflect the specific needs of that region.

Another program, "Revitalizing Areas by Planning, Investment, and Development" (RAPID), was also in the early stages of implementation in 2002. RAPID's goal is to provide funds to the most deprived urban areas for programs in health, youth development, employment, counternarcotics measures, and policing.

Accomplishments. Law enforcement services in Ireland made several major drug seizures during 2002, including the largest seizure of cannabis on record in July. Over six tons, almost half the total of cannabis seized in all of 2001, was seized at Dublin Airport, with an estimated street value of 15 million Euros.

Law Enforcement Efforts. The Garda Siochana continued their close cooperation with other national police forces throughout 2002. Garda liaison offices were established in Paris, London, the Hague and Madrid to assist in greater international cooperation. In August of 2002, the Garda National Drugs Unit assisted in two significant seizures of cocaine being transported in Belgium via an Irish-registered truck, as a part of an investigation into major drug gangs operating from a base in the Netherlands.

The Garda continued to target both small time street-level suppliers as well as larger dealers in 2002, resulting in 443 drug-related arrests according to their 2001 annual report. Of all the drugs seized by the Garda, cannabis was involved in 68 percent of the cases, while heroin was involved in 9 percent. Ecstasy cases accounted for 16 percent of the total, and cocaine accounted for three percent. The vast majority (80 percent) of drug-related arrests was for possession, rather than for supply and distribution.

Corruption. There were no verifiable instances of police or other official corruption related to drug activities in 2002.

Agreements and Treaties. The United States and Ireland signed a mutual legal assistance treaty (MLAT) in January 2001, to which the U.S. Senate gave its advice and consent to ratification on November 14, 2002. An extradition treaty between Ireland and the United States is currently in force.

The British-Irish Council (established under the Good Friday Agreement in April 1998) held a ministerial-level meeting in March 2002 to continue development of a framework for counternarcotics cooperation.

A series of recommendations were agreed upon to enhance cooperation on asset seizures, rehabilitation and reintegration of drug abusers, education and awareness campaigns, and community-based counternarcotics programs. A follow-on ministerial will be held in 2003.

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, neither of which are in force internationally.

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. According to Garda officials, the cocaine comes primarily from Colombia and other countries in Latin America and the Caribbean. Cannabis and amphetamine shipments originate in the Netherlands, eastern European countries, and South Africa. Ecstasy largely originates from the Netherlands, but there are also shipments coming from Poland. Heroin also arrives via the Netherlands and the United Kingdom. Throughout 2002, the Garda continued to work on destroying narcotics networks within the country. There is no evidence that Ireland is being used as a significant transshipment point for narcotics being sent to the United States.

Domestic Programs (Demand Reduction). Per the United Nation's 2002 Global Illicit Trends Report, an estimated 9.4 percent of Irish citizens use cannabis at least once a year. An estimated 2.4 percent and 2.6 percent use speed and Ecstasy, respectively, and 0.3 percent consumed opiates such as heroin. While only 1.3 percent of Irish citizens use cocaine, Garda officials note that cocaine use has increased the most in all age demographics.

By year's end, the Government was close to meeting its 2002 National Drug Strategy target of making available 6,500 drug treatment centers nationwide, with 6,290 centers already opened. 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. In addition to 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 continued close counternarcotics cooperation throughout 2002, to include 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, the United States will continue its cooperative efforts with Irish officials to support Ireland's counternarcotics programs.

Italy

I. Summary

Italy is a consumer country and a major transit point for heroin coming from the Middle East and southwest Asia through the Balkans en route to western and central Europe. Heroin transiting Italy does reach the United States, but not in significant amounts. Counternarcotics efforts are complicated by heavy involvement of domestic and Italy-based foreign organized crime groups in international drug trafficking. Italian and ethnic Albanian criminal organizations work together to funnel drugs to and through Italy. The GOI is firmly committed to the fight against drug trafficking in-country and internationally via multilateral fora. Italian law enforcement agencies are capable and effective. The Berlusconi Government is continuing its strong counternarcotics positions. GOI cooperation with U.S. law enforcement agencies continues to be exemplary, a contributing factor to the increase in GOI seizures of heroin, cocaine, and Ecstasy (MDMA) in 2002.

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 a criminal offense, but drug traffickers are subject to stringent penalties. Law enforcement agencies with a counternarcotics mandate are extremely professional. Although Italy produces some precursor chemicals, they are well controlled in accordance with international norms and not known to have been widely diverted to illicit uses.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Italy continues to combat narcotics aggressively and effectively. Prime Minister Berlusconi has made counternarcotics a higher priority than ever before, although the GOI's focus is more on prevention, improved treatment, and rehabilitation than increasing criminalization. In November 2001, Berlusconi appointed Italy's first-ever drug czar, Prefect Pietro Soggiu. Soggiu, a former director general of the financial police (Guardia dI Finanza) and of the inter-agency counternarcotics services directorate (DCSA), was a strong choice for the position. At the same time, a national department for counternarcotics policies was established under Soggiu. This department coordinates all of Italy's efforts against drugs, both supply reduction and demand reduction, and is responsible for proposing a new omnibus drug law to counter drugs in Italy by year end 2004.

On the multilateral level, Italy contributes more (U.S. \$11.6 million in 2002) than any other country to the Vienna-based United Nations Office of Drug Control and Crime Prevention (UNODC). An Italian, Antonio Costa, directs the UNODC.

Law Enforcement Efforts. The fight against drugs is a major priority of each of the three services coordinated by the DCSA: the national 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. These often overlap with Italy's traditional organized crime groups (e.g. the Sicilian Mafia and the Puglia-based Sacra Corona Unita). Other priority traffickers are Albanian and Russian organized crime groups, which 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 seizure/forfeiture laws help insure the effectiveness of these efforts.

Following is a compilation of the most outstanding counternarcotics accomplishments of Italian law enforcement in the year 2002:

- In February, 279 kilograms of cocaine packaged in a containerized shipment from South America were seized at the port of Naples. Also in February, the financial police in Verbania seized 160,000 tablets of Ecstasy, which subsequently led to the arrest of three U.S. citizens. Information indicated that the Ecstasy was destined for New York via Greece
- In April, Italian authorities arrested 11 individuals working for an Albanian and Italian heroin trafficking organization. Investigations had targeted Albanian, Italian, and U.S. organized crime organizations. In December, a second wave of arrests occurred that resulted in the capture of an additional forty-two persons working for the organization.
- In April, the financial police seized 191 kilograms of heroin in Milan from a Germanorigin truck. Three foreign nationals were arrested.
- Also in April, 25 kilograms of cocaine were seized by Italian customs agents. The cocaine arrived via two pieces of luggage from Caracas, Venezuela via France.
- In August, the financial police assisted DEA Rome with the arrest of a DEA fugitive from Israel. The fugitive had been indicted in a significant DEA ecstasy investigation in Florida. Coordination between DEA Rome, DOJ Rome, the financial police, and the relevant Italian magistrate was excellent.
- In September, the Italian customs service assisted with the arrest of a fugitive wanted by the DEA Honolulu office for narcotics conspiracy.
- In October, the financial police seized 40 kilograms of heroin from a truck in Trieste. The Albanian driver of the vehicle was arrested.
- In December, 100 kilograms of cocaine were seized in Genoa by the Carabinieri. The cocaine was on board a vessel that transited Mexico. Four Italian nationals were arrested.

Corruption. As a matter of government policy, Italy does not encourage or facilitate the illicit distribution of narcotics or the laundering of proceeds from illegal drug transactions. No senior official of the GOI 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. Corruption exists only among bit players and has not compromised investigations. When a corrupt law enforcement officer has been discovered, authorities have taken appropriate action.

Agreements and Treaties. Italy is a party to the 1961 UN Convention and its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances. It is also party to the 1988 UN Drug Convention. Italy has signed, but not yet ratified, the UN Convention Against Transnational Organized Crime, which is still being examined by the Justice Ministry. The U.S. and Italy have an extradition treaty and a mutual legal assistance treaty under which each cooperates in law enforcement matters.

Cultivation/Production. There is no known coca bush cultivation in Italy. However, opium poppy grows naturally in the southern part of Italy, including Sicily. This strain of opium is not commercially viable due to the low alkaloid content.

Drug Flow/Transit. Italy is a consumer country and a major transit point for heroin coming from the Middle East and Southwest Asia through the Balkans en route to western and central Europe. Heroin transiting Italy does not reach the United States in significant quantities. Albanian heroin traffickers work with Italian criminal organizations as transporters and suppliers of drugs. Cocaine, destined for Italian and other European consumption, originates with Colombian and (more recently) Mexican criminal groups.

Italy is increasingly attuned to the flow of drugs into the country. During 2002, seizures of heroin, cocaine, and Ecstasy increased significantly, while those of cannabis and hashish 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, 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 kilo quantities from Morocco and Lebanon.

Domestic Programs. The Italian Ministry of Health funds 556 public health offices operated at the regional level while private non-profit NGOs operate another 1,430 "Social Communities" for drug rehabilitation. Of the 500,000 estimated drug addicts in Italy, 145,000 receive services at public agencies and 15,000 are served by the generally smaller private centers. The Berlusconi government passed a decree law in 2002 allowing an addict to enter a Social Community directly without first having to pass through a public health office. The FY 2003 budget for experimental programs run by the health, education, and labor ministries was cut by 35 percent to U.S. \$9 million as a result of a government-wide effort to reduce spending. A major GOI-sponsored counternarcotics information campaign was undertaken in 2002.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. works closely with Italy to target organized crime groups and narcotics traffickers with an impact on the U.S.

The Road Ahead. U.S. and Italy will continue to enjoy exemplary cooperation regarding counternarcotics efforts. U.S. and Italian law enforcement authorities will carry out numerous joint operations against drug traffickers, money launderers, and organized crime.

Kazakhstan

I. Summary

Kazakhstan continues to be an important transit corridor for drugs being transported to Russia and Western Europe. The Chairman of the Justice Ministry Committee on Combating Drug Addiction and Drug Dealing estimates that approximately one-third of Afghanistan's near-record ca. 3000 metric tons drug harvest (UNODC Estimate) will transit Kazakhstan this year. In addition, reports suggest that Kazakhstan has also become a transit country for illegal drugs going to Europe from China and other parts of Eurasia. Local drug use continues to increase, but local crime associated with drug use seems to have stabilized. Kazakhstan is taking steps to control drug abuse within its own borders. Endemic corruption at all levels of government complicates efforts to improve national controls over drug trafficking. Kazakhstan became a party to the 1988 UN Drug Convention in 1997.

II. Status of Country

Although vast fields of wild marijuana and ephedra, along with some local production of opium, show that Kazakhstan could become a major producer of illicit drugs, evidence continues to suggest that local production is limited mostly to in-country use, with some smuggling into Russia. Drugs transiting Kazakhstan impact Russia and Europe, not the U.S. After last year's destruction of three drug laboratories, no further production labs have been found. Weak legal controls have, however, reportedly led to an increase in the production and illicit trade in precursor chemicals.

III. Country Actions Against Drugs in 2002

Kazakhstan is in the second year of its five-year plan against drug trafficking and use. This year, the government's Security Council met throughout the year to plan ways to combat drug trafficking and revise the country's counternarcotics structures. A Commission on Counteracting Drug Addiction and Drug Trafficking was established on November 10, bringing together representatives from 13 disparate counternarcotics agencies at the national, regional and local level. This is an important first step towards a united national counternarcotics effort. In addition, Kazakhstan announced plans for the formation of a single Central Asia anti-narcotics information center under the aegis of EU's Central Asia Drugs Action Plan (CADA) program. The government also recently announced a U.S. \$70 million-dollar joint venture with a German firm to convert 20,000 hectares of wild marijuana in the southern Chui Valley to the commercial production of hemp. As part of its effort to gain control over its borders and improve border and customs controls, Kazakhstan continues to delimit disputed border areas with its neighbors.

In March, Russia and Kazakhstan agreed to set up a "cordon sanitaire" along their common border in order to stop the flow of drugs from Afghanistan. Each country will allocate U.S. \$2 million to the project. In April, Kazakhstan and Russia signed an agreement to allow the unobstructed flow of legally traded goods across their common border. The agreement includes provisions to exchange information on contraband. In May, the Law on Medical and Social Rehabilitation of Drug Addicts was passed, establishing drug rehabilitation centers, and counternarcotics programs in prisons and public schools. Also in May, the Law on Trafficking in Drugs, Psychotropic Substances and Precursors was amended to make it more effective.

As a result of the first meeting of the Kazakhstan-sponsored Conference on Interaction and Confidence Building Measures in Asia (CICA) in June, seventeen nations signed the "Almaty Act," pledging cooperation in the fight against terrorism, illicit arms trade and drug trafficking. July saw Kazakhstan introduce a ban on sending narcotics, psychotropic drugs and precursor chemicals through the mail and, a new customs code was adopted in November, simplifying customs procedures and eliminating various by-

laws that had been a pretext for corruption. In September, President Nazarbayev asked the Security Council to explore the possibility of decriminalizing the use and possession of certain light narcotic drugs, using the Netherlands as a model.

Kazakhstan also works closely with UNODC, which maintains a small office in Astana. UNODC has approval to begin a project on strengthening drug control and training capacities in Kazakhstan.

Law Enforcement Efforts. According to official figures, in the first nine months of 2002, a total of 42 metric tons of narcotics-related contraband were seized, of which 27 tons were precursor chemicals. Most of these seizures (40 metric tons) were made by the police (the Ministry of the Interior). Broken down by drug, the seizures amount to 10 metric tons of marijuana, 87 kilograms of heroin, 79 kilograms of opium, 70 kilograms of hashish and 55 grams of cocaine. All of these numbers, except for opium, are higher than last year. The drop in opium seizures may be due to the fact that, according to police a higher share of opiates is moving as heroin. Heroin is only a tenth of the volume of opium, and sells for a much higher price.

In 2001, nearly 18,000 drug-related arrests were made, leading to 12,000 prosecutions. In the first nine months of 2002, 10,000 drug-related arrests were made, leading to slightly fewer than 7,000 prosecutions.

There were some notable arrests and police actions during the year. In 2002, the Committee for National Security broke up three unrelated criminal gangs consisting of Iranians, Kazakhs and Georgians, respectively. Police seized a total of 14 kilograms of heroin, mostly intended for sale in Russia. In Karaganda Oblast, a local traffic policeman was arrested with 10 kilograms of heroin; in Kustanay Oblast, a woman was arrested for possession of 225 kilograms of marijuana, with a street value of U.S. \$20-30,000. In July, the Traffic Police in Astana arrested two women traveling from Bishkek, Kyrgyzstan to Yekatarinburg, Russia, with two kilos of heroin worth U.S. \$80,000. There were two major police operations during the year. Operation Law and Order, running from 22-28 April, resulted in 176 arrests and the seizure of 300 kilograms of illicit drugs. Operation Poppy 2002, running from May 15 to October 15, resulted in the seizure of 11 tons of narcotics-related contraband. The Agency for Customs Control, previously part of the Ministry of State Revenues, became an independent body in August.

Corruption. Corruption of all types, including cases related to narcotics trafficking, remains endemic at all levels of government. According to the Prosecutor General's Office, in the first half of 2002 more than 2000 civil servants, including seven senior officials, were disciplined for illegal activities and more than U.S. \$32 million was returned to the national treasury. Criminal charges were brought against 340 government employees, including the seven senior officials. In 2001, approximately 50 judges were removed from office for official malfeasance. As of August, an additional 20 judges had been removed for the same reason. By September, the Ministry of the Interior (responsible for the national police force) had brought criminal charges against 70 of its employees.

The Agency for Customs Control is prone to corruption. An investigation of the agency's central office in Astana revealed that nearly half of its 246 staff officers were guilty of abuse of office. In Kazakhstan as a whole, 80 criminal cases were brought against customs officers, 41 were fired for abuse of office and 721 officers were disciplined during the first nine months of 2002. Among the various charges brought against officers of all agencies is the selling of confiscated narcotics.

Government officials have spoken out on the need to take the problem of corruption seriously and taken some steps to address it. In April, the President established a commission to study the problem of government corruption and recommend changes in legislation. The Minister of the Interior has vowed to purge all corrupt officers from the ranks of the police and he said he will dismiss senior police officials even for tolerating corruption among subordinates. Heads of other agencies are likewise intent on prosecuting corruption within the ranks of their own agencies. Until the extremely low salaries at the lower ranks are raised further, however, it is unlikely that pervasive petty corruption can be eliminated (some here speak of "survival-based corruption"). This low level corruption is a major reason the borders of Kazakhstan remain porous.

Agreements and Treaties. U.S.-Kazakh law enforcement and legal cooperation is good and improving. After lengthy negotiations, the GOK and USG signed a Letter of Agreement which will allow enhanced cooperation on law enforcement training between the two countries.

Kazakhstan is a party to the 1988 UN Drug Convention. The Kazakhstan national counternarcotics law, passed in 1998, specifically gives the provisions of international counternarcotics agreements precedent over national law. The GOK also has numerous cooperative agreements throughout the region governing mutual issues of border control, cooperation in fighting narcotics trafficking, controlled deliveries, etc. Since March, the GOK has signed two agreements with Russia affecting border control and drug trafficking between the two countries.

Cultivation and Production. Marijuana and ephedra grow wild on about 1.2 million hectares of southern Kazakhstan, with the largest single location being the 130,000 hectares of wild marijuana in Chui Valley. In theory, the Chiu Valley alone could supply 150 thousand metric tons of marijuana or 6,000 metric tons of hashish each year. The GOK plans to convert 20,000 hectares of the Chui Valley marijuana crop—increasing to 50,000 hectares by 2005—to commercial hemp production as part of a U.S. \$70 million joint venture with a German firm. In the first nine months of 2002, the Prosecutor General's Office identified 284 cases of illicit cultivation of opium poppies, marijuana and ephedra and 497 cases of cultivation of wild marijuana. Most of this is small-time production for local use and sale. The largest opium field discovered, for example, contained 2,000 poppy plants covering 36 square meters.

Drug Flow/Transit. Despite its efforts, Kazakhstan continues to be an important transit country, especially for drugs coming out of Afghanistan and, increasingly, for drugs coming out of China and other parts of Asia. A large share of Afghanistan's opium crop transits Kazakhstan on its way to markets further west. Drug routes change constantly, but the two current main transport corridors are Afghanistan-Turkmenistan-Uzbekistan-Kazakhstan-Russia-Europe, and Afghanistan-Tajikistan-Kyrgystan-Kazakhstan-Russia-Europe. Drug couriers tend to follow main road and rail routes. Due to a weak maritime tradition, lack of proper equipment and training, and legal defects that prevent the Border Guard Service (the Kazakhstani equivalent of the U.S. Border Patrol and Coast Guard), from making arrests, Kazakhstan's main port on the Caspian Sea has become a transit point for drugs. Illicit drugs are increasingly being transported north by boat through Kazakhstan's coastal waters.

Domestic Demand. There are approximately 250,000 drug addicts in Kazakhstan, about 1.7 percent of the population. After a rapid increase in the 1990's, the increase in numbers of addicts seems to have slowed and is expected to stabilize at about 280,000.

The government recognizes the seriousness of the problem and in May passed a Law on Medical and Social Rehabilitation of Drug Addicts. This act establishes drug treatment centers, as well as counternarcotics programs in prisons and schools. The GOK also allows NGOs to operate counternarcotics programs freely throughout the country.

IV. U.S. Policy Initiatives and Programs

This year the USG placed its first Regional narcotics officer in the U.S. Embassy at Almaty to establish and coordinate counternarcotics activities throughout Central Asia. The officer is working with the GOK, EU, international agencies, NGOs, and agencies of the USG to strengthen Kazakhstan's control over its porous southern border and to enhance customs and border operations at the country's main Caspian Sea port. Narcotics officers in Kazakhstan and Russia cooperate to enhance Russian-Kazakhstani efforts to control narcotics traffic across their mutual border. State Department narcotics assistance finances counternarcotics training and funds the Regional Legal Advisor (RLA) in Kazakhstan. The RLA will concentrate his efforts on legal training and reform related to counternarcotics and money laundering. The Central Asian Security Initiative/Export Border Security (CASI/EXBS) Advisor continues to cooperate closely with the narcotics officer, as do FBI's two legal attaches.

Bilateral relations between the U.S. and Kazakhstan continue to be good. The GOK provides law-enforcement related information requested by the U.S., including information regarding suspected drug traffickers. U.S. anti-terrorism assistance clearly has some counternarcotics spin-offs. During 2002, U.S. Customs provided weapons of mass destruction (WMD) border interdiction, laboratory analysis and investigation seminars together with delivery of specialized detection equipment.

The Road Ahead. Kazakhstan is trying hard to end its status as a narcotics transit country. To that end, it continues to strengthen its borders, refine its laws and cooperate with the international community. Corruption, lack of resources and training, and a weak infrastructure remain problems, but current trends are encouraging.

The U.S. will continue to cooperate with the GOK and to concentrate its regional counternarcotics efforts here. Kazakhstan is the most economically developed of the Central Asian republics; it is also likely to be the only Central Asian country with the financial resources to seriously fight the narcotics trafficking that plagues the region. Kazakhstan's size and position in relationship to Afghanistan and Europe continue to make it a major drug transiting country.

Kyrgyz Republic

I. Summary

The Kyrgyz Republic produces almost no illicit narcotics or precursor chemicals, but is a major transit country for drugs originating in Afghanistan and destined for Russian, Western European and American markets. During the calendar year 2002, the Government of the Kyrgyz Republic (GOKG) attempted, with limited resources, to combat drug trafficking and locate and prosecute offenders. The GOKG has been supportive of international and regional efforts to limit drug trafficking and has begun major initiatives to address its own domestic drug use problems. The GOKG recognizes that the drug trade is a serious threat to its own stability and is continuing efforts to focus on secondary and tertiary drug-related issues such as money laundering, drug-related street crime, , and corruption within its own government ranks. Drug abuse is a continuing and escalating problem that has placed a burden on law enforcement and the health care industry. The Ministry of Health reports that over ninety percent of known HIV and AIDS cases are related to intravenous drug use.

Public confidence is eroding concerning the GOKG's capability to address important concerns of its citizens such as unemployment, unpaid salaries, inadequate health care, and rising crime. The result has been public apathy towards government initiatives such as counternarcotics programs, toleration of government corruption, and a growing dependency on a shadow economy that includes drug trafficking, street sales, and usage. While the GOKG has been a supporter of counternarcotics programs, it is still struggling to deliver a clear and consistent counternarcotics strategy to either the Kyrgyz people or the international community. The State Commission for Drug Control has been fighting a losing battle against drug trafficking, particularly in the city of Osh, where drug trafficking has become a growing source of income and employment. The GOKG hopes that a proposed Drug Control Agency, a counternarcotics agency sponsored by the USG and managed by UNODC, will be a new beginning in the Kyrgyz Republic's efforts to minimize drug trafficking. In 1994, the GOKG became a party to the 1988 UN Drug Convention.

II. Status of Country

The Kyrgyz Republic shares a common border with China, Kazakhstan, Uzbekistan, and Tajikistan. Mountainous terrain, poor road conditions, and an inhospitable climate for much of the year make detection and apprehension of drug traffickers difficult. Border stations located on mountain passes on the Chinese and Tajik borders are snow covered and uninhabited for up to four months per year. These isolated passes are some of the most heavily used routes for drug traffickers. Government outpost and interdiction forces rarely have electricity, running water, or modern amenities to support their counternarcotics efforts.

The Kyrgyz Republic is one of the poorest successor states of the former Soviet Union, relying on a crumbling infrastructure and suffering from a lack of natural resources or significant industry. Unlike some of its Central Asian neighbors, the Kyrgyz Republic does not have a productive oil industry or significant energy reserves. The south and southwest regions—the Osh and Batken districts—are primary trafficking routes used for drug shipments from Afghanistan. The city of Osh, in particular, is the main passage point for road and air traffic and primary transfer point for narcotics into Uzbekistan and Kazakhstan and on to markets in Russia, Western Europe and the United States. The Kyrgyz Republic is not a producer of narcotics. However, cannabis, ephedra, and poppy grow wild in many areas.

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 agreement encouraged by the UN.

The Kyrgyz Republic has signed bilateral and multilateral agreements concerning narcotics control with all CIS countries as well as Pakistan, Germany, Austria, China, Iran, Bulgaria, and the Czech Republic.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The GOKG has instituted various national programs and legislation to combat drug trafficking and drug abuse. Article 309, passed on July 12, 1993, created a national program to combat drug abuse and illicit drug trafficking. Other programs passed into Kyrgyz law include Article 293, passed on June 2001, "for a national program on combating drug abuse and illicit drug trafficking for 2001-2003." As a part of President Akayev's counternarcotics abuse education initiative, the GOKG, with financial assistance from the United Nations Office of Drugs and Crime (UNODC) and other international donors, has produced a number of counternarcotics public announcements broadcast over local television. The most comprehensive was a program entitled "Drugs, Truth, and Lies." In addition, last year's publicized slogan, "Into the 21st Century Without Drugs," was seen on billboards and in other media. A privately funded association named "Kyrgyzstan Without Drugs" also focuses on demand reduction initiatives.

On June 25, 2001, the GOKG adopted a new state program on combating drug abuse and illicit drug trafficking. While this move did not result in any substantive policy changes, it created an open forum for communication on drug-related issues including crime prevention, health care, legal affairs, and financial concerns. This comprehensive program includes the efforts of the Ministries of the Interior, Education, Agriculture, Justice, the State Drug Control Agency, National Security Service, State Customs, and the General Procurator's Office.

Drug Flow/Transit. The GOKG and the State Commission for Drug Control (SCDC) have identified four separate routes for drug trafficking: the Kyzyl-Art route across the southernmost part of the Kyrgyz Republic and onward to Osh and the Ferghana valley and Uzbekistan; the Batken Route stretching to the far western and most remote areas bordering Tajikistan and Uzbekistan; the Altyn-Mazar route that follows a similar path into the Ferghana; and a fourth route overlapping some of these routes and beginning in the city of Khojand on the Tajik border. All of these routes originate somewhere on the 1000-kilometer Tajik border and consist of footpaths, minor roads, and only a few major thoroughfares. The GOKG estimates that there may be over 100 different paths smugglers use to move narcotics and contraband across Kyrgyz borders.

Street values of heroin and opium domestically have remained relatively stable over the last year, according to SCDC statistics. In January 2002, a kilogram of heroin could be purchased in Bishkek for approximately U.S. \$5,000. A July report by the MVD (Interior Ministry Police) claims that similar prices existed in July 2002. However, a SCDC official also claimed that street prices in Osh have shown a steady decline over the last five years indicating a burgeoning market. In 1997, a kilogram of heroin cost U.S. \$10,000, twice that of today's prices. According to MVD data, a single dose of heroin is available for 40-50 Som (U.S. \$1). Street prices reportedly do not vary significantly among the major cities in the Kyrgyz Republic.

Law Enforcement Efforts. The GOKG's State Commission for Drug Control has existed since 1993, but has only 16 staff members. The SCDC estimates that, based on its own internal reporting and seizures, nearly 3000 kilograms of heroin, and 5000 of opium, pass through the Kyrgyz Republic, only 5-6 percent of which is ever seized. In 2000, the SCDC claimed that nearly ten percent of narcotics were seized. The difference, according to SCDC and MVD, can be attributed to drug traffickers ability to change tactics after a series of setbacks caused by Operation Enduring Freedom operations in Afghanistan. Drug traffickers have since refined their efforts to conceal and transport narcotics, reportedly using women and children as mules to pass through border stations known not to have female inspectors.

The SCDC has had difficulty gathering information and controlling resources in some of the remote regions, particularly in the Osh district. The SCDC openly admits that some Kyrgyz officials are involved in the drug trade, including members of the MVD, and SNB (National Security Service—successor to the Soviet-era KGB). In January 2001, a SNB officer was tried and convicted, along with his associates, after being arrested for heroin possession with the intent of sale. The Osh region remains an unwieldy and volatile drug trafficking region that the SCDC has declared a high priority target of its counternarcotics efforts.

The GOKG, citing a lack of financial and personnel resources, is attempting to address these issues by authorizing a new drug control agency, a US-funded, UNODC-sponsored agency that would mirror a similar agency in Tajikistan. During 2002 the SCDC was in the midst of negotiations to create this drug control agency modeled after the USG Drug Enforcement Agency (DEA). The chief of the current SCDC, Kurmanbek Kubatbekov, will oversee this project. This new 297-man agency will draw upon other Kyrgyz law enforcement agencies for personnel and leadership. The DCA will also support two special units, one in Bishkek and the other in Osh, designed as a quick-reaction squad to respond to cross-border activities and emergency situations. The Drug Control Agency will have a direct advisory role to President Akayev.

Domestic Demand. The Kyrgyz Republic's National Narcological Center lists 5043 registered drug abusers but estimates the actual number of drug abusers is likely to be 10-15 times that amount. The Ministry of the Interior (MVD) has reported that heroin smuggling has increased ten-fold in the last five years. Arrests and prosecutions related to drug trafficking have increased in the first six months of 2002 in comparison the same time period in 2001. In the first half of 2002, 1480 drug-related crimes were reported, a 10 percent increase from 2001.

IV. U.S. Policy Initiatives and Programs

In December 2001, the GOKG and the U.S. Embassy in Bishkek, on behalf of the State Department's Bureau of International Narcotics and Law Enforcement (INL), signed a Letter of Agreement (LOA) to construct a Model Customs Post in the village of Kyzyl-Art on the Tajik border. This U.S. \$250,000 project will seek to serve as a model which can be replicated for efforts to counter the narcotics traffic on what has been identified as one of the busiest drug-trafficking routes. Construction will begin in the spring of 2003. When completed, this post will be equipped with modern detection equipment and manned on a 24-hour basis. U.S. anti-terrorism assistance clearly has some counternarcotics spin-offs. During 2002, U.S. Customs provided weapons of mass destruction (WMD) border interdiction, laboratory analysis and investigation seminars together with delivery of specialized detection equipment.

The Road Ahead. The USG will continue to work with the GOKG and UNODC to create the proposed drug control agency and work to reduce corruption and foster transparency in the GOKG's struggle against drug trafficking and its effects. Post will closely monitor the progress of the model customs post in Kyzyl-Art and work with other USG agencies to provide appropriate training opportunities for Kyrgyz law enforcement personnel.

Latvia

I. Summary

Heroin, amphetamines and cannabis are the drugs of choice in Latvia. Deteriorating quality in the heroin available in Latvia seems to have accelerated a shift towards increased abuse of amphetamine and cannabis. Latvia is a party to the 1988 UN Drug Convention.

II. Status of Country

The quantity and quality of heroin available in Latvia has seemed to deteriorate as a result of events in Afghanistan. Both the Taliban poppy ban and subsequent military action disrupted established trafficking networks leading to a sharp decline in the quality of heroin being sold to drug abusers on Latvia's streets. Heroin samples from recent seizures have had a heroin concentration of 20 percent to 30 percent, down from the average 80 percent pure heroin available in Latvia since 1998. Analyses of seized samples of "low quality" heroin reveal that they were produced in Central Asia and Afghanistan. It appears that heroin "wholesalers" have reacted to the disruptions in their supply chain, by cutting the heroin available for retail distribution in Latvia to stretch out the supply available.

Low quality heroin has encouraged addicts to try other drugs of abuse, namely amphetamines and cannabis and different psychotropic substances. ANREN, a research division of the Ministry of Welfare, finds in one of its studies a 17 percent increase from last year in cannabis usage; an unspecified increase in synthetic drugs 2001 to 2002; but a decrease in the use of opiates by 42 percent, over 2001.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The increase in drug seizures and decrease in direct drug-related crime apprehensions in Latvia this year is partly due to greater police targeting of wholesale drug operations—usually carried out by established Organized Crime (OC) groups as opposed to targeting local distributors. Fewer apprehensions might actually matter more as "bigger fish" have been arrested. But the decrease in drug-related crime apprehensions is also due to changes in distributor selling tactics and methods, making activity in the illicit drug market more difficult for drug enforcement to follow.

Law Enforcement Efforts. Heroin seizures in the first half of 2002 increased dramatically from the same period in 2001; seizures rose from 270 grams (ca. one-half pound) to 4.75 kilos (10.7 lbs.). Two major cases accounting for 83.4 percent of total heroin seizures in 2002 involved railway cargo and individual cross-border drug trafficking. Seizures of amphetamine and Ecstasy tablets also increased dramatically from 2001 to 2002. Of total Ecstasy seizures in 2002, 87 percent involved trafficking across international borders.

Arrests in heroin cases accounted for 41 percent of all drug-related arrest cases in 2002, down from 59 percent in 2001; while amphetamine-related arrests' share in total drug arrests rose to 30 percent, up from 9 percent in 2001. The share of cannabis-related drug arrests remained unchanged at 22 percent of all drug-related arrests.

Corruption. Latvian authorities are very aware of the problem of corruption and are focused on doing everything they can to bring about improvements. The USG has no evidence of drug-related corruption at senior levels of the Latvian government.

Agreements and Treaties. Latvia is a party to the 1988 UN Drug Convention, and the other UN drug conventions. 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.

Cultivation/Production. Drug production is not a significant problem in Latvia, though potential does exist for manufacture or cultivation of certain drugs.

Drug Flow/Transit. Narcotic substances are frequently smuggled into Latvia via Poland, principally by train, bus, truck and car. Secret compartments inside gas tanks, or built-in compartments underneath car floors, car trunks, doors, and inside engines are common hiding methods that have made inspection more difficult. Individual couriers traveling by land frequently conceal drugs in baggage or within their bodies. Amphetamine are trafficked from the Netherlands, Poland, and Estonia, often using posted parcels. Heroin is primarily trafficked via Russia. Drugs tend to be transshipped through Latvian seaports; drugs destined for Latvia itself rarely arrive at seaports.

Heroin is sold at "retail" in public places such as parks, at the city center, or more secretly in private apartments. Selling tactics and methods constantly change. Larger dealers use intermediaries to limit the clients' contact with the dealer. Amphetamine are mainly distributed at gambling places and other places of youth entertainment such as nightclubs, discotheques and raves. According to police and NGO sources, much of the cannabis trade is carried out by persons of Roma (Gypsy) origin. Distribution is often a family business and an essential source of income. Other members or close relatives of the family continue the business if one family member is detained or prosecuted. Stable organized crime groups also engage in both wholesale and, in some cases, retail trade.

Latvia is not a significant producer of precursor chemicals. It has, however, served as a transshipment point. In May of 2002 two Latvian nationals were arrested and 2,100 tons of safflower oil (legally used for fragrance and flavoring, but also used for amphetamine production), and worth up to 12 million Lats, were seized as the safflower oil was being transported from Karlshamn in Sweden to the Latvian port of Liepaja.

Domestic Programs/Demand Reduction. Despite the decreasing trend in the heroin addict population, opiates remain the drug of choice in Latvia. The NGO Center for Drug Abuse found that opiate addicts accounted for 61 percent of total registered addicts. The retail price increase of heroin at the end of 2001 from 5 to 8 Lats per 0.1 gram, has held fairly constant into 2002. Retail prices of 3 to 7 Lats per 0.1 gram dose prevailed in 2002, and early 2003. (One Lat equals approximately U.S. \$1.62.)

The decrease in heroin supply and the concomitant decline in heroin abuse have led to a decrease in intravenous-drug related HIV infections. In 2002, the number of new, shared needle usage-related HIV positive findings decreased by 57 percent from new cases registered during 2001. Though HIV transmission from needle usage is decreasing, it continues to account for the largest single reason for HIV positives. Of the total number of state-registered HIV cases in 2002, 75 percent were related to intravenous-drug users; down only modestly from 79 percent in 2001 and 80 percent in 2000. HIV infection is most prevalent among youth. 70 percent of all HIV positives occur in individuals under age 30.

IV. U.S. Policy Initiatives and Programs

U.S. Policy and Bilateral Cooperation. The United States has registered 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 terminus on a major transit route for heroin from Asia to Western Europe. Synthetic narcotics are produced in Lithuania for local use and also trafficked to neighboring countries. Heroin, synthetic drugs, and cannabis are the drugs of choice in Lithuania, but psychotropic drugs are becoming popular. Narcotics abuse is increasing, but narcotics related crimes have declined recently. The Government has improved counternarcotics trafficking and abuse measures at secondary schools, a response to the growing demand for drugs by Lithuanian urban youth.

II. Status of Country

In 2002, heroin, synthetic drugs, and cannabis continued to be the drugs of choice in Lithuania, but poppy straw is also still popular. Hashish is not abused to any great extent in Lithuania. Synthetic psychotropic drugs (e.g. GHB) are also becoming popular. The minimum price of a heroin dose (significantly "cut" by the addition of inert ingredients) declined from U.S. \$5 in 2001 to U.S. \$2 in 2002. The abuse of liquid heroin for intravenous injections appears to be on the up-swing. Poppy straw is popular in the countryside and is smuggled to the Kaliningrad district of Russia. In early 2001, the police estimated that the Lithuanian narcotics market was worth U.S. \$75 million. Since then, both drug use and the impact of organized crime groups engaged in the drug business have expanded in Lithuania.

The police estimate that over 30,000 out of Lithuania's 3.5 million inhabitants (1ess than 1 percent) have tried drugs. In 2001 (latest figures available), there were 4,087 drug addicts registered at health care institutions (including 96 children and teenagers), 566 drug addicts more than in 2000. Eighteen percent of all the registered drug addicts were women and 82 percent were men. More than 90 percent of them lived in cities, with the highest numbers in Visaginas, Vilnius, and Klaipeda. More than 75 percent of all drug addicts are less than 35 years old. Over 90 percent of heroin addicts in Lithuania inject, and two thirds of HIV-positive persons are intravenous drug users. By the end of December 2002, 735 registered HIV-infected persons lived in Lithuania; however, the real number of HIV positive persons may be several times larger. Hepatitis C infection among intravenous drug users is also common.

In an effort to expand the illicit market for drugs, narcotics traders continued targeting secondary schools. In response, the Government took a series of measures in 2002 to improve security around schools. 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 from 10 to 13 years of age. It is estimated that two percent of schoolchildren use drugs regularly and 15 percent of 15-16 year old schoolchildren took drugs at least once during their lives. The schoolchildren mostly use cannabis, tranquilizers, and inhalants (glue). Increasing proportions of young people try heroin first. The use of cannabis, Ecstasy, LSD, and amphetamine (frequently together with alcohol) unfortunately is considered an integral part of the alternative youth sub-culture, and even gradually leads to the use of stronger narcotics (viz., heroin). As a result, Lithuania is rapidly catching up to western countries in overall drug use, production and distribution.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In January 2002, the Government approved a strategy for the prevention of drug trafficking aligned with the EU counternarcotics action plan for 2000-2004. The plan especially aims at tightening control of synthetic drugs and their precursors, preventing heroin smuggling, and narcotics-related money laundering.

Experts note rapidly rising public awareness of the hazards caused by narcotics. Government agencies and NGOs initiated a series of public awareness campaigns throughout 2002. In April 2002, the Health Ministry established the National Drug Information Focal Point at the State Public Health Service, cofunded by the EU, which collects, analyzes, and evaluates information on narcotics abuse trends.

Law Enforcement Efforts. From 1992-2001, the number of narcotics-related crimes quadrupled in size. However, in 2002, Lithuanian law enforcement authorities reported a 10 percent decrease in narcotics-related crimes as the total number of convicted of criminal offenses also declined by more than 10 percent. The number of individuals detained in connection with crime did not change significantly. The budget allocation of the Lithuanian counternarcotics enforcement system is on an up-swing, but the funding is still inadequate. EU countries sponsored numerous training exercises for Lithuanian law enforcement personnel. From 2000-2001, the police shut down seven well-equipped laboratories that were producing amphetamine, Ecstasy, and precursor chemicals.

In 2002, the Customs initiated 14 narcotics related criminal cases (eight in 2001). The largest seizure of narcotics by the Customs was two kilograms of heroin. In 2002, the Customs Department established the Drug Control Division and increased its staff from five to 26 (including 15 officers working with drugdetecting dogs). In 2002, the Government eliminated some loopholes in the counternarcotics legislation (e.g. on dual use drugs, precursors) and continued aligning the laws with EU norms. Total seizures in 2002 were: Poppy straw and poppy straw extract—333 kilograms; heroin—5.4 kilograms; synthetics—4.6 kilograms plus 1400 tablets; and cocaine—1.3 kilograms.

Corruption. The U.S. has no evidence of any high-level 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 heroin and synthetics, have been growing in importance. Heroin and cocaine are imported, but a significant portion of synthetic drugs and cannabis are produced locally.

Drug Flow/Transit. Poppy straw is transported from Lithuania to Kaliningrad. Cannabis and hashish arrive in Lithuania by land and sea, to a significant extent from Morocco. Heroin comes to Lithuania by the "Silk Road" (Afghanistan, Pakistan, Tajikistan, Uzbekistan, Kazakhstan, Russia, Belarus—Lithuania) or the Balkan Route (via the Balkans and Central or Western Europe). From Lithuania, heroin is transported to Scandinavian countries (by ferries or cars), Poland, and Kaliningrad. Cocaine is transported to Lithuania from Central and South America via Germany, the Netherlands, and Belgium. Amphetamine arrives in Lithuania from Poland and the Netherlands, but amphetamines are increasingly being produced locally—both for domestic use and for export to Scandinavia. Lithuanian organized crime groups participate in trafficking narcotics to Western Europe from Lithuania and Central and South America. Cannabis is imported from the Netherlands, Russia, Belarus, Spain, as well as from African countries. However, most cannabis that is available in the illegal domestic market is produced locally.

An increasing number of Lithuanian citizens have become drug traffickers. In 2002, 113 Lithuanian citizens were apprehended abroad while trafficking amphetamine, cocaine, heroin, cannabis, and pills, mostly in Germany (36), Sweden (24), Norway (23), but also in Latin America (15), and one in the United States. The total number of Lithuanian citizens apprehended for trafficking abroad in 2001 and 2000 are 68 and 62, respectively.

In January 2002, with assistance from Lithuania, the police in Belgium confiscated 250,000 Ecstasy pills. In June 2002, the Spanish police detained two Lithuanian nationals transporting 1.3 tons of hashish. In December 2002, Swedish Customs confiscated 150,000 tablets of tranquilizer Rohypnol and up to 10,000 Ecstasy pills in a truck on a ferry from Lithuania. In October 2002, the Lithuanian State Security Department (secret service) reported that in 2001, in cooperation with other countries, it broke 7 organized crime groups trafficking in narcotics and arrested Lithuanian, Afghan, and Yemeni nationals involved in large-scale drug trafficking.

Domestic Programs (Demand Reduction). Narcotics addicts have had an entitlement to government-provided confidential healthcare and social services since 1997. Access to anonymous consultation and needle/syringe exchange has slowed the spread of HIV infections in Lithuania. In 2002, the government operated five national narcotics abuse treatment centers (also providing two-month detoxification treatment) attached to the Psychological Health Center. Ten (10) regional Public Health Centers with local outlets work to prevent the use of drugs, especially in schools. There is an active AIDS Center with its own rehabilitation center and several divisions throughout Lithuania. The national Health Development Center is involved in education, and the Center of Extreme Health Situations is involved in drug use prevention in prisons. The Government also supports counternarcotics projects carried out by NGOs. The GOL provided several hundred "Social Tutor" positions in schools, and introduced drug tests for schoolchildren (with parental consent). Since 2001, the police have operated a confidential phone line to collect information about the distribution of narcotics, and the national AIDS Center operates a toll-free phone line as well.

Methadone treatment programs have operated in major cities since 1995, with more than 4,000 people receiving treatment in 2002. However, the efficiency of the 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 continues among those leaving correctional institutions. In mid-2002, there was an outbreak of HIV in one of the maximum security prisons, after which the Government allocated an extra U.S. \$900,000 to prevent the spread of narcotics and AIDS. More than half of all criminal cases initiated against the inmates were related to the illegal possession of and trade in drugs.

The Defense Ministry, assisted by the USG, has a program to reduce drug use among conscripts, some 10 percent of whom, on average, have used drugs (mostly amphetamines).

Treaties and Agreements. Lithuania 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. A bilateral extradition treaty ratified by Lithuania on February 13, 2002 and by the U.S. on January 17, 2003 will be in force upon the exchange of instruments of ratification. A bilateral mutual legal assistance treaty with the U.S. has been in force since 1999. Lithuania signed the UN Convention Against Transnational Organized Crime in December 2000.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. supports 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, and donated specialized equipment to the Lithuanian Customs.

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 counternarcotics efforts.

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, although it is located along a southern variant of the Balkan Route, used to ship Southwest Asian heroin to the West European consumer market. Drug seizures in 2002 declined slightly in number, and to a greater extent in quantity of drugs seized, from 2000-2001. In that period police made record high seizures. Law enforcement officials attribute the fall to less effective enforcement during a period when they did not have complete control over their borders. Macedonia suffered an internal conflict in 2001, and during 2002 police were only beginning to return to and effectively police former conflict areas. The conflict created more porous borders with Kosovo, southern Serbia, and Albania. Trafficking to and from Kosovo remained high in 2002, following an increase that began in 2000, indicating the province's sustained importance as a market and as a transit point. Kosovar criminal gang activity in Macedonia increased in 2002 as well, according to law enforcement officials. Local police efforts to combat trafficking have benefited from international assistance, and appear focused and effective despite many challenges. Generally increasing drug seizures in recent years likely reflect both increased professionalism in the police force and increased trafficking. The political will does not exist to seriously address drug-trafficking and its effects in Macedonia, and needed legislation is likely to languish, again, as it has for the past several years. Macedonia is a party to the 1988 UN Drug Convention.

II. Status of the 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 cannot compete with the higher quality, lower priced Albanian product. Macedonia is not known to produce precursor chemicals, and its law enforcement officials strictly control entrance of possible precursors at its borders. Cocaine does not transit Macedonia in significant quantities.

III. Country Actions Against Drugs in 2002

Policy Initiatives. A committee of ministers and deputy ministers responsible for creating and implementing counternarcotics strategy exists on paper. This commission, formally headed by the Prime Minister, has been rendered ineffective by constant political change that has robbed it of 80 percent of its initial membership and, more generally, by a lack of political will. New appointees must be approved by the government, and in the wake of the tumultuous political climate that resulted from the 2001 conflict, and in the run-up to September 2002 parliamentary elections, no new members were appointed. The remaining working-level members of the commission have lobbied the new government that came into power in fall 2002 to reinvigorate the commission, but the government's main focus is on restoring stability and it has, to date, taken no action on the commission.

A draft law on control of precursors, narcotics, and psychotropic substances that would bring Macedonian law into compliance with UNODC and EU standards was drafted in the late 1990s but has yet to be put forward for passage by parliament.

A draft "Action Plan for Fighting Drug Abuse in Macedonia 2002-2006," meant to bring government counternarcotics programs and laws into accordance with EU standards, has been circulating through the government since 1999, but has not received attention due to other pressing concerns. Funds from the EU to assist in counternarcotics efforts for the most part were not dispersed in 2001 and 2002 due to the security situation, but the EU resumed work in mid-2002 to assess Macedonia's counternarcotics needs.

The Ministry of Interior's (MoI's) department for counternarcotics trafficking was refocused under the auspices of a UNODC-PHARE program in 1999 and the MoI established an operation analysis branch of four officers. Activated in 2001, the unit remained understaffed until early 2002 and only then began to operate at a functional level. In the future, the MoI plans to establish five regional operational analysis branches. The counternarcotics department maintains a good and active relationship with Interpol and the Southeast European Cooperative Initiative (SECI) Regional Crime Center in Bucharest.

Accomplishments. Macedonian counternarcotics officials, along with their regional counterparts, continue to receive training and support from UNODC-PHARE that encourages close regional cooperation and the advancement of professional networks throughout the Balkans. UNODC also operates a program that continues to strengthen the MoI's capacity for intelligence-driven law enforcement. Macedonian police worked with neighbor-country officials on several successful controlled deliveries in 2002.

Law Enforcement Efforts. Anti-narcotics police have benefited from U.S., EU, and UNODC training and support and are focused and effective, despite a high turnover rate among their political-appointee chiefs in the MoI. The election of a new government in September 2002 led to the ouster of a political appointee as head of all organized crime police and the installment of a career officer in that post. The counternarcotics unit continued to operate professionally.

Drug seizures in 2002 decreased by about ten percent over the previous year's total and even more substantially in the quantity of drugs seized. This followed two years of record high seizures. The decreases probably reflected the additional challenges posed to police following the 2001 local insurgency, including a lack of police presence in former conflict areas in Macedonia through the first half of 2002, and a continuing struggle to reassert real control over former crisis areas. Anti-narcotic police clearly understand the need to focus on major traffickers and their primarily ethnic Albanian organizations. They had difficulty doing so in 2002 due to an insufficient number of ethnic Albanian police and the unwillingness of potential ethnic Albanian informants to work with ethnically different counternarcotics police. Law enforcement officials were hampered by the lack of a law to protect potential informants.

In 2002, police arrested members of eight heroin trafficking organizations, three hashish trafficking groups, and one major trafficker of synthetic drugs, bringing charges against 224 persons. 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. A constitutional amendment and a law permitting wiretapping under certain circumstances have been drafted and need to be passed.

Corruption. The GoM does not encourage or facilitate illicit production or distribution of narcotics, or narcotics-related money laundering. The USG has no evidence that any senior official engages in or facilitates illicit narcotics production or distribution or related money laundering. Nevertheless, 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. Anti-corruption legislation drafted with technical assistance from the World Bank was adopted in 2002, however, and the new government that came into power post-September won in part due to its anti-corruption platform.

Agreements and Treaties. Macedonia is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs as amended by the 1972 protocol, and the 1971 Convention on Psychotropic Substances. A 1902 extradition treaty between the U.S. and the Kingdom of Serbia, which applies to Macedonia as a successor state, governs extradition between Macedonia and the United States. Macedonia has signed the UN Convention Against Transnational Organized Crime and its protocols in 2000, but has not yet ratified them.

Illicit 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 strictly controlled. 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 in south-eastern Macedonia.

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. Police report that Kosovo is increasingly used as a transit center for heroin and its precursors and that Kosovar Albanian heroin traffickers increased their activities in Macedonia. Macedonia's 2001 insurgency weakened already insufficient law enforcement efforts along the borders with Kosovo, southern Serbia, and Albania; police returned to former conflict areas in northwest Macedonia by mid-2002 but still had inadequate resources to devote to anti-trafficking in these regions by the end of 2002.

Police report that more than 90 percent of large-scale traffickers arrested in Macedonia are ethnic Albanian. The gangs use heavy trucks, vans, buses, and cars laden with at least five to ten kilos on each trip. Local officials say that the quality of heroin produced in Turkey is rising, while the price is decreasing in the Macedonian market.

Seizures of hashish and marijuana from Albania remained constant in 2002. 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 kilos via airmail or courier through one of Macedonia's two airports. The average price of a kilo of cocaine in Macedonia is between U.S. \$20,000-U.S. \$30,000.

Trafficking in synthetics remains limited in Macedonia but is increasing, as illustrated by the spring 2002 seizure of a single shipment of 18,000 synthetic (captagon) pills. Officials are aware that because production is simple and costs are low Macedonia is vulnerable to synthetics. Most synthetic drugs aimed at the Macedonian market originate in Bulgaria and arrive hidden in small amounts in vehicles. They generally fetch the equivalent of U.S. \$6 per pill in Macedonia.

Domestic Programs (Demand Reduction). Macedonian statistics regarding drug abuse and addiction are unreliable. Most registered drug abusers use marijuana. A lesser, but still substantial number, use heroin, and far fewer have tried other drugs. While police believe heroin abuse is rising, health care officials believe that it peaked in the early 1990s and has remained fairly constant since. Heroin remains Macedonia's biggest drug problem. Cocaine and synthetics abuse is very modest but use of ecstasy is rising, according to healthcare officials.

Macedonia's healthcare and social welfare systems are woefully unprepared to deal with the effects of drug abuse and dependence. 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 demand reduction activities are severally limited. A few 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 307 registered heroin addicts each day. The clinic is presently closed to new patients until its capacity can be expanded. Methadone diversion from treatment centers to the streets is high, according to health care officials. Health care units lack expensive medicines to treat drug overdoses. Evidence indicates that overdoses are officially underreported and may amount to up to 150 non-lethal overdoses per year, according to health care workers. 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 pretrial 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

A non-resident DEA Country Attaché based in Thessaloniki has been accredited to Macedonia since 1997. DEA officers work closely with the Macedonian police and provide coordination support for regional counternarcotics efforts. U.S. Customs officials provide technical advice and assistance to the Macedonian customs through the auspices of SECI.

Road Ahead. Because of Macedonia's porous borders and the growing strength of regional, especially ethnic Albanian, narcotics trafficking gangs, Macedonia is likely to face an increased transit of illegal drugs. The U.S. will continue to encourage the police to keep improving regional efforts at tracking large narcotics traffickers and refining their analytical capabilities to prosecute them. The United States will continue to encourage reform of the criminal code, which is a remnant of the Yugoslav system and contains only two very limited sections dealing with narcotics trafficking.

Malta

I. Summary

Malta is a minor player in the worldwide drug trade. Drug trafficking and consumption in Malta are confined to small (but growing) amounts of heroin, cocaine, and MDMA (Ecstasy). Malta is a party to the 1988 United Nations Drug Convention. Malta's current laws and criminal code are in harmony with the goals and objectives of the Convention. Malta's criminal code was updated this year to make conspiracy to commit a crime a major offense. This new law was used in one case to prosecute nineteen people for drug trafficking. The large number of defendants in this case demonstrated the success of the conspiracy law.

Malta's recently created National Drug Intelligence Unit (NDIU) and Special Assistant Commissioner of Police in charge of drug matters have worked to improve coordination and communications among all agencies involved in combating dangerous drugs.

II. Status of Country.

Malta's role in the production, processing, and shipment of narcotics and other controlled substances is minimal. Local police speak with confidence (and from experience) when claiming that Malta's small population makes unwanted trends easy to detect and deter. The only illicit cultivation detected in recent years was a small number of marijuana plants, which have since been eradicated.

III. Country Actions Against Drugs in 2002

Law Enforcement Efforts. The GOM is increasingly concerned over individual narcotics abuse, which is on a steady increase. Authorities also worry about limited-scale (but increasing) local drug trafficking. The drug problem in Malta generally is limited to the sale and use of consumer quantities of illegal drugs. As a result, drug law enforcement in Malta is targeted at street sales. The Police, Customs, and the Armed Forces routinely attempt to interrupt these activities.

Police and Customs also profile and target suspect passengers transiting the airport. Maltese authorities also attempt to prevent the movement of drugs through the sea terminal. Successful monitoring of drugs moving through the Free Port is a difficult task given the high volume of containers. However, authorities have shown they can act decisively when notified by foreign law enforcement authorities of transshipment attempts. There were seizures of 4.5 kilograms of cocaine in 2002, and 625 grams of heroin.

Corruption. There has been a perception among the Maltese public that members of society's elite were "untouchable". Even if this were in fact the case at one time, the perception was shattered this year when the country's Chief Justice and two fellow judges were arraigned on corruption charges for taking bribes from inmates convicted on drug charges. Investigative agencies were able to use newly granted authorities for wiretapping to identify the judges accepting bribes form individuals seeking to win a reduced sentence on appeal of drug convictions. U.S. Customs provided an Integrity/Anti-Corruption seminar aimed at helping Malta develop agency anti-corruption plans, create internal agency controls and develop case studies.

Agreements and Treaties. An extradition agreement between the United Kingdom (Malta's former colonial power) and the United States, signed in 1934 and applicable to Malta as of 1935 remains in force, and has been used in the past to effect extraditions to the U.S. The most recent example involved the 1998 extradition of a Maltese national charged with financial crime. The government of Malta (GOM) and the U.S. are currently negotiating a new bilateral extradition treaty, a Mutual Legal Assistance Treaty, and a Maritime Counter-Narcotics Cooperation Agreement. The USG hopes to finalize all three of these accords in 2003. 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.

Illicit 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. Container shipping activity at Malta's large Free Port has the potential for use by narcotics traffickers as a platform for drug movements through the country. This situation should improve early next year when USG provided container-scanning equipment is installed and operational at Malta's Free Port. This equipment will provide Maltese inspectors with a valuable method to detect illicit transshipments including illegal drugs.

Malta has the fourth largest ship registry in the world. Therefore, Malta may feature prominently in future ship interdiction scenarios. Malta is a favored transit point between North Africa and Europe, and visitors from several African countries are the main source for the importation of heroin. Several key traffickers from Libya were recently arrested and jailed.

Domestic Programs (Demand Reduction). A government-funded agency, SEDQA, deals with all treatment/prevention aspects of drug and alcohol abuse. The agency runs awareness and drug education programs in the school system similar to the DARE program in the United States. SEDQA also organizes programs for parents at the agency's headquarters. SEDQA regularly produces commercials on drug awareness and education issues for local television. In addition, CARITAS (a Catholic Church-funded agency) is active in community outreach programs and counseling services related to drug issues. Police officials work closely with Church officials and as a matter of routine will refer arrestees to CARITAS for rehabilitation and counseling services.

A 1999 survey of Malta's population found 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.

In an effort to reduce demand for MDMA and similar drugs among Malta's youth, police maintain a program of 100 percent search for all participants entering "rave parties." Police feel that this effort has been very successful in deterring the use of these types of "party drugs."

IV. U.S. Policy Initiatives and Programs.

The Federal Aviation Administration (FAA), U.S. Customs, and the U.S. Coast Guard have all recently provided training in Malta. In 2001, a U.S. Customs Regional (Malta and Cyprus) Export Control Advisor was established in Valetta. In 2002 the U.S. Customs provided suspicious container identification and monitoring training and also sponsored anti-corruption and integrity training attended by officials from several different GOM enforcement agencies. In 2000, a Defense Attaché's Office was opened at the Embassy in Valetta. Last Year, the Defense Attaché (DATT) sponsored U.S. Coast Guard maritime search and seizure training to the Armed Forces of Malta Maritime Squadron. This year the DATT hosted a U.S. Coast Guard training team that provided Post Security and Cargo Control training. The FAA sponsored a seminar on dangerous cargo and investigative techniques to various GOM agencies and airport personnel.

The U.S. Congress allocated U.S. \$5 Million to procure container-scanning equipment for use at Malta's Free Port. Although the primary purpose for this equipment was to combat the possible shipment of weapons of mass destruction through Malta's Free Port, the equipment will also be able to detect and deter container traffic being used by narcotics traffickers. U.S. Customs also conducted a transshipment workshop to help Maltese officials target and interdict transshipped WMD/dual-use materials in conjunction with the delivery of specialized detection equipment.

Road Ahead. The USG can anticipate continued cooperation from the Maltese authorities in tackling narcotics problems.

Moldova

I. Summary

In 2002, Moldova reorganized narcotics enforcement in an effort to focus efforts, and improve results. The number of law enforcement personnel within the Drug Enforcement Unit dropped slightly as a result of the re-organization. While the quantity of illicit drugs seized in 2002 is roughly similar to that in 2001, the number of criminal proceedings increased substantially as a result of revisions to the criminal code. Accurate statistics on the extent of drug abuse are difficult to obtain in Moldova, as only 'registered users' are included in government data. That said, the MOI claims that domestic drug abuse increased by approximately 35 percent last year. During 2002, the United States funded a training course specifically related to narcotics investigations and funded visits by several groups of Moldovan prosecutors, judges, and legislators to learn enhanced prosecutorial, judicial, and legislative techniques directed at combating corruption, money laundering, and organized crime. Moldova is a party to the 1988 UN Drug Convention.

II. Status of Country

Moldova is an agriculturally rich nation with a climate that is favorable for cultivating marijuana and opium poppy. Annual domestic production of marijuana is estimated at several thousand kilograms, with authorities destroying 3,196 kilograms of cannabis plants and 3,635 kilograms of poppy plants through November 2002. The indigenous market for locally produced narcotics remains small, largely confined to production areas or neighboring countries. The importation of synthetic drugs is reportedly on the rise, particularly with regard to Romanian groups that have reportedly begun locating production laboratories for both amphetamines and ecstasy within Moldova. Domestic drug traffickers remain closely connected with organized crime elements in neighboring countries, whose involvement in Moldova includes not only narcotics trafficking but trafficking in women as well. Seizures of all drugs are on the increase. Moldova is not an important factor in the production of any precursor chemicals.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Despite severe material and resource constraints, Moldova strives to fulfill all obligations under the 1988 UN Drug Convention and other UN drug agreements to which it is a party. Moldova continues to refine its criminal code, including sections detailing narcotics offenses. In 2002, the penalties for trafficking rose to a maximum of 25 years in prison, while ancillary amendments now permit Moldovan authorities to charge and bring to justice those not directly involved but who aid and/or abet narcotics traffickers. As a result of the reorganization creating the Center for Combating Economic Crimes and Corruption (CCECC), the Drug Enforcement Unit now contains a total of 117 officers nationwide, with 96 serving around the country supported by 21 individuals in headquarters and support units. All of these personnel are dedicated exclusively to counternarcotics activity. Moldova also continues to pursue, with U.S. support, improvements in border control that should lead to a decrease in the flow of illicit goods, including narcotics.

Accomplishments. Despite the lack of even the most rudimentary equipment such as vehicles, counternarcotics units did their best against traffickers and illicit substance cultivators.

Law Enforcement Efforts. Moldovan authorities initiated over 2,331 drug related cases in the first 11 months of 2002, as compared to 1,912 cases during the same timeframe in 2001. This year, 1,509 kilos of poppy straw, and 17 kilos of opium were seized, as opposed to 1,682 kilos of poppy straw and 17 kilos of opium in 2001. Total arrests through November 2002 reached 1,408, including 29 foreigners. In addition, seven clandestine labs producing morphine base were located and destroyed in 2002, a decrease from the

15 labs destroyed in 2001 (13 producing morphine base and two producing ephedrine). With evidence suggesting that transit countries historically become user countries, Moldova will need to invest significant resources into education, border enhancement, and law enforcement initiatives if it hopes to stem the steady growth of its user population.

Corruption. The Center for Combating Economic Crimes and Corruption was created earlier this year at the behest of President Voronin. This Center, independent from the MOI, is authorized to investigate all allegations of corruption, including those related to narcotics. The Government of Moldova, as a matter of policy, does not encourage or facilitate the production or distribution of drugs or launder proceeds from illegal drug transactions. Neither do any senior officials, to the USG's knowledge. U.S. Customs delivered an integrity awareness/anti-corruption seminar during 2002, to include assistance with formulating agency anti-corruption plans, case studies and internal controls.

Agreements and Treaties. Moldova is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as well as its 1972 Protocol. Moldova also has bilateral agreements with the Ukraine (1992), Turkey (1994), and Hungary (1997) related to cooperation against narcotics activity, terrorism, and organized crime. Moldova is also party to a 2000 agreement among members of the CIS to fight illicit trafficking in narcotics, psychotropic substances, and their precursors.

Drug Flow/Transit. Seizures over the past 11 months continue to indicate that Moldova remains primarily a transshipment country for narcotics. While historically viewed as an avenue for narcotics moving from Central Asia to Europe (westward) and for precursor chemicals moving eastward, recent arrests of Moldovans in Western Europe and Russia indicate that refined narcotics are now moving to the east as well.

Domestic Programs. Treatment for Moldova's 6,940 officially registered addicts remains an option only for the wealthiest of offenders. Financial constraints and deteriorated facilities restrict rehabilitation and treatment efforts by the Moldovan government. NGO's have traditionally provided some limited funding for counternarcotics information and education campaigns.

IV. U.S. Policy Initiatives and Programs

The USG's counternarcotics program in Moldova includes training initiatives designed to improve the abilities of police to investigate and infiltrate organized crime and narcotics syndicates, and perhaps some investigative and life-safety equipment to various segments of the MOI, including the Drug Enforcement Unit. Other programs focus on customs and border improvement programs aimed at strengthening Moldovan border controls, thus reducing the flow of illegal goods through Moldova. Previously funded forensic equipment is now ready for delivery and should advance investigators' abilities to analyze and present narcotics-related evidence at trial.

Road Ahead. Moldova is located in a "bad neighborhood"; drug trafficking through Moldova, and drug abuse among its citizens presents a real threat. The U.S. will try to assist Moldova's own efforts by continuing to provide training in Moldova itself and at ILEA Budapest.

Netherlands

I. Summary

Despite intensified efforts by the Dutch government to combat production of and trafficking in narcotic drugs, the Netherlands continues to be a major transit point for drugs entering Europe, an important producer and exporter of amphetamines and synthetic drugs, notably MDMA ("Ecstasy"), and an important consumer of most illicit drugs. In 2001 (latest available figures), the inter-agency law enforcement Synthetic Drugs Unit (USD) listed a total of 678 seizures of Dutch-related synthetic drugs, of which 20 percent took place in the Netherlands and 80 percent in other countries. The volume of Dutch-manufactured MDMA (Ecstasy) smuggled to the U.S. during 2002 continued to be alarmingly high. Law enforcement information indicates that the Netherlands is by far the most significant source country for Ecstasy in the United States.

There were several promising political and operational developments in 2002 that may lead to progress against Ecstasy in 2003. The government of Prime Minister Balkenende, which took office in June 2002, is implementing new counternarcotics programs, building on the previous government's five-year strategy (2002-2006) against production, trade and consumption of synthetic drugs. A nationwide network of five special Ecstasy police teams became operational in 2002. Government export controls for dual-use synthetic drugs have been intensified, and the special Schiphol airport team of customs and military police officers has been expanded. Special measures have been taken to fight cocaine trafficking by couriers through Amsterdam's Schiphol Airport. There is close Dutch-U.S. cooperation on joint counternarcotics operations in the Caribbean. In December 2002, the government submitted a plan to the parliament to establish a centralized criminal investigative service—a "Dutch FBI"—with international joint efforts against narcotics trafficking as its lead mission.

Dutch popular attitudes toward soft drugs (such as cannabis) remain tolerant to the point of indifference. Government and NGO education efforts on the dangers of Ecstasy made some headway in 2002. The Dutch government and public view domestic drug use as a public health issue first and a law enforcement issue second. According to the 2002 National Drug Monitor, overall drug use has gone up since 1997. However, the number of opiate addicts, estimated at between 26,000-30,000, remained stable and low compared to other EU countries. 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 container port 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 an attractive location for criminals to obtain or produce precursor chemicals used to manufacture illicit drugs.

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 trafficking takes place on an organized scale, another one-third of the sentence is added (16 years). However, in practice it is rare for courts to impose maximum sentences, and it is typical to serve only two-thirds of a sentence, meaning that the maximum time served would be 11 years, even for the head of a major trafficking organization. Sales of small amounts (under five grams) of cannabis products are "tolerated" in "coffeeshops" operating under regulated conditions (no minors on premises, no alcohol

sales, no hard drug sales, no advertising, and no "public nuisance"). One of the aims of this controversial policy is to separate the markets for soft and hard drugs so that soft drug users are less likely to come into contact with hard drugs. Another goal—perhaps 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 2002

Policy Initiatives. The new Dutch coalition government, which was formed in July 2002, announced plans to fight the production of and trafficking in drugs more severely. The coalition accord covering the government's intentions for the next four years, included proposals for a stricter enforcement of the rules for "coffeeshops," higher sentences for repeat offenders, a ban on on-the-spot testing of Ecstasy pills at rave parties, and a ban on the further expansion of an experiment in which heroin is distributed under medical supervision to a limited group of hard-core addicts. The government plans to establish a national criminal investigation department to "enhance efficiency and effectiveness of criminal investigations". The new department, which is to become operational in the Spring of 2003, will combine the current six central police teams, the national criminal investigation team, the Synthetic Drugs Unit (USD), the Trafficking in People Unit, and the five Ecstasy teams. Top priority will be given to international cooperation in the fight against organized crime, in particular the production of and trafficking in synthetic drugs.

Cocaine Couriers. In January 2002, the Justice Ministry announced a major offensive against drug smuggling via Schiphol Airport from the points of origin in the Netherlands Antilles and Aruba. The plan (estimated costs some U.S. \$50 million per year) includes intensified controls at airports, an expansion of the capacity of customs, military police, the public prosecutor's department, courts and prisons. In September, the Ministry noted that, since early 2002, more than 1,300 drug couriers had been arrested at Schiphol, and security officials had recommended to carriers that another 3,000 suspected couriers be denied boarding during pre-flight controls at Schiphol and Curacao. Justice Minister Donner noted that this had put a heavy burden on the Dutch judiciary, forcing him to take new measures that would put the burden of prosecution and incarceration on the originating state. One of these measures was the immediate repatriation of foreign drug mules caught with small quantities of drugs. Prior to this change, drug couriers were simply given a summons to appear in court at a later date (with little expectation that any would actually present themselves at court).

During a parliamentary hearing in October, the Schiphol airport police reported that approximately 25,000 drug couriers arrive at the airport per year, of whom about one-third are "bolita" swallowers. Although only 10 percent are arrested, the public prosecutor's office responsible for Schiphol said that it had been forced to dismiss thousands of "normal" criminal cases in recent years due to the overwhelming number of drug offenses. This "disproportionate" burden on the entire Dutch judiciary chain has led to calls for a "fundamental debate about law enforcement priorities." Justice Minister Donner, however, does not intend to change his policy toward drug couriers, believing that a softer line on couriers would encourage even more trafficking.

Ecstasy Offensive. In May 2001, the government published a special five-year (2002-2006) action plan against production, trade, and consumption of synthetic drugs. The current government which assumed office in June 2002 has continued and built upon this strategy. According to the Health Ministry's "Progress Report on Drug Policy" of October 2002, the following measures are being or have been implemented in 2002:—Five special police Ecstasy teams (total manpower: 90) have become operational in the course of the year. They conduct criminal investigations and respond to legal assistance requests. Capacity of the national Unit Synthetic Drugs (USD), the public prosecutor's office and the judiciary has been expanded to handle more cases;

The USD and the prosecutor's office want to strengthen cooperation with countries
playing an important role in Ecstasy trade. The USD will organize international training

courses for foreign law enforcement departments. This initiative is supported by the European Commission.

- Efforts to seize Ecstasy in the Netherlands before export have been intensified. The
 special Schiphol team of customs and military police has been expanded. Customs
 Schiphol will receive an additional scanning machine to check outgoing parcels, and
 Schiphol, Eindhoven and Rotterdam airports will receive extra drug dogs;
- Controls on dual-use chemical precursors have been stepped up through increased manpower with the Economic Control Service (ECD), and improvement of operations by the ECD and the Fiscal Information and Investigation Service (FIOD);
- The risks of Ecstasy use are being assessed by the Leiden University Medical Center on the basis of national and international research. Studies about the neurotoxicity of Ecstasy are also underway.

Cannabis. The sharp decline in the number of coffeeshops between 1997 and 2000 (from 1,179 to 813) leveled off in 2001 to 805, of which about 50 percent are located in the Netherlands' four largest cities. According to the 2002 National Drug Monitor, some 73 percent of the 504 municipalities in the Netherlands do not tolerate any shops at all.

The Drug Monitor shows that the number of recent (last-month) cannabis users in the Dutch population over the period 1997-2000 rose from some 326,000 to 408,000, or 3 percent of the Dutch population of 12 years and older (of a total population of 16 million). The largest increase is reported among adolescents aged 20-24, while use among the 12-15 year-old age group remained limited and hardly changed from 1997. Lifetime prevalence (ever used) of cannabis among the population of 12 years and older rose from 15.6 percent in 1997 to 17 percent in 2001. The average age of recent cannabis users is 28 years. The THC content in Dutch-grown hemp "Nederwiet" stood at 10.3 percent in September 2001, from 11.3 percent in 2000. Controls on illegal home cultivation of "Nederwiet" have been stepped up.

Enforced Treatment. As of April 2001, criminal drug addicts who are repeat offenders can be sent to special drug-offender 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 and rehabilitated. The preliminary results of the experiment, which will be evaluated in 2003, appear to be positive. Currently, there are about 126 participants in the program.

Measures Against Other "Club" Drugs. In October 2002, the Health Minister placed GHB, in the Netherlands called a "rape" drug, on list 2 (listing "soft" drugs) of the Dutch Opium Act, making it an illegal narcotic drug. Previously, GHB had been a legal anaesthetic falling under the Medicine Act. Possession of GHB will henceforward be punishable. The Dutch government also placed 4-MTA and PMMA on list 1 ("hard" drugs) of the Opium List.

The Dutch "Ecstasy Offensive" includes an action plan to encourage prevention education, monitoring and research of "club" drugs. The Coordination Point Assessment and Monitoring of New Drugs (CAM) researches the risks of new drugs and reports results to the European Monitoring Center for Drugs and Drug Addiction (EMCDDA). The Drug Information and Monitoring System (DIMS) monitors changes in the users market, and reports drugs having acute health risks.

Accomplishments. The current government has put more emphasis on fighting organized crime, including international drug trafficking and production. The increased efforts have had significant effects on the Dutch judiciary. The 2002 National Drug Monitor concludes that:

- One out of 20 criminal offenses involves a violation of the Opium Act;
- About 25 percent of the total number of years imposed as prison sentences in criminal cases are drug offenses;

- Two out of three criminal investigations into serious forms of organized crime involve the production, transport and trafficking of drugs;
- Drug-related cases have taken up more cell capacity than before, which is partly due to intensified police controls at airports;
- About one in seven to eight criminal cases is attributable to drug users, primarily those using heroin and/or crack cocaine. Most drug users are arrested for property crimes;
- The likelihood of recidivism in this group is high. Three quarters of all drug users arrested in 2001 had been charged 11 times or more.

The government's offensive against synthetic drugs, particularly the establishment of five new counternarcotics teams, reflects the Netherlands stated determination to gain the upper hand in the fight against production and trafficking.

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. At the municipal level, policy is coordinated in tripartite consultations among the mayor, the chief public prosecutor and the police.

Drug seizure figures indicate a substantial decrease in domestic Ecstasy seizures from 2000 to 2001. This drop is attributed by Dutch police to (1) a shift in seizures to delivery points abroad due to intensified international cooperation; (2) by some law enforcement sources to inadequate Dutch operational performance in 2001; and (3) by some sources to incomplete record keeping. Preliminary figures for 2002 suggest improvement, in part attributable to the establishment of the regional Ecstasy teams. Both of these explanations underscore the rationale for the new regional Ecstasy teams and the potential value of the central investigative department, meant to address the coordination issue, to focus police resources more intently on disruption of production, and to accelerate international cooperation.

Perhaps most promising of all the steps taken this year, in December 2002 the government submitted a plan to establish a centralized criminal investigative service – often referred to by observers, but not by the government, as a "Dutch FBI"—with international joint efforts against narcotics trafficking as its lead mission. The increasing internationalization of the synthetic drug problem has led to increases in U.S. (and other international) requests for information from Dutch law enforcement. Coordination of foreign law enforcement information requests would benefit from greater centralization, particularly if establishment of the new unit is accompanied by establishment of streamlined new guidelines for coordination with foreign liaison officers. Currently, all foreign requests for police assistance are sent to a regional intelligence department, the DIN (Dienst Internationale Netwerk, or International Service Network—previously called the CRI—which coordinates requests but has no operational investigative or analytic role.

An example of the difficulty posed by the regional diffusion of responsibility is the precursor chemical problem. Because precursor chemicals have their origins outside Dutch territory—mainly in China—and because numerous separate production sites are located throughout the Netherlands, it is often difficult for foreign authorities to find a police region with clear-cut responsibility for handling a specific case. There is no sharing of intelligence with foreign counterparts regarding precursor chemicals..

Corruption. The Dutch government is committed to fighting national and international corruption. The government of the Netherlands 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 government of the Netherlands is known to engage in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread.

Agreements and Treaties. The Netherlands is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The U.S. and the Netherlands have fully operational extradition and mutual legal assistance agreements, and Dutch law allows for the extradition of Dutch nationals. However, in 2002 bilateral cooperation on extradition was inhibited when some Dutch courts deferred decisions in U.S. extradition cases in response to erroneous defense assertions of delays in repatriating Dutch citizens seeking to serve their sentences in the Netherlands; and of claimed pressure on purportedly innocent Dutch defendants to plead guilty in order to receive reduced sentences in U.S. courts. U.S. and Dutch officials consulted on means of overcoming this misimpression—which had led by the end of the year to a de facto suspension of extraditions to the U.S—to get extraditions back on track.

Cultivation and Production. About 75 percent of the Dutch cannabis market is Dutch-grown marijuana ("Nederwet"). Indoor cultivation of hemp is completely banned, even for agricultural purposes. Amsterdam University researchers, however, 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 kilos of soft drugs and are the largest suppliers of coffeeshops, according to the study. It is Dutch government policy to give top priority to the investigation and prosecution of large-scale commercial cultivation of Nederwiet However, the long-standing Dutch policy of criminalizing production while tolerating commerce at the coffee shop level poses an impediment to the control of cannabis. Tolerated coffee shop sales create the demand for large-scale commercial cultivation, which the Dutch government then must pursue and prosecute.

The Netherlands remains one of the world's largest producers of synthetic drugs. Statistics are imperfect but nevertheless telling. U.S. law enforcement information indicates that most MDMA tablets consumed in the United States are produced in the Netherlands. In 2000, a total of 8.9 million MDMA tablets were either seized in the U.S. – or seized in Europe destined for the U.S. – with a direct nexus to the Netherlands. In 2001, DEA seized approximately 9.5 million MDMA tablets domestically. From case-derived intelligence, DEA believes the great majority of these tablets were manufactured in the Netherlands. Some Dutch officials suggest that much of this MDMA is transiting the Netherlands rather than produced there, but evidence to support this assertion is lacking.

Clandestine laboratories in the Netherlands tend to be large and sophisticated, capable of producing 20 to 30 KG of Ecstasy per day. In 2001, the USD listed a total of 678 seizures of synthetic drugs with a Dutch connection, of which 20 percent took place in the Netherlands and 80 percent in other countries. In the Netherlands, this amounted to 136 separate seizures and in the rest of the world, 34 countries, 542 seizures. In 2001, more than 25.6 million MDMA pills, which can be linked with the Netherlands, were seized throughout the world. Coupled with Interpol figures on world seizures of Ecstasy for that year (over 37 millions), this amounts to approximately 68 percent). Of the 25.6 million Ecstasy pills, the largest amount was seized in the UK (6 million pills), followed by Germany (4.3 million), the U.S. (almost 4 million), the Netherlands (3.6 million), Canada (2.7 million) and France 1.3 million). The USD reported more amphetamine seizures domestically in 2001 than in 2000, but the quantity of "Dutch-related" amphetamine seized in other countries dropped. The increase in the Netherlands was confirmed by the rise in the number of amphetamine production sites discovered and increased BMK seizures. In 2001, the USD dismantled 35 production sites for synthetic drugs, of which 10 were associated with amphetamine production. In the Netherlands, Israeli criminal organizations play a key role in the Ecstasy trade.

Drug Flow/Transit. The Dutch government has stepped up border controls to combat the flow of drugs. Cannabis and cocaine seizures rose in 2001 compared to 2000. Most cannabis was found in Rotterdam port (7,823 kilos), and most cocaine at Schiphol airport (4,084 kilos). Confronted with an explosive growth in the number of drug couriers at Schiphol, the government mounted a special counternarcotics offensive in January 2002 (see above). In March 2002, the "Mercure" international customs control operation was aimed at fighting synthetic drug trafficking by outgoing passengers on flights to the U.S., Canada and Australia. The operation was organized by the Dutch customs in cooperation with their French and German colleagues. The government has expanded the number of

container scanners in the port of Rotterdam and at Schiphol airport. Controls of highways and international trains connecting the Netherlands to neighboring countries were also intensified.

Demand Reduction. The Netherlands has a wide variety of demand-reduction and "harm-reduction" programs, reaching about 80 percent of the country's 26,000-30,000 opiate addicts. The number of opiate addicts is low compared to other EU countries (2.6 per 1,000 inhabitants); and has stabilized over the past few years, with the average age rising to 40, and the number of overdose deaths related to opiates stabilizing at between 30 and 50 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.

According to the 2002 National Drug Monitor, the out-patient treatment centers registered some 26,605 drug users seeking treatment for their addiction in 2000, compared to 26,333 (2001). The number of cannabis and opiate addicts seeking treatment has stabilized at 3,443 and almost 15,544, respectively. Statistics from drug treatment services show a sharp increase in the number of people seeking help for cocaine problems (representing an increase of 49 percent between 1994 and 2000). Two out of three people seeking help for cocaine problems are crack cocaine users. The average age of drug "clients" was 39 years. Total costs of Dutch drug treatment programs are put at 100 million dollars.

Prevention. Drug prevention programs are organized through a network of local, regional and national institutions. Schools are targeted in efforts to discourage drug use, while national campaigns are conducted in the mass media to reach the broader public. The Netherlands requires school instruction on the dangers of alcohol and drugs as part of the health education curriculum. The Netherlands Institute of Mental Health and Addiction (the Trimbos Institute) has developed a project in the field of alcohol and drugs in the context of teaching "healthy living" in classrooms. About 75 percent of Dutch secondary schools participate in the project. In October 2002, the Health Ministry and the Trimbos Institute launched the new mass media campaign "Drugs, Don't Kid Yourself", providing drug information to parents, teachers and students. The 24-hour national Drug Info Line of the Trimbos Institute has become very popular. In 2001, it was called about 85 times per day.

Treatment Methods. The Health Ministry has made an assessment of three experiments for the treatment of heroin addicts. The so-called heroin experiment, with which heroin is medically prescribed to a limited group of heroin users for whom all other forms of treatment have failed, has proven successful. The 550 participating addicts appeared to be in a much better physical and mental condition than before they were in the program, and they also appeared to have reduced their criminal activities. However, the current government has banned an expansion of the experiment. The second experiment, the treatment with higher methadone dosages, proved beneficial to a certain group of troublesome drug users, and will be included in the regular treatment protocols. The third experiment, under which drug addicts were detoxified with Nalrexon under full narcosis, has not proven more effective than treatment with Nalrexon without an anaesthetic, and will, therefore, be discontinued.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Despite a positive tenor to operational cooperation between U.S. and Dutch law enforcement agencies, concern continues among U.S. law enforcement officials over the Netherlands' role as the key source country for MDMA/Ecstasy entering the U.S. The U.S. Embassy in The Hague has made the fight against the Ecstasy threat one of its highest priorities. The second round of bilateral law enforcement talks are expected to be held in The Hague in 2003. In preparation for these talks, new steps to strengthen operational cooperation are under discussion, such as streamlining the process of information requests, permitting more direct contact between DEA and the regional police, and organizing seminars on U.S. judicial structure for Dutch prosecutors. Establishment of a U.S. Customs office in Rotterdam in 2002 should help facilitate coordination on counternarcotics issues.

The United States and the Netherlands cooperate closely on law enforcement activities. The USG is also working with the Kingdom to assist Aruba and the Netherlands Antilles in countering narcotics trafficking.

Since 1999, the Dutch Organization for Health Research and Development (ZonMw) has had a cooperation agreement with NIDA on joint addiction research. Since then, the two have organized various workshops and have financed joint research projects on addiction. The next bilateral workshop will be held in the Netherlands in April 2003.

The Road Ahead. U.S.-Dutch bilateral law enforcement cooperation should continue to intensify in 2003. The Dutch government's Ecstasy Action Plan should advance counternarcotics efforts. The Dutch Synthetic Drugs Unit will continue to make concrete progress. The establishment of a central police investigative body in the Spring of 2003 will likely boost cooperation on international investigations, including Ecstasy cases, if the Dutch government agrees to streamlined procedures for its cooperation with foreign law enforcement liaisons. The U.S. will work with the Dutch government to dispel judicial misunderstanding of the U.S. judicial system, with the goal of re-establishing smooth extradition procedures in accordance with existing treaties and agreements.

Norway

I Summary

While in 2002 illicit drug production in Norway remained insignificant, demand for illegal drugs rose. The Norwegian Police Directorate unveiled a comprehensive 2003-2008 counternarcotics action plan to strengthen existing police counternarcotics activities. Norway continued to tightly control domestic sales, exports and imports of precursor chemicals. In 2002, the number of drug seizures in Norway rose significantly (14 percent) on a continuing trend, with cannabis seizures accounting for the bulk of the seizures (36 percent) followed by various types of synthetic stimulants (ATS). Norway is a party to the 1988 UN Drug Convention.

II. Status of The Country

According to police and Ministry of Health and Social Affairs officials, illicit drug production in Norway remained insignificant in 2002 because of Norway's tight regulations governing domestic sales, exports and imports of precursor chemicals, and harsh climate conditions. 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 this problem. Norway is unlikely to become a significant producer of precursor chemicals because of the country's effective regulatory framework and excellent law enforcement.

III. Country Actions Against Drugs in 2002

The Norwegian Police Directorate (PST), a part of the Justice Ministry, unveiled a comprehensive 2003-2008 counternarcotics action plan to strengthen Kripos', the National Bureau of Crime Investigation, existing counternarcotics activities. According to the PST, the action plan will focus on reducing domestic drug abuse, identify and curb illicit drug distribution, and curb drug abuse among drivers of motor vehicles. The action plan is a continuation of measures earlier initiated by the Justice Ministry to meet the objectives of the 1988 UN Drug Convention. Norway continues to cooperate closely with police forces in Nordic and other countries on drug cases.

In 2002, 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 narcotic detection dogs)has strengthened its surveillance and continues to coordinate its efforts with the police and the Coast Guard.

Law Enforcement Efforts. According to statistics compiled by Norway's criminal police (Kripos-Criminal Police), marijuana seizures have roughly doubled in the last two years (from 644 KG in 2000 to 1276 KG in 2002), while heroin seizures have been roughly constant since 2000 (2000-52; 2001-68; 2002-44). Both cocaine and ATS seizures have risen sharply during the last several years (ATS-2000-524 KG; 2002-1245 KG; and Cocaine-12 KG to 45 KG). In 2002, Ecstasy seizures more than doubled from two years earlier (49 KG to 134 KG). Law enforcement efforts were also stepped up, resulting in a record number of persons charged with narcotics-related crimes during 2002.

Corruption. Corruption is a specific criminal offense in Norway. Bribes offered abroad by Norwegians make them criminally culpable in Norway. Norway is regarded as being one of the countries in the world with the least amount of corruption. In the past five-year period, "Oekokrim" (Norway's Corruption Watchdog Agency) has investigated an average of five new corruption cases per year. Private sector

corruption in Norway is usually related to bribes to influence purchasing decisions. There is no evidence corruption in Norway influences narcotics trafficking.

Agreements and Treaties. Norway is a party to the 1988 UN Drug Convention. Norway and the United States have a bilateral extradition treaty. Norwegian counternarcotics authorities cooperate frequently with their counterparts in the Nordic countries on narcotics cases, and on a case-by-case basis with the U.S.

Cultivation/Production. In 2002, illicit cultivation of drugs remained very limited in Norway due to the country's harsh climate and laws governing drugs and drug distribution. Very small quantities of Norwegian-grown cannabis were reportedly detected concealed as houseplants in private premises.

Drug Flow/Transit. According to Kripos, the inflow of illicit drugs continued to increase in 2002 with cannabis, and ATS 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 (Poland and Hungary). As in the past, some drugs have been seized in commercial vessels arriving from the European continent and Central/South America. Former Yugoslav nationals, granted asylum in Norway and resident there, reinforced their prominent position in Norway's illicit drugs market.

Domestic Programs/Demand Reduction. The Prime Minister and government have increased counternarcotics and demand reduction efforts with the launch in February 2002 by the Prime Minister of a National Counter-Narcotics Day. An inter-agency conference was held in October between Justice, law enforcement and customs agencies to discuss cooperation on prevention and detection of narcotics. In June 2002, Norway's parliament approved a proposal to establish "hypodermic syringe rooms" where drug addicts can inject themselves under supervision to reduce injuries and deaths, and reduce the danger of AIDS. The first such "hypodermic syringe rooms" are expected to be operative in early 2003. Hypodermic syringes continue to be distributed free to drug addicts from a so-called "syringe bus" in Oslo. About two million syringes are distributed annually.

Norway's Ministry of Defense continues to implement programs to reduce narcotics abuse in the armed forces by conducting seminars and distributing counternarcotics information. On private and local government levels, several counternarcotics campaigns were launched in 2002. Illustratively, the Norwegian drug abuse association launched a campaign in June 2002 to help and advise families of drug abusers. According to the Ministry of Health and Social Services, the relatively large number of drug-related deaths in Norway (approximately 300 per year) suggests that treatment and prevention need further strengthening to become effective. While the maximum penalty for a narcotics crime in Norway is 21 years imprisonment, penalties for carrying small amounts of narcotics remain mild from a global perspective.

IV. U.S. Policy Initiatives and Programs.

The USG has no counternarcotics assistance programs in Norway. DEA officials consult with Norwegian counterparts when required.

The Road Ahead. The U.S. and Norway will continue to cooperate on narcotics issues in international fora and on narcotics cases which impact both countries.

Poland

I. Summary

Poland's improving economic status and emergence as a key player in Central 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 European Union and beyond. Not only are Polish law enforcement officials faced with a steady stream of narcotics from the east and Latin America, they are also dealing with large quantities of domestically-produced amphetamines. Poland continues to make strides in breaking up organized crime syndicates involved in drug trafficking and finalized a new National Program for Counteracting Drug Addiction in July 2002. Although it is a well-organized and ambitious plan to fight narcotics trafficking and reduce demand, no budget has been allocated for its implementation. Poland is a party to the 1988 UN Drug Convention.

II. Status of Country

Poland continues to be a major center for synthetic drug production, particularly amphetamines. The drug Ecstasy (MDMA) 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. Poland is also a major producer of precursor chemicals, as well as being a transshipment route from eastern suppliers of precursors and narcotics, particularly from Ukraine and Turkey.

Poland has an estimated 30,000 to 70,000 drug addicts with the drugs of choice being cannabis, amphetamines and heroin (for smoking). Drug abuse and drug-related crime are increasing in Poland and represent a serious problem. 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. However, this trend has leveled off somewhat in 2002.

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, Krakow and Gdansk. Poland's law enforcement community has had marked success in breaking up drug smuggling operations, specifically cocaine from South America, and is continuing to improve its ability to identify and locate locally produced narcotics, much of which comes from mobile clandestine laboratories.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In July 2002, the Polish cabinet approved the National Program for Counteracting Drug Addiction. The plan covers the period from its adoption in 2002 through 2005 and is designed to bring Poland in compliance with EU rules. The Program focuses on a narcotics strategy balanced between demand and supply reduction activities.

Demand reduction objectives of the plan include reducing the spread of drug use, limiting the spread of HIV infections connected with drug use, and improving the quality and effectiveness of treatment. On the supply side, the Program seeks to improve training and coordination between various Polish law enforcement authorities, including the Central Bureau of Investigation (CBI) and the border guards. However, no independent budget line item has yet been approved to finance the implementation of the program. Rather, individual ministries are funding the program out of existing counternarcotics budgets—at levels they feel are inadequate to accomplish all of the program's targets.

Accomplishments. The U.S. Drug Enforcement Administration (DEA) and the Polish Central Investigation Bureau (CBI) cooperation led to the seizure of over 400kilograms of cocaine in 2002, an amount sufficient for 1.2 million doses, at Poland's Gdansk seaport. This was the largest seizure of

cocaine in Poland since 1992. It is also noteworthy for exposing a new transport route that bypasses traditional transit countries such as the Netherlands for South American cocaine bound for Poland. Polish law enforcement officials, with assistance from the DEA, are also nearing completion of a major effort which targets the illicit importation and diversion of sassafras oil. This oil is essential to the production of Ecstasy.

Law Enforcement Efforts. The Polish government has completed its reorganization of the CBI (Polish FBI equivalent). U.S. law enforcement agencies (FBI and DEA) report continued, uninterrupted and excellent working relationships with their Polish counterparts.

Corruption. Poland's commander of the Polish National Police, Antoni Kowalczyk, together with the Ministry of the Interior, continue to make anti-corruption efforts an important part of their programs. A comprehensive inter-ministerial anti-corruption plan was adopted by the Government in September, 2002. The plan is detailed and contains strict timelines for legislative action and for the implementation creation of strict and transparent anti-corruption procedures within each individual ministry. While instances of small-scale corruption—bribery to facilitate smuggling, etc.—are prevalent at all levels within the customs service and among 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 CBI continue their increased efforts to investigate that kind of small-scale corruption which 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.

Agreements and Treaties. In October, 2001, Poland signed the UN Convention on Organized Crime. Increased drug seizures and a higher prosecution rate demonstrate Poland's commitment to these agreements. Poland is a party to the 1988 UN Drug Convention. An extradition treaty and a mutual legal assistance treaty (MLAT) have been in force between the U.S. and Poland since 1999.

Drug Flow/Transit. The synthetic drugs available on the domestic Polish market are primarily manufactured in Poland. The precursor chemicals for these drugs, however, 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 response to this requirement, the Government has developed a drug prevention curricula for schools which consists of 23 separate programs for different age groups. This curriculum comprises part of the Program of Prevention of Problems in Children and Young People, a national program, in place since September 2002, that educates students on a range of social ills including drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S. provides some ad hoc seminars and train-the-trainer programs in Poland, conducted by the Drug Enforcement Administration. Participants have reported that these programs helped facilitate cooperation and improve the proficiency of Polish investigators. This argues for their continuation, and perhaps, even an intensification of them.

Bilateral Cooperation. DEA maintains close contact with Polish law enforcement officials on narcotics matters. Two full-time agents from the Federal Bureau of Investigation posted in Warsaw also assist narcotics control efforts, as their other duties permit. In addition to numerous liaison meetings between DEA officials and their Polish counterparts, in 2002 there were seven, mainly USG-financed, law enforcement training courses, many of which provided direct or indirect instruction that will facilitate the

Polish government's counternarcotics efforts. In addition, in November 2002 the GOP signed a Letter of Agreement with the United States to provide over U.S. \$1.3 million in State Department assistance to Poland's law enforcement community. Much of this assistance will directly or indirectly improve Poland's capacity to combat narcotics trafficking.

Road Ahead. In 2003, USG assistance will seek to enhance Poland's technological capacity to manage organized crime investigations, to enhance the capabilities of Poland's Financial Intelligence Unit, to modernize the Polish National Police (PNP) and to develop and implement an anti-corruption curriculum for the public schools. These projects will help strengthen Poland's ability to fight narcotics trafficking and abuse. In addition, in June 2003 the DEA will conduct a two-week train-the-trainer course in Poland on advance undercover investigation techniques to further improve the PNP's ability to successfully gather evidence and prosecute drug syndicates.

Portugal

I. Summary

Portugal is a significant international gateway into Europe for drug shipments from South America and North Africa. Domestically, ecstasy is gaining increasing popularity in Portugal. Heroin use continues to have a negative impact on abusers' health, adding to its costs for Portuguese society. Portugal actively participates in international counternarcotics programs. U.S./Portuguese cooperation on drugs includes visits by American officials and experts, training of law enforcement personnel, and assistance in establishing rehabilitation programs. Portugal decriminalized small-quantity drug abuse in 2001. The Government administers a wide range of programs aimed at preventing and treating drug use. Portugal is a party to the 1988 UN Drug Convention.

II. Status of Country

Smugglers use Portugal as a point of entry for drug shipments headed into Europe, their task made somewhat easier by Schengen Agreement open borders. Ecuador and Colombia are the primary source countries for cocaine destined for Portugal. Some of these shipments transit Brazil. Venezuela, which has a large resident Portuguese population, is also a common transit point. The other primary source countries are Turkey (heroin) and Morocco (hashish). Cocaine and heroin enter Portugal by commercial aircraft, truck containers, and maritime vessel. Heroin transits through the Balkans, the Netherlands and Spain enroute to Portugal. The Netherlands is the primary source of ecstasy. A significant amount of drugs enter Portugal from Spain through the northern province of Vila Real. The U.S. has not been identified as a significant final destination for drugs transiting Portugal.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Portugal decriminalized drug use for casual consumers and addicts in July 2001. This law makes the "consumption, acquisition, and possession of drugs for personal use" a simple administrative offense. The maximum quantity allowed any one person is not to exceed ten days' personal supply. First-time offenders are referred to the Commission for the Deterrence of Drug Addiction for adjudication. Repeat offenders are fined.

In March 2002, the Government passed a new law that created the Maritime Authority System and the National Maritime Authority. This authority, in coordination with other law enforcement agencies, will combat drug trafficking in coastal waters and within Portugal's Exclusive Economic Zone.

Law Enforcement Efforts. Portugal has four separate law enforcement agencies that deal with narcotics: the Judicial Police (PJ), the Public Security Police (PSP), the Republican National Guard (GNR), and Customs (DGAIEC). The PJ is a unit of the Justice Ministry with overall responsibility for coordination and criminal investigations. From January to November 2002, the PJ launched 166 investigations that resulted in drug apprehensions.

Portuguese law enforcement authorities report that the new generation of drug consumers is shying away from heroin and opting for ecstasy. The price of heroin fell from 50.8 euros per gram in 2001 to 34.10 euros in 2002, whereas the price for ecstasy, at 6 euros per pill, remained steady. Portuguese law enforcement agencies have organized teams to interdict clandestine ecstasy shipments. During the first half of 2002, law enforcement confiscated 119,059 ecstasy pills, greater than the 52,127 pills confiscated during the first half of 2001 and almost as much as the 126,436 pills confiscated during all of 2001. The largest seizure came in May, when the PJ seized 50,000 ecstasy pills in Leiria.

By contrast, cocaine seizures are down: 1,376 kilograms of cocaine in the first half of 2002, compared to 3,533 kilograms during the same period in 2001. The PJ seized 1,045 kilograms in Maia, in January, its biggest single bust during the first half of 2002. Most significant cocaine seizures occurred at points of entry.

Corruption. No cases of systematic or large-scale corruption involving narcotics were reported in 2002.

Agreements and Treaties. Portugal is a party to the 1988 UN Drug Convention. End-users of all narcotics-related chemicals imported into Portugal must be identified to the Customs Bureau. A Customs Mutual Assistance Agreement (CMAA) has been in force between Portugal and the U.S. since 1996. Portugal and the U.S. are parties to a 1908 extradition treaty. This treaty does not cover financial crimes, drug trafficking or organized crime. Certain drug trafficking offenses, however, are extraditable in accordance with the terms of the 1988 UN Drug Convention.

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 2002, following the terms of the 1998 treaty between the two countries.

Cultivation/Production. Portugal is not a significant producer of narcotics. However, the PJ (Portugal Judicial Police) recently dismantled a laboratory producing synthetic drugs in the Algarve region.

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. No significant routes of drug trafficking from Portugal to the U.S. have been detected.

Domestic Programs/Demand Reduction. The new Government moved responsibility for coordinating Portugal's drug programs from the Secretary of State for the Presidency to the Ministry of Health. The Government established the Institute for Drugs and Drug Addiction (IDT) by merging the Portuguese Institute for Drugs and Drug Addiction (IPDT) with the Portuguese Service for the Treatment of Drug Addiction (SPTT). The combined institute serves as the statistical gathering and dissemination center for narcotics issues, and manages government treatment programs for narcotics addiction.

The Institute sponsors several programs aimed at drug prevention and treatment. The most important program is the Municipal Plan for Primary Prevention. Its objective is to create, with community input, locality-specific prevention programs in thirty-six municipal districts. The Institute sponsors a telephone hotline; in 2001 its staff of 17 handled 70,000 calls. In addition to these programs, the Institute sponsors several public awareness campaigns, such as "Hold on to Your Life" and "Say No to Second Hand Syringes." A study sponsored by the Institute revealed that 10 percent of Portuguese middle school students have experimented with hashish, and 8 percent have experimented with drugs other than hashish. Regional commissions are charged with reducing demand for drugs, collecting fines, and facilitating the treatment of consumers, consistent with the public-health focus of the July 2001 law. The commissions adjudicated 7,000 cases since their inception. There is, however, a proposal to reduce the number of commissioners, given the lack of "clients".

IV. U.S. Policy Initiatives And Programs

DEA-Madrid cooperates with the Portuguese Judicial Police on high-profile cases. The Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1996 CMAA.

In March 2002, 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. Another class is planned for March 2003.

In January 2002, a mobile training team briefed the Intensive Treatment Unit for Drug Addiction and Alcoholism, a Portuguese Navy medical unit that handles training and treatment of drug-dependent personnel on the Hazelden model and patient placement criteria. In November 2002 the medical unit's

deputy director traveled to the United States to learn more about the Betty Ford Center's California Professional Development Program, the Hazelden Professional Development Program (Minnesota), the Mayo Clinic's addiction program (Minnesota), and the Retreat, a twelve-step oriented program based in Minneapolis methodology.

Road Ahead. The U.S. and Portugal will continue to work together closely to improve narcotics law enforcement in both countries.

Romania

I Summary

Romania is not a major source of production or cultivation of narcotics. Romania lies along a well-established route used to move heroin and opium from Southwest Asia to Western Europe, and has recently begun to serve as a source of amphetamine. Romania is also used as a diversionary transit point for South American cocaine destined for Western Europe. In 2002, Romania made some major drug seizures. A national plan to address drug abuse announced in 2001 was implemented. 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 thus it is 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 2002 law enforcement officials seized a number of laboratories producing synthetic drugs in Romania. Law enforcement officials noted that a trend of increasing domestic narcotics abuse continued in 2002. 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 2002

Policy Initiatives. Romanian authorities continued to implement the National Program for Drug Prevention launched in October 2001 to combat a worrying trend of increased drug consumption in Romania. An inter-ministerial commission with some NGO assistance supervises this program. Joint teams of police and social workers carry out educational and preventative programs against drug consumption.

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 2002, 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 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 cocaine-smuggling ring from Ecuador. 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 an increase in the amount of amphetamines and "club drugs," primarily MDMA (ecstasy), confiscated in 2002 over 2001.

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 a counternarcotics division. The counternarcotics side of the DCCOA now has some 50 officers; it also has internal squads working undercover operations. 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 confiscated drugs. The Romanian government began implementation of an ambitious national plan to combat corruption, including the establishment of a special prosecutor's office for corruption. This prosecutor's office began operation September 1, 2002 and opened cases against a number of GOR officials in 2002. The incentives for corruption in Romania, however, 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. An extradition treaty is in force between Romania and the United States, and a mutual legal assistance treaty came into force in October 2001. Work has begun on a technical assistance agreement under which the UNODC would provide Romania with funds for fighting narcotics trafficking and drug abuse. Romania is also working with the UNODC to fight narcotics trafficking by sea.

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; the Romanian government is becoming increasingly concerned about domestic drug consumption. Detoxification programs are offered through some hospitals, but treatment is 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 in treatment 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 2002 included FBI led courses on interview and interrogation techniques, as well as homicide investigation. Other State Department funded programs in 2002 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 Road Ahead. 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 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 flow of Afghan heroin into the country across the southern Russian border continues to dominate drug issues in Russia. According to estimates by the Drug Control Department, more than 95 percent of all Russian heroin seizures in 2002 have occurred on the southern Russian border. Although approximately half the heroin seized was destined for onward transit, Russia is now also a consumer country and faces a serious drug abuse problem. The Russian Ministry of Interior (MVD) reported 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 only a modest market for cocaine, international cocaine traffickers use Russia as a transit point for onward shipment to Europe. LSD and methamphetamine abuse is on the rise across Russia, especially among teenagers. The increase in the manufacture and sale of "designer drugs" such as MDMA (Ecstasy) is an area of special and growing concern to Russian and international law enforcement. Illegal diversion of legally manufactured drugs into the Russian underground market is also widespread.

In 2002 the Russian government displayed an increased interest in and urgency concerning counternarcotics cooperation, and Russian law enforcement continued to deepen the bilateral investigative cooperation and intelligence sharing that began in the aftermath of September 11. In 2002 the Putin Administration declared "international terrorism, organized crime and the forces that are poisoning nations with drugs" to be the real threats to Russia's national security today. The Putin administration continued to further implement its first national counternarcotics strategy, and renewed expressions of interest in developing a multi-faceted approach that would include demand reduction and prevention as well as prosecution and interdiction. The U.S. Russia Mutual Legal Assistance Treaty was brought into force on January 31, 2002, enhancing law enforcement cooperation in investigating transnational crimes, including narcotics and terrorist financing. Russia signed a Letter of Agreement on Counter Narcotics and Law Enforcement Cooperation (LOA) with the U.S. in September. The Financial Action Task Force (FATF) removed Russia from the list of non-cooperating jurisdictions in October.

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. Russia is a small producer of cannabis and opium poppy and ephedrine for domestic consumption, and a significant producer/diverter of precursor chemicals for export for the production of Afghan and Turkish heroin. Production of amphetamines and synthetics 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 U.S. Russian-Israeli criminal groups are known to be involved in synthetics trafficking in the U.S. and Russia-based criminal groups may exploit this connection to enter the U.S. market. Russian Drug Control units anticipate a rise in domestic club drug production for export to the U.S. and consumption in Russia. Illegal diversion of legally manufactured drugs into the Russian underground is widespread. Legally produced and then diverted, many licit drugs are pilfered in small amounts, with Amphetamine Type Stimulants (ATS) the most common type of diversion.

At its peak demand for cocaine never equaled that for heroin, which is much cheaper, more plentiful, and more easily imported in Russia. European and American markets for cocaine are far more profitable than Russian markets, and cocaine seized in Russia is typically in transit to Europe. There were no large seizures of cocaine in 2002.

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 coinciding 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 infections, 80 percent of which are related to intravenous drug use in Russia. Russian authorities resist needle exchange programs on the grounds that they may encourage heroin abuse. HIV suppressing drug 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. AIDS wards in hospitals are often a method of isolation from other patients rather than dedicated treatment centers. The GOR is in the process of opening AIDS awareness centers region by region. 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 10 years ago) and the limited technical and financial support for law enforcement, it is clear that Russia is ill-equipped to handle the inundation of the country with Afghan heroin. The proximity of Afghanistan as the source of heroin and the large quantities available keep prices low, from a low of U.S. \$10 per gram in 2000 to a post-September 11 average of U.S. \$35, back to a U.S. \$15 dollar average today. Even at these prices, the average Russian heroin user cannot support a heroin habit without resorting to some form of criminal activity. The MVD did, however, report a decrease in drug-related crimes of 22 percent during the first nine months of 2002. This statistic reflects registered crimes only however, and must be viewed with reference to the implementation of the new Code of Criminal Procedure in Russia, which raises the bar on threshold of evidence required to effect an arrest or open a criminal case. The MVD reports that their experience reflects an actual increase in drug related crimes themselves. In particular, drug offenses committed by members of the military have escalated dramatically, especially in the north Caucasus.

Domestic distribution of drugs is handled by the 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. Afghans, Tajiks and other Central Asians mainly import heroin 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 small amounts of methamphetamines in kitchen labs 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 in Northwest Russia at the street level. Russian law enforcement reports that larger and more powerful organized crime groups in the country allow these smaller traffickers to operate unmolested in exchange for a share of the drug profits.

III. Country Actions Against Drugs in 2002

Until 2000 Russian policy makers or law enforcement officials did not give a high priority to the issue of narcotics trafficking by Russians or through Russia. 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 subsequently recognized that the impact of drug trafficking on Russia is now a serious national security threat to the country.

Policy Initiatives. The Putin Administration has demonstrated that it places a high priority on law enforcement and on control of narcotics. It raised salaries of all Russian police 20 percent in 2001 and again in 2002 with promises of doubling in the near future. This became an even more important priority in the wake of September 11, given the increased importance of depriving the Afghan terrorists of their

drug profits. Recent years have seen a marked increase in the willingness of Russian authorities to cooperate with international counternarcotics efforts and those of the U.S. in particular.

Key Foreign Ministry officials characterize cooperation in the area of counternarcotics as one of the top Russian priorities for U.S.-Russian relations, and one of their major priorities internationally. They have requested increased cooperation, including a Joint Counter Narcotics Task Force on the southern border. One key official called the drug issue a non-ideological, non-political, truly shared problem, demanding a cooperative and joint response.

In 2002, Russia began to implement its new program to combat narcotics and disrupt narcotics trafficking systems. This project has 20 goals, including reinforcement of the southern Russian borders, funding and development of targeted governmental programs in the field, support of counternarcotics centers throughout the country, measures to cut off cash flows to drug dealers, and public education in the area of demand reduction. In 2002, President Putin also mandated the creation of a federal agency to coordinate all Russian domestic and international law enforcement counternarcotics efforts. The agency will be part of the Ministry of the Interior, comprising 7000 agents, becoming fully functional by 2005. This move should simultaneously expand and coordinate Russia's current counternarcotics intelligence and interdiction capabilities. The head of this agency will be a deputy MVD minister, raising the profile and the effectiveness of counternarcotics activities within the GOR.

Accomplishments. In July 2002, the new Code of Criminal Procedure went into effect in Russia, bringing Russia into line with international standards of criminal justice and facilitating its integration into western legal institutions.

Russia passed money laundering legislation that met international standards in 2001, but did not implement the legislation sufficiently to satisfy the Financial Action Task Force and remained on the list of non-cooperating territories and jurisdictions. In 2002, Russia established a Financial Intelligence Unit (FIU), called the Financial Monitoring Committee (FMC). By June, the FMC had trained bankers and successfully implemented a regime of collecting suspicious transaction reports. By October, the FATF was satisfied by the report of its assessment team that Russia had made sufficient progress toward implementation of a reliable and comprehensive anti-money laundering regime, and removed Russia from the list of non-cooperating jurisdictions.

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 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. Many courts have been unwilling to accept evidence obtained through wiretaps or undercover work, but provisions in the new code of criminal procedure that went into effect in 2002 facilitate use of the existing law on operational search activity, which explicitly authorizes courts to accept evidence obtained through clandestine surveillance when approved in advance by a court.

Russian law enforcement and the UN estimate that the flow into Russia of Afghan heroin alone has increased four-fold in the last three years. Seizures of heroin in the first nine months of 2002 were substantial, with 585.5 kilograms seized in 41,161 cases. This represents a slight decrease from heroin seized in the same period in 2001. The largest single seizure of heroin (61 Kg) took place in October 2002 in the Siberian city of Omsk. Another major heroin seizure, of 47 kilograms from Afghanistan, occurred in July 2002 at another Omsk drug warehouse. Both shipments of heroin entered Russia via rail from Tajikistan concealed in fruit juice shipments. Some of the major seizures of Afghan heroin and opium 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.

Corruption. President Putin has said that controlling corruption is a priority for his administration, but implementing this policy presents a constant challenge. Inadequate budgets, low salaries and lack of technical resources and support for law enforcement hamper performance, sap morale and encourage

corruption. Despite recent salary increases, salaries are still so low that morale is bad, and temptation for corruption is there. There were no reported cases of high-level narcotics-related corruption that facilitates the production, processing or shipment of narcotics and psychotropic drugs and other controlled substances, or that discourages the investigation or prosecution of such acts. However, there were reports of several low to midlevel counternarcotics officers in the Rostov region who were arrested in September for protecting drug traffickers and soliciting bribes. Two of the officers had been sent to coordinate interagency counter drug activity in the region. The officers, who make less than U.S. \$350 per month, were receiving more than U.S. \$64,000 per week from traffickers for protection. In addition 28 policemen were arrested this year for trafficking and drug abuse.

Agreements and Treaties. Russia is party to the 1988 UN Drug Convention, the 1961 Single Convention on Psychotropic Substances and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Under the new U.S.-Russia MLAT, which entered into force on January 31, 2002, the requested country is obligated to provide assistance if there is dual criminality and the other pertinent requirements of the treaty are met. If there is no dual criminality, assistance is discretionary. As a result of the requirement for designating a central authority and point of contact, a separate office responsible for implementing international assistance requests has been formed within the Russian General Procuracy. Unfortunately, that office has not yet proved effective in carrying out its duties. At present, no extradition treaty exists between the U.S. and Russia. Russia, which does not extradite its nationals, has said that it will extradite citizens of other countries with which it has concluded extradition treaties.

Cultivation and 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 Russia, there are small, illicit opium poppy fields ranging in size from one to two hectares. This year more poppies were discovered than in previous years. Typically the opium fields are small backyard plots or are located in the countryside concealed by other crops. In Siberia, in the Central Asian border region, and in the Omsk-Novosibirsk-Tomsk region along the border with Kazakhstan, opium poppies are widely cultivated. According to Russian authorities, this year more cannabis and poppy plants were cultivated on larger areas of land, and wild harvests of these plants expanded throughout Russia. In the first nine months of 2002, Russian authorities eradicated 4,721,470 square meters of wild poppy and 157,018 square meters of cultivated poppy. The amount of wild poppy plants eradicated in 2002 represents a significant increase from previous year amounts.

Wild cannabis is estimated to cover some 1.5 million hectares in the eastern part of the country. In September 2002, the MVD reported eradication of 208,582 square kilometers of cultivated cannabis, and 63,896,585 square kilometers of wild cannabis. The numbers of wild and cultivated cannabis plants destroyed in 2002 represents significant decreases from 2001 figures. Hemp, often cultivated for commercial use, was found growing "in abundance" around the Moscow region. The MVD reported that throughout 2002, 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 and Afghan heroin into Russia. Vast amounts of daily sea traffic, consisting of passengers, autos on ferries and bulk goods in trucks are used to conceal heroin moving into Russia. All routes mentioned above are also used in reverse to smuggle multi-ton quantities of the precursor chemical acetic anhydride to the clandestine laboratories that produce Afghan and Turkish refined heroin. The lack of border controls with China and Mongolia facilitates smuggling, including drug trafficking, through that region.

In the east the Russians continue to import the precursor ephedrine from China for Russian domestic production of methamphetamine in kitchen labs in quantities for personal use, although larger and more

sophisticated labs were seized in 2002. Cocaine traffickers also route Colombian cocaine for transshipment to Europe and elsewhere through Russian seaports and airports. Cocaine in kilo quantities entered Russia via Poland and the Baltics via courier and cargo shipments.

Demand Reduction. Russian authorities have expressed interest in developing a comprehensive counternarcotics strategy that would combine education, health and law enforcement. Russian law enforcement authorities also have come to support the idea that demand reduction should complement law enforcement efforts to reduce supply. President Putin lamented the scourge of drug abuse and attributed it in part to social and economic stresses of transition to democracy and a market economy. Cities across the southern border have been particularly hard hit. Although heroin use among the young has decreased slightly, drug addiction among those under 14 years of age has risen 24-fold since 1991. The 1998 Narcotics Law provides for compulsory treatment of drug abusers who come to the attention of the authorities.

In 2002, the GOR acknowledged that widespread drug abuse among all ranks of the military had become a national security concern. According to GOR figures the number of draftees using drugs has increased seven-fold since 1999. The GOR reports that 25 percent of officers, 40 percent of conscripts and 40 percent of soldiers of all ranks serving in the Caucasus abuse drugs. Military servicemen have become increasingly involved in drug trafficking as well.

IV. U.S. Policy Initiatives and Programs

Policy Objectives. The principal U.S. goal in Russia is to help strengthen Russia's counternarcotics law enforcement capacity to help meet the challenges of international drug trafficking into and across Russia, and to help strengthen and develop Russian law enforcement personnel with the goal of developing reliable Russian law enforcement partners for U.S. law enforcement.

Bilateral Accomplishments. In 2002, the U.S. Department of State, Bureau of Narcotics and Law Enforcement (INL) negotiated an LOA with the GOR allowing direct assistance to the GOR in the area of counter–narcotics and law enforcement assistance. The U.S. provided technical assistance in support of institutional change in the areas of criminal justice reform, Mutual Legal Assistance, anti-corruption and money laundering as well. DEA provided INL-funded counternarcotics training to over 200 students in 2002. These were primarily enforcement personnel in the Ministry of Internal Affairs (MVD), the Federal Security Service (FSB) and Customs. INL-funded community police programs also contained a significant counternarcotics component, and INL assistance supported several NGO programs that focus on this aspect of community relations.

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 countries. The USG will continue to encourage and assist Russia to implement its comprehensive, long-term national strategy against drugs with multidisciplinary sustainable law enforcement assistance projects that combine equipment, technical assistance and expert advisors.

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. The Government of the Slovak Republic (GOSR) funded the budget for the fight against narcotics at the same level in 2002 as it did the previous year, approximately 50 million Slovak crowns (approximately U.S. \$1.2 million). Slovak officials expect this figure to drop to a fifth of the 2002 level in 2003, to 10 million crowns. Domestic drug use appears to have remained steady in 2002. The GOSR is a 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.

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 report that Roma (formerly known as gypsies) in Slovakia are distributors of heroin. They report that Roma often purchase heroin from Albanian suppliers at wholesale prices and then resell it on the streets. The Slovak police have cracked some organized crime cases, but they admit that they are still unsure of the full extent of the problem. Slovakia has passed legislation on precursor chemicals and presently 20 companies voluntarily report suspicious requests for dual-use precursor chemicals. Authorities do not believe that diversion of these chemicals is a problem in Slovakia.

III. Country Actions Against Drugs in 2002

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 everywhere effective, 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 are generally very professional and have been granted an increased 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 Slovak Customs Directorate has sought to work more closely with the police in investigating cases of narcotics trafficking, and this will be facilitated by implementation of the new Customs Act.

Law Enforcement Efforts. The number of attempts to smuggle illegal narcotics in 2002 appears to have increased compared with 2001. The majority of those apprehended were not Slovak citizens. The Border Service reports that, as was the case last year, most seizures at 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. In November 2002, Igor Kostal, head of the National Drug Unit, was replaced for corruption. 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 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 Slovak government supports efforts to discourage drug abuse through education in the schools. The National Health Service provides treatment for drug abusers.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. As in prior years, Slovak enforcement officials participated in several Department of Justice courses, 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 antiorganized crime detection/investigative skills.

The Road Ahead. Through bilateral cooperation, the United States will continue to encourage the GOSR to adequately budget for narcotics enforcement, 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 receipt of an invitation to join the EU in spring 2004, and its goal of attaining full Schengen membership in 2005, resulted in a continued intensive focus on border controls in 2002. 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 a major problem in Slovenia, although authorities keep a wary eye on heroin abuse, which continues to increase.

III. Country Actions Against Drugs in 2002

Policy Initiatives/Accomplishments. The GOS continued to make counternarcotics a priority for all levels of law enforcement in 2002. Cooperation with officials from the United States and from EU member states to improve interdiction also has continued. Slovenia is a participant in the SECI Regional Center for Combating Trans-border Crime and participates in the EU's PHARE Multi-Beneficiary Drug Assistance Program.

Law Enforcement Efforts. Active counternarcotics efforts among Slovenian law enforcement authorities, in cooperation with counterparts in neighboring countries led to a decrease in narcotics-related criminal activity in 2002 and several key drug seizures. The most striking success was the July 2002 breakup of two criminal cartels engaged in drug trafficking from the Balkans to Western Europe. This year-long joint Slovenian-Italian operation involved the cooperation of law enforcement authorities from Macedonia, Croatia, and the FRY as well, and resulted in the seizure of 26 Kg of heroin, several thousand Ecstasy (MDMA) pills, as well as some cannabis, weapons, and explosives. Cooperation with U.S. law enforcement officials has been excellent, particularly with regard to ongoing joint investigations.

Law enforcement agencies seized 7,051 Ecstasy tablets in 2002, compared with 1,773 tablets in 2001, and 26,804 tablets in 2000. In 2002, 65.6 kilograms of heroin were seized, compared with 88.9 kilograms of heroin in 2001, and 394.8 kilograms of heroin in 2000. In addition, 1,083.8 kilograms of cannabis were seized in 2002, compared with 170.56 kilograms of cannabis in 2001, and 3,431 kilograms of cannabis in 2000.

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 is known to engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, nor the laundering of proceeds from illegal drug activities. Police and border control officials are adequately paid, and corruption among them is uncommon.

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. provided no training, commodity, or program assistance in 2002.

The Road Ahead. Joint U.S.-Slovenian law enforcement investigations will continue in 2003. Subject to the availability of funds, the United States plans to provide specialized counternarcotics and other law enforcement training to new Slovenian law enforcement personnel in 2003, and to encourage Slovenian authorities to make greater use of asset forfeiture as a means of discouraging narcotics trafficking.

Spain

I. Summary

Spain is the leading entrance point to Europe for cocaine smuggled from South America and for hashish from Morocco. Spain is also an increasing transshipment point for ecstasy going to the U.S. Spain remains active in counternarcotics efforts globally, especially in Latin America. Spanish government counternarcotics cooperation with U.S. law enforcement counterparts is excellent. Spain is a party to the 1988 UN Drug Convention.

II. Status of Country

Spanish law enforcement agencies seized a record quantity of cocaine during 2002, surpassing the previous record set in 2001. Spain is the chief gateway for cocaine shipments from Latin America into Europe. Spain is also increasingly a transit point to the U.S. for ecstasy from the Netherlands. Spanish police continue to seize large amounts of 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.

Cultivation in Spain of cannabis and opium is minimal. Illicit refining and manufacturing of drugs in Spain is also minimal. However, small-scale laboratories which convert cocaine base to cocaine hydrochloride are discovered and destroyed each year. Spain has a chemical industry that produces dual-use precursor chemicals. There is effective control of precursor shipments within Spain from the point of origin to destination, administered under the National Drug Plan (PNSD).

III. Country Actions Against Drugs in 2002

Policy Initiatives. Spanish policy on drugs is directed by the national drug strategy, which covers the years 2000 to 2008. The strategy, approved in 1999, expanded the scope of law enforcement activities, such as permitting sale of seized assets in advance of a conviction and allowing law enforcement to use informers.

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. There is no evidence of corruption of senior officials or their involvement in the drug trade.

Law Enforcement Efforts. Spanish law enforcement seized a record amount of cocaine during 2002 and continued to seize large quantities of Moroccan hashish. Spanish cocaine seizures—over 36.5 metric tons during the year—account for half or more of the total seized in Europe. Spain's close historic and linguistic ties with Latin America attract Colombian cocaine traffickers who exploit Spain's long coastline and its position as a bridge to the rest of Europe. Maritime vessel and containerized cargo shipments account for the bulk of the cocaine shipped to Spain. Following are some notable cocaine seizures from 2002: Spanish Customs seized 900 kilograms of cocaine hidden aboard an American registered yacht off the coast of Galicia in June. Spanish Customs seized 3000 kilograms of cocaine from a Venezuelan registered vessel off the coast of Cape Verde in July. In December, SNP seized 2500 kilograms of cocaine off Gijon, Asturias, from a Panamanian registered vessel that had originated in Venezuela.

The vast majority of the 546 metric tons of hashish seized in Spain as of November 2002 was of Moroccan origin. Hashish consignments of several metric tons are routinely transported from Morocco by speedboat or private yacht. Numerous seizures occurred between Gibraltar and Murcia on the southeast coast of Spain. Typical seizures in 2002 included: 2160 kilograms seized by Spanish Customs in July from a Moroccan zodiac boat off the coast of Almeria; 1700 kilograms of hashish seized by the Civil Guard in September on the beach of Punta Candor, Rota, Spain.

Seizures of ecstasy were also up significantly in 2002, with over 1.2 million tablets seized by Spanish police. Following are some representative arrests. In February, Spanish police arrested a German national at Madrid (Barajas) airport who was on his way to Miami with 30,000 tablets of ecstasy. In March, the Civil Guard seized 123,000 tables of ecstasy from a car in Castellon, Valencia after the driver (a trafficker) was involved in an accident. In May, Spanish police arrested a Spaniard seeking to cross the border into southeastern France from Girona with 93,000 tablets of ecstasy.

Security inspections at airports are being stepped up as a result of the events of September 11, 2001. At Madrid's Barajas airport, for example, only 10-15 percent of checked luggage was typically x-rayed in 2002, according to Spanish authorities. By the end of 2003, authorities at Barajas expect to be x-raying 100 percent of checked bags. The new system will detect narcotics smuggling as well as security threats.

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 signed the UN Convention Against International Organized Crime and its protocols in 2000. Extradition between the U.S. 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 U.S. and Spain have also signed a Customs Mutual Assistance Agreement.

Cultivation/Production. 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 is the major gateway to Europe for Andean cocaine and the major transit point to Europe for hashish, the vast majority of which comes from Morocco. Spain is an increasing transit point to the U.S. for ecstasy and other synthetic drugs produced mainly in the Netherlands. Couriers carrying ecstasy from Spain have been arrested upon entry to the U.S.

Domestic Programs. The national drug strategy identifies prevention as its principal priority. In that regard, PNSD continued its publicity efforts targeting Spanish youth. Spain's autonomous communities provide treatment programs for drug addicts, including methadone programs and needle exchanges. Prison rehabilitation programs also distribute methadone.

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. We seek to promote intensified contacts between officials of both countries involved in counternarcotics and related fields. Latin America remains an important area for counternarcotics cooperation.

The Road Ahead. The U.S. will continue to coordinate closely with Spanish counternarcotics officials. Spain will continue to be a key player in the international fight against drug trafficking.

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 October 2002, Prime Minister Goran Persson, appointed a new minister—Morgan Johansson—specifically to address drug-related issues. In January 2002, the Minister of Health and Social Affairs unveiled the GOS's 2002-2005 National Action Plan to combat narcotics. Special coordinator, Bjorn Fries, was tasked with coordinating the efforts of Swedish government agencies, NGOs and ministries in implementing the plan.

According to police and customs sources, drug seizures are increasing and Swedish customs officials report increased drug smuggling at the borders. Amphetamines and cannabis remain the most common drugs in Sweden, with seizures of amphetamines from the Balkans increasing significantly. Experimental use of drugs—primarily cannabis but also "club drugs" like ecstasy—among young people appears to be rising. Sweden continues its cooperation in the EU and other international fora. Sweden is a party to the 1988 UN Drug Convention.

II. Status of Country

Relative to other European countries, Sweden—both the government and the public—is intolerant of drugs. The Swedish Prime Minister, Goran Persson, has made the fight against narcotics one of the government's top priorities during his tenure. GOS activities are outlined in the national Narcotics Action Plan for the period 2002 through 2005.

While drug use has grown during the past decade, the drug situation in Sweden is generally more favorable than in most of Europe. A 2002 SIFO poll shows that 94 percent of Swedes oppose the legalization of any form of narcotics. Support for legalization is slightly higher among youth, particularly young men.

Authorities believe that use of amphetamines, cannabis and ecstasy is growing. Consumption is particularly high among those in the 18-24 age range. Still, polling indicates that nine out of ten young people oppose liberalization of Sweden's drug policy. Seizures of amphetamine and cannabis have increased during the year, but the total amount seized has only increased slightly. A contributing element was the lack of any major seizures during the past year.

III. Country Actions Against Drugs in 2002

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. Early in 2002, Parliament approved Sweden's National Action Plan against drugs. Under the plan, the GOS will spend U.S. \$32.5 million to combat narcotics use during the next three years. Of this, approximately U.S. \$10 million is earmarked for programs through the national prisons and probation administration. The effort aims at curbing the supply of drugs, demand reduction activities, and rehabilitation programs for drug abusers. U.S. \$4.2 million has been specially set aside for research on rehabilitation. This amount is one of the largest research grants ever in Sweden.

Sweden continues to cooperate with its Baltic neighbors on customs, police, and intelligence issues related to drug trafficking. During 2002, the EU provided 40 million Euros to help combat organized crime in the Baltic region. Drugs transiting through or originating from the Baltic countries have become a serious problem throughout the European Union and the EU acted to address the situation.

At a November meeting, Nordic Ministers responsible for narcotics approved a common strategy for cooperation with Russia and the Baltic region. The Ministers agreed upon exchange of information, preventive actions, rehabilitation, support for NGOs, and deepening cooperation in police and customs matters.

In 2002, the Stockholm Police established a special task force—the Restaurant Commission—to address the high prevalence of drug use among restaurants and bar staff. Drug use in this group is approximately 27 percent, compared with 3 percent usage rate among the general population. By forming a task force, the police hope to improve interdiction and increase seizures of drugs in Stockholm's more than 1,500 restaurants.

In November 2002, Sweden's three major cities—Stockholm, Gothenburg and Malmo—launched a joint effort to combat narcotics. The project focuses on preventative work in the schools and in environments where drugs are common, limiting supply, and supporting rehabilitative measures for addicts.

Sweden participates in several international fora—the UN Commission on Narcotic Drugs, the UN Drug Program, the Dublin Group, and the Pompidou Group. During 2002, Sweden continued to promote improvement of multilateral counternarcotics activities in the UNODC. Sweden is currently developing a new strategy for cooperation with UNODC to which Sweden is a major contributor, providing U.S. \$3,85 million (U.S. dollars?)in 2002.

Accomplishments. The Swedish International Development Authority (SIDA) allocated approximately U.S. \$1.2 million in 2002, for multilateral and bilateral UN projects against drugs and tobacco. The GOS National Action Plan 2002-2005 allocates U.S. \$32.5 million for anti drug-efforts. About U.S. \$10 million will be invested in rehabilitation of inmates, staff training and research. The rest will be distributed to the 289 municipalities for counternarcotics projects. Since 1999, it is a criminal offense to drive under the influence of narcotics or certain prescription drugs with narcotic or hallucinogenic properties.

Agreements and Treaties. Sweden is a party to the 1988 UN Drug Convention and is meeting the Convention's goals and objectives. Sweden is also a party to the 1961 Single Convention, as amended by the 1972 Protocol, and to the 1971 Convention on Psychotropic Substances. Sweden has signed but not ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Sweden has a bilateral customs agreement with the United States regarding mutual assistance matters. Sweden cooperates with the United States in extradition matters through a bilateral extradition treaty.

Law Enforcement. Swedish Law Enforcement authorities have been consistently increasing the number of drug seizures. Between January and October 2002, 2,984 drug seizures by customs officials, compared with 1,658 for the same period in 2001, and 1,328 in 2000. No major labs were detected during the year.

Seizures of Rohypnol (the so called "Date Rape Drug") are increasing, with more than 450,000 tablets seized between January and November 2002. This is twice the amount seized in 1998, the previous recorded year. Rohypnol seizures have fluctuated but have shown a clear increasing trend over time. The Rohypnol seized in Sweden is manufactured in Russia and is transported through the Baltic region, especially Lithuania, by well-organized groups. In early November, Swedish Custom officials seized a car from Lithuania with 38,000 tablets. and in December, Customs seized a truck from Lithuania carrying 150,000 tablets.

Corruption. The OECD recently ranked Sweden as one of the least corrupt countries. Anti-corruption laws and transparency effectively deter public officials from engaging in illicit production or distribution of drugs, or from involvement in money laundering.

Cultivation/Production. Illicit drugs are not cultivated or produced in significant quantities in Sweden. Small, private cultivation of cannabis is occasionally found in private homes, using seeds bought mainly over the Internet.

Drug Flow/Transit. Drugs normally enter the country concealed in commercial goods, by air, by ferry, and by truck over the new Oresund Bridge linking Sweden to Denmark. Most of the amphetamines found in Sweden originate in Poland, the Netherlands or Belgium. Ecstasy seized in Sweden usually comes from the Netherlands and is brought in to Sweden by couriers traveling by car or by bus over Oresund Bridge.

Morocco is the source of 75 percent of the cannabis seized in Sweden; most passes through Spain on its way to Sweden.

More than half of heroin seizures are made at airports. Heroin destined for Sweden is imported into Western Europe and then transported north via courier. The number of seizures of cocaine decreased in 2002 but there are indications that traffickers may have found alternate methods to transport the drugs and the actual volume may be unchanged. Usually, couriers travel by air from the Caribbean, mainly to the Netherlands, where the drug is transported onwards by air or other means. Law enforcement officials did not encounter any drugs intended for the U.S. market during the year.

Demand Reduction. Since 2001, the National Institute of Public Health—in cooperation with municipalities—is responsible for providing compulsory drug education in schools. Several NGOs also focus on 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) is a Swedish-founded alliance of major cities, which espouse zero tolerance policies and oppose liberalization. Its policy is based on the UN Convention on Drugs and the UN Convention on the Rights of the Child. The organization cooperates with counternarcotics organizations in the United States and is developing links in Latin America, Asia, and Australia.

IV. U.S. Policy Initiatives and Programs

Swedish cooperation with U.S. law enforcement authorities continues to be excellent, and U.S. agencies are pursuing enhanced cooperation with Sweden, both bilaterally and in the context of the EU.

The Road Ahead. Sweden and the U.S. will continue to cooperate on narcotics issues, and on cases where cooperation aids both countries efforts to keep narcotics away from their populations.

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 most illicit narcotics, with the exception of hemp/marijuana. Drug-related arrests were down slightly during 2002. The Swiss public continues its strong support for the government's four-pillar counternarcotics policy: preventive education, treatment, harm reduction, and law enforcement. A new drug bill continues its way through the parliament, aimed at decriminalizing cannabis use for Swiss adults, concentrating enforcement efforts against other drugs, and making permanent a heretofore pilot heroin maintenance program for drug addicts. The Swiss government has delayed ratification of the 1988 UN Drug Convention to consider implications of the revised narcotics legislation for ratification without reservations.

II. Status of Country

In a country of approximately seven million people, about half a million are thought to use cannabis at least occasionally. Roughly 30,000 people are addicted to heroin and/or cocaine, and more than 7.2 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 drugs.

III. Country Actions Against Drugs in 2002

Beginning January 1, 2002, jurisdiction for all cases involving organized crime, money laundering, and international drug trafficking shifted from the cantons to the federal prosecutor. A new judiciary police force has been set up and investigative judges increased from one to five. According to the federal prosecutor's office, the number of judges will be increased to 25 by 2006. Further controls on narcotic and psychotropic substances took effect on January 1, 2002, after which it became 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. \$133,000 or imprisonment.

Accomplishments. Swiss drug control authorities say that therapy and treatment programs have improved the physical and mental well being of many drug 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 decreased from 205 deaths in 2000 to 197 in 2001. Of these, 64 lived in Zurich, 21 in St. Gallen, and 17 each in Bern and Geneva. The average age of newcomers into the heroin treatment program is 33.3 years.

Law Enforcement Efforts. Cannabis seizures decreased from 19,572 kilograms in 2000 to 11,424 kilograms in 2001, the number of narcotics apprehensions during 2001 decreased slightly from 46,558 to 46,116, with wide disparities among cantons. Apprehensions decreased for cannabis by 18 percent, 36 percent for amphetamines, 5 percent for cocaine, 20 percent for heroin, and 12.6 percent for other hallucinogens. Approximately 81 percent of the reported drug offenses concerned drug consumption.

Between January and June 2002, Swiss customs seized 64 kilograms of heroin and 92,000 doses of synthetic drugs, compared to 50 kilograms of heroin and 20,000 doses respectively for the entire year 2001. Drug arrests also went up: 3,229 people during the first six months of the year, as opposed to 2,259

for the first half of 2001. Also during the first half of 2002, police seized 20 kilograms of cocaine, and 169 kilograms of cannabis-based products.

Foreigners play a significant role in the Swiss drug scene, especially in distribution. During 2001, 12,728 persons arrested for drug offences were foreigners. One fourth of the people arrested originate from the Balkans, and Albanians in particular constitute the largest foreign criminal population in Switzerland. Police sources report that Kosovars, Albanians, and Macedonians are expanding their control from the Swiss heroin market into the cocaine market which was traditionally in the hands of Africans, Dominicans, and South Americans. The cantons of Geneva and Vaud implemented new measures during 2002, aimed at disrupting drug distribution. Noting that permanent resident aliens suspected (but not convicted) of drug dealing were traveling freely from canton to canton, officials began imposing administrative sanctions under Cantonal foreign resident regulations. Many suspected drug dealers resident in another canton are now banned by Geneva and Vaud from entering those cantons, and if picked up by police, the suspects (who are mainly from eastern Europe) are fined and "deported" to their canton of residency. If picked up again, they are jailed.

The parliament of Ticino adopted in July 2002 a new legislation that forbids the production of marijuana, and restricts the establishment of Amsterdam-like "coffee shops." Local police report that 40,000 people consume marijuana regularly in Ticino (which represents 13 percent of the canton's population) and that the number of coffee shops has jumped from 16 to an alarming 60 in the last five years. Most of these shops concentrate near the Italian border. Under the new legislation, anyone opening a coffee shop will have to prove that he/she has no criminal record and must notify the administration before growing cannabis.

A new drug bill aimed at decriminalizing cannabis use and concentrating enforcement efforts against other drugs continues its way through parliament. Experts close to the legislation believe it will be adopted in spring 2003. The bill would 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 will limit the acreage under cannabis cultivation and work to prevent drug exports. An ordinance, based on the new drug bill, will forbid under-18 cannabis consumption, and regulate cross-border drug tourism. Three thousand "drug tourists" were arrested at Swiss border posts during 2001, a 150 percent increase compared to the previous year.

Throughout most of its legislative history, the bill has enjoyed support from the full spectrum of political parties, to one degree or another, except for the conservative Swiss Peoples Party (SVP), which opposes the proposal outright. During November 2002, a study by a Swiss consumer group revealed that the potency/THC levels of Swiss-grown cannabis had risen markedly in just a few years. The new drug bill would also make permanent the controlled distribution of heroin as a treatment to drug addicts. Under the current legislation, heroin prescription programs are only permitted for a limited period of five years, ending in December 2004.

Several drug arrests made especially noteworthy headlines during 2002:

In February, a Zurich court sentenced a 51-year old former Thai policeman to four years in prison after he was found guilty of money laundering and drug smuggling. The police found 100,000 Thai pills (methamphetamine) he had imported into Switzerland, as well as over a quarter of a million dollars in cash.

In July, the Bern police took part in a coordinated 12-country drug bust. Considered the biggest counternarcotics operation in Bern's history, the police seized 22 kilograms of heroin, about U.S. \$40,000 in cash, and several shotguns. The ringleader, a 35-year old Kosovar, was allegedly linked to a Chechen drug cartel.

Geneva saw its biggest drug bust ever in November, when police seized 11.5 kilograms of heroin, essentially a month's supply for local heroin consumers.

Across Switzerland five to ten per cent of police time is spent on fighting drugs, but arrest and prosecution do not appear to be working as a deterrent. Under Swiss law, drug dealers face a prison sentence of at least 12 months and hefty fines up to SFr one million. However, according to a 2001 report by the Swiss National Science Foundation, hefty fines do not prevent hard drugs from being available, nor do they affect the price.

Drug related violence is on the upswing, including assaults against customs officers while performing interviews or searches particularly in Geneva and Basle. There were 14 reported assaults against customs officers during the first half of 2002. Border posts were compelled to use police-trained dogs 18 times, pepper sprays 8 times, and to use their firearms twice. Drug dealers in need of extra cash were responsible for several post office hold-ups in Geneva.

Corruption. The USG is not aware of any court decision concerning 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. There were no narcotics related extraditions between the U.S. and Switzerland during 2001 and 2002. Switzerland is a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Although a signatory to the 1988 UN Drug Convention, Switzerland has not yet ratified the Convention.

In February 2002, the International Narcotics Control Board (INCB) was critical of impending changes in Swiss narcotics legislation in its annual report, stating that the new Swiss law would go much further than simply decriminalizing cannabis consumption. The report argued that it would be a "historic mistake" if cannabis were effectively placed in the same category as alcohol and tobacco, and that it would contravene the 1961 single convention on narcotic drugs. Ueli Locher, Deputy Director of the Swiss Federal Office For Public Health opposed the INCB position, saying that four independent legal assessments had found that the bill is consistent with the 1961 convention.

Cultivation and Production. Switzerland is not a significant producer of illicit drugs, with the exception of illicit production of high THC-content cannabis/hemp. Police estimate the 2001 area planted to illicit hemp at 350 hectares, with a value of approximately U.S. \$674 million. Approximately 200 hemp shops operate throughout Switzerland, selling a variety of cannabis products, including tea, oil, foods, and beverages, cosmetics, textiles and so-called sachets. Ostensibly sold to freshen-up closets and drawers, the sachets contain a quality of marijuana suitable for smoking. Following a series of police raids on hemp shops, a federal court ruled in March 2000 that selling hemp products with a THC level above 0.3 percent was a violation of the narcotics law regardless of how the shop had labeled the hemp. Government subsidies are available to farmers growing industrial hemp. 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. For example, several Dutch ecstasy trafficking groups send couriers from Zurich airport to the United States to avoid increased law enforcement scrutiny of flights between Amsterdam and the United States.

Domestic Programs. Switzerland focuses heavily on prevention and early intervention to prevent casual users from developing a drug addiction. Youth programs to discourage drug use cost U.S. \$6 million annually according to the federal office of public health. Swiss authorities dispensed 185 kilograms of heroin for maintenance programs in 2001, compared to 155 kilograms in 2000. Three-fourths was in ampoules for injection, while the rest was distributed in tablet form. 1,098 addicts were enrolled in the heroin prescription program during the year (is this 2001 or 2002?), a slight increase compared to 1,038 in 2000. Three-quarters of those enrolled were male. The number of specialized heroin treatment centers also increased from 20 during 2000 to 43 in 2001, but still cover only four percent of the total drug addict population. Medical treatment costs U.S. \$14,942 per year per person (or U.S. \$41 per day), and heroin

treatment lasts on average 3.3 years. Private health insurance has the duty starting July 1, 2002 to finance heroin treatments, so the Swiss government no longer pays for it.

IV. U.S. Policy Initiatives and Programs-

On September 5, 2002, the Basle prosecutor's office, working closely with DEA embassy staff, seized U.S. \$2.8 million (SFr.4.2 million) worth of drug-related money, which then was shared between the two governments. A Basle-based bank had initially frozen the funds in June 1997 after strong suspicions that the accounts holders were connected to a well-known Brazilian criminal organization. Basle police sources credit both DEA embassy staff and DEA South American offices with strong support throughout the investigation.

Road Ahead. The United States and Switzerland will continue to build on their strong bilateral cooperation in the fight against narcotics trafficking and money laundering. In particular, the United States urges 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 continue to urge Swiss authorities to ratify the 1988 UN Drug Convention without reservations.

Tajikistan

I. Summary

Tajikistan is not a major producer of narcotics, but it is a major transit country for heroin and opium from Afghanistan. The opium/heroin moves through Tajikistan, onward through Central Asia, and on to Russian and other European markets. Illicit narcotics transiting Tajikistan generally do not enter the United States. The volume of drugs following this route via multiple methods of transportation—primarily land-based—is significant and growing. Despite an increase in seizure totals during the first six months of 2002, figures near year's end indicated that the volume of drugs seized during the whole of 2002 would be lower than the previous year's totals. This marks the first drop in seizures in three years, which, given reports of a bumper harvest of Afghan opium, demonstrates the growing problem facing the Government of Tajikistan (GOT) as it attempts to combat drug trafficking and other narcotics-related problems in a coordinated manner.

Abuse of heroin, opium, and cannabis in Tajikistan is a minor but 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 on Drugs and Crime (UNODC) as well as a growing number of bilateral donors. 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 continue to make Tajikistan an attractive transit route for illegal narcotics. Its riverine 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. Tajikistan's economic opportunities are limited by a lack of domestic infrastructure and the fact that its major export routes transit neighboring Uzbekistan, which has often closed its borders to combat a perceived instability from Tajikistan. Additionally, the GOT's efforts to strengthen rule of law and combat illegal narcotics flows are hindered by criminal networks that came to prominence during the 1992-97 civil war, and the GOT's own lack of revenue to adequately support law enforcement efforts. With the average monthly income in the country around U.S. 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 neither the GOT nor the USG are aware of any processing or precursor chemical production facilities. The small amount of precursor chemical imports is closely monitored by the GOT and is essentially limited to five in-country industrial sites that use such chemicals.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The Presidential Office's Drug Control Agency (DCA), created in 1999 with UNODC support, continued to implement a number of programs with the UNODC designed to strengthen Tajikistan's drug control capacity. The DCA aims to centralize the GOT's counternarcotics efforts and support drug treatment and rehabilitation efforts. During 2002, it conducted a number of operations, including several major seizures within Dushanbe itself. The GOT continued to emphasize the importance of counternarcotics law enforcement in its public declarations, regularly declaring the drug trade to be a threat equal to that of international terrorism. The GOT's resources for counternarcotics efforts remain limited, however, and the GOT itself is vulnerable to pressure from prominent traffickers, many of whom are in a position to threaten domestic stability if seriously challenged.

Accomplishments. The DCA became fully operational in April 2000 and has largely overcome many of its initial difficulties stemming from intra-governmental rivalries. It recruited and trained a capable staff, well regarded by the UNODC and the USG, and has worked to raise its profile in the country through public outreach efforts. The DCA also extended its links with international organizations and foreign states while expanding its cooperation with other Tajik security agencies. In this vein, the GOT signed joint agreements on cooperation against trafficking with Afghanistan, Kazakhstan, and Kyrgyzstan. Under the latter agreement, relevant authorities of the GOT and Kyrgyz Government conducted a number of joint operations in northern Tajikistan and southern Kyrgyzstan, respectively. GOT cooperation with Uzbekistan also took some promising steps forward during the year.

Law Enforcement Efforts. During the first 11 months of 2002, Tajikistan officials reported seizing just under 5 tons of illegal narcotics, including 3,133 kilograms of heroin and 1,025 kilograms of opium. Heroin seizures fell slightly when compared with the previous year's total for only the first ten months of the year (3.8 metric tons). Opium seizures also showed a decline compared to 2001's ten-month total of 3.6 metric tons. This continues the trend of previous years, which demonstrated a shift from traffic in opium to processed heroin. The decline in overall seizures, however, breaks the pattern of the previous three years. This is notable given the fact that seizure totals appeared to be on a record pace through the first six months of 2002, and suggests rerouting of prime trafficking routes away from Tajikistan in response, to perhaps greater interdiction success. Russian Border Forces (RBF), with have personnel stationed along the Tajik-Afghan border, continued to be responsible for over half of the total seizures in country. Both they and Tajik border forces continue to be Tajikistan's first and main line of defense against illegal narcotics trafficking. Given low pay and high incentives for corruption, they are at times unequal to the task.

Corruption. Public speculation regarding trafficking involvement by government officials is rampant, and is targeted equally at prominent figures from both sides of Tajikistan's civil war. While it is impossible to determine how pervasive drug and other forms of corruption are within government circles, salaries for even top officials are extremely low and at times clearly 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 of psychotropic drugs or other controlled substances and has continued to seek international support in augmenting its efforts to combat narcotics trafficking. While accusations of drug-related and other forms of corruption are at times made, there is no direct, verifiable evidence of senior officials of the GOT engaging in, encouraging, or facilitating illicit production or distribution of such drugs or substances. The lavish lifestyles of some, as noted, do give some credence to corruption allegations.

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 Counter-narcotics Protocol with the UNODC 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 and ratified both the convention and its related protocols in July 2002.

Cultivation/Production. Opium poppies and, to a lesser extent, cannabis, are cultivated in very limited amounts, most in the northern Aini and Panjakent districts. Opium cultivation has been limited by law enforcement efforts and because it has been far cheaper and safer to cultivate opium poppies in neighboring Afghanistan.

Drug Flow/Transit. An estimated 80 percent of the narcotics produced in Afghanistan are smuggled across the border into Tajikistan's Shurobod, Moskovski, and Pyanj districts, according to GOT statistics. While the GOT may be overestimating the percentage of Afghanistan's drug production that transits

Tajikistan—especially in view of the sharp increase in use of the western/Turkmenistan route—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 continued to expand and develop its initiatives aimed at increasing drug awareness, primarily among school children. The GOT also publicly acknowledged and encouraged the involvement of domestic and international non-governmental organizations (NGOs) in this effort. 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. Improved stability in the region allowed U.S. officials to significantly increase their presence in Tajikistan, thereby creating an opportunity for expansion of bilateral counternarcotics efforts. In May, the U.S. Customs Service provided border interdiction training in the U.S. for officers of the DCA and the Tajik Customs Service. U.S. Customs followed this program in September with a train-the-trainer seminar in Dushanbe, focused on narcotics detection and analysis techniques. The USG also provided training for a number of Tajik law enforcement officials through the International Law Enforcement Academy in Budapest. In addition to these efforts, officials from the U.S. Embassy in Dushanbe and Drug Enforcement Administration (DEA) Tashkent Office regularly met with GOT counterparts to discuss narcotics control efforts. Building on these discussions, in December, Tajik President Emomali Rahmonov and DCA Chief Rustam Nazarov both held consultations in Washington to examine opportunities for possible future cooperation.

The Road Ahead. The UNODC is likely to remain the principal agency supporting counternarcotics efforts in Tajikistan. The United States will continue to provide law enforcement training and equipment as appropriate, encourage similar support from Western European countries, and promote regional cooperation as essential to improve counternarcotics performance for all countries in the region. Whatever the challenges engendered by the resumption of opium production in Afghanistan following the removal of the Taliban, the USG remains committed to working with the GOT to increase its law enforcement and counternarcotics capabilities.

Turkey

I. Summary

Turkey is a major transit route for Southwest Asian opiates moving to Europe, and serves as a base of operations for major narcotics traffickers and brokers. Turkish law enforcement organizations continue to focus their efforts on stemming the traffic of drugs and intercepting precursor chemicals. Turkish forces cooperate closely with European and U.S. agencies to combat trafficking. While most of the heroin trafficked via Turkey is marketed in Western European countries, an increasing amount of heroin and opium also is smuggled from Turkey to the U.S. There is no appreciable cultivation of illicit narcotics in Turkey other than marijuana grown primarily for domestic consumption. The USG is unaware of any diversion from Turkey's licit opium poppy cultivation and pharmaceutical morphine production program.

Turkey is a party to the UN 1988 Drug Convention. Turkey is an active member of the Financial Action Task Force (FATF). The U.S. terminated its U.S. \$500,000 annual assistance program with Turkey at the end of FY 1999 due to Turkey's refusal to accept human rights language (related to the Leahy Amendment) in the bilateral letter of agreement.

II. Status of Country

Turkey is a major transshipment and refining center for heroin. Turkey also serves as a base of operations for international narcotics traffickers and associates who control the smuggling and trafficking of opium, morphine base, heroin, precursor chemicals and other drugs. The majority of opiates trafficked through Turkey originate in Afghanistan, and are ultimately shipped to Western Europe. A smaller amount of heroin is trafficked to the U.S. via Turkey.

Turkish law enforcement and counternarcotics forces are strongly committed to disrupting narcotics trafficking. Turkish counternarcotics forces continue to increase in sophistication, including their ability to conduct controlled deliveries domestically and internationally. The Turkish National Police remains Turkey's most sophisticated counternarcotics force, while the Jandarma and Customs are increasing their efficacy.

Turkish authorities seize large amounts of heroin and precursor chemicals, such as acetic anhydride. Multiton amounts of heroin are processed in or smuggled through Turkey each month.

Turkey is one of the two traditional licit opium-growing countries as recognized by the U.S. Government and the International Narcotics Control Board (INCB). There is no appreciable illicit drug cultivation in Turkey other than marijuana grown primarily for domestic consumption. The Turkish Government maintains strict control over its licit poppy program, which provides opiates for the international pharmaceutical market.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In February 2002, DEA and the Turkish National Police hosted the Southwest Asia Heroin Strategy Conference in Ankara. This meeting led to the development of Operation Containment, a regional program aimed at reducing the flow of Afghan heroin to Western Europe. The DEA and Turkish National Police then hosted a follow-up meeting in Ankara in May 2002 to assess preliminary results.

Accomplishments. The Turkish International Academy against Drugs and Organized Crime (TADOC), which was established under the initiative of the UN and the Turkish National Police in 2000, trained 1,563 participants in 2002, 196 of them being non-Turkish law enforcement officers.

Law Enforcement Efforts. During 2002, Turkish law enforcement agencies, including the Turkish National Police, the Jandarma, Customs and the Coast Guard, conducted successful operations and seized over 2. 75 metric tons of heroin and 7.9 metric tons of morphine base, 6.8 metric tons of cannabis, 8.68 million pills of Captagon, 99,000 Ecstasy tablets, and 49.6 thousand liters of the heroin precursor chemical, acetic anhydride. Included in the above seizure figures is a March 2002 seizure by Turkish authorities of 7,454 kilos of morphine base as a result of a DEA-Jandarma joint investigation. This was the largest seizure of morphine base ever in Turkey. Authorities took 9652 individuals into custody in drug-related arrests in 2002.

Corruption. The Anti-Corruption Supervisory Committee, which was established in 2001, submitted an "Action Plan on Increased Transparency and Efficient Administration in Turkey" to the Council of Ministers in 2001. The Council of Ministers approved the action plan in January 2002 and established a monitoring commission comprised of the related ministers.

The new government, which was elected in November 2002, committed in its "action plan" to secure parliamentary approval of the Council of Europe's Criminal Law Convention on Corruption and its Civil Law Convention on Corruption as well, and to participate in the Council of Europe's Group of Countries Against Corruption (GRECO), the body responsible for implementing these instruments.

Agreements and Treaties. Turkey is a party to the 1988 UN Drug Convention. It signed the UN Convention on the Suppression of Terrorist Financing in September 2001, and the Turkish parliament ratified the convention in June 2002. An extradition and mutual legal assistance treaty is in force between the United States and Turkey.

Cultivation/Production. Illicit drug cultivation, 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 diversion into illicit channels.

Drug Flow/Transit. Turkey remains a major route, as well as a storage, production and staging area, for the flow of heroin to Europe. Turkish-based traffickers and brokers operate directly and in conjunction with narcotic smugglers, laboratory operators, and money launderers in and outside Turkey. They finance and control the smuggling of opiates (whether in the form of opium, morphine base, or heroin) to and from Turkey.

Afghanistan is the original source of most of the opiates reaching Turkey. Morphine and heroin base are smuggled by vehicles from Pakistan via Iran to Turkey. Multi-ton quantities of opiates and hashish have been smuggled by sea from Pakistan to points in Turkey along the Mediterranean, Aegean, and/or Marmara seas. Opiates and hashish also are smuggled to Turkey overland from Afghanistan via Turkmenistan, Azerbaijan, and Georgia.

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. From July 1, 1999, to December 31, 2002, over 94 metric tons of acetic anhydride was seized in or destined for Turkey.

Traffickers control and operate the illicit laboratories refining morphine base into heroin at various locations in Turkey. Some of them reportedly have interests in heroin laboratories operating near the Iranian-Turkish border in Iran. 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 enable Turkish-based traffickers to control much of the heroin marketed to Western Europe.

Demand Reduction. While drug abuse remains low in Turkey compared to other countries, the number of addicts has increased in recent years. Although the Turkish Government is increasingly aware of the need to combat drug abuse, the agencies responsible for drug awareness and treatment remain underfunded. There are a total of five Alcohol and Substance Abuse Treatment Clinics (AMATEM) in Turkey, which serve as regional drug treatment centers. Due to lack of funds, only one of the centers focuses on drug prevention as well as treatment. The most recent drug abuse survey was prepared in 1995.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. policy remains to strengthen Turkey's ability to combat narcotics trafficking, money laundering and financial crimes. Through fiscal year 1999, the U.S. Government extended U.S. \$500,000 annually in assistance to provide commodity and training assistance to the Turkish National Police and Jandarma; training and equipment to Turkish Customs to improve border interdiction; commodity and training to the Turkish Grain Board and training to the Turkish Financial Crimes Investigation Board.

On February 7, 2002, DEA presented the Turkish National Police and the Turkish Government with an asset sharing check for U.S. \$264,846. This money was part of more than U.S. \$2 million seized by DEA in the course of a long-term, multinational criminal investigation that culminated in 1995 with coordinated arrests in the U.S., Turkey, Holland, and Germany. Turkish government cooperation was key to this case; the Turkish National Police contributed critical evidence without which many of the convictions in this case would not have been possible.

Road Ahead. With the election of a new government in November 2002, many of the key government officials responsible for counternarcotics and money-laundering may be replaced. The U.S. Mission in Turkey intends to engage any new officials, and work with the new government to help combat drug trafficking, money laundering, and corruption.

Turkmenistan

I. Summary

Largely due to its proximity to Afghanistan, Turkmenistan remains a vital transshipment route for traffickers seeking to smuggle narcotics to Turkish, Russian and European markets. However, Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals. Turkmenistan shares a rugged and remote 1180-kilometer border with Afghanistan and an 800-kilometer boundary with Iran. Counternarcotics efforts in Turkmenistan are carried out by several agencies including the Ministry for National Security, State Customs and Border Guards. The Government of Turkmenistan (GOTX) continues to publicly commit itself to counternarcotics efforts; however, its law enforcement agencies are hampered by a widespread lack of resources, training and equipment. Turkmen officials speculate that smuggling organizations may be returning to more traditional routes through its southern border with Iran due to the increase in military operations and ongoing tension along the Afghan-Iranian border. 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 but has not yet met the Convention's goals.

II. Status of Country

Turkmenistan remains a key transit country for the smuggling of narcotics and precursor chemicals. The flow of Afghan opiates destined for markets in Turkey, Russia and Europe enter Turkmenistan from Afghanistan, Iran, Pakistan, Tajikistan and Uzbekistan. The bulk of Turkmen law enforcement resources and manpower are directed at stopping the flow of drugs from Afghanistan. Turkmen law enforcement authorities at the Turkmen-Uzbek border are primarily focused on interdiction of smuggled commercial goods, thus providing an attractive transshipment route for narcotics smugglers. Commercial truck traffic from Iran continues to be heavy. Caspian Sea ferryboat traffic from Turkmenistan to Azerbaijan and Russia continues to be a viable smuggling route; however, specific seizure statistics along this route are not available. Turkmenistan Airlines operates international flights connecting Ashgabat with a number of major cities that could be used by traffickers.

During the past year, the Government of Turkmenistan (GOTX) has focused its counternarcotics efforts along the mountainous Afghan border, as well as along Turkmenistan's porous frontier with Uzbekistan, which had been left largely unguarded until August 1999. The GOTX reported increases in drug seizures along the Uzbek border for 2002. The majority of those arrested were Turkmen citizens attempting to smuggle heroin or opium through legal border crossing points. Contraband was usually hidden on the smuggler's body or concealed in cars or buses. Anecdotal reports and official contacts indicate that trucks and railcars transport large consignments of narcotics out of Turkmenistan. Following the U.S.-led military operation in Afghanistan, 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. Turkmen officials speculate that smuggling organizations may be returning to more traditional routes through Iran.

Although the majority of Turkmen drug seizures on the Afghan border continue to involve confrontations with heavily armed smugglers, Turkmen authorities continued to report a decline in such activity. GOTX officials attributed this to increased Turkmen law enforcement presence in the Afghan border area and adjustments by traffickers, shifting transit to Uzbekistan. Turkmen authorities have also reported that smugglers have reduced efforts to move drugs by illegal border crossings, instead moving their product via legal entry points in hidden compartments in vehicles and in containerized cargo..

With the commencement of U.S.-led military operations in Afghanistan, the domestic street price for illegal drugs in Turkmenistan increased dramatically. According to official contacts, heroin base narcotics sold for approximately U.S. \$15 per gram and opium approximately U.S. \$2 per gram pre September 2001. By early 2002, the street price for heroin-based narcotics had increased to nearly six times the normal price (N.B. Police sources suggest that the average street purchase in 2002 ranged between 0.4 and one gram, constituting 20 to 40 doses).

Turkmen law enforcement continues to engage in operations to prevent the smuggling of the precursor chemical Acetic Anhydride (AA) through its borders. These efforts are primarily focused around the large rail and truck border crossing point at Serhetabad (formerly Kushka) on the Afghan border. Turkmen officials made large AA seizures between 1998 and 2000 (eight metric tons at the Serhetabad border alone). However, to date the GOTX has failed to make available any details regarding these significant AA seizures in Turkmenistan. In June 2001, the U.S. Embassy requested specific and detailed information regarding nearly 146 tons of AA produced in India that had been seized in Turkmenistan.

In the past year, Turkmen authorities have arrested an increasing number of internal body smugglers, mostly Turkmen or Tajik citizens, at legal crossing points on the Uzbek border. These arrests typically involved attempts to conceal contraband by swallowing small amounts of heroin.

Turkmenistan remains vulnerable to efforts of criminal organizations that might seek to launder money through the several foreign-operated hotels and casinos in Ashgabat. With an official exchange rate of 5.250 Manats/U.S. \$ and an unofficial rate of four times that, Turkmenistan represents a relatively easy environment in which to conceal proceeds from criminal activities..

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 allowed 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 and the end of Ramadan.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Turkmen law enforcement authorities may search for drugs and other contraband, unconstrained even by relatively recent requirements to secure search warrants from a government-appointed commission. The President of Turkmenistan proclaimed the twenty first century "The century without drugs" to demonstrate Turkmenistan's commitment to controlling narcotics. The recently established State Coordinating Committee on Drug Addiction(SCCDA)has not yet undertaken any concrete initiatives and activities in support of the GOTX's National Action Plan on Drug Control.

Accomplishments. There were no significant accomplishments in the national sphere. In an effort to strengthen regional cooperation in the area of counternarcotics efforts, Turkmenistan hosted an UNODC-sponsored fourth review meeting of high-level officials on the Memorandum of Understanding (MoU) in Sub-regional Drug Control Cooperation in Central Asia in Ashgabat on December 13 and 14, 2002 (Turkmenistan became a party to the MoU in 1996). The meeting endorsed a UNODC suggestion to establish a regional intelligence and coordination center.

Law Enforcement Efforts. The GOTX continues to give priority to counternarcotics law enforcement. Despite a lack of resources, Turkmen border forces are fairly effective in detecting and interdicting illegal crossings by armed smugglers. According to GOTX officials, female border guards along the Turkmen border checkpoints are used to effect searches of suspected female traffickers. Nearly half of all traffickers arrested at border crossings are female.

Official statistics are available only for the first five months of 2001; no 2002 figures have been reported. In the first five months of 2001, Turkmen law enforcement agencies detained 169 border violators and

seized 1298 kilograms of narcotics (opiates and hashish). In 2000 reported seizures were 5,245 kilograms of hashish, 129 kilograms of opium, and 50 kilograms of heroin. GOTX officials also reported seizures of cocaine, poppy seed, poppy straw, marijuana, and Acetic Anhydride (AA) in Turkmenistan during 2002, but they provided no figures.

U.S. Customs provided extensive training to border control agencies in 2002 in order to interdict weapons of mass destruction (WMD). , Such training included border interdiction methods, laboratory analysis, and investigative techniques. This training was concurrent with delivery of high-tech detection equipment. U.S. Customs currently has a full-time advisor resident in Turkmenistan to assist with further equipment delivery and training. This training, advisory assistance, and equipment is expected to have spin-off benefits for narcotics detection.

Corruption. Accurate 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 conducive to corruption. 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 that corruption among Turkmen law enforcement officials is widespread. The USG has no reliable evidence of involvement of senior Government of Turkmenistan officials in drug-related corruption, but payments to lower level officials to facilitate passage of smuggled drugs at border crossing points is likely. It is impossible to discern how high up the chain of authority such payments may reach.

Agreements and Treaties. Turkmenistan is a party to the 1998 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Cultivation and Production. Turkmenistan is not a 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. Some sensitive sources within the GOTX report that the Indian cannabis plant is cultivated in remote areas on small patches, particularly in the mountain village of Gary Gala, 304 kilometers to the west of the capital of Ashgabat in the Kopet Dag mountain range and, on a larger scale, in Takhta Bazar, a village 541 kilometers to the east of Ashgabat. This illicit cultivation is solely for domestic consumption. Much of the country's male population smokes the dried flowering tops of the hemp. Data on potential cannabis yield and the level of its abuse is unavailable.

Drug Flow/Transit. Turkmenistan remains a primary transit corridor for smuggling rings 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 little due to border fortifications and interdiction efforts which, are deterring traffickers.

Turkmenistan's nearly 1800-kilometer Uzbek frontier remains thinly staffed by border guard forces when compared to its borders with Afghanistan and Iran. In addition, the Uzbek border has many legal crossing points that are poorly-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 inadequate resources, facilities and equipment. Most Turkmen border crossing points have only crumbling, rudimentary inspection facilities for screening vehicle traffic. They lack reliable communications systems, computers, unloading and x-ray equipment, or dogs trained in narcotics detection. Despite these difficulties, Turkmen law enforcement does a creditable job of drug interdiction.

Domestic Programs/Demand Reduction. Anecdotal evidence suggests a steady increase in the domestic user population, particularly in the capital of Ashgabat and the second largest city of Mary. While officials are reluctant to provide data, reports indicate that the quality of heroin continues to be very poor. Officials also reported that 98 percent of the heroin users in Turkmenistan are smoking the narcotic, rather than injecting it intravenously. However, sources reported needles and throwaway syringes are easily obtainable and are regularly shared by those users who chose to inject. Government officials report that the heroin problem has stabilized since 1998-1999; however, street contacts unequivocally 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 approximately fifteen percent of the adult population (18 to 65) uses illegal drugs, though unofficial estimates put the user population at twenty percent (up somewhat from last year's estimates).

Currently, the Ministry of Health operates six drug treatment clinics located in the capital of Ashgabat and each of the country's five provinces. Narcotics users receive treatment at these clinics, and all clinic visits are kept confidential. The GOTX has permitted the implementation of a UNDCP/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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Despite difficulties in substantive engagement with the GOTX in areas relating to security and law enforcement, the USG continually seeks to assist Turkmenistan in updating its body of law and law enforcement institutions to more effectively counter the illegal drug trade. In July 2002, the U.S. Drug Enforcement Administration (DEA) conducted a one-week forensic chemist seminar on narcotics with GOTX law enforcement officials in Ashgabat. A total of nineteen participants representing the Ministry of Justice, the Prosecutor General's Office, and the Ministry for National Security of Turkmenistan attended the seminar. Five GOTX law enforcement officers from the State Customs and the Border Guards Service attended a one-week regional airport operations seminar conducted by the DEA in Tashkent, Uzbekistan, from August 5 to 9, 2002. To enhance the use of forensic analysis of evidence gathered by Turkmen law enforcement agencies during the conduct of criminal investigations, the USG has scheduled a forensic development program for late 2003 administered by the U.S. Department of Justice's International Criminal Investigative Training Assistance Program.

The USG and the GOTX signed a bilateral agreement specifically focusing on improving criminal investigations through the scientific and forensic analysis of evidence. Under the terms of this agreement, equipment and additional training will be provided in the future.

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 primarily by working with international and non-governmental organizations and programs, such as UNODC and the American Bar Association, to enhance the ability of Turkmen judicial and legal institutions to combat narcotics smuggling organizations and the 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, the promotion of regional cooperation, and an exchange of drug-related intelligence. To this end, the USG plans to continue its efforts to train Turkmen counternarcotics law enforcement officials. In 2003 the USG plans to conduct training for Turkmen officials in the fields of forensic chemistry, drug enforcement, passenger interview and vehicle inspection techniques. The USG also plans to support a police academy development program.

Ukraine

I. Summary

Trafficking and use of narcotics continued to increase in Ukraine in 2002. The Government of Ukraine (GOU) continued to take effective 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 its counternarcotics legislation. Combating narcotics trafficking continues to be a national priority for law enforcement bodies, though a lack of economic resources seriously hinders Ukrainian efforts. Coordination between law enforcement agencies responsible for counternarcotics work has improved, but still remains a problem due to regulatory and jurisdictional constraints.

II. Status of Country

Ukraine is not a major drug producing/transit country; however, Ukrainian officials state that trafficking of narcotics through Ukraine to Western Europe has increased due to its location on a significant transit route for Afghan heroin. 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), as well as for drugs transiting from Central and Eastern Europe. Numerous available ports on the Black and Azov seas, porous borders, and poorly financed and under-equipped border and customs control forces make Ukraine susceptible to drug trafficking.

According to official statistics for 2002, approximately 42,000 individuals were apprehended in criminal cases involving narcotics, an increase of 7000 over 2001. Unemployed persons under the age of 30 committed most crimes connected with drugs.

The number of officially registered drug addicts in Ukraine now exceeds 78,000, including almost 1000 teenagers. The total figure is an increase of approximately 5000 over 2001, although the number of teenage addicts reported declined by over 12 percent. 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 continues to gain popularity with young people. Nevertheless, opium straw extract remains the main drug of choice for Ukraine addicts. Young people are using 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 continued decrease in prices for this drug. Ukrainian efforts to combat narcotics are seriously hampered by a lack of resources (e.g., financing, personnel and equipment).

III. Country Actions Against Drugs in 2002

Policy Initiatives. Over the past six years the Ukrainian parliament passed several 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. The Drug Enforcement Department (DED), an independent department within the MVS, 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 the Cabinet of Ministers to coordinate the efforts of government and public organizations to combat drugs, is currently drafting a

revised 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 were constrained by lack of funding, the MVS is giving a high 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 SBU 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, 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 effectively and successfully to 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. The Ministry of Health and the Ministries of Education And Culture are working with the Ministry of Internal Affairs to intensify counternarcotics educational programs. A pilot project approved by the Ministry of Health directed at demand reduction operates in Donetsk Oblast; it dispenses methadone to addicts.

In 2002 Ukrainian law enforcement bodies succeeded in breaking up more than 3100 criminal groups involved in drug activities. Operation "Containment," carried out in cooperation with SECI, has had notable successes at interdicting drug smuggling into and through Ukraine. In April about 1,200 metric tons of contraband drugs were seized in Odessa, as well as 2,000 metric tons of cocaine precursors. The operation is now expanding to devote greater attention to means of land transportation such as trains, although additional coverage of ports remains a critical need. Operations against synthetic drugs led to the September closure of a laboratory in Sevastopol which had been manufacturing a powerful synthetic 40 times more concentrated than heroin. Ukrainian authorities pointed out that, due to the high potency of the drug (one gram can yield 20,000 does), the twenty kilograms seized would have been enough to dose ten percent of the world's population. Also in September 8 tons of opium poppies were destroyed in the Dniepropetrovsk region. In July a regional Black Sea network of 46 drug smugglers was broken up, which resulted in the seizure of over 2,300 kilograms of narcotics (including 578 kilograms of heroin) and over 1.5 tons of precursors.

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 2002, Ukrainian law enforcement agencies were successful in seizing approximately 29 tons of narcotic drugs. This included incountry seizures of 206.6 kilograms of heroin, 4.2 tons of cannabis, 102 kilograms of other opiates (including 34 liters of opium extract), 23 tons of opium poppy straw, 32,564 doses of "ecstasy and ATS," 606 kilograms of psychotropic drugs, and 1,574 tons of illegally diverted precursor chemicals.

Corruption. Ukrainian politicians and private citizens, as well as international experts point out that corruption remains a major problem. Corruption in Ukraine is rarely linked with narcotics, although it decreases the effectiveness of efforts to combat organized crime, a major factor in the narcotics business. To combat corruption, the Ukrainian government has adopted an extensive set of laws and decrees. At the beginning of 2001, the government approved a national plan of action to combat corruption, but progress in implementation has been slow.

Agreements and Treaties. Ukraine is a party to the 1988 UN Drug Convention and has also signed specific counternarcotics project agreements with the UNODC. 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. The U.S.-Ukraine Mutual Legal Assistance Treaty came into force in February 2001. 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. The U.S. and Ukraine signed a Memorandum of Understanding on Law Enforcement Assistance in December, 2002.

Cultivation/Production. Opium poppy is largely 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. Despite the prohibition on the cultivation of drug plants (poppy straw and hemp), 5000 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. 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 usually 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 throughout the country.

IV. U.S. Policy Initiatives and Programs

U.S. objectives are to assist Ukrainian authorities to develop effective counternarcotics programs in interdiction (particularly of drugs transiting the country), investigation, 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. U.S. Customs provided Ukraine border control agencies with mid-management training on weapons of mass destruction (WMD) threat awareness, border interdiction and investigative issues at the Pacific Northwest Nuclear Laboratory (RADACAD) in Washington state. The United States has provided technical assistance in the drafting of the new Ukrainian money laundering legislation.

The Road Ahead. By international standards, Ukraine does not yet have a major 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.

United Kingdom

I. Summary

The United Kingdom (U.K.) is a consumer country of illicit drugs. Like other developed nations, the U.K. faces a serious domestic drug problem. The U.K. is in the fifth year of a ten-year drug strategy to address both the supply and demand aspects of illegal drug use. The U.K. 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 U.K. as a major shipping route. Legislation introduced in October 2001 to improve the U.K.'s asset forfeiture capabilities took effect in January 2003. The U.K. is party to the 1988 UN Drug Convention.

II. Status of Country

Cannabis remains the most-used illicit drug in the U.K., but with an estimated 250,000 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 U.K.'s latest surveys on drug use show that in 2001/02 about 12 percent of those aged 16-59 reported having used drugs in the last year, with 28 percent of 16-19 year-olds reporting drug use in the last year. Virtually all parts of the U.K., including many rural areas, confront the problem of drug addiction to at least some degree. Based on recent statistics that showed an increase in drug-related deaths, the U.K. government launched a specific Action Plan to Reduce Drug-Related Deaths on November 13, 2001. The plan calls for 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 drug-related deaths by 20 percent by 2004. The Government issued an updated drug strategy paper in November 2002 that further refines its targets for education and treatment. In December 2002, it also announced a program to specifically target crack use, the National Crack Action Plan, which will focus on breaking up supply networks, improve crack-related education programs, and expand treatment opportunities.

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 U.K. crime overall.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002 the British government continued its ten-year strategy program, first launched in 1998, that emphasizes that all sectors of society should work together to combat drugs. Drug problems do not occur in isolation, but are often linked to other social problems. Trends in responding to drug abuse with government programs reflect wider U.K. 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 emphases: to help young drug abusers to resist drug misuse to permit them to reach their full potential in society; to protect communities from drug-related, antisocial and criminal behavior; to enable people with drug problems to recover and live healthy, crime-free lives; and to limit access to narcotics on the streets. Key performance targets were set in each of these four areas and updated in the November 2002 drug strategy. The most controversial aspect of the updated strategy is the decision to downgrade cannabis to a Class C drug. The final legislation implementing this downgrade is expected to be enacted in mid-2003 and to also include a proposed increase in penalties for production and trafficking in all Class C substances. Notwithstanding these amendments, the U.K. government has emphasized that it continues to regard cannabis as a harmful substance and has no intention of either decriminalizing or legalizing its production, supply, or possession.

A range of drug-prevention activities that target 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). The U.K. is rapidly expanding treatment services and believes it is on track to meet the target of doubling the number of people in treatment by 2008. The number of people entering treatment has increased by about 8 percent per year since 1999, and an additional U.S. \$350 million (British Pounds Sterling (BPS) 214 million) has been allocated over the next three years for both community and prison treatment programs. Treatment will be based on education, harm reduction, and prescriptive and rehabilitative services that are tailored to individual needs and supported by the health and social care agencies. By March 2004, the U.K. plans to have drug education policies and education programs in all schools and, by March 2006, will complete a quality assessment of all programs and materials, introducing improvements as needed.

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.

Expenditures under the updated drug strategy will increase 21 percent from a planned U.S. \$1.7 billion (BPS 1.026 billion) in 2002 to U.S. \$2.05 billion (BPS 1.24 billion) in 2003, followed by annual increases to U.S. \$2.5 billion (BPS 1.5 billion) by April 2005. Drug treatment expenditures are targeted to increase 31 percent by 2005, and expenditures on programs for young people will rise 59 percent. The largest increase will come in spending on community programs – 234 percent.

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. In 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, it was rolled out nationally in England and Wales. By March 2001, over 1,200 orders had been made, with an additional 4,851 orders made between April 2001 and March 2002. All police forces in England and Wales now have arrest referral schemes aimed at identifying drug abusers at the point of arrest and referring them into treatment or other programs. Between October 2000 and September 2001 (latest figures), arrest referral workers screened 48,810 arrestees in England and Wales. Over half (51 percent) had never previously received drug treatment.

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.

Law Enforcement Efforts. U.K. forfeiture law (known in U.K. law as "confiscation") applies to proceeds of all indictable offenses and a small number of specified offences. The United States enjoys good law enforcement cooperation from the U.K.. The U.K. honors U.S. asset seizure requests and was one of the first countries to enforce U.S. civil forfeiture judgments. In response to a request from Prime Minister Blair to assess the Government's efforts at confiscating criminal proceeds, in June 2000, the Cabinet Office of Performance and Innovation Unit (PIU) published a detailed report entitled "Recovering the Proceeds of Crime." The report essentially criticized the effectiveness of the U.K.'s efforts both in pursuing and collecting on confiscation orders and found that existing powers to accomplish that task were under-used. The PIU 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 enacted in July 2002. The U.K. government has also published its first Asset Recovery Strategy.

There is a significant lag in the appearance of drug seizure statistics in the U.K.. The latest full-year statistics available are from CY2000, but trends apparent in these statistics continued through 2002. In 2000, the total number of seizures of "Class A", hard drugs rose by 10 percent from the preceding year. Heroin was the most frequently seized Class A drug, followed by ecstasy, powder cocaine, and crack cocaine. U.K. authorities seized 3,382 Kg. of heroin in 2000, a 44 percent increase over 1999, and a new record. Cocaine and crack seizures together totaled a record 3,970 Kg in 8,620 cases. Ecstasy seizures were up 46 percent to 6.5 million pills. Police and Customs seized 74 metric tons of cannabis, a 4 percent increase from 1999.

Corruption. Narcotics-related corruption of public officials at all levels is not considered a problem in the U.K.. When identified, corrupt officials are vigorously prosecuted.

Agreements and Treaties. The U.S. and the U.K. have a long-standing extradition treaty and a mutual legal assistance treaty (MLAT) and a judicial narcotics agreement, which the U.K. has extended to some of its dependencies. The U.S. and the U.K. also have a judicial narcotics agreement and an MLAT relating to the Cayman Islands, and which extends to Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands. The United States and the U.K. 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 U.K. vessels suspected of trafficking in drugs. The U.K. is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The U.S.-U.K. Customs Mutual Assistance Agreement (CMAA) dates from 1989. In December 2000, the U.K. signed but has not yet 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. Cannabis is cultivated in limited quantities for personal use, and occasionally sold commercially. Most illicit amphetamines and MDMA (Ecstasy) are trafficked from continental Europe, but some are manufactured in the U.K. in limited amounts. Authorities destroy crops and clandestine facilities as detected.

Drug Flow/Transit. Steady supplies of heroin and cocaine enter the U.K.. Although some 90 percent of heroin in the U.K. (amounting to around 30 tons a year) normally comes from Southwest Asia, chiefly Afghanistan, the quantity of opiates that entered the U.K. 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 U.K.. This situation resulted in an initial decline in opiates reaching the U.K., followed by a sharp increase from depressed levels, beginning in the fall of 2001, and continued through 2002.

A significant amount of the heroin that reaches the U.K. is handled at some point by U.K.-based Turkish criminal groups, although Turkish criminals in the Netherlands and Belgium also channel heroin to the U.K.. Pakistani traffickers also play a significant part; a large amount 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 U.K. through ports in the southeast, although some enters through major U.K. airports with links to Turkey, Northern Cyprus, and Pakistan.

Hashish comes to the U.K. 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 U.K. 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 U.K. concealed in trucks or private cars, or by human couriers or "mules." Traffickers based in the U.K. are the organizers. The Caribbean, chiefly Jamaica, is a major transshipment point from Colombia with import to the U.K. 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. The synthetic drug supply originates out of Western and Central Europe. Amphetamines, Ecstasy, and LSD have been traced to sources in the Netherlands and Poland, with some originating in the U.K..

The U.K. has taken responsibility for coordinating international assistance to help the Transitional Afghan Government's counternarcotics efforts. Starting with the 2003 crop, the aim is to reduce by 2008 opium production by 70 percent and completely eliminate it by 2013. A combination of measures will be employed that includes improving security and law enforcement capacity and implementing reconstruction programs to encourage farmers away from poppy cultivation.

In Iran, the U.K. helps fund a UN counternarcotics program, as well as offers bilateral assistance for drug interdiction efforts. 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 UNODC's project does not meet.

Domestic Programs (Demand Reduction). The U.K. 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. 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. On-going results from all these programs show reductions in criminal activity and truancy and improved community awareness.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.K. plays a leading role within the EU in combating drugs. Under the 1998 U.K. 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 U.K. 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 U.K. and Spain are also creating a joint investigation team aimed at cracking down on traffickers who smuggle cocaine from Colombia to Spain and on into the U.K..

The U.K. attended the International Conference on Reconstruction to Afghanistan in January of 2002 and pledged to give U.S. \$330 million (BPS 200 million) to Afghanistan over four years. Through the Department for International Development (DFID), U.S. \$107 million (BPS 65 million) have already been given to Afghanistan for humanitarian and reconstruction purposes.

The Road Ahead. The United States looks forward to continued close cooperation with the U.K. on all counternarcotics fronts.

Uzbekistan

I. Summary

Uzbekistan is primarily a transit country for opiates originating in Afghanistan. Well-established trade routes facilitate the transit of these narcotics to Russia and Europe. There is a growing market for a variety of narcotics and consequently a growing problem with drug addiction. The Government of Uzbekistan remains committed to eliminating the narcotics trade, as evidenced by manpower increases in its enforcement efforts, but still relies heavily on multilateral and bilateral financial and technical resources. According to the National Drug Control Commission, law enforcement officers seized a total of 608 kilograms of illegal narcotics in the first nine months of 2002. 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. In 2002, a shipment of 200 liters of precursors was seized at Termez. Effective government eradication programs have eliminated nearly all illicit production of opium poppies in Uzbekistan.

III. Country Actions Against Drugs in 2002

Policy Initiatives. On March 28, 2002, Prime Minister Sultanov signed a decree to implement a multiyear comprehensive plan to address all aspects of the narcotics problem in Uzbekistan. The plan, which is in effect through 2005, includes measures to address trafficking, demand reduction, coordination of effort from law enforcement entities, legal reform of the criminal code, treatment and rehabilitation of addicts, and deepening international cooperation for counternarcotics efforts.

The plan lists specific goals to be accomplished, timelines, and assigns responsibility to agencies. It indicates funding sources, and requires detailed documentation to show progress or completion of assigned tasks. The plan assigns tasks to all ministries, the National Security Service, State Committee for Border Control, State Customs Committee, National Drug Control Commission, Procuracy, oblast and city governments, Uzbekistan Airways, and others. According to Kamol Dusmetov, director of the National Drug Control Commission, the various participants meet on a regular basis to discuss priorities and progress that is being made.

For several years, many of these organizations have successfully worked together on the annual project "Operation Black Poppy" which combines intelligence collection, interdiction of smugglers, eradication of cultivation, and demand reduction. The demand reduction efforts have focused on a coordinated community policing effort, in which police officers work with local government and education officials to visit schools and other large institutions to discourage illicit drug use.

The August 14, 2001 "Agreement on Narcotics Control and Law Enforcement Assistance Between the Government of the United States of America and the Government of the Republic of Uzbekistan" established the framework for U.S. assistance to Uzbek law enforcement agencies in efforts against narcotics trafficking and organized crime. Presently under consideration are expanded counternarcotics programs, including a DEA-sponsored Sensitive Investigative Unit, demand reduction projects, judicial and legal reform, and enhancement of border security.

Accomplishments. Efforts to achieve even the most basic enforcement goals are hampered by the lack of effective laws, programs, money, appropriate international agreement and coordination among law enforcement agencies. The UNODC is continuing its efforts to implement the following projects:

- Strengthening the Capacities of the Drug Law Enforcement Agencies of Uzbekistan in Data and Information Collection. This is a project to establish a computer network among enforcement agencies.
- Precursor Control. The precursor control project will establish governmental controls over dual-use precursor chemicals. It is being implemented in close cooperation with the German and British Embassies in Tashkent and has a budget of U.S. \$5,000,000.
- Immediate assistance to Uzbekistan for the resumption of activities at the Termez-Hayraton checkpoint ("Friendship Bridge") on the Uzbek-Afghan border.

Law Enforcement Efforts. Preliminary statistics from the National Center for Drug Control show that in the first nine months of 2002, Uzbek law enforcement seized a total of 608 kilograms of illicit drugs. Confiscated heroin accounted for approximately one-third 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 intelligence role), and Customs works at the border (interdiction/seizures at the border are also carried our by the Border Guards, although it is not their primary role). Despite this apparently clear delineation of responsibilities, a 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 effort among the agencies. The Center continues to have difficulty accomplishing this goal.

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 the successor to the KGB and includes intelligence and counterespionage in its portfolio. The Customs Committee continues to give a high priority to counternarcotics, reflected in a 300 person increase in staff dedicated to counternarcotics efforts. The new personnel are in training and are expected to begin work in early 2003. In 2002, training and equipment were provided to Customs, MVD, NSS, and the Procuracy under the bilateral agreements between the United States and Uzbekistan.

Law enforcement suffers from a lack of attention; standards remain below international norms. The Uzbek criminal justice system is not far removed from the system inherited from the Soviet Union—the executive branch and Prosecutor Generalship are powerful entities and the judiciary is not independent. Corruption is rampant and it is not unusual for law enforcement officers to plant narcotics on suspects. In an August 2002 speech, President Karimov recognized existing problems and stressed the need for judicial and legal reform.

According to National Center reports, most smuggling incidents involve one to two individuals, likely backed by a larger, organized group. Resource constraints, however, have limited the GOU's ability to investigate these cases. In general, information that has been gathered suggests smuggling rings are relatively small, family-run operations, with no single group controlling any region or the whole country. Smuggling rings tend to be located on the border between Uzbekistan and Tajikistan, where family members can cross the border more easily. There is also reporting which indicates smuggling activities continue to grow along the Turkmen-Uzbek border.

Lack of money for equipment and training remains the greatest difficulty faced by all agencies. They therefore rely heavily on international assistance from the UNODC, the U.S., the U.K. and other countries to improve their capacities. The European Union and OSCE are beginning to focus more

heavily on Uzbekistan and Central Asia. Basic necessities, such as uniforms, footwear, and reliable all-terrain vehicles to replace aging Soviet-era equipment, remain in short supply.

Corruption. Corruption charges were brought against several individuals from the Ministry of Internal Affairs and the Procuracy. Criminal cases resulted in prison sentences for most individuals charged. In other cases, those involved were fired from their jobs. The Procuracy continues to be the lead investigative agency for all criminal matters, including corruption.

The GOU 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. There is no evidence to suggest any senior GOU officials are involved in such activities or any USG-provided equipment is being misused.

Agreements and Treaties. Uzbekistan is a party to the 1988 UN Drug Convention and signed the Central Asian Counternarcotics Memorandum of Understanding with the UNODC.

Cultivation/Production. The government's eradication effort, named "Operation Black Poppy," has all but eliminated illicit opium poppy cultivation in Uzbekistan. National Center estimates indicate that less than one hectare of land was used for illegal narcotics cultivation in 2002.

Drug Flow/Transit. Several major transnational trade routes facilitate the transportation of opiates and cannabis from Afghanistan to Russia and Europe. The border crossing point at Termez is increasingly a point for trafficking. Narcotics are being discovered in trucks returning to Uzbekistan from delivering humanitarian aid into Afghanistan. A shipment of 200 liters of precursors was seized in a humanitarian cargo vehicle during the summer.

The National Center reports that trafficking also continues along traditional smuggling routes, mainly from Afghanistan into Surkhandarya oblast and from Afghanistan via Tajikistan into Uzbekistan. There was a 22 percent decrease in narcotics seizures for the first 9 months of 2002 as compared with the same time period in 2001. This decrease is attributed to improved security measures implemented on the borders by the State Customs Committee and Border Guards. Improvements in Tajik security efforts resulted in a decrease in rail trafficking along the Dushanbe-Moscow route. Trafficking on airlines fell while no significant change was noted in vehicular or pedestrian trafficking.

Domestic Programs. According to the Ministry of Health (MOH), about 6,000 new addicts registered with the government in the first nine months of 2002, bringing the total of registered users to about 24,000. There are no official estimates for unregistered addicts. However, the number of registered addicts is believed to reflect only 10-15 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 NGOs, schools and the mahalla (neighborhood) support system.

IV. U.S. Policy Initiatives and Programs

The goals of the 1998 and 2001 counternarcotics agreements between the United States and the Republic of Uzbekistan focus on the prevention of illicit drug activities in and through the territory of Uzbekistan and the need to increase the effectiveness of the fight against the trade in illicit narcotic substances. The Drug Enforcement Administration (DEA) is working to establish a Sensitive Investigative Unit in the Ministry of Internal Affairs.

The Road Ahead. The U.S. will work with all appropriate Uzbek agencies to improve narcotics detection and drug interdiction.

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. To a lesser but still significant degree, the FRY also has a growing problem with domestic consumption of drugs, particularly heroin and marijuana. The FRY does not appear to be a significant cultivator or producer of drugs and precursor chemicals.

Before the democratic revolution of October 5, 2000, the drug-fighting capability of the FRY police had been severely degraded by ten years of economic sanctions, political isolation, and systematic official corruption. In the two years since the revolution, the federal, Serbian, and Montenegrin police forces have begun to reorganize their counternarcotics activities; they have also coordinated a number of counternarcotics operations with police from other countries in the region. However, their efforts have been piecemeal rather than the result of following a national strategy. A lack of funds and modern equipment severely hinders proper monitoring of goods transiting the FRY. Nevertheless, assisted by internationally provided police training, reform of customs and border control procedures, and membership in international law enforcement organizations like INTERPOL and Southeast Europe Cooperation Initiative (SECI), FRY 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 serves as an important corridor for the drug trade from Turkey and the Middle East to Western Europe and beyond. Despite some recent improvements in FRY enforcement, the FRY remains a viable and well-used segment of this corridor. Its contiguity with Kosovo, Bosnia, and Albania makes the FRY particularly vulnerable. Peaceful resolution in 2001-2002 of the conflict in southern Serbia has created tighter police control of areas bordering Kosovo. In 2002, international donors assisted the Serbian police in beginning the process of border control modernization. The Serbian police also began systematic reform of customs procedures to fight smuggling, including smuggling of illegal drugs. Though Montenegrin police still operate mainly independently from Serbian and federal police, the INTERPOL office in Belgrade has facilitated greater cooperation and information sharing between the two republics in regard to fighting drug traffic. Police from both republics reported substantial interdictions of drug traffic within the country. On the international front, the Yugoslav INTERPOL office worked effectively with police in Italy, Austria, Slovenia, Macedonia, and Croatia to set up controlled deliveries of narcotics in those countries. During 2002, Yugoslav INTERPOL also began communicating with the U.S. Drug Enforcement Administration (DEA) on a regular basis.

III. Country Actions Against Drugs in 2002

Policy Initiatives. The federal government formulated an counternarcotics master plan for the FRY after the October 2000 change in government. However, new legislation needed for implementation of the plan has been held up in Parliament because of uncertainty about the future status of the federation. Meanwhile, neither the Serbian nor Montenegrin Republic has created its own official strategy for fighting drugs. The federal INTERPOL office, which opened in 2001, coordinates national drug enforcement efforts, transmitting and storing information provided by both republics.

Accomplishments. In October 2002, the FRY passed legislation enrolling the country as a dues-paying member of SECI. At the same time, the government assigned an INTERPOL-experienced officer to serve as permanent FRY liaison at the SECI law enforcement center in Bucharest.

By joining SECI, the FRY enhanced its capacity for regional and international cooperation in coming years. In December, FRY police participated in the SECI/DEA-sponsored "Operation Containment" focused on interdiction of drug traffic by means of enhanced customs procedures.

Law Enforcement Efforts. Interdictions and arrests netted mainly low-level offenders in the FRY. No major drug traffickers were arrested in the country. Republic and federal police began deploying informers to gather information on drug trafficking; however, current laws prohibit police agents from actually buying or selling drugs in sting operations. With training assistance from DEA, federal customs reorganized a 90-member unit dedicated to detecting contraband and smuggled goods, including drugs. FRY police cooperated in setting up controlled deliveries in several neighboring countries. In a Slovenian-led operation that included FRY police, 26 kilos of heroin were seized and several traffickers were arrested in Slovenia and Italy. In October, federal police cooperated with Bulgarian police in an investigation that resulted in the seizure in Bulgaria of 100 kilos of heroin and the arrest of two FRY citizens. Federal police and customs officials worked together in one operation that resulted in the seizure at the Belgrade airport of 430,000 tablets of anabolic steroids produced in Thailand. In another raid, Serbian police located and confiscated unused laboratory equipment suitable for methamphetamine production.

Corruption. In a step that could have a major impact on future counternarcotics efforts, the Serbian Republic passed a law creating a special prosecutor for organized crime and corruption who will have many capabilities currently unavailable to law enforcement in the FRY. These include: undercover and special surveillance capabilities, witness protection, plea bargaining, asset seizure, secure trial chambers, and a special anti-organized crime police unit. A law on procedure allowing implementation of the Serbia special prosecutor law passed in federal parliament in December 2002.

Agreements and Treaties. FRY's new membership in SECI effectively makes the FRY a regional law enforcement partner with all SECI member countries. The FRY has ongoing customs agreements with Russia, Romania, Bulgaria, Slovenia, Bosnia, Hungary, and Macedonia. A FRY-Albania customs agreement is currently being negotiated. A 1902 extradition treaty is in force between the U.S. and Yugoslavia. Yugoslav law forbids extradition of FRY citizens for trial in foreign countries. The FRY 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 FRY ratified 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 September 6, 2001.

Cultivation/Production. Yugoslavia is not a significant producer of narcotics or synthetic drugs. FRY INTERPOL confirmed that less than 5 percent of domestically consumed marijuana is grown within the country. According to INTERPOL, the majority of marijuana entering the FRY is grown in Albania and smuggled into the FRY through Kosovo and the Albania-Montenegro border.

Drug Flow/Transit. FRY police indicate that the Balkan drug trade Route is still operating and that the great majority of drugs seized in the FRY are in Route to Western Europe and beyond. Most drugs pass through the FRY on roads; some drugs are transported by river, while other shipments go through the inadequately monitored Belgrade and Podgorica airports. According to federal police, the quantity of

Domestic Programs (Demand Reduction). The FRY continues to promote counternarcotics public information campaigns aimed at school children. Posters illustrating drugs available in the FRY have been distributed to schools. The government also promotes counternarcotics awareness through television and billboard advertisements.

IV: U.S. Policy Initiatives and Programs

The United States currently does not have any bilateral law enforcement programs with the FRY, though the U.S. does support advanced police training through OSCE. The regional DEA office in Vienna communicated regularly, and sometimes intensively, with FRY INTERPOL throughout the year.

AFRICA AND THE MIDDLE EAST

Angola

I. Summary:

Angola does not have significant drug production, trafficking, or use. However, cannabis is cultivated and consumed locally. Angola serves as a transit point for illegal drugs, particularly cocaine from Brazil to South Africa. Angolan counternarcotics officials report seizures of cocaine. Angola is not a party to the 1988 UN Drug Convention, although its parliament has urged prompt accession by the government.

II. Status of Country

Angola is not a major center of drug production, trafficking, money laundering, or production of precursor chemicals. Despite the fact that the counternarcotics department of the national police has extremely limited resources, the police continued to seize significant amounts of cocaine and cannabis in 2002. With the relaxing of border and internal travel controls since the end of the war in April, authorities anticipate somewhat more trafficking activity from Brazil. It seems there is a Portuguese language connection in cocaine shipments form Brazil to Angola.

III. Country Actions Against Drugs in 2002

Angola is not a party to any of the major multilateral drug conventions, and has not yet become a party to the SADC counternarcotics protocol. While the National Assembly has approved resolutions urging the government to ratify all of these conventions as rapidly as possible, the government has yet to deposit its instruments of ratification. Given the end of its civil war, Angola plans to consider ratification of the SADC Protocol as well. There have been no known cases of public corruption connected to narcotics trafficking prosecuted in recent years.

Although Angola has enacted legislation mandating treatment for those convicted of narcotics abuse, there are no public treatment centers 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. The Angolan National Police have expressed strong interest in participating in U.S. training opportunities, but the Angolan government has not responded to recent invitations to regional courses.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. During the previous year the Department of State offered anti-crime and counternarcotics training and assistance programs to Angola. However, the Angolan government failed to designate participants despite expressing interest in receiving such law enforcement training. In the coming year, the U.S. Embassy in Luanda will continue to seek a mechanism for securing Angolan participation in law enforcement training. The U.S. will also encourage Angola to become party to the major multilateral drug conventions.

Botswana

I. Summary

Botswana is not a major producer of illicit drugs or precursor chemicals, and it is not a significant drugtransit country. Isolated pockets of cannabis cultivation occur, but eradication efforts keep production levels low. Botswana is a party to the 1988 UN Drug Convention and is the site and joint sponsor 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, although there is concern that its porous borders have led to increased trafficking in recent years. In 2002, drug control officials seized sizable amounts of cannabis, though slightly less than in the previous year. Drug control officials remain 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 2002

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 (2.2 oz.) of cannabis, and five to ten years for possession of more than 60 grams. There were no arrests for hard drugs during 2002. Generally, few of the cases in which individuals were arrested for cannabis use actually proceed to the trial stage. The authorities prefer leniency to strict pursuit of punishment in the case of individual abuse.

The number of seizures of drugs in Botswana decreased slightly in 2002. Police seized approximately 1,268 kilograms of cannabis during 2002, mostly from Zimbabwean traffickers. In addition to cannabis originating from Mozambique, the police have discovered that a sizeable amount comes from Lesotho as well. The seizures resulted in 404 people being implicated, but conviction percentages are not available at this time. The BPS (Botswana Police Service) reports good cooperation on narcotics control with its regional partners, especially South Africa and Zimbabwe. The UNODC 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 and the other UN drug conventions.

IV. U.S. Policy Initiatives and Programs

The U.S.-sponsored ILEA offered a full schedule of courses in 2002, after its opening in September 2001. The ILEA program includes modules on narcotics interdiction. Regional police officials anticipate greater 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 has sent units of the Botswana Defense Force (BDF) to augment the Special Support Group 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.

Road Ahead. The USG deeply appreciates the assistance and support of the Government of Botswana in connection with the International Law Enforcement Academy, and anticipates continuing cooperation with the GOB to assure that the SADC region continues to benefit from the academy's programs.

Burkina Faso

I. Summary

Though Burkina Faso is not a major source, destination, or transit country for drugs, there is growing concern about and awareness of drug abuse generally. Policy and enforcement authorities take their responsibilities in this domain seriously, but must work with limited means to address issues as they arise. Usage, transit and production are mostly limited to cannabis. Most trafficked drug products come from neighboring Ghana. Burkina Faso is a party to the 1988 UN Drug Convention.

II. Status of Country

There is growing concern over the abuse of cannabis and synthetic drugs in Burkina Faso. According to the police, an estimated 10 percent of young people have tried marijuana or other illicit drugs. Customs officials seized over 800 kilograms of cannabis in 2002. Investigations stemming from the seizures resulted in the conviction of approximately 280 people who received punishments ranging from a three-month to a five-year prison term. Most of the marijuana cultivated in Burkina Faso is intended for domestic consumption.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Lacking a reliable assessment of the status of drug trafficking, use, and production in Burkina Faso, the committee this year established a panel of experts to conduct a preliminary study and to produce a proposal for further research. With the encouragement and monetary support of the UN Office on Drugs and Crime, an inter-ministerial National Committee to Fight Against Drugs has been in place since 1993. This committee has a permanent secretariat and gathers together representatives of the various ministries involved in counternarcotics efforts. The committee is currently chaired by the Minister of Security. In 1999, the committee helped prepare and pass national counternarcotics legislation that was harmonized with those of other countries in the region. By mid-2003, the committee is hoping to have its first regional office established in southern Burkina Faso, where drug trafficking and production are relatively more common. This office would help coordinate at a regional level the agencies that work on drug interdiction efforts. Also in 2002, the committee celebrated international counternarcotics day in various provinces of the country with sensitization activities and conferences about drugs. They also took advantage of the event to incinerate stocks of drugs that were seized.

Agreements and Treaties. Burkina Faso 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 GOBF has endeavored to meet the goals of the 1988 UN Drug Convention wherever possible. The creation and continued activity of the National Committee to Fight Against Drugs is indicative of the GOBF's efforts in this regard. Burkina Faso has signed and ratified the UN Convention against Transnational Organized Crime. Burkina Faso has signed an extradition treaty with ECOWAS (Economic Community of West African States) member countries.

Corruption. Corruption is endemic throughout the poorer countries of Africa, including Burkina. The government in Burkina punishes corruption when encountered. The USG is not aware of any narcotics related corruption at senior levels of the government of Burkina Faso.

IV. U.S. Policy Initiatives and Programs

The U.S. has no current narcotics-related initiatives planned for Burkina.

The Road Ahead. Burkina is not an important transit country for drugs. U.S. liaison with Burkina officials on drug issues includes periodic visits from the regional DEA Attaché. Should there be any sign of increased use of Burkina for trafficking in hard drugs, the U.S. has regional programs which could respond. However, for the moment, there are no plans for narcotics assistance programs in Burkina.

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 levels have not risen during the last three years. The Anti-Narcotics General Administration (ANGA), the main drug fighting organization in Egypt, is competent and progressive, and it cooperates fully with the Drug Enforcement Administration (DEA) office in Cairo. Egypt is party to a number of international and bilateral agreements and treaties, including the 1988 UN Drug Convention.

II. Status of Country

Egypt is not a significant producer or consumer of narcotics or precursor chemicals, despite the fact that opium and cannabis plants are grown here. The substances that are most commonly abused are cannabis, which is known here as "BANGO," and legitimate pharmaceuticals.

Narcotics do pass 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, while other types of narcotics periodically pass through Cairo International Airport. The narcotics are destined primarily for Western Europe, with only small amounts headed to the United States. There is no available evidence suggesting that significant levels reach the United States through this transshipment point, transshipments in general having diminished considerably in recent years due to the elevation of security in Egypt and the region as a whole.

The ANGA is the oldest counternarcotics unit in the Arab world. It has jurisdiction over all criminal matters pertaining to narcotics and maintains offices in all major Egyptian cities and ports of entry. The U.S. DEA office in Egypt has a superb relationship with ANGA, which is open, cooperative, and receptive to ideas and training. DEA assists ANGA in interdiction operations in the Suez Canal Zone and at Cairo International Airport, and crop eradication operations in the Sinai Peninsula and Upper Egypt. It also has funded and conducted training for ANGA officers at regional counternarcotics courses in Nairobi, Kenya and provided in-country training on airport interdiction and chemical controls. Despite limited resources, ANGA has demonstrated continued improvements in its capabilities.

III. Country Actions Against Drugs in 2002

The Government of Egypt (GOE) continues aggressively to pursue a comprehensive drug control strategy that was developed in 1998. ANGA, the Egyptian Ministry of Interior, the Coast Guard, the 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 constraints and logistical challenges. While Egypt neither imports nor exports large quantities of chemical precursors at present, the U.S. DEA office in Cairo sponsored a chemical control investigation course in 2002 to familiarize Egyptian personnel with precursor chemical control procedures.

Accomplishments. In May 2002, the GOE passed its first anti-money laundering legislation. This new law criminalizes the laundering of proceeds derived from trafficking in narcotics and numerous other crimes. Regulations guiding the enforcement of the law are in the final drafting stages and should provide law enforcement officials with the tools necessary to go after narcotics traffickers. The new law likely will be an added deterrence to those criminals who try to sell narcotics here in Egypt.

Law Enforcement Efforts. Internal security and combating terrorism are the major focus of Egyptian law enforcement efforts. However, ANGA still is able to operate an effective program against narcotics

trafficking. It investigates and targets significant drug traffickers, intercepts narcotics shipments, and detects and eradicates illegal crops. Large-scale seizures and arrests are rare, primarily because Egypt does not have a significant narcotics market or narcotics abuse culture. ANGA does operate its own drug awareness campaign in addition to other government and private sector demand reduction programs. ANGA's Eradication Unit conducts monthly operations against cannabis and opium crops in the Sinai.

Drug seizures in 2001 (latest complete-year figures available) included cannabis (50,940 kilograms), hashish (486 kilograms), and smaller amounts of heroin, opium, psychotropic drugs, and cocaine. Significant amounts of prescription and "designer" drugs such as Ecstasy (82,293 tablets), amphetamines (16,965 centiliters), and codeine (2,280 centiliters) also were seized in 2001. Egyptian law enforcement officials eradicated 228 hectares of cannabis and 2.8 hectares of opium poppy plants. The total amount of currency seized in 2001 in drug related cases was L.E. 2,000,000 (U.S. \$432,900).

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 United States have an extradition treaty that dates from the Ottoman Empire. Egypt has signed and ratified the 1988 UN Drug Convention. In 1993, the bilateral narcotics agreement was amended to provide greater funding for ANGA, and the assistance was transferred to the ANGA. The U.S. is again considering assistance to Egypt in the current or succeeding fiscal years. Egypt is also a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The U.S.-Egypt Mutual Legal Assistance Treaty entered into force on November 29, 2001. Egypt has signed 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, while opium poppy is grown in the southern Sinai only from November through March. Rugged terrain means that plots of illegal crops are small and irregularly shaped. ANGA combats this production by using aerial observation and confidential informants to identify illegal plots. Once the crops are located, ANGA conducts daylight eradication operations that consist of cutting and burning the plants. ANGA has yet to implement a planned herbicide eradication program. No heroin processing laboratories have been discovered in Egypt in the last 12 years and no evidence is available indicating that opiates or cannabis grown in Egypt reaches the United States in sufficient quantities to have a significant impact.

Domestic Programs (Demand Reduction). In 2002, the GOE activated the previously dormant National Council for Treatment of Addiction and Against Drug Abuse. The Council is an inter-ministerial group chaired by the Prime Minister, who is represented by the Minister of Social Affairs. One of the goals of the Council is to raise the level of attention given to the treatment of addictions. Currently, private doctors treat most drug addicts in Egypt. In addition, the Ministry of Health, the Ministry of Education, and several religious organizations operate drug awareness programs oriented toward demand reduction. The Ministry of Health also is 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 attaches also assist the GOE with this 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 transshipments and decrease opium poppy and cannabis cultivation. The policy includes 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 fiscal year 2003, the U.S. Government plans to provide additional training in drug interdiction, anti-corruption measures, border control operations, and chemical identification and control. 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 grown in Ethiopia, but only in a few small plots. 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 detector 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 the total cannabis grown 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, in 2001, cultivated opium poppy was seized at two locations where it was apparently being grown as an experimental crop. No further seizures have been reported. 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 Actions Against Drugs in 2002

The use of heroin and other hard drugs in Ethiopia 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 a ready opportunity for the introduction of these drugs into the local market.

Law Enforcement Efforts. The ECNU has improved upon its performance in 2002. It has changed leadership and been more proactive at the federal level. At the unit level, the ECNU is being expanded from 50 to 150 police and will be doing some border road interdiction efforts as well as its work at the airport. The ECNU has a new commander and has been more efficient in its training and investigations. The interdiction team at Bole has improved with the provision of several profiling and interdiction courses. The interdiction unit has improved its ability to more consistently identify male Nigerian/Tanzanian drug "mules" who traditionally swallow drugs to smuggle them.

Policy Initiatives. The Ethiopian Ministry of Justice drafted an updated penal code, and has introduced it in Parliament. Currently the maximum sentence for trafficking is two to three years, but the government seeks to increase it to 15-20 years. A stiffer sentence should serve as a more 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, was given substantial police powers to investigate corruption, and for a short while attracted considerable attention with some high profile cases. Since then the Commission seems to have become bogged down and is less effective than hoped. However, in 2001 and 2002, the Ethiopian government arrested and charged high-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, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. Ethiopia has signed but not yet ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States is trying to raise the profile of crime-related issues and encourage criminalization of money laundering. A U.S. Treasury advisor to the Central Bank has been providing advice to the Ministry of Justice on drafting money laundering legislation. A draft of new money laundering legislation is now in Parliament.

The focus of U.S. programs remains on the law enforcement side, specifically the ECNU. State department narcotics assistance supports curriculum advice and training for Police Academy instructors in drug investigations, both basic and advanced level courses, and a new course in proper supervision and use of drug detector dogs. These courses are offered at Ethiopia's National Police College. The objective is to "institutionalize" training, ensuring that courses will be repeatedly offered by Ethiopian trainers, rather than relying on return visits by DEA trainers from the States. The recent threefold increase in the personnel of the narcotics unit assures that the courses will be in high demand. But even after the narcotics unit is trained, there are plans to continue to offer the basic course to all police officers. Prosecutors will also attend the course, a first for Ethiopia in prosecutor/investigator cooperation.

The Road Ahead. Ethiopia is likely to remain a trafficking center for Africa because of its airport and the flight arrangements described above. The GOE has an excellent plan for using U.S. narcotics assistance to maximum effect. The U.S. plans to continue close cooperation with the GOE.

Ghana

I. Summary

Ghana takes steps to combat illicit trafficking of narcotic drugs and psychotropic substances and has mounted major efforts against drug abuse. It has active enforcement, treatment, and rehabilitation programs; however, lack of resources is a problem. Ghana-U.S. law enforcement coordination continued in 2002, and Ghana's law enforcement agencies took important steps to deepen cooperative efforts with their counterparts in the West African sub-region. 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 from South America and heroin from 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, and 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 has also fueled increasing domestic consumption. Cannabis use is increasing in Ghana, as is local cultivation. The government has mounted significant public education programs. Production of precursor chemicals is not a major problem.

III. Country Actions Against Drugs in 2002

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 approved by the Cabinet in June 2002. Amendments that the NCB proposed in 1999 to the 1990 narcotics law are pending in the Attorney General's office for final edit and review. These proposed amendments include stricter application of bail bond system sanctions and a provision to grant a percentage of proceeds from seizures to the NCB to fund their operations.

Accomplishments. Although 2002 seizure data is incomplete (January-September figures only are available), it appears that seizures of cocaine and heroin in the first three quarters of 2002 have already surpassed 2001 totals. However, cannabis seizures in the first three quarters of 2002 suggest a decline from 2001 figures. Arrest data for 2002 is also incomplete, but if the current trend continues, the number of 2002 arrests will be roughly equivalent to that in 2000 and 2001.

The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies in 2002, cooperating on extradition and information requests. The NCB's national drug education efforts continued in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. On July 25-26, 2002, the NCB hosted a regional conference against narcotics trafficking called the West Africa Joint Operations (WAJO) Initiative. The meeting was hosted by the NCB, with funding and organizational assistance from the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL) and the regional DEA office in Lagos. Drug enforcement representatives from 12 West African nations attended the conference. The purpose of the conference was to discuss West African regional narcotics enforcement operations in an effort to stimulate the sharing of narcotics intelligence throughout the region. The WAJO conference ratified a draft convention that set in motion a coordinated effort in the area of intelligence gathering, information sharing, undercover operations, airport interdictions, and cross-border operations in fighting illicit trafficking and transnational crimes. The convention resulted in a highly successful West African Joint Simultaneous Operation by ten of the WAJO countries, which took place in August and September 2002.

Law Enforcement Efforts. In 2002, Ghanaian law enforcement agencies increased the frequency with which they conducted joint police-NCB-military operations against narcotics cultivators, traffickers, and abusers. Police, NCB, and military units conducted joint raids on numerous marijuana farms and on known drug peddling areas of Accra and other cities. NCB agents are not armed; they rely upon the police's Criminal Investigative Division's (CID) narcotics unit in situations requiring armed force.

Regional NCB narcotics squads are located at Kumasi, Koforidua, Ho, and Tema. New NCB offices opened in Accra in 2001 at CID headquarters, Regional Police headquarters, and Kotoka International Airport. 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 upon conviction.

While the military alone does not actively attempt to interdict drugs, they coordinate with civilian law enforcement when necessary, and act on information from other Ghanaian entities, particularly the NCB and the police. Most drug confiscations by the military result from anti-smuggling activities by the Ghanaian navy. Counternarcotics training and education in the military is conducted by the NCB and the military's medical corps.

While making consistent arrests, law enforcement officials have complained about slow judicial prosecution of narcotics suspects. Courts often release suspected smugglers, including non-Ghanaians, on bail, and those of other nationalities frequently skip bail. NCB officials complain that courts set bail at only a tiny fraction of the value of the drugs found in a suspect's possession. For example, in early 2002, a woman was caught with 1.3 kilograms of cocaine at Kotoka International Airport boarding a flight to Canada. Bail was set at 20 million cedis (U.S. \$2,400), a relatively insignificant sum to large-scale traffickers. The woman jumped bail and has not been found. In another case, a 26 year-old Nigerian man jumped bail after being intercepted in July 2002 at the airport with 5.9 kilograms of heroin destined for London. The man was released on bail even after confessing to officers that he was carrying the narcotics for sale in the United Kingdom. He has not been found. In February 2002, the Minister of the Interior wrote a letter expressing concern over this phenomenon to the Chief Justice of the Supreme Court, asking the courts to seek ways to remedy the situation.

In the meantime, in a move to ensure speedy and efficient prosecution of drug traffickers, the NCB has adopted a policy of allowing suspected traffickers to leave Ghana with their illegal cargo, and informing authorities in the destination country of the smugglers' arrival for arrest and prosecution in the destination country. This strategy, dubbed the Control Delivery Program, was employed in the May 2002 arrest of a retired Ghanaian Armed Forces officer in the United Kingdom.

A gram of cocaine of average purity sells for cedis 165,000 (approx. U.S. \$20), a 33 percent increase over last year. Ghanaian narcotics officials attributed the rise to increased seizures and a change in the KLM flight schedules that used to provide a more expeditious link between the Caribbean island of Curacao to Accra via Amsterdam. A gram of heroin of average purity sells for cedis 200,000 (approx. U.S. \$25), a slight increase from previous years. Greater interdiction efforts were credited for this rise. A kilogram of cannabis sells for approximately cedis 40,000 (approx. U.S. \$5.00). A wrap or joint sells at cedis 1,000-1,500 (U.S. \$0.12-0.18). The police narcotics unit and the NCB continued to work closely with U.S. agencies through the U.S. Embassy in Accra. The NCB continued to work with DHL and Federal Express to intercept packages containing narcotics.

Corruption. There were no narcotics-related public corruption cases reported in 2002. In fact, local press carried three reports of customs and law enforcement officials rejecting bribes offered by suspected drug traffickers.

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 among member states.

Cultivation and Production. Cannabis (also known as Indian hemp) is widely cultivated in rural farmlands. 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. In 2002, combined NCB and police teams continued to investigate production and distribution, and to destroy cultivated cannabis farms and plants. In the past, the NCB believed a local drug laboratory processing cannabis into hashish existed somewhere in Ghana, but extensive efforts to locate it were fruitless, and the NCB no longer believes such a lab exists.

In July 2002, the NCB announced a pilot program under which marijuana cultivators who give up marijuana voluntarily will receive government assistance with planting new food crops and immunity from prosecution. This incentive program is designed to reduce the area under cultivation. However, program funds had not been made available as of December 2002.

Drug Flow/Transit. Cocaine and heroin are the main drugs that transit Ghana, chiefly from South America and Southeast and Southwest Asia on their way to North America and Europe. Narcotics are sometimes repackaged in Ghana for reshipment. New methods of concealment in 2002 included hiding drugs in lawn mower engines, women's sanitary pads, and foodstuffs (specifically yams). Ghanaian yam dealers in London complained that because so much cocaine was shipped to the United Kingdom hidden inside the carved-out centers of yams, which are then discarded or sold at deeply discounted prices, the price of yams in London has collapsed. In 2002, there was an increase in the number of older women arrested at Kotoka International Airport. NCB officials believe traffickers have begun using older women as couriers, as they are considered to be less suspect than men, or younger women.

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. NCB officials say that since the change in KLM flight schedules interrupted the Curacao link, traffickers have been forced to use other routes for cocaine from South America.

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. Ghanaian passports, easily obtainable, are often used fraudulently. Smugglers often purchase their tickets in Ghana because the exchange rate favors their currencies.

Cannabis is shipped primarily to Europe, specifically to the United Kingdom. All known cannabis shipments detected through September 2002 at Tema harbor and Kotoka International Airport were destined for the U.K.

Domestic Programs (Demand Reduction). The NCB works with schools, professional training institutions, churches, local governments, and the general public to reduce local consumption. 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. A draft Drug Education Policy is currently before the Ghana Education Service, pending approval for use in all schools. 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 all of the country's 110 district 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, held this year in the Eastern Region city of Koforidua. Board Members and staff frequently host public lectures, participate in radio discussion programs, and encourage newspaper articles

on the dangers of drug abuse and trafficking. The NCB continues its collaboration with the UNODC's Regional Office for West and Central Africa.

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. As of August 31, 2002, 1,182 people were being treated for drug addiction on an in-patient basis in the three government psychiatric hospitals.

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. In 2002, the United States provided the Government of Ghana with U.S. \$84,000 worth of counternarcotics assistance in the form of surveillance and detection equipment, and in early 2003 will hand over two narcotics detection devices ("Itemizers") for use at Kotoka International Airport.

Recently approved FY2002 funding from INL will help create Internal Affairs Units for the police and CEPS, which will assist in suppressing corruption and strengthening their capacity to interdict illegal drugs.

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 is a particular concern, given the potential for any narcotics financial networks to be used by terrorist organizations.

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, and a follow-up survey in 1999, concluded that the amount of opium poppy cultivation in Iran was negligible. An office of the UNODC in Iran has also repeatedly assured the international community that poppies are not cultivated in Iran. Iran remains an important transit country especially for opiates and hashish, although trafficking routes for opiates from Afghanistan to Russia and beyond, by way of Central Asia, have grown in importance.

There is overwhelming evidence of Iran's strong commitment to keep drugs moving out of Afghanistan from reaching its citizens. As Iran strives to achieve this goal, it certainly also prevents drugs from reaching markets in the West.

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 67.7 million citizens (1,354,000) are regular drug abusers (drug-dependent addicts), but many respected observers of drug abuse worldwide view this estimate as low. Other sources (including informed observers working on drug abuse in NGOs in Iran) would add perhaps 500-600 thousand "casual" (i.e., non dependent) users to reach perhaps two million Iranians who abuse drugs. UNODC estimates that 2.8 percent of the Iranian population over 15 used opiates in2001. This figure is more than five times the estimate (0.5 percent) for the U.S. Only Laos and Russia come even close to Iran's figure, with 2 percent of Laos' over 15 population estimated to have used opiates in the last year, and 1.8 percent of Russia's. The GOI seems particularly concerned over the sharp increase in intravenous drug abuse. By the end of 2002, the number of deaths from drug abuse had increased by 230 percent to 2106 individuals from just 632 deaths in 2000, reflecting a shift in Iran to abuse of heroin, especially intravenous abuse. Inmates in prison and the homeless are the most likely to take drugs by intravenous injection and to contract HIV through sharing needles. Sixty-seven percent of all recorded HIV cases are associated with drug abuse.

Iran has been in the forefront of efforts by the international community to combat the Afghan drug trade. Three thousand two hundred Iranian 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 ranging from U.S. \$250-U.S. \$300 million to as much as U.S. \$800 million each year, depending on whether treatment and other social costs are included. Opiate drug seizures during 2001 in Iran, the last year for which complete-year statistics are available, were 206 metric tons of opium equivalent (Opium Equivalent = Opium +(heroin x 10)+(morphine base X 10), making Iran number one in the world in opiate seizures. 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. Traffickers from Afghanistan continue to cause major disruption along Iran's eastern border.

Iran has ratified the 1988 UN Drug Convention, but its laws do not bring it completely into conformity with the Convention. The UNODC 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 most important 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.

Iranians are using more heroin. Heroin has not replaced opium, the traditional drug of abuse in Iran, but lower street prices for heroin, and shortages of opium plus higher prices for it have encouraged some addicts to switch from opium to heroin. Some heroin is smoked or sniffed, but a growing share is injected. The quantity of heroin seized in Iran, expressed as a share of all opiates (i.e., heroin, morphine and opium), has been rising since 1996 (3.1 percent), and reached 22.4 percent according to data for the first nine months of 2002. As the share of heroin in total opiates seized in Iran has increased, the share of morphine base seized has fallen; it thus appears that Afghani refineries are producing more heroin for Iranians. Morphine base is destined for shipment across Iran, ultimately to Turkey, where the refining process into heroin is completed.

While the Central Asian trafficking routes are growing in importance, carrying up to one-third of the total volume of Afghan opiates, the several trans-Iranian trafficking routes continue to carry the lion's share. While a number of factors contribute to the emergence of Central Asia as an important trafficking route for opiates from Afghanistan, it is not unreasonable to speculate that avoiding Iran's tough enforcement effort along its eastern border is part of the story. That said, 20 percent more seizures in Iran during the first nine months of 2002 indicate that trafficking in opiates continues to grow from depressed levels following the Taliban poppy cultivation ban in 2000. There are simply enough opiates flowing out of Afghanistan now to keep all trafficking routes active, traditional and emerging alike.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, the National Drug Abuse Research and Training Institute officially opened. The Institute is expected to function as the main monitoring and specialized expertise center for all demand reduction programs in Iran. Iran is spending roughly 50 percent of its budgeted counter drug expenditures on demand reduction activities, a significant shift from recent expenditure patterns where most funds went for enforcement-related supply reduction. The shift seems a clear response to the growing social and health impact of more dangerous drug abuse (e.g., heroin vice opium) and the trend towards more intravenous heroin abuse with shared needles among certain addict populations.

Law Enforcement Efforts. The Drug Control 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 UNODC that Iran had invested as much as U.S. \$800 million in a system of beerms, moats, concrete dams, sentry points, and observation towers, as well as a road along its entire eastern border with Pakistan and Afghanistan. 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 sites.

Thirty thousand law enforcement personnel are regularly deployed along the border, and Iran reports that more than 3,200 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 UNODC, Iranian officials seized 206 metric tons of opiates (opium equivalent) in 2001, and 150 metric tons of opiates (opium equivalent) in the first nine months of 2002. During the same nine-month period of 2001, 119 metric tons (opium equivalent) of opiates were seized. Thus, seizures rose by more than 20 percent in the first 9 months of 2002 in comparison to 2001. The rise in seizures in 2002 suggests a gradual return to larger shipments of opiates from Afghanistan as stocks are cleared in anticipation of a large harvest in the 2002/03 crop 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 lashings, although it is believed that lashings have been used less frequently in recent years. Offenders between the ages of 16 and 18 are afforded some leniency. More than 60 percent of the inmates in Iranian prisons are incarcerated for drug offenses, ranging from use to trafficking. Primarily as a result of a sharp (45 percent) increase in the number of addicts arrested, narcotics-related arrests in Iran during the first six months of 2001 increased to 165,183, an increase of 16 percent over the same period of 2000. Iran has executed more than 10,000 narcotics traffickers in the last decade; executions continue, but the UNODC 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. Iran points to its drug interdiction efforts as benefiting countries in Western Europe and beyond. In fact, given the large quantity of drugs seized in Iran, and the expenditure in life and treasure necessary to make those seizures, this claim would seem to have considerable validity.

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. However, a bill governing money laundering countermeasures was submitted to the Iranian Parliament in October 2002 by the Minister of Economic Affairs and Finance. The bill provides for confiscation of properties of those involved with money laundering. A special council of applicable ministers and the Governor of the Central Bank has also been formed to consider necessary powers for the Government to fight economic crimes. The UNODC is working with Iran through the NOROUZ Program to modify its laws, train the judiciary, and improve the court system.

Iran is also a party to the 1971 UN Convention on Psychotropic Substance, the 1961 UN Single Convention on Narcotic Drugs, and it has signed and ratified, the 1972 Protocol amending the Single Convention in 2001. Iran has shown an increasing desire to cooperate with the international community on counternarcotics matters. Iran is a member of the ten-nation Economic Cooperation Organization (ECO), which established a counternarcotics center as part of its secretariat. The Iranian permanent envoy to the UN's Commission on Narcotic Drugs (CND) was elected by a large majority to chair the CND in 2001 for a one-year term, and was re-elected for a second one-year term in 2000. Under his 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 an 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 2001. Iran signed the UN Convention against Transnational Organized Crime on December 12, 2000, but has not yet ratified it.

Cultivation/Production. A 1998 U.S. survey of opium poppy cultivation in Iran and a detailed multiagency assessment concluded that the amount of poppy being grown in Iran was negligible. The survey studied 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 UNODC office located in Tehran has repeatedly assured the international community since then that poppies are not cultivated in Iran. Thus, the somewhat dated U.S. evidence that no poppies are being grown is consistent with Iranian claims and vigorous enforcement actions against drugs, evidence from other concerned countries, and the UNODC.

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 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" is on the rise. Individuals and small groups also attempt to cross the border with two to ten kilograms of drugs, in many cases ingested for concealment. In 2000, Iranian authorities seized more than 1 metric ton of drugs from almost 4500 human couriers. Almost all the drugs seized were opiates; 87 percent of the couriers were male. While these figures are dated, they give some sense of the scale of human courier "mule" trafficking through Iran. Trafficking through Iran's airports also appears to be on the rise.

Most of the opiates smuggled into Iran from Afghanistan 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. Essentially all of the morphine base, running at more than 40 percent of opiates seized in Iran, is likely moving towards Turkey, as is a large share of the ca. 20 percent of opiates moving as heroin. Significant quantities of opium are consumed in Iran, but some share also moves on to the west to be refined and consumed as heroin in Europe and elsewhere. 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, but has made a number of important seizures, mostly at Bandar, of acetic anhydride, used in the refining of heroin. All precursor chemicals seized were consigned to Afghanistan. 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. Oman and Dubai appear to be important destinations, but some Iranian hashish even finds its way to Iraq. 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 its 1.8-2 million users (median estimate).

Hashish seizures in Iran in 2002 also continued a sharp upward trend, begun in 1999. At almost 48 metric tons in the first nine months of 2002, seizures already exceeded all of 2001, and were on a path to be up by almost 60 percent year-over-year.

The amount of drugs moving to all destinations by mail and courier service in 2001 continued to increase, with seizures of 42.5 kilograms of drugs in 82 cases. The share of total drugs moving in this channel remains 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 GOI estimates the number of opiate drug addicts at over 1.3 million, with an additional 600,000 casual drug abusers reliably estimated by other sources. However, a physician and member of the National Committee Against AIDS has estimated that there are 3.3 million total abusers. The UNODC estimates that 1.5 to 2 percent of a population of 67.7 million (1,000,000-1,354,000) has a serious drug problem. Smoked opium is the traditional drug of abuse in Iran, but opium is also drunk, dissolved in tea. Opium and its residue are also injected, dissolved in water, by a small number of addicts. Heroin is sniffed, smoked and injected. Ninety-three percent of opiate addicts are male, with a mean age of 33.6 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 GOI spent more than U.S. \$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. 88 out-patient treatment centers are now operational. 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 direct 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

Israel is not a significant producer or transit point for trafficking in drugs. Israel's National Police, however, report that most types of drugs are available in Israel and that drug use among the nation's youth is rising. Israeli citizens continue to play a significant role in the international trafficking of Ecstasy from Europe to North America. However Israeli law enforcement officials made several high profile arrests, seizures, and extraditions in 2002; important Israeli traffickers were also arrested abroad. On March 20, 2002 Israel became a party to the 1988 UN Drug Convention. Israeli domestic law now contains the legislative requirements mandated by the Convention. Also in 2002, Israel was removed from the Financial Action Task Force (FATF) list of non-cooperative countries.

II. Status of Country

Israel is not a major producer of narcotics or precursor chemicals; In 2002 Israeli law enforcement officials have seen a large increase in the amount of Ecstasy brought to Israel. According to DEA officials, Israeli citizens living in Europe are among the largest traffickers of Ecstasy from Holland and Belgium to the rest of the world. In 2002, U.S. officials made several arrests of Israeli nationals involved in trafficking Ecstasy from Europe to the United States. Israeli authorities continue to work closely with USG law enforcement and other officials to combat the trafficking of narcotics. The GOI also has extradited suspected Israeli drug traffickers to the U.S. to face narcotics smuggling and possession charges.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In March 2002 Israel ratified the 1988 UN Drug Convention after enacting several laws that brought Israeli law into compliance with the Convention. As part of this effort, Israel passed several additional amendments to strengthen its anti-money laundering law and its financial intelligence unit (the Israeli Money Laundering Prohibition Authority) began operations.

Illicit Cultivation/Production. There is only negligible illicit drug cultivation or production in Israel.

Law Enforcement Efforts. DEA reports that cooperation between U.S. and Israeli law enforcement officers has been outstanding in 2002. DEA and Israeli National Police (INP) officials have participated in several instrumental meetings this year. The June 2002 extradition by the GOI of two Israeli citizens marks the first extradition of any Israeli citizen to the U.S. for a drug related crime. Hash/marijuana smuggling from Egypt into Israel has also been a problem and the INP would like to improve cooperation with Egyptian officials to halt this cross-border trade. Israeli law enforcement also cooperated with international law enforcement in the arrest of four Israeli Ecstasy traffickers (one who was in Israel) involved in the third largest Ecstasy seizure in the United States. U.S. and European law enforcement officials seized 1.4 million Ecstasy tablets (with an estimated street value of U.S. \$42 million).

The INP reports that in 2002 there continues to be wide availability of all types of narcotics in Israel. INP reports that 2002 was a record year in seizures of ecstasy, cannabis resin, and cocaine, while they have seen stable levels in the heroin and marijuana seizures. In 2002 the INP has seen a dramatic increase in the supply and demand for cannabis resin (hashish). During 2002, the Israeli Defense Force seized 2 tons of hashish from a vessel in the Red Sea, the final destination of this cargo is unknown. The INP reports that marijuana continues to be the most common drug in Israel and seizures in 2002 did not change dramatically. The INP also reported that after a decrease in seizures last year, the Israeli authorities seized over 1,000,000 Ecstasy tablets in 2002 (800,000 tablets in one seizure) during the first ten months of 2002. The INP opened 23,619 narcotics related files in the first 10 months of 2002, an increase of 5 percent

from 2001. INP made 3,628 drug arrests during the first 10 months of 2002 compared to 3,702 for the previous year. The INP also reported that Israeli citizens continue to play a significant role in international drug trafficking networks (mainly Ecstasy) in source, transit and distribution countries.

In the first 11 months of 2002, Israeli Customs authorities seized 50 kilograms of cocaine, 60 mg of morphine, 529 kilograms of cannabis, 291 grams of LSD and 31,300 LSD stamps, 1,045,000 pills of ecstasy, 8 kilograms of San Pedro, and 20 grams of pure mescaline.

Demand Reduction. The Israeli Anti-Drug Authority sets Israeli drug policy and works in the areas of prevention, education, public awareness, treatment, and rehabilitation. Many other organizations take part in the fight against drug use, including youth movements, sports organizations, kibbutzim, and NGO's. IADA officials remain concerned about increasing use of recreational drugs (primarily Ecstasy) among the nation's youth. The IADA launched a national public campaign against Ecstasy during 2001. The IADA 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). IADA 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." Like most GOI ministries and offices IADA's budget was cut in 2002, from USD 8 million to approximately USD 7.4 million due to Israel's continuing economic difficulties.

In 2002 IADA focused its demand reduction efforts at curbing the growing use of marijuana and placed particular emphasis on young adults between the ages of 18 and 24. IADA epidemiological research has shown that this age group was particularly vulnerable in Israel, and therefore programs have been put in place that target soldiers, students, and backpackers. The backpackers campaign is aimed at informing young Israeli travelers in South America and the Far East of the dangers of drug abuse and trafficking in those places. In 2002 IADA enlarged its mobile information campaign by adding several new vehicles that will travel throughout the country distributing information and showing counternarcotics films to at-risk communities. The mobile information centers are staffed by professionals from IADA and former drug abusers who teach communities about the harmful effects of drug use. In 2002 the IADA established the first rehabilitation village for youth and adult drug addicts and added four day-care centers for youths this year.

Corruption. In 2002 Israel had no cases of narcotics related corruption, nor is there any explicit or implicit official support for narcotics-related activities. Israel does not have specific legislation for public corruption related to narcotics, however it investigates and prosecutes corruption in all government matters.

Agreements and Treaties. In March 2002 Israel ratified the 1988 UN Drug Convention after passing all the necessary laws to make Israeli laws consistent with the convention. In 1991 the U.S. and Israel signed a memorandum of understanding calling for bilateral cooperation to combat illicit narcotics trafficking and abuse. Israel also is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. An extradition treaty, customs mutual assistance agreement, and a mutual legal assistance treaty are in force between Israel and the U.S. The Israeli Customs Department's National Drug Enforcement Unit reports drug seizures to the World Customs Organization. In December 2000 Israel signed the UN Convention against Transnational Crime and it is in the process of passing the necessary changes to Israeli law required for ratification. In November 2001, Israel also signed the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, to this convention. Under the Israeli extradition law, as recently amended, all persons, whether citizens or not, may be extradited for purposes of standing trial for extraditable offenses. If the requested person was both a citizen and resident of Israel at the time the offense was committed, he may be extradited to stand trial abroad only if the state seeking extradition promises in advance to allow the person to return to Israel to serve any sentence imposed.

Drug Flow/Transit. Most drugs imported into Israel are consumed domestically. Israel is not a significant transit country, although Israeli citizens have been part of international drug trafficking networks in source, transit, and distribution countries. INP, IADA, and Israeli customs officials are particularly concerned about drugs being smuggled into Israel from neighboring countries (primarily in Europe). DEA officials have tracked an increase in the amount of Ecstasy being shipped to Israel in 2002.

IV. U.S. Policy Initiatives and Programs

Road Ahead. DEA officials were pleased with the arrests and seizures made by Israeli authorities during 2002, and anticipate that continued cooperation will lead to a further crackdown on narcotics trafficking rings. USG and Israeli authorities will continue to hold periodic strategy sessions throughout 2003. Israeli law enforcement personnel have participated in U.S.-led training exercises in the past and look forward to future opportunities.

Kenya

I. Summary

Kenya is a transit country for heroin and hashish, mostly bound from Southwest Asia for Europe and North America. Heroin transiting Kenya has increased in quality in recent years and is destined increasingly for North America. Although the exact impact that heroin transiting Kenya is having on the U.S. market is unclear, it is not believed to have a significant impact on heroin available in the U.S.. Cannabis is grown domestically and imported from neighboring countries for the illegal domestic market. There is a small local heroin market. Air passenger profiling and other techniques have helped 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 Anti-Narcotics Unit (ANU) of the Kenyan police continues to cooperate well with international and regional counternarcotics officials. The GoK has also cooperated closely with the DEA and other U.S. law enforcement agencies on a major narcotics-related extradition case among other issues of interest. Although government officials profess strong support for counternarcotics efforts, their overall program suffers from a lack of resources. Kenya is a party to the 1988 UN Drug Convention and has enacted full implementing legislation.

II. Status of Country

Kenya is a significant transit country and a minor producer of narcotics for domestic consumption. Cannabis is produced in commercial quantities for the domestic market and there is no evidence of 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 significant 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 2002. Officials now believe that the United States is at least as significant as Europe as a destination for heroin transiting Kenya, but it is difficult to estimate in what quantities. In recent years, Kenya has been an important transit point for Southwest Asian cannabis resin (hashish), and police made several multi-ton hashish seizures. However, hashish seizures have fallen off significantly since 2000. Although Nairobi serves as a regional financial center, there is no direct evidence that Kenya is a major money-laundering country. Kenya does not produce significant quantities of precursor chemicals.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2001, the Kenyan Cabinet approved a national drug control master plan, but Parliament has yet to pass the plan into law. The plan summarizes policies, defines priorities and apportions responsibilities for drug control to various agencies. A key element of this plan is the identification of a senior civil servant to liaise with donors and co-ordinate a broad counternarcotics effort, including a much-expanded education campaign focused on prevention. Regular meetings and information sharing between Kenyan, Ugandan, Tanzanian, and Rwandan narcotics officials continued in 2002. 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. Regular meetings between Kenyan 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. ANU officers also have continued a program of outreach to judges and magistrates, conducting seminars on counternarcotics law

and the seriousness of narcotics abuse issues. ANU continued to publicize its message effectively through local media. ANU also engages in efforts to raise public awareness on drug abuse by giving lectures at schools and to local groups. Kenya has no crop substitution or alternative development initiatives for progressive elimination of the cultivation of narcotics. The ANU remains the focus of Kenyan counternarcotics efforts.

Accomplishments. The ANU has experienced more success this year in pushing the courts to sentence drug offenders. In March, the ANU arrested a Kenyan airline flight attendant who was later convicted on charges of smuggling 27.8 kilograms of heroin into Nairobi, and received a 20 year sentence. Many ANU officers have undergone training, much of it through the UNODC and bilateral programs sponsored by the U.S., German, British, Japanese and other governments. The ANU and the Kenyan Customs Service now have a cadre of officers proficient in profiling and searching suspected drug couriers and containers at airports and seaports. There have been some good results with profiling at airports, although generally for couriers and not major traffickers, and modest results at seaports. The ANU is building 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 fully with the United States and other nations on counternarcotics investigations. One such investigation in late 2002 led to the arrest of three suspects in a major ring smuggling narcotics to the United States. This led to an extradition request from the United States. The ANU and Attorney General's Office are assisting in this case. Two accused members of the ring are in Kenyan custody awaiting extradition to the United States.

Law Enforcement Efforts. Kenya seized 37.5 kilograms of heroin in 2002, nearly twice as much as it did in 2001, and arrested 94 people on heroin-related charges (all statistics on drug seizures in this section reflect the period from January to October 2002). 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, though some also hide it in their shoes. The ANU concentrates its anti-heroin operations at Kenya's two main international airports.

Kenyan authorities seized 16.1 kilograms of hashish in 2002 and arrested one suspect. Officials believe Kenyan coastal waters and ports are major transit points for the shipment of hashish from Pakistan to Europe and North America.

The year 2002 marked an increase from 2001 in cocaine seizures. A total of 17.6 kilograms of cocaine were seized and three people arrested. The cocaine seized in Kenya is believed to originate from Brazil and Colombia; its local availability and abuse is not widespread.

Kenyan authorities seized 76,616 kilograms of cannabis in 2002, and arrested 2,862 individuals. The drop in the number of cannabis seizures from last year probably is due to the fact that the ANU conducted a major operation in the Mt. Kenya region, in which they destroyed 14 farms and 328,362 kilograms of cannabis leaves in 2001.

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. The ANU has launched an outreach effort to persuade judges and magistrates of the seriousness of narcotics offenses and identify more effective ways to handle cases. The ANU also disseminates its messages effectively through local media.

Corruption. Corruption remains a significant barrier to effective narcotics enforcement. Despite Kenya's strict narcotics laws, which encompass most forms of narcotics-related corruption, there are regular, but unconfirmed reports of public officials being involved in narcotics trafficking. Police frequently complain that the courts are ineffective in handling narcotics cases, due likely to a combination of corruption, misunderstanding of the law, and simple judicial backlog. More broadly, anti-corruption 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 Parliament failed to pass anti-corruption legislation. During the election year of 2002, the government effectively put the anti-corruption legislation debate on hold. The future of Kenya's anti-corruption initiatives will largely depend on the new government's priorities.

Agreements and Treaties. Kenya is a party to the 1988 UN Drug Convention, which it implemented in 1994 with the enactment of the Narcotic Drugs and Psychotropic Substances Control Act. Kenya is also a party to the 1961 UN Single Convention and its 1972 Protocol. Kenya's National Assembly ratified the 1971 UN Convention on Psychotropic Substances in 2000. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes.

The United States and Kenya signed an MOU in 2002 to cover the donation of equipment and training to the ANU. The United States has prepared an amendment to the current MOU in which it seeks to continue its assistance to the ANU.

Kenya, Tanzania, and Uganda established a protocol to enhance regional counternarcotics cooperation in 2001.

Cultivation and 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.

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. Heroin normally transits Kenya by air, carried by individual couriers. West Africans, South Asians and East Africans remain active as couriers. However, the ANU reports on 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.

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 2002. There is 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. For several years there had been no methaqualone (mandrax) seizures in Kenya. However, this changed in 2002 when 52,103 mandrax tablets were intercepted and seven suspects arrested.

Domestic Programs. Kenya has made some progress in efforts to institute programs for demand reduction. Cannabis is the most commonly abused illegal drug in Kenya. 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 UNODC project to bring counternarcotics education into the schools. In 2001, however, the Government of Kenya appointed a National Coordinator on Campaign Against Drug Abuse to initiate national public education programs on drugs. These efforts continued in 2002. There are no special government rehabilitation or drug abuse treatment facilities, but some churches and non-governmental organizations provide limited rehabilitation and treatment programs for solvent-addicted street children.

IV. U.S. Policy Initiatives and Programs

The principal U.S. 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 strengthening Kenyan counternarcotics capabilities.

Road Ahead. The USG will continue to take advantage of its good relations with Kenyan law enforcement to build professionalism, operational capacity and information sharing. Nairobi is also an efficient point for conducting regional training and other regional initiatives and 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 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 USG. The Lebanese Interior Minister proclaimed 2002 the "Year of Combating Drugs" in Lebanon and promised a zero-tolerance policy for poppy cultivation and opium/heroin production. The Lebanese government took serious actions to prevent cannabis cultivation and to eradicate illicit crops before harvest in the Biqa' Valley in 2002. However, cannabis cultivation is likely to resume, albeit at reduced levels, in 2003 due to a lack of suitable alternative crops to sustain the livelihoods of local farmers at a time of growing economic uncertainty.

Cannabis cultivation decreased from 2001 to 2002, and there was minimal poppy cultivation in 2002. 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 Biqa' Valley in 2001 and to a lesser extent in 2002. There were also minor instances of poppy cultivation. The GOL made serious efforts to deter cultivation in 2002 and to eradicate the resulting crop before the summer harvest. The government also launched a counternarcotics campaign to discourage new planting.

Approximately 2,500 hectares of land were used for hashish production in 2002, as compared to 4,010 in 2001. The Judiciary Police—the law enforcement agency tasked with counternarcotics responsibilities—performed complete eradication in 2002.

At least 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 drugs, 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. South American cocaine is smuggled into Lebanon primarily via air and sea routes from Europe, Jordan, and Syria, or directly to Lebanon. 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, were previously 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 2002

Policy Initiatives. The Interior Minister proclaimed 2002 the "Year of Combating Drugs" in Lebanon and promised a zero-tolerance policy for poppy cultivation and opium/heroin production. The Lebanese government took serious actions to prevent illicit cannabis cultivation in 2002 (see next para). The government also launched a public awareness advertising campaign in 2002 to discourage drug use. The

Ministry of Interior sent counternarcotics messages on mobile phones. Counternarcotics posters and slogans were displayed throughout the country.

Accomplishments. In 2002, the Government of Lebanon conducted a large-scale operation of hashish and poppy eradication. According to Dr. Riad Saade, a reliable local expert and Director General of the Lebanese Center of Agricultural Studies and Research, approximately 2,500 hectares of land were used for illicit hashish production in 2002, as compared to 4,010 in 2001. The Internal Security Forces eradicated all these cultivated crops during this year. Given the areas eradicated, illicit drug production could have been significant without the government's action. The cost of the operation was approximately U.S. \$524,323. 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, through the Ministry of Social Affairs and the Ministry of Public Health, provides 35 to 40 percent of ON's yearly budget, which is projected at U.S. \$800,000 for 2003. ON estimates that the age of the average drug addict in Lebanon is getting gradually younger 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 increased their capacity from 40 to 70 patients in 2002, offer a yearlong residential program for hard-core addicts, and sometimes operate above capacity. The organization lacks outpatient care for individuals whose addictions do not necessarily warrant hospitalization.

ON also engages in drug prevention activities such as distributing educational materials on college campuses and promoting drug awareness among the population through advertisements and education programs.

Law Enforcement Efforts. From January to November 2002, the GOL seized 28.7 metric tons of hashish, 762 grams of opium, 1.994 kilograms of heroin, 7.732 kilograms of cocaine, 91 grams of marijuana, 821 unspecified drug pills, 4.291 kilograms of hashish seeds and 7.5 kilograms of opium seeds. In 2002, 1,378 persons were arrested on charges related to narcotics use or distribution.

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 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, as amended by the 1972 Protocol.

Cultivation and Production. According to a reliable local expert, approximately 2,500 hectares of land were used for illicit hashish production in 2002 as compared to 4,010 in 2001; minimal land was dedicated

to poppy production. These estimates represent land used beyond land where the crop was eradicated by government forces, and is thus an indication of the size of illicit crop actually produced in Lebanon.

Drug Flow/Transit. Illicit drug trafficking via traditional smuggling routes has been somewhat 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. The primary route for smuggling hashish from Lebanon during 2002 was overland to Arab countries such as Saudi Arabia, Egypt, Kuwait, United Arab Emirates and via sea routes to Europe. However, the Internal Security Forces report that exports of large quantities of hashish from Lebanon to Europe was difficult for smugglers in 2002 due to increased seashore patrols. The ISF asserted that no hashish has been smuggled into the United States. The GOL conceded 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 Biqa' 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 working with villages to promote the substitution of illicit crops with legitimate, economically viable ones.

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. The Government of Lebanon, in cooperation with the Syrian government, eradicated most 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 anti-corruption policies.

Lesotho

I. Summary

Lesotho is not a major producer of narcotics or precursor chemicals, nor does it have drug-processing laboratories. High THC-content 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, as amended by the 1972 Protocol, 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. Lesotho has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

III. Country Actions Against Drugs in 2002

Policy Initiatives. 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. 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 UNODC for implementing the 1988 UN Drug Convention.

Corruption. The Prevention of Corruption and Economic Offenses Act ("Corruption Act") provided stiff penalties for corruption, but is just the first step. Lesotho strives to enforce all its laws, 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 Corruption Act. The GOL has continued to try to staff the investigating body created by the Corruption Act and to study further and adopt the best practices of SADC (Southern Africa Development Community) partners against public corruption.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Lesotho has been an enthusiastic participant in the International Law Enforcement Academy's (ILEA) programs. During 2002, Lesotho sent 26 persons to five different courses given by ILEA. When the ILEA Regional Director visited Lesotho in August, he met with the Home Affairs Minister, who expressed strong support for ILEA's programs and a willingness to cooperate in any way possible with U.S. law enforcement efforts.

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 not a major producer, supplier or exporter of drugs or precursor chemicals. Cannabis is the main narcotic cultivated in Madagascar and it is produced in the northern and far southern provinces of the island. In 1998 Madagascar established an inter-ministerial commission, the CICLD ("the Commission"), headed by the Prime Minister, to address narcotics control. The Commission's first objective is to develop a national plan to address all aspects of narcotics control. The Commission says the national plan, which it hopes to present to the cabinet in early 2003, will provide both a complete overview of the drug problem in Madagascar and an integrated approach for dealing with it. Narcotics control as an issue may have assumed new relevance as the promised national plan is supposed to link narcotics control to overall development questions.

II. Status of Country

Available statistics (which the GOM acknowledges are inadequate) indicate that production, cultivation and trafficking in illicit drugs in Madagascar are chiefly limited to cannabis. Conditions in the northern provinces of Mahajanga and Antsiranana in particular favor rapid, plentiful growth of this crop. Significant cultivation also occurs in the southern provinces of Tulear and Fianarantsoa. A portion of this production may be finding its way to illicit markets on neighboring islands and the African continent, but the majority is intended for domestic consumption. Production, cultivation and traffic of cannabis are directly linked to overall economic conditions in Madagascar. Over 80 percent of the Malagasy people live in rural areas in severe poverty, and cannabis provides rural populations with vital additional income as well as a widely used folk remedy for many ailments.

Greater deployment of military and law enforcement assets in rural areas, and the appearance of roadblocks along all the major arteries of the island during the 2002 political crisis, may have had the unintended positive result of interdicting increased quantities of harvested cannabis in 2002. GOM figures indicate that in 2001, 693 metric tons of cannabis were seized, while in 2002 seizures rose to 1,744 metric tons.

Small seizures of heroin and cocaine at Madagascar's international airport suggest at least some trafficking in these drugs. However, neither of these seizures occurred within the last two years. The draft national plan also mentions that morphine priced at 300,000 Malagasy Francs per dose (about U.S. \$55) is sometimes available in a small number of big city nightclubs. Since this sum is more than a month's salary for the average Malagasy, the consumers are assumed to be primarily foreigners. Malagasy law enforcement conducts frequent checks on main highways and at main ports and, in concert with regular army units, is engaged in several interdiction operations in cannabis producing regions. While law enforcement certainly takes the threat of narcotics trafficking seriously, traditional high-profile crimes, such as cattle rustling, continue to absorb a significant share of law enforcement resources.

III. Country Actions Against Drugs in 2002

On the international level, Madagascar is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol and the 1971 Vienna Convention on Psychotropic Substances. On a regional level, Madagascar has been a party since 1990 to a bilateral agreement with Mauritius aimed at preventing illicit traffic in narcotics. There are also plans for increased bilateral cooperation between Madagascar and the Comoros on this issue. Since 1997, Madagascar has been working on both its legal system and administrative practices to comply fully with international standards embodied in the UN agreements to which it is party. In 1998, the GOM created the "Commission

Interministerielle de Coordination de la Lutte Contre la Drogue" or CICLD, which, although officially headed by the Prime Minister, is managed on a day-to-day basis by its own Secretary General, the Malagasy equivalent of a "drug czar". As noted above, the Commission promises an overall counternarcotics strategy linked to Madagascar's overall development strategy for 2003.

The draft national plan reflects important requirements of the 1988 UN Drug Convention by aiming at three distinct results: 1) to reduce the supply of narcotics by disrupting its traffic; 2) to reduce demand for narcotics by implementing programs reflecting traditional Malagasy values and targeting the most vulnerable segments of the Malagasy population; and 3) to streamline gathering and analysis of relevant statistics. However, many aspects of the program remain mere aspirations without concrete, realistic implementation strategies. As an example of the draft plan's questionable realism, an overall program to eradicate cannabis cultivation is scheduled entirely for the first trimester of 2004. There is a component of the plan that calls for an ongoing study into possible medicinal uses of cannabis. It also calls for studies, planned for the second half of 2003, on the links between narcotics trafficking and corruption of public officials and political party financing, but there currently is no plan for funding and carrying out these studies.

IV. U.S. Policy Initiatives and Programs

In November 2002, the U.S. Embassy in Madagascar provided funding for DEA training in Mauritius for two field grade level law enforcement officers. The USG is also in the process of transferring to the Malagasy Navy seven motor lifeboats, scheduled for deployment in early 2003. These motorized lifeboats will significantly increase Madagascar's ability to monitor its 5,000 kilometers of coastline and enhance the overall security of its borders.

The Road Ahead. The U.S. will work closely with Madagascar to improve the interdiction capacity of law enforcement personnel.

Malawi

I. Summary

Drug trafficking and abuse in Malawi currently appears to be confined to the local cultivation of and traffic in cannabis. The GOM views this illegal activity as a serious problem, and is doing what it can, given severely limited resources, to fight the illicit cultivation and trade in cannabis. The GOM is a party to the 1988 UN Drug Convention.

II. Status of the Country

As of November 2002, the Dangerous Drug Unit (DDU) of the Malawi Police Service investigated 735 cases involving the production, trafficking or use of cannabis. These cases involved 751 suspects, 726 of whom were Malawian, and resulted in 7 arrests and the seizure and destruction of 10,938 kilograms of cannabis. During the same period, the DDU investigated only 1 case involving a substance other than cannabis. This case involved a foreign national, who was arrested for possession of a single tablet of Mandrax (Methaqualone), which was seized and destroyed.

III. Country Actions Against Drugs In 2002

Policy Initiatives. The GOM, with UNODC and SADC (Southern African Development Community) assistance, is currently working on a National Drug Control Master Plan (NDCMP). The Plan was completed in draft late in 2001, and the GOM had hoped to implement it during the first half of 2002. Funding difficulties seem certain now to delay implementation until June 2003. The Plan calls for efforts to eradicate Malawi's domestic cannabis cultivation and to intensify interdiction efforts against drugs and other contraband passing through Malawi.

Law Enforcement Efforts. Malawi has not been able to mount a consistent effort against illicitly grown cannabis since many growers have no ready alternatives. Law enforcement forces also lack the resources necessary to move consistently against illicit cultivation, even if they were not dissuaded by social welfare considerations.

Corruption. Corruption at some level is always a problem in a country as poor as Malawi, but as a matter of policy the government certainly does not encourage narcotics trafficking or money laundering, and the USG is unaware of any high level official of the government who benefits from narcotics-related corruption.

Agreements and Treaties. The GOM 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. The 1931 US-UK Extradition Treaty remains in force between the United States and Malawi through a 1966-1967 exchange of notes.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG supports training for Malawi police and at the regional ILEA, and expects that Malawi will also benefit from efforts to improve customs enforcement throughout the SADC region.

The Road Ahead. GOM efforts in the area of narcotics control appear to be sincere and surprisingly aggressive, given the resource constraints under which the entire government currently operates. The DDU currently lacks much of the equipment and training normally associated with basic policing, much less the more specialized resources and expertise necessary for effective drug enforcement operations. The

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police and the ministries of home affairs and justice are all well aware that cannabis trafficking can lead to trafficking in harder drugs. They will continue to do their best to control the illicit cannabis trade.

Morocco

I. Summary

Morocco continues to be a major producer and exporter of cannabis. Morocco produced an estimated 2000 tons of cannabis in 2002, with more than 1500 tons believed to have been smuggled into Europe. Evidence continues to indicate the United States is not a major recipient of drugs from Morocco. The GOM's Royal Center for Remote Sensing estimates that Morocco's cannabis growing area covers a total of 15,000-20,000 hectares, a figure that has remained steady for a number of years. In contrast, the EU and independent studies suggest the area of cannabis cultivation is far greater, and growing. Morocco's estimates of production seem to be increasingly questionable in light of the GOM's acknowledgement that its cultivation estimates are surely low. Morocco is a party to the 1988 UN Drug Convention; Moroccan legislation implemented the Convention in 1992. To some extent, Morocco effectively tolerates cannabis cultivation for want of any short term alternative.

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, the illicit trade in hashish generates approximately U.S. \$3 billion a year, and the hashish trade remains Morocco's primary source of hard currency. Independent estimates indicate that the returns from cannabis cultivation range from U.S. \$16,400-U.S. \$29,800 per hectare for farmers, compared with an average of U.S. \$1,000 per hectare for one possible alternative, corn. According to EU law enforcement officials, Moroccan cannabis is typically processed into hashish resin or oil and exported to Europe, Algeria, and Tunisia. To date, Morocco has no enterprises which use dual-use precursor chemicals, and is thus neither a source nor transit point for them.

While there has been a small but growing domestic market for harder drugs such as heroin and cocaine, cannabis remains the traditional drug of choice for Moroccans. There is no substantial evidence of trafficking of harder drugs.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Throughout the 1980's, the GOM worked in conjunction with the United Nations to confront the unique geographic, cultural and economic circumstances that confront the many people involved in the cultivation of cannabis in northern Morocco. Joint projects to provide alternative agricultural products included providing goats for dairy farming, apple trees, and small bee-keeping projects. This effort also included paved roads, modern irrigation networks, and health and veterinary clinics. The end result was the illicit use of these projects by the cannabis trade to facilitate their activities.

Morocco has legislation providing the maximum allowable prison sentence for drug offenses to 30 years, as well as fines for narcotics violations in a range of U.S. \$20,000-\$80,000. Ten years imprisonment remains the typical sentence for major drug traffickers arrested in Morocco. Despite this extensive record of efforts to restrain cannabis cultivation in its northern provinces, it appears that Moroccan cannabis cultivation continues to expand throughout the northern Rif region.

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 Moroccan Navy carries out routine sea patrols and responds to summons for a reaction force by the observation posts. None of this has changed the underlying reality of extensive cannabis cultivation and trafficking in Northern Morocco.

Corruption. Given the scale of cannabis cultivation in Morocco, it is clear that at least some government officials must be effectively tolerating that cultivation. Given the lack of alternatives to cannabis over the short term, and the efforts Morocco has made historically to help its northern farmers to get out of the cannabis trade, it is clear that over the short term, Morocco is likely to continue as a major producer and exporter of cannabis.

Agreements and Treaties. A bilateral mutual legal assistance treaty (MLAT) has been in force between Morocco and the United States since 1993. Morocco 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, and ratified the 1972 Protocol amending the Single Convention in March 2002.

Cultivation/Production. The traditional areas of cultivation in the regions around the cities of Bab-Berretand Ketama have expanded in the last 20 years north to the outskirts of Tangiers. Small farmers in the northern Rif region cultivate most cannabis, although some is also grown in the Souss valley of the south. Those who cultivate cannabis have not been hurt by Morocco's four years of drought, as cannabis is a highly resistant crop. The average hectare planted with 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(times) 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. The growth in the total cultivation area between 1993 and 2000 has likely continued through 2002, and indicates the challenge the GOM faces.

Drug Flow/Transit. The primary ports of export for Moroccan cannabis are Oued Lalou, Martil and Bou Ahmed on the Mediterranean coast. Most large shipments headed toward Spain travel via fishing vessels and yachts. Smaller shipments have also been confiscated on small local "zodiac rafts". Smugglers also continue to ship cannabis via truck and car through the Spanish enclaves of Ceuta and Melilla, crossing the Straits of Gibraltar by ferry. Traffickers have also begun to smuggle cannabis out of the country via truck through Morocco's southern border, evidenced by a seizure of 6 tons of Moroccan hashish in the Senegalese port of Dakar. A helicopter crash in the Rif region in 2002 also suggests that traffickers are using various types of aircraft to smuggle cannabis out of 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 of other drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. policy goals in Morocco are designed to provide training in law enforcement techniques and to promote the GOM's adherence to its obligations under relevant bilateral and international agreements. U.S. supported efforts to strengthen money laundering laws and efforts against terrorist financing may also contribute to the GOM's ability to monitor the flow of money from the cannabis trade.

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 a transit country for illegal drugs (hashish, herbal cannabis, cocaine, mandrax (methaqualone), and heroin) consumed in Europe and South Africa. Some hashish shipments passing through Mozambique find their way to the United States and Canada. The country's porous borders, poorly policed seacoast, and inadequately trained and equipped law enforcement agencies facilitate transshipment of narcotics to South Africa. Drug production is limited to herbal cannabis. Available evidence suggests significant use of herbal cannabis and limited consumption of "club drugs" (Ecstasy, etc.), prescription medicines, and heroin among the urban elite. The Mozambican government recognizes drug use and drug trafficking as serious problems, but has limited resources to address these issues. Cooperation programs with the UNODC and bilateral donors have attempted to improve training of drug control officials and provide better interdiction and laboratory equipment. Corruption in the police and judiciary significantly 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 for local consumption is produced throughout the country, particularly in Tete, Nampula, and Cabo Delgado provinces. Limited amounts are exported to neighboring countries, particularly South Africa. Some factories producing mandrax for the South African market were raided and closed down in 1995 and 2000. But by July 2002, at least some were back in business, and further chemicals and equipment for producing mandrax were seized in Matola (near Maputo). Mozambique's role has grown as a drug-transit country. Southwest Asian producers ship cannabis resin (hashish) and synthetic drugs through Mozambique to Europe and South Africa. Limited quantities of these shipments may also reach the United States and Canada. Reports from the Mozambican Office for the Prevention and Fight Against Drugs (GCPCD) indicate that heroin and other opiate derivatives shipped through Mozambique originate in Southeast Asia. Limited amounts of cocaine from Colombia and Brazil transit Portugal and Angola or Mozambique (all Portuguese speaking countries) on their way to South Africa. Mozambique is not a producer of precursor chemicals.

III. Country Actions Against Drugs in 2002

Accomplishments. Mozambique's accomplishments in meeting its goals under the 1988 UN Drug Convention remain limited. Government resources devoted to the counternarcotics effort are meager, and only limited donor funds are available. Mozambique is cooperating with the UNODC through two assistance projects designed to increase law enforcement capacity and border control. Local law enforcement agents in some provinces have destroyed cannabis crops. In 1995, 2000, and 2002, Mozambique cooperated with South Africa in raiding Mandrax factories near Maputo. Mozambican officials also seized assets connected with the production of mandrax, but not assets related to profits derived from drug sales. The Mozambican government carries out drug education programs in local schools in cooperation with bilateral and multilateral donors as part of its demand reduction efforts.

Law Enforcement Efforts. Mozambique's drug unit, which operates in Maputo and reports to the Chief of the Criminal Investigation Police, received refresher training in drug interdiction techniques as part of a UNODC program in 2001 and 2002. Under this program, 20 officers were hired and trained to staff drug units. Drug detection equipment was installed at border posts, ports, and airports. Customs officers at Maputo airport and seaport have received drug interdiction training under a UNODC program. The

UNODC is working with customs agents at land borders as part of a program with Mozambique, South Africa, and Swaziland. Publicized seizures in 2002 include:

- A seizure and destruction of 400 kilos of marijuana in Sofala province in May 2002.
- The arrest of three Israeli citizens with precursor chemicals and equipment for production of mandrax in Matola. Two of the suspects subsequently escaped during questioning.
- A raid on a drug trafficking ring in Inhambane, with six arrests that yielded unspecified amounts of marijuana and 41 packets of heroin.
- Destruction of half a metric ton of marijuana in Manica province.
- Destruction of cannabis crops by police in several provinces. The Minister of Justice reported to the National Assembly in October that 633 kilos of cannabis were seized and 2.5 hectares of cannabis fields were destroyed in the first half of 2002.

Mozambique has not received requests for the extradition of drug-related suspects.

Corruption. Corruption is pervasive in Mozambique. 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 director of the Maputo maximum security prison was replaced in June after the escape of a Tanzanian citizen sentenced to 20 years for involvement in production of mandrax.

Agreements and Treaties. Mozambique 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. Mozambique has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. Cannabis is cultivated in Nampula, Zambezia, Niassa, Cabo Delgado, Tete, Manica, and Sofala provinces. The Mozambican government has no estimates on crop size. Intercropping is reportedly common.

Drug Flow/Transit. Assessments of drugs transiting Mozambique are based upon limited seizure data and observations of local and UNODC officials. Mozambique serves as a transit country for hashish, cannabis resin, heroin, and Mandrax originating in Southwest Asia. Drugs destined for the South African and European markets arrive in Mozambique by small ship via Dubai. The Maputo corridor border crossing at Ressano Garcia/Lebombo is an important transit point. Hashish and heroin are also shipped on to Europe, and there is evidence that some hashish may reach Canada and the United States, but not in significant quantities. 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). The primary drugs of abuse are alcohol and herbal cannabis. Heroin, cocaine, and "club drug" usage and prescription drug abuse are also reported among Mozambique's urban elite. The GCPCD has developed a drug education program for use in schools. It has provided the material to a number of local NGOs for use in their drug education programs. The Maputo GCPCD office launched an education program aimed at youth in April 2001. The program included 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. Funds were not available in 2002 for expansion of these education programs beyond major cities. 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 provided U.S. \$170,000 and approved a further U.S. \$300,000 in support of the Police Sciences Academy (ACIPOL). The funds provide support for curriculum development, and the USG has also committed to providing a full-time advisor for curriculum development and strategic planning. The Department of Defense has assisted the Mozambican navy to develop a plan for improved coastal surveillance activities, but for the moment the plan cannot be implemented, as the Mozambican navy has no coastal patrol capacity.

Namibia

Namibia is not a major drug producer or exporter; however, it continues to be used as a drug transit country, and drug abuse in Namibia itself is rising. There has been approximately a 6 percent increase in drug seizures in 2002. Namibia's Drug Law Enforcement Unit (DLEU) lacks the manpower and resources to adequately enforce drug laws. Namibia is not a party to the 1988 UN Drug Convention.

Namibian police suspect that illicit drugs are smuggled into Namibia via road, hidden in large trucks. While most of the narcotics are destined for the illicit South African market, more and more of the drugs remain in Namibia, feeding a growing domestic drug abuse problem. The reported 6 percent increase in seizures was only the tip of the iceberg of a growing abuse and transit problem in Namibia. The largest growth in narcotic abuse cases is in Ecstasy.

Namibia has no bilateral narcotics agreement with the U.S. Namibia has not taken advantage of training opportunities at ILEA-Botswana.

Nigeria

I. Summary

Nigeria is a hub of narcotics trafficking and money laundering activity. Nigerian organized criminal groups dominate the African drug trade and transport narcotics as well to markets in the United States, Europe, and Asia. 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 to Europe, Asia, and Africa. South Africa is a major destination for Nigerian-trafficked cocaine within Africa. Nigerian-grown cannabis is exported to neighboring West African countries and to Europe, but not in significant quantities to the United States. Aside from cannabis, Nigeria does not produce any of the drugs in which its nationals traffic.

Nigerian criminal organizations are also engaged in advance-fee fraud and other criminal activities. Nigeria remains one of the world's most corrupt places to do business. The democratically elected government of President Olusegun Obasanjo has faced significant challenges in checking organized crime. In 2002, Nigeria successfully extradited a fugitive sought by the U.S. for the first time in several years. The U.S.-Nigerian Mutual Legal Assistance Treaty (MLAT) entered into force in January 2003.

Throughout 2002, the looming April 2003 elections commanded increasing attention from senior elected GON officials. As a result, progress on fulfilling previously-made law enforcement commitments slowed down. A 2002 budget battle between the executive and legislative branch—provoked largely by the looming elections—resulted in an impasse and caused funding shortfalls for key law enforcement agencies. Nigeria's drug enforcement performance has not advanced significantly from past years, in part due to this funding problem.

In 2002, the NDLEA (National Drug Law Enforcement Agency) encountered limited success in combating the controlling elements of the drug trade. Typically, street pushers and trafficker "mules" were apprehended; the effort against large-scale traffickers, however, was less effective. While the success of efforts against drug kingpins remains modest, the Obasanjo government in 2002 made good on previous commitments to create a structure to identify and interdict the proceeds of crime—a major criminal issue in Nigeria, as highlighted by the Financial Action Task Force (FATF).

II. Status of Country

Nigerian criminal organizations, sophisticated specialists in moving narcotics and other contraband, 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 states with limited resources for countering these organizations.

Although Nigeria does not produce reliable crime statistics, most observers agree that public security deteriorated throughout the country in 2002. The police remain grossly mistrusted by the Nigerian populace and organized crime groups exploited that mistrust by preying on citizens throughout the nation, but particularly in key urban areas such as Lagos, Enugu, Port Harcourt, Jos, Kano and Kaduna.

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 various ports of entry. The NDLEA's most successful interdictions have taken place at Nigeria's international airports, with over 50 percent of hard drug seizures (e.g. cocaine and heroin) at the Lagos International Airport. The agency has successfully

apprehended individual drug couriers transiting these airports and some of the drug traffickers sponsoring these couriers; major traffickers remain at large.

NDLEA seizures of hard drugs in 2002 were modest. No one seizure exceeded 15 kilograms. Failure to make large seizures in 2002 contrasted unfavorably with success in 2001 in seizing a large shipment of 60 kilograms of cocaine at the Lagos port, for example. Seizures were modest despite continuing evidence of large drug shipments transiting Nigeria en route to the United States and Europe. The improved access of the NDLEA to Nigeria's major seaports has not resulted in any significant improvement in drug enforcement at these key interdiction points, in part due to the under-funding of the NDLEA and resistance to NDLEA operations by the Nigerian Customs Service.

Interdiction and enforcement efforts are complicated by an absence of inter-agency cooperation. Years of neglect by successive military regimes left the law enforcement community demoralized and ill-equipped to deal with sophisticated international criminal networks. 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, and defendants remain unpunished.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 2002, Nigeria enacted money laundering legislation and created an Anti-Terrorism, Economic and Financial Crimes Commission to coordinate government-wide efforts against money laundering and financial crimes. The Obasanjo Administration's initiative to create the Anti-Terrorism, Economic and Financial Crimes Commission shows the government's commitment to meeting its international obligations, particularly the standards of the FATF.

While frequent leadership changes at the NDLEA impaired the agency's effectiveness in the past, the current NDLEA Chairman, Alhaji Bello Lafiaji, who assumed office in October 2000, has given the agency new life and much more energetic direction. Chairman Lafiaji has instituted a number of internal reforms to improve the professionalism of NDLEA staff, including accelerating the retirement of officials suspected of corruption and improved training and benefits for NDLEA personnel. 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.

The drug trafficking situation in Nigeria, and the involvement of Nigerian nationals in drug trafficking and poly-crime organizations around the world, took years to evolve. It is in part a product of years of political, societal, and economic difficulties in Nigeria, especially under military rule. The current Nigerian government and any successor Nigerian government will have many competing priorities, and will be constrained by difficult reform issues. It is therefore entirely unrealistic to expect dramatic progress on the narcotics trafficking front quickly. Progress will be gradual, and every step forward will be difficult. Nigerian enforcement efforts currently focus on low level traffickers, but efforts are underway, including important U.S. assistance efforts, to upgrade the investigative capacity of Nigeria's enforcement officials.

Accomplishments. The increased level of drug enforcement that began in 2001 was sustained, but not improved, in 2002. With assistance from the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) and the Drug Enforcement Administration (DEA), the NDLEA enhanced its capacity to launch more aggressive drug interdiction campaigns and investigative efforts against drug barons.

With DEA assistance, the NDLEA created the West African Joint Operation (WAJO) initiative, bringing together drug enforcement personnel from 15 countries in the region to improve regional cooperation. Several WAJO meetings organized by the NDLEA and DEA during 2002 culminated in a month-long joint interdiction operation in ten countries, leading to cumulative seizures of hard drugs totaling more than 50 kilograms. The NDLEA also expanded counternarcotics cooperation with the police in South Africa, where Nigerian criminal organizations are responsible for the bulk of drug trafficking.

Given the weakness of Nigeria's own administration of justice regime, the threat of extradition to the U.S. could be a very significant deterrent for Nigerian traffickers engaged in major international operations. But, for many reasons, it has not been possible for Nigeria to process quickly many pending extradition requests from the U.S. The Government of Nigeria began to put in place a mechanism that promises to process U.S. extradition requests expeditiously while observing due process under Nigerian law. This mechanism includes the creation of an exclusive extradition team of public prosecutors and the designation of a High Court judge dedicated to extradition cases. Extradition requests were formerly heard in any court, including lower magistrates courts. Whether this new system works better than its predecessor will depend importantly on the quality of the person chosen for the key role of High Court Judge dedicated to extradition cases. It will also be important for the GON to assure this individual is protected from intimidation, and not open to bribery. In late 2002, Gabriel Umoh was extradited to the United States to serve a prison sentence for financial fraud. This marked the first judicial extradition of a fugitive wanted by the U.S. from Nigeria in over 10 years.

A high level U.S.-Nigeria law enforcement dialogue begun in 2001 continued with a second major ministerial-level meeting in Abuja in December 2002. Meetings cover 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.

Law Enforcement Efforts. The USG remains concerned over the Nigerian Government's inability to solve the murder of its former top law enforcement official, who was killed over a year ago. The assassination clearly casts a continuing shadow over law enforcement efforts in Nigeria, despite good-faith efforts by his replacement.

Nigerian counternarcotics efforts primarily focus on the interdiction of couriers transiting Nigeria's air and seaports and domestic cannabis crop destruction. Like those in many developing countries, Nigerian law enforcement and justice institutions find it difficult to both put together a case against major traffickers and try that case openly and fairly in the judicial system. Improved drug interdiction efforts at the Lagos airport and seaports led to increases in heroin seizures at ports of entry, most from low level "mules" or couriers. 91.79 kilograms of heroin and 24.04 kilograms of cocaine were seized during 2002, as compared with 43 kilograms of heroin and 98 kilograms of cocaine seized in 2001. Combined overall hard drug seizures declined 20 percent in 2002. The number of drug-related arrests fell to 1,960 from 3,592 in 2001, and 915 drug convictions were handed down during 2002, compared to 2,041 in 2001.

Major narcotics smugglers and their networks continue to elude arrest and prosecution. Attempts by the NDLEA to arrest and prosecute major traffickers and their associates often fail in Nigeria's courts, which are subject to intimidation and corruption. Asset forfeiture has not been a successful deterrent against money laundering or drug trafficking activities. Corruption among enforcement officials and the judiciary raises serious questions about whether this particular sanction can be applied consistently enough to have a salutary effect, quite apart from the technical difficulty of putting together a particular case.

In early 2002 the Inspector General of Police (IGP) was removed by the President, a move widely believed to have been linked to the IGP's alleged corruption and the failure to contain an unprecedented December 2001-January 2002 police strike over unpaid salaries and allowances. A newly appointed IGP, Tafa Balogun, began his tenure by announcing an eight-point plan to tackle corruption and crime, including an approach to dealing with violent criminals he termed "Fire-for-Fire." This was later followed by announcement of a "Shoot-To-Kill" policy. These policies, while designed to address aggressively violent crime, resulted in a dramatic increase in the excessive use of force by police officers and the killing of numerous innocent civilians throughout the country.

Nigerian police are poorly trained. Most new constables and corporals—the bulk of the force—have never qualified in the use of a firearm, yet they are given automatic weapons and the license to use excessive force. A standing internal police order allows police personnel confronting an unarmed riotous group to use firearms if they feel threatened. Implementation of a 2001 Presidential order to recruit 40,000 new police constables each year exacerbates the problem of absorbing poorly trained police into the force.

In late 2002, the USG embarked on a project to assist the Nigerian Police Force in addressing fundamental problems caused or exacerbated by 16 years of military rule, during which the Police Force was denied material and human resources. This project seeks to provide the Nigerian Police with a roadmap for adopting reforms that will provide greater transparency and checks and balances to current management practices, and reorient police officers to community policing. 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 a living wage for the 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 reorienting the police to serve the public rather than preying on the population to earn a living.

Corruption. Corruption is pervasive in Nigerian society and a systemic problem in Nigeria's government. Estimated unemployment is over 25 percent. Civil servants' salaries are low. In addition, salaries are frequently paid months late, compounding the corruption problem. After its inauguration, the Obasanjo Administration embarked on a public anti-corruption campaign. Legislation was enacted and the ICPC was formed. This Commission began prosecution of several minor officials on corruption charges, and initiated investigations into allegations of high-level corruption, but has been stymied by slow recruitment, inadequate federal funding, and a series of court challenges questioning the legality of the Commission. The ICPC hired its first non-seconded staff of prosecutors, investigators, and administrators in 2001 but has been unable to expand its staff further in 2002. The U.S. is providing the ICPC with training and technical assistance for its new staff.

The Obasanjo Administration 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 taking bribes, are moving forward. Meanwhile, corruption remains a significant obstacle to counternarcotics efforts, especially in the courts. While the NDLEA has attempted to purge its ranks of officers suspected of corrupt practices, a fear of corruption hampers interagency cooperation as agencies are often distrustful and unwilling to share information.

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 maximum of five years additional imprisonment for harming the reputation of Nigeria. Use of this law, however, has diminished; only one conviction was handed down in 2002. Corruption embedded in the everyday existence of every Nigerian over 16 years of continuous military rule continues to be a problem for the Obasanjo Government, with the administration itself having suffered from a number of corruption scandals. The USG is unaware, however, of any senior official of the government of Nigeria who corruptly facilitates narcotics trafficking or money laundering.

Agreements and Treaties. Nigeria is a party to the 1988 UN Drug Convention, the 1962 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The 1931 U.S.-UK Extradition Treaty, which was made applicable to Nigeria in 1935, is the legal basis for pending U.S. extradition requests. A mutual legal assistance treaty entered into force on January 14, 2003.

Cultivation/Production. Cannabis is the only illicit drug produced in large quantities in Nigeria. The drug is cultivated in all 36 Nigerian states, and the crop is therefore large. Major cultivation takes place in central and northern Nigeria and in the Delta and Ondo states in the south. Cannabis, or "Indian Hemp" as it is known locally, is sold in Nigeria and exported throughout West Africa and into Europe, especially Great Britain. To date, there is no evidence of significant cannabis shipments from Nigeria to the United States. The NDLEA has been engaged in an active eradication campaign. The NDLEA seized more than 304 metric tons of cannabis in 2002, a slight increase from the 290 metric tons seized in 2001. This is a significant seizure/eradication number and an important accomplishment for Nigerian law enforcement. However, for many farmers cultivating cannabis, cannabis represents their sole source of income. The potential for emotional, even armed resistance to eradication campaigns exists. It is therefore difficult for

the government to plan and execute eradication and interdiction efforts, adding to the accomplishment represented by their successful efforts set out above.

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 trafficked to Europe. Drugs transiting Nigeria have a significant impact in the U.S. market, and dominate the supply of certain drugs in certain cities, viz., heroin in Chicago. Nigerian criminal organizations are also involved in synthetic and club drug trafficking to the U.S. Nigerian nationals' role in crime worldwide, especially drug trafficking, probably has a more significant impact on the U.S. than do drugs trafficked to the U.S. by way of Nigeria. Nigerians are known to mastermind complex drug trafficking syndicates worldwide, and chose many different drug routes to the U.S., depending on their judgment as to likely success.

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 Lagos' Murtala Mohammed International Airport has prompted some drug traffickers to ship more narcotics through Nigerian seaports, concealing large quantities of contraband in shipping containers. They also use other West African airports and seaports with more lax security controls. Nigerian law enforcement officials have stepped up their efforts at air- and seaports in response to drug trafficking. Containerized shipment of large quantities of drugs presents a particularly difficult challenge to a country like Nigeria, which lacks the sophisticated equipment and methods that are normally applied to this smuggling technique. The U.S. and other donors train Nigerian personnel in profiling and drug-intelligence gathering techniques, so slow but steady progress in improving interdiction methods at seaports is a realistic expectation.

Domestic Programs (Demand Reduction). The abuse of hard drugs (e.g., cocaine, heroin) is now on the rise in Nigeria. Heroin and cocaine are readily available in many of Nigeria's larger cities. Some Nigerian officials deny that domestic drug abuse is on the rise, but by serving as a transit point, Nigeria itself has begun 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. USG working-level representatives enjoy excellent access to their counterparts and there is an evident desire on both sides to strengthen these relationships. The United States and Nigeria in 2002 signed a Letter of Agreement covering many aspects of law enforcement assistance, including a new U.S.-funded police reform program.

Bilateral Accomplishments. The DEA office in Nigeria continues to work with the NDLEA on expanding their relationship. Department of State assistance and U.S. Secret Service operational support have 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 and other Western nationals. The United States also provided training for NDLEA personnel on general investigative techniques and embarked on a project to support the NDLEA's training academy in Jos, Plateau State.

The Road Ahead. The U.S.-Nigerian relationship expanded after the 1999 reintroduction of democratic government in Nigeria. Despite a prolonged budgetary impasse in 2002 that limited most GON agencies to operating budgets of 40-50 percent of 2001 levels, President Obasanjo demonstrated his commitment to the international drug fight by granting the NDLEA a special allotment exceeding the NDLEA's 2001 budget. Nevertheless, federal funding for the NDLEA and other key Nigerian law enforcement agencies

remains insufficient and erratic in disbursement. This inadequate funding, and chaotic financial administration needs to be addressed by the Nigerian Government.

The U.S. government has expanded aid to Nigeria's counternarcotics efforts; counternarcotics assistance provided since February 2001 now totals over U.S. \$1.2 million. Another area of key concern is the performance of Nigeria's 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 is expanding a "rule of law" program with the Nigerian government to help strengthen and professionalize the judiciary. A more reliable extradition process that allows extradition requests to be heard expeditiously is now in place. Law and order in Nigeria itself will benefit if this process is used vigorously to process long-pending cases. Many U.S. extradition requests for narcotics traffickers have been outstanding for years.

Saudi Arabia

I. Summary:

Saudi Arabia has no appreciable drug production and is not a significant transit country. 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, drug smuggling has been a capital crime in Saudi Arabia. Due to these factors, drug abuse and trafficking do not pose major social or law enforcement problems. However, Saudi officials acknowledge that illegal drug consumption and trafficking are 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 1988 UN Drug Convention obligations, places a high priority on fighting narcotics abuse and trafficking. Narcotics-related crimes are punished harshly, and narcotics trafficking is a capital offense enforced against Saudis and foreigners alike. As of December 15, 5 convicted traffickers have been executed in 2002, a significant decrease from 2001. Saudi Arabia maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking. While Saudi officials are determined in their counternarcotics efforts, drug trafficking and abuse is a growing problem. 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 idle 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. The Narcotics Police are currently collaborating with the Presidency of Youth Welfare to produce a film for schoolchildren to educate them about the dangers of illegal drugs. Government efforts to treat drug abuse are aimed solely at Saudi nationals, who are remanded to one of the nation's four drug treatment centers in Riyadh, Jeddah, Dammam and Qassim. There are no separate facilities for Saudi women, and expatriate substance abusers are jailed and summarily deported. Health officials confirm anecdotal reports of an increase in drug 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 Actions Against Drugs in 2002:

Policy Initiatives. The lead agency in Saudi Arabia's drug interdiction efforts is the Ministry of Interior, which has over 40 overseas offices in countries 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 member of the United Nations Office on Drugs and Crime (UNODC), and its drug enforcement personnel regularly participate in international training programs.

Accomplishments/Law Enforcement Efforts. Saudi and U.S. drug enforcement officials regularly exchange information on narcotics cases. 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.

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. Saudi Arabia is a party to the 1988 UN Drug Convention.

Cultivation/Production. Cultivation and production of narcotics in Saudi Arabia is negligible.

Drug Flow/Transit. Saudi Arabia is not a major transshipment point. Due in part to new detection techniques employed at major points of entry, seizures of narcotics (coming primarily from Pakistan, Nigeria and Turkey) have increased. Anecdotal evidence suggests that narcotics trafficking is a growing problem via the country's land borders.

Domestic Programs (Demand Reduction). In addition to widespread media campaigns against substance abuse, the Saudi Government sponsors drug eradication 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.

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:

The production and trafficking of cannabis continues to be the largest domestic problem for the counternarcotics elements of the government. Trafficking of cocaine and heroin through Senegal exists, but is not a significant problem. Senegal's attempts to implement a national plan of action against drug abuse and trafficking have yet to get off the ground due to lack of funding. Senegalese authorities have been active in pursuing bilateral cooperation against international traffickers, including signing mutual assistance agreements with France and the UK. Education and strict enforcement of drug laws remain the cornerstone of Senegal's counternarcotics goals. 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 most enforcement efforts. Southern Senegal's Casamance region is the source of the cannabis trade. A small but violent rebel insurgency there provides assistance to cannabis traffickers and has made it almost impossible for law enforcement to identify and stop this trade. Government troops have temporarily driven traffickers out of the Casamance, but have not followed through with eradication of cannabis crops, claiming they do not have the time or the manpower to do so. Drug enforcement efforts have been underfunded and undermanned, allowing the illegal cannabis trade to continue unabated. Cannabis produced in the Casamance finds its way into Dakar, the capital city.

The seaport of Dakar and its international airport 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 way station for cocaine bound for Senegal. There is no systematic monitoring of containers at the port of Dakar. The international airport has drug enforcement agents present, but they lack the training and equipment to detect illegal drugs systematically. Consequently seizures are small and usually involve individuals from Ghana or Nigeria transiting Senegal. In 2001(latest data available), 56 grams of heroin, 310 grams of cocaine, 325 kilograms of cannabis leaf, 14 grams of cannabis resin, and 4366 tablets of synthetic drugs were seized. Senegalese police arrested 1127 persons for narcotics offenses, exclusively users and small-scale traffickers, the majority Nigerians and Ghanaians.

III. Country Actions Against Drugs in 2002

Senegal developed a national plan of action against drug abuse and the trafficking of drugs in 1997. This plan is multidisciplinary in its approach: control the cultivation, production, and traffic of drugs; inform the population of the dangers of drug use; and develop a program to reintroduce drug addicts to society. Full implementation of this plan remains stalled due to funding constraints. Periodic efforts to focus efforts and improve coordination have generally been hampered by the lack of adequate funding.

The amount of hard drugs seized by police in Senegal is small by international standards. Due to weak enforcement efforts and inadequate record keeping, it is impossible accurately to assess the real drug problem in the country. The head of the central office for the fight against illicit drug trafficking (OCTRIS) stated that Senegal destroyed two small fields of cannabis during the year, which amounted to only 70 plants. He added that there is no real GOS policy for systematic destruction of domestic cannabis or prevention of transshipment of harder drugs. Enforcement efforts are sporadic and uncoordinated. NGOs, such as the Observatoire Geostrategique des Drogues et de la Deviance (OGDD), have taken the lead in public education efforts.

OGDD continued a program that began in 2001. The first phase involved a campaign of information targeted at cannabis cultivators, arguing 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, trying to sensitize people to the problem of drugs. The focus of the second phase of the program was to be to encourage farmers to substitute alternative crops for drugs on their land. Due to funding constraints, however, implementation of this part of the program has been impeded and has yet to be achieved.

Corruption. Corruption is a problem for narcotics law enforcement all over Africa, but the USG is unaware of any narcotics-related corruption at senior levels of the Senegalese government.

Agreements and Treaties. Senegal has several bilateral agreements with neighboring countries to combat narcotics trafficking, and has signed mutual legal 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. Traffickers and their organizations are subject to asset seizures, imprisonment, and permanent exclusion from Senegal if convicted. Senegal 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.

IV. U.S. Policy Initiatives and Programs

USG goals and objectives in Senegal are to strengthen law enforcement capabilities in counternarcotics efforts. In 2002 the USG began to implement a program to train counternarcotics agents in drug investigation and interdiction methods under the International Narcotics and Law Enforcement Bureau of the State Department (INL). The program provided U.S. \$220,000 for several law enforcement programs that will aid the police in all aspects of narcotics investigations and prosecutions. Additionally, the USG provided basic drug analysis equipment and training to narcotics police and lab technicians at the national drug laboratory.

The Road Ahead. The USG will continue to work closely with the Senegalese government to improve the capacity of its narcotics law enforcement officers to investigate and prosecute narcotics crimes.

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), primarily destined for Southern African and 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, a variant of methaqualone. Mandrax is the preferred drug of abuse in South Africa; it is smuggled, primarily from India, but also from China and other sources. Mandrax is the single most important money-earner for indigenous South African organized crime. A study conducted by the South African Police Service (SAPS) found that by 1997 there were 192 indigenous organized criminal gangs active in all of South Africa: 92 of these gangs were primarily focused on the international smuggling of narcotics, with mandrax the leading drug; there are clear indications that the trends reported then are even more prevalent now.

South Africa is a party to the 1988 UN Drug Convention. In 2001, a bilateral extradition treaty and a mutual legal assistance treaty entered into force between the U.S. and South Africa. After much post-enactment tinkering by the South African Parliament, the Prevention of Organized Crime Act, particularly the asset forfeiture section, has become a useful tool for law enforcement. In October 2001, the Parliament passed a law that mandates reporting and record-keeping on certain financial transactions and that will create a Financial Intelligence Center (FIC). The FIC began work in February 2003.

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 U.S. 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, the transit point, or the terminus of many major smuggling routes; this was particularly so during the apartheid period. Trends and practices begun in the sanctions-busting apartheid period continue into the current era; rather than embargoed items, drugs and other illicit items now are smuggled into and out of South Africa. 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, Asia, 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, although this production does not have a significant effect on the U.S. Cannabis produced in South Africa is either consumed locally or exported to countries other than the U.S. Smuggling of cannabis to Europe continues to increase.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Combating the use of and the trafficking in illicit narcotics is an important component of the anticrime agenda of the South African Government (SAG). As a practical matter, however, the SAG tends to target its limited anticrime resources on serious, violent domestic crime. South Africa has one of the world's highest rates of murder and rape. 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, human beings, and precious metals. The cabinet's interagency "Justice Cluster" works to help coordinate the law enforcement and criminal justice systems' response to these challenges. The Narcotics Bureau (SANAB) is being phased out, and its staff is being integrated into the police organized crime components. The organized crime units claim that drug trafficking is their number one priority.

Accomplishments. In 2002 the Narcotics Bureau met the goals and objectives of the 1988 UN Drug Convention through arrests, seizures of drugs, spraying cannabis, seizing labs, controlling precursor chemicals, extraditing criminals, and seizing assets. South Africa's 1998 Prevention of Organized Crime Act, which criminalized certain conspiracies and put teeth into previous legislation outlawing money laundering, was used frequently and fared well in the courts in 2002. The law was used more against narcotics offenses, after certain sections were re-drafted by Parliament to address drafting/conceptual inadequacies that were exposed in initial court cases. In a related development, to improve South Africa's enforcement effort against money laundering, in October 2001, the Parliament passed the Financial Intelligence Center Act that mandates record keeping and disclosure of certain financial transactions. The legislation also created a center (the FIC) to receive financial information and statistics and analyze them for possible money laundering activity. The FIC Act is not targeted solely at drug traffickers, as money laundering is associated in South Africa with many forms of organized crime. Nevertheless, the FIC Act provides one more tool for identifying and building strong cases against drug trafficking organizations and drug-related money laundering operations.

The conviction rate for drug offenses is high in South Africa, averaging 70 percent. As of June 2002, 5808 individuals were sentenced for drug related crimes; 508 of them were foreigners.

Law Enforcement Efforts. SANAB and South African Customs continue to make seizures of cocaine arriving in South Africa at international airports and seaports. In March 2002, the SAPS seized 350 kilograms of cocaine with a street value of U.S. \$10 million in a container vessel in Cape Town. The cocaine was destined for Lome, Togo. In a separate incident in July 2002, police seized sufficient chemicals and equipment to produce illicit mandrax tablets with a street value of U.S. \$270 million, and 32,000 mandrax tablets ready for sale. This seizure is one of the largest seizures of mandrax ever registered. In 2002 there were also large seizures of cannabis and Ecstasy and smaller seizures of heroin and LSD. The aerial wing of the police carries out an airborne cannabis eradication program domestically and also offers cannabis eradication to other countries near South Africa, including Lesotho. The effectiveness of these operations is often hampered by lack of operational funds. Increased training of police and more units targeted on drug enforcement have led to more seizures of drugs destined for export.

The most up to date complete year seizure and arrest statistics available are for 2001. In 2001, police seized 495,927 kilograms of cannabis, worth U.S. \$64 million; 4 million tablets of mandrax (methaqualone), worth U.S. \$47 million; 150,000 tablets of Ecstasy; 8.5 kilograms of heroin; and small amounts of LSD. Crime statistics for 2001 include 49,839 cases of drug-related crime, of which the Narcotics Bureau investigated 8,553 cases. Eighty percent of these cases were for possession, while the remainder involved marketing, trafficking and distribution. The South African police estimate that 69 percent of all domestic crime in South Africa involves the use or trafficking of cannabis. Trafficking of cannabis within South Africa itself, and to the region, is pervasive. In addition, trafficking internationally is already significant and growing.

The police service also detected, dismantled and seized 34 labs, which were producing mandrax, amphetamine, and methamphetamine, in 2001. The police service has no estimate of how much of these drugs were to be trafficked outside of South Africa, and what share was destined for domestic use.

The revenue service has reorganized the South African Customs Service as well as upgraded its technology at border points to make it more effective in interdicting and investigating smuggling of all types, including of drugs. The Border Control Police have received training from UNODC (sponsored by the USG) on seaports security, resulting in several large seizures of mandrax and cocaine.

Corruption. Officials accused of corruption can be prosecuted under the 1992 Corruption Act. Accusations of widespread police corruption are frequent, but the experience of enforcement officers 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, low salaries, and poor morale as to corruption. Credible evidence of narcotics-related corruption among South African law enforcement officials has not been brought to light, although many suspect it exists. Some low level corruption—and much mal- and misfeasance—among border control officials does appear to contribute to the permeability of South Africa's borders.

Agreements and Treaties. South Africa is a signatory 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, and signed the UN Convention against Transnational Organized Crime.

The U.S. and South Africa have bilateral extradition and mutual legal assistance agreements in force between them, as well as a customs mutual assistance agreement and a Letter of Agreement on Anticrime and Counternarcotics Assistance. The Letter of Agreement provides for U.S. training and commodity assistance to several South African law enforcement agencies.

Cultivation/Production. Cannabis, or "dagga," grows wild in southern Africa and is a traditional crop grown in many rural areas of South Africa, particularly the Eastern Cape and Kwa-Zulu Natal provinces. It also grows wild and is cultivated in neighboring Swaziland and Lesotho. It is possible to have three cannabis crops a year in some areas of Southern Africa. Most South African-produced cannabis is consumed domestically or in the region. However, increasing amounts are being seized in Continental Europe and the UK. Mandrax, amphetamine, and methamphetamine are also produced in South Africa for domestic consumption.

Drug Flow/Transit. Significant amounts of cocaine reach South Africa from South America. While there are no statistics available for the amount of cocaine coming into South Africa, the trend is clear from the increase in cocaine seizures in South Africa, beginning in 1993: 1993: 78.4 kilograms; 1994: 69.6 kilograms; 1995: 187.8 kilograms; 1996: 106.6 kilograms; 1997: 151.5 kilograms; 1998: 635.9 kilograms; 1999: 327.5 kilograms; 2000: 135.1 kilograms; 2001: 286.3 kilograms; and 2002: seizures (not yet officially compiled and issued) substantially exceed any previous year's. While South Africa initially served as a point of transshipment for cocaine leaving the Andean countries en route to Europe, cocaine has begun to find a quite substantial domestic market in South Africa itself. South African consumption of cocaine, both powder and "crack" (crystalline) is clearly increasing; abuse of crack is growing faster than any other drug abuse in South Africa. Mindful of the U.S. struggle with its crack epidemic of the mid-to-late 1980's, South African authorities are concerned a similar crisis may occur in South Africa.

Many illegal Nigerian and West African residents in South Africa are involved in organized crime, specializing in the smuggling of crack cocaine. Nigerian gangs have also been found using South Africa as a base of operations for worldwide drug smuggling and so-called "419 Fraud." ("419 Fraud" refers to various schemes under which individuals, primarily Nigerian, offer the prospect of huge, windfall payments—which never materialize—to unsuspecting foreigners in exchange for an advance fee or access to a bank account.) According to South Africa's Institute for Security Studies, of an estimated 100,000 Nigerian residents in South Africa, only 700 are legal.

Many drug liaison officers, as well as the South African Police Service, believe that South Africa is becoming a place for traffickers to warehouse their stocks of cocaine before sending them on to other countries for final consumption. They believe that criminals view South Africa as a "weak enforcement" option for such warehousing operations. Moreover, a sophisticated modern infrastructure is in place in South Africa—financial, communications, and transportation—and enforcement efforts are not as strong as those at alternative warehousing sites nearer to the cultivation/production sites of the drugs. In addition, warehousers see a possibility for corrupting enforcement officials in South Africa. The largest "warehousers" are organized crime groups of Nigerian, Venezuelan, Colombian, and ethnic Chinese nationalities.

Heroin is smuggled into South Africa from Southwest and Southeast Asia with some moving onward to the U.S. and Europe. According to the UN, however, the majority of heroin trafficked into South Africa is intended for local consumption. Heroin consumption among South African youth has also increased markedly, particularly with the advent of smokable heroin. According to the UN, injecting drug abusers are not common in South Africa, but information in South Africa on drug abuse is starkly limited, and the real situation might differ quite sharply from the way it appears today. The most recent evidence available indicates that heroin injecting is increasing in South Africa. For example, 51 percent of people being treated for heroin abuse in Cape Town reports at least some injecting, while the same statistics for Gauteng are 36 percent. Of course these indications give rise to further concerns about the spread of HIV/AIDS through shared needles.

Domestic Programs. South Africa has had a long history of mandrax and dagga (cannabis) abuse; drug counselors have noted large increases in the number of patients seeking treatment for crack and heroin addiction in the past two to five years. General budgetary constraints have meant that SAG subsidies for non-government drug rehabilitation agencies have been cut 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. Treatment demand data shows that, from 1997-2000, patients presenting themselves for treatment reporting cocaine abuse in the form of both crack and powder increased from 1 percent to between 5-10 percent of all patients presenting for drug abuse problems.

IV. U.S. Policy Initiatives and Programs.

Policy Initiatives. Crime is an important issue in South Africa. U.S. law enforcement officers from the DEA, FBI, U.S. Customs, and Secret Service cooperate successfully with their South African counterparts. The U.S. also 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 U.S. 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 Road Ahead. Although the SAG has a commitment to create an effective legal and regulatory infrastructure to combat drug trafficking, and all other forms of organized crime, the process of implementing change is likely to be slow and uneven.

Swaziland

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, relatively open society, and developed economic infrastructure contribute towards making Swaziland attractive for trafficking organizations. A key factor in this picture is the presence in Swaziland of a casino industry. The casino sector attracts many visitors from South Africa, creates an atmosphere where "club" drugs can be consumed, and presents an option for money laundering. Cannabis, grown in the southern Africa region, moves back and forth across the Swazi border with South Africa, and Swaziland's status as an independent state presents criminal groups with one more option for frustrating law enforcement efforts, but Swaziland is not a major factor in regional trafficking. As is the case with all neighboring states, low level corruption no doubt facilitates some trafficking, but the Swazi government punishes corruption brought to its attention.

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 UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Syria

I. Summary

In 2002, the Syrian Government continued to devote increasing resources to combating the drug trade. Although drug seizures increased measurably and domestic usage was negligible, Syria remained an important transit country for drugs. Jordan and the Gulf States remained the primary destinations for drugs transiting Syria from Lebanon and Turkey. Significant amounts of opium were also shipped from Pakistan and Afghanistan through Jordan and Syria to Turkey. The Syrian Government cooperated with Lebanese authorities on successful opium and cannabis eradication programs in the Syrian-controlled Lebanese Biqa' Valley. The Government continued its strong counternarcotics cooperation with neighboring Turkey and Jordan. The Counternarcotics Unit was upgraded from a branch office to a directorate in the Interior Ministry and the Syrian Government began establishing counternarcotics offices in the regional governments. 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 Middle East region and to Europe. Syria is a transit country for hashish, cocaine, and heroin, particularly from Turkey, but also from Lebanon. Syria is also a transit country for opium entering Lebanon from Afghanistan via Jordan.

No members of the Syrian military stationed in Lebanon were prosecuted for drug trafficking in 2002. Despite previous allegations of such trafficking, Syrian counternarcotics officials maintain that they have no information about the involvement of Syrian officials in drug production in the Biqa' Valley. 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 Majors List in the late 1980's because opium production in the Biqa' Valley exceeded the threshold limits of the Foreign Assistance Act of 1961, as amended. In 1991, it was estimated that 3,400 hectares were being used for opium production in the Biqa' Valley. In 1992, Syria and Lebanon launched a successful joint eradication campaign reducing poppy cultivation to approximately 150 hectares. The cultivation of cannabis, processed into hashish primarily for non-U.S. markets, was also reduced drastically during this period. In recognition of these efforts, Syria was removed from the Majors List in 1997. Since then, the U.S. has continued to monitor Syria's efforts to suppress cultivation of poppies in the Biqa' Valley and sees no evidence that cultivation of significant amounts of either opium or cannabis has resumed, despite initial reports to the contrary in 2001. There is likewise no evidence that narcotics transiting Syria are entering the U.S. in an amount sufficient to have a significant effect on the U.S.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In recognition of the importance of combating the drug trade, Syria upgraded the Counternarcotics Unit from a branch to a directorate of the Interior Ministry. The Government also opened regional counternarcotics offices in Aleppo province, covering the Turkish border, and in Homs province, to monitor the Lebanese border, and plans to eventually open offices in every province. Despite resource constraints, the Government allocated additional manpower and new equipment to support these new initiatives.

Syrian authorities prepared a draft decree, with an expected release date of early 2003, that will provide rewards of up to several million Syrian pounds (1SP = .0194 cents) to anyone providing information about drug trafficking and/or cultivation in Syria. The Syrian Government also stated that it is finalizing anti-money laundering legislation consistent with guidelines adopted at the 1998 Arab League General Assembly.

Syria's anti-trafficking law of 1993 calls for the death penalty for certain narcotics offenses. In practice, however, most death sentences are commuted, and the maximum sentence is 30 years. There were no death sentences in narcotics-related cases in 2002. Many cases are pending under the anti-trafficking law, and there are ongoing prosecutions of drug offenders. There are provisions for the seizure of assets financed by profits from the drug trade, which are invoked on a case-by-case basis.

Accomplishments. In 2001, there were allegations that Syria did not use its authority in Lebanon to suppress drug cultivation in the Biqa' Valley. In 2002, however, the Syrian Government cooperated with the Lebanese police on successful opium and cannabis eradication programs. In February, approximately 600 hectares of opium poppies were eradicated. In August, approximately 900 hectares of cannabis were eradicated. Lebanese authorities estimate that almost all illicit crops in the Biqa' Valley were eradicated before harvest in 2002. Key border stations were staffed with personnel and specialized dogs trained in detecting concealed drugs.

Law Enforcement Efforts. The upgrading of the Counternarcotics Unit to a directorate, and the establishment of regional counternarcotics offices, illustrated the Syrian Government's commitment to combating the drug trade. Drug seizures increased. Syrian officials characterized cooperation on drug issues with neighboring Jordan, Turkey, and Lebanon as "excellent." Syria has legislation which provides for seizure of assets financed by profits from the drug trade. The Government has used this legislation. Seizure rates of illegal substances increased substantially in 2002. Within Syria, the authorities confiscated 56.7 kilograms of cocaine, 12.7 kilograms of opium, 892.8 kilograms of hashish, and 2.8 million Captagon pills. Syrian authorities reported the arrest of 2,540 individuals on narcotics-related charges in 1,793 narcotics-related cases in 2002. Figures for 2002 are for the first 11 months of the year.

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 across the border 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 counternarcotics unit for corruption in 2002.

Agreements and Treaties. Syria is a party to the 1988 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 and its protocols. Syria and the U.S. do not have an counternarcotics agreement, nor is there an extradition treaty or a mutual legal assistance treaty (MLAT) between the two countries.

Cultivation/Production. The Syrian Government has an effective counternarcotics system in place that has reduced cultivation and production in Syria to negligible levels.

Drug Flow/Transit. Drug interdiction remains the focus of the Syrian counternarcotics effort. Transshipment of narcotics from Turkey continues to represent the major challenge to Syria's counternarcotics efforts. Seizure statistics suggest an increase in the flows of hashish and cocaine transiting through Syria to Europe and other countries in the region, of opium transiting from Pakistan and Afghanistan through Syria to Turkey, and of Captagon pills transiting from Turkey through Syria to Saudi Arabia. Despite increased seizure rates, Syrian officials estimate that in 2002 the overall flow of

narcotics transiting Syria and destined for other countries in the region was approximately the same as in 2001.

Domestic Programs/Demand Reduction. Due to 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. The Ministry also conducts awareness campaigns through university student unions and trade unions.

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 need to work with the Lebanese government on crop eradication programs and on dismantling drug laboratories in Syrian-controlled areas of Lebanon, and the necessity of terminating any involvement, active or passive, of Syrian officials in the drug trade.

Bilateral Cooperation. Although the U.S. and Syria do not have a bilateral cooperation agreement, U.S. Embassy officials in Damascus and DEA officials based in Nicosia maintain an ongoing dialogue with Syrian authorities in the Counternarcotics Directorate. Additionally, high-ranking U.S. officials periodically share their views and recommendations with the Syrian Ministries of Foreign Affairs and Interior.

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. 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 (methaqualone), cocaine, heroin, and opium transit Tanzania's porous borders. In addition, the domestic production of cannabis is a significant problem. As a result, drug abuse, particularly involving cannabis, but also cocaine and heroin, is increasing, especially among younger, more affluent people and in tourist areas. In February, Parliament ratified a Protocol on Combating Drug Trafficking in the East Africa region, and the cabinet endorsed a national Drug Control Master Plan. Institutions nonetheless still have minimal capacity to combat drug trafficking; corruption reduces that capacity still further. Tanzania is a party to the 1988 UN Drug Convention and, in conjunction with UNODC, 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, economic liberalization has brought increased affluence to the expatriate community and some urban Tanzanians. This affluence has driven demand for new drugs like mandrax, cocaine, heroin, and opium, which have found their way into Tanzania.

In addition, the domestic production of cannabis is growing. Drug abuse among younger people is increasing, particularly abuse of the more affordable substances like cannabis and mandrax. Hard drugs like heroin and cocaine, including some crack cocaine, are used in small quantities within the affluent classes. The growth of the tourism industry, particularly in Zanzibar, has created a larger demand for narcotics.

Tanzania is located along trafficking routes with numerous possible illegal points of entry. The drugs originate from Pakistan, India, Thailand, Burma, Iran, Syria, and South America en route to Europe, South Africa, and, to a lesser extent, the U.S. The amount of drugs transiting Tanzania does not, however, significantly affect the U.S. 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.

During the year, there were reports of "mules" carrying hard drugs to various African destinations via regional flights through Tanzania. It is widely believed that traffickers conduct a significant amount of narcotics smuggling through Tanzanian territorial waters in small "dhow" boats that never call at Tanzanian ports. In June, the Tanzanian Revenue Authority announced a program to install modern equipment and improve surveillance of major entry points. Anecdotal evidence suggests surveillance at the airports has improved, which may have the effect of driving trafficking to minor ports and unofficial entry points.

III. Country Actions Against Drugs in 2002

Policy Initiatives. In 1995, Tanzania passed the Prevention of Illicit Traffic and Drugs Act, which establishes severe punishments for the production and trafficking of narcotics. It stipulates long sentences, including life imprisonment and forfeiture of property derived from or used in illicit trafficking. Offenses under this act are not bailable.

Accomplishments. In addition to the endorsement of the national master plan to combat drug trafficking and abuse, the government continued its ongoing efforts to develop an effective anti-money laundering regime. Law enforcement officials made sporadic seizures during the year.

Law Enforcement Efforts. Tanzania has counternarcotics police units of more than 50 officers in Dar es Salaam, Zanzibar, and Moshi.

Formal 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 significant increases in communication as well as effectiveness in each nation's narcotics control efforts.

In 2001, the most recent year for which accurate statistics are available, the Criminal Investigative Police reported the following seizures: 7,339 grams of cocaine, 7,967 grams of heroin, 12,500 grams of cannabis resin, 2,500 grams of mandrax, and 3,338 grams of morphine. In June 2002, Tanzanian police arrested two Zambian citizens and seized 1,863 kilograms of hashish that had been concealed in a timber shipment ultimately destined for Canada. The case was pending at the high court in November.

Corruption. Pervasive corruption continued to be a serious problem in the Tanzanian police force. It is widely believed 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 is any senior official of the government known to encourage such activities.

Agreements and Treaties. Tanzania is a party to the 1988 UN Drug Convention. The 1931 U.S.-U.K. Extradition Treaty is applicable to Tanzania. Tanzania has also signed the Southern African Development Community (SADC) Protocol on Drug Control.

Cultivation and 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. Given the availability of raw materials, and the simplicity of the process, it is possible that some hashish is also produced domestically. Most other illegal drugs imported into Tanzania are probably produced elsewhere, although a 2001 raid on a clandestine laboratory in Dar es Salaam demonstrated that Tanzania may become a manufacturing location for 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. Afghan heroin entering Tanzania from Pakistan is being smuggled to the U.S. by Nigerian traffickers, but not in significant quantities. The port of Dar es Salaam is a major entry point for mandrax from India headed towards South Africa.

Law enforcement authorities, beset by lack of resources and corruption, are able to seize only small amounts of narcotics. 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, who swallow the smuggled drug, arriving from the Gulf or South Asia and becoming ill, or from tip-offs from police informants. Senior Tanzanian counternarcotics officials acknowledge that their officers are under-trained and not adequately equipped for their missions. In addition, low salaries for law enforcement officers provide sufficient impetus for engaging in corrupt behavior and looking the other way when traffickers transit the country. In a telling example of police capabilities, the harbor unit lacks modern patrol boats and relies on modified traditional wooden dhows to patrol.

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 of the lower cost drugs. The spill-over from trafficking and increased tourism both have contributed to an increase of domestic demand. The tourist industry has brought Ecstasy to Zanzibar, and police reports confirm that crack cocaine is also available locally.

IV. U.S. Policy Initiatives and Programs

U.S. policy initiatives and programs for addressing narcotics problems in Tanzania are focused on training workshops and seminars for law enforcement officials. In September, eighteen police officers attended a six-week executive seminar at the ILEA in Roswell, New Mexico. The State Department's Bureau of International Narcotics and Law Enforcement is funding the establishment of a forensics lab and training in its use. At the Tanzanian government's request, these facilities will include narcotics analysis capabilities. The State Department's Coordinator for Counter-Terrorism is funding the "PISCES" program to improve interdiction capabilities at major border crossings. Clearly these programs mutually support each other's goals.

The Road Ahead. The U.S. will continue to assist Tanzania's own efforts against narcotic drugs.

Togo

I. Summary

Togo is not a significant producer of drugs and its role in the transport of drugs is primarily regional. The Togolese drug trade is overshadowed and to some degree dominated by Nigerian traffickers. Lome remains a spoke in the Nigerian hub of narcotics trafficking and money laundering. Togo's ability to address the transnational flow of drugs is undercut by its stalled democratic transition and the suspension of most international development aid. Togo is a party to the 1988 UN Drug Convention.

II. Status of Country

Togo's drug production is limited to small amounts of cannabis primarily for local consumption. The Government of Togo estimates that a modest percentage is exported to neighboring countries. Togo's relatively porous borders permit narcotics traffickers easy access/egress to other countries. This relatively easy transit through Togo has made Togo a transit point for narcotics such as cocaine and heroin. Most narcotics trafficking arrests in Togo have involved Nigerian nationals traveling from Asia to other West African destinations. The prevalence of widespread official corruption facilitates the drug traffic.

The National Anti-Drug Committee (CNAD) coordinates all counternarcotics and money laundering activity in Togo. The CNAD is composed of magistrates and members of the Togolese security forces.

III. Country Actions Against Drugs in 2002

Togo works toward preventing the flow of illegal drugs into the country and toward meeting the goals of the 1988 UN Drug Convention. But ongoing budget problems have continued to hinder most GOT-sponsored counternarcotics programs. There is neither adequate money nor infrastructure for interdiction, prosecution, or prevention, nor for rehabilitation programs for drug addicts. Togo's primary goal of cutting off the flow of narcotics is additionally hampered by its porous borders, which are difficult to police.

Policy Initiatives. In 2002 the GOT has maintained its three key objectives from 2001: improving the management of drug control; reducing the supply; and reducing the demand for drugs. Reduction of demand has received the most attention in 2002. In addition to continued support for policies initiated in 2001, the CNAD opened a youth counseling center that shows films and sponsors counternarcotics discussion groups. The programs have been well attended by NGO's, religious groups, and school groups composed of parents, teachers, and students. Programs designed for high school students focused heavily on prevention/non-use. The CNAD also sponsored programs for security forces that stressed the link between drug use and HIV/AIDS. The GOT spent an estimated U.S. \$20,000 on drug awareness efforts in 2002.

Accomplishments. Togo's most significant accomplishments in 2002 were the launch of the youth counseling center and its other information campaigns.

Law Enforcement Efforts. Although the number of arrests increased substantially in 2002, the law enforcement budget in Togo is still insufficient for significant law enforcement efforts. The overall operations budget for drug law enforcement in 2002 was approximately U.S. \$23,000. Only occasional spot checks are made of passengers at the airport and no system of cargo screening exists at the Port of Lome. Arrests have been most numerous at the land border crossings and in Lome. Arrests are sometimes made after a tip, but are more often made in the course of other routine law enforcement activities, such as traffic security or customs checks. According to police, approximately 70 per cent of arrests are successfully prosecuted.

Seizures in 2002 surpassed 2001 figures. Police seized 144.5 kilograms of cannabis, 2.5 kilograms of heroin and 1.7 grams of cocaine. Police arrested 149 people for narcotics-related offenses—a substantial increase from arrests made in 2001.

Corruption. In 2002 the GOT extended indefinitely the mandate of the Anti-Corruption Commission, which has remained actively engaged in combating official corruption. The ACC made no drug-related arrests of government officials and, to our knowledge, no government officials are involved in the drug trade.

Agreements and Treaties. Togo is a party to the 1988 UN Drug Convention. Togo cooperates with other members of ECOWAS (Economic Community of West Africa) regarding law enforcement issues.

Cultivation/Production. There are few statistics on drug cultivation and production in Togo. The only drug cultivated in quantity is cannabis, which can be grown in all five of Togo's regions. Cultivation is primarily for a local demand although some cross border distribution by small-scale dealers is suspected. No crop destruction was undertaken in 2002 despite widespread knowledge that cannabis is cultivated in Togo. The cocaine seized in 2002 is believed to have transited India. All the heroin seized in 2002 was discovered by the express mail company DHL in a single shipment from the United States.

Drug Flow/Transit. There are sizeable expatriate Nigerian and Liberian populations involved in the drug trade, and they arrange for drug transshipments from many places in the world, through Africa, and onward to final markets. Many observers of drug trafficking in West Africa believe that hard drugs like cocaine and heroin are "warehoused" in Africa, before being dispatched in appropriate quantities to final consumption markets...

Domestic Programs (Demand Reduction). Demand for drugs in Togo is believed to be increasing. Togolese authorities link the increased demand to the increase in the activity of foreign drug dealers and the increase in supply. In 2002 a psychiatric service for dependency was established at the University Hospital. The GOT actively collaborates with local NGO's such as the Alliance of Anti-Drug Volunteers and the Togolese Anti-Drug and Tobacco Association. In addition, the youth counseling center and other prevention efforts described above are aimed at demand reduction.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The U.S.' primary goal in Togo is to help the GOT combat the international trafficking of drugs. The U.S. seeks to help the GOT in improving 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 hampered by the country's ongoing democratic transition and the weak state of GOT finances.

The Road Ahead. U.S. cooperation with Togolese counternarcotics officials will continue. USG funded narcotics assistance will be used for Togolese counternarcotics infrastructure improvements.

Tunisia

I. Summary

Tunisia has a limited role as a drug transshipment point. The government has an active youth demand reduction education program and encourages counternarcotics educational activities by NGOs. Tunisia is a party to the 1988 UN Drug Convention.

II. Status of Country

Tunisia is neither a significant drug transshipment point nor a significant producer of precursor chemicals. Tunisia is a transit point for individual smugglers taking small amounts of hashish from Morocco to Europe. The government does not publish figures for narcotics consumption. 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 2002

Accomplishments. The Government of Tunisia (GOT) continues to give a high priority to counternarcotics law enforcement, and during the year seized a small amount of drugs. The Tunisian press reported on the seizure of 15 kilograms of drugs in the northern coastal city of Tabarka. 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, nor 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, nor 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, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. In 1992 Tunisia enacted drug-enforcement legislation to implement the Convention. 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. Tunisia also signed the 1999 UN International Convention for the Suppression of the Financing of Terrorism.

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.

Road Ahead. The U.S. will work closely with Tunisia to improve narcotics law enforcement.

United Arab Emirates

I. Summary

The UAE is a transshipment point for traffickers moving illegal drugs from Afghanistan and Pakistan westward. Frequent reports of seizures of illegal drugs in the UAE during the past year underscore this conclusion. The number of news stories in 2002 about drug smuggling, dealing, and usage has risen, with roughly 2-3 stories reported in the local press nearly every day. Besides the country's general laissez-faire attitude toward trade, there are several other factors that cause the UAE to be a transit country for drugs, including its proximity to major drug cultivation regions in Southwest Asia, a long (700 kilometers) coastline, and relative affluence among the local population.

Published statistics on narcotics seizures and domestic addiction reveal a growing drug problem among UAE and third-country nationals resident in the UAE. A Ministry of Health report in late 1998 asserts that there are approximately 12,500 drug addicts in the country of 3.1 million people; most drug addicts are Emirati nationals of both sexes aged 15 to 30. 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, as well as executing the country's counternarcotics strategy. The UAE government is a party to the 1988 United Nations Convention and is committed to the fight against international narcotics trafficking and narcotics abuse.

II. Status of Country

A major financial center and regional hub for commercial shipping and trade, the UAE is a transshipment point for illegal narcotics from the drug-cultivating regions of southwest Asia to Europe and to a much lesser degree to the United States.

Statistics on drug-related cases released by the UAEG indicate that the majority of arrests for illegal trafficking occur in the northern emirates. Factors that contribute to the prominence of the northern emirates in narcotics cases are: the emergence of Dubai and Sharjah as regional transportation centers, a porous land border with Oman, and the fact that transshipped cargo is rarely subject to inspection at any emirate port.

III. Country Actions Against Drugs in 2002

The UAE continued in 2002 to advance its national drug strategy based on intensifying security at the country's air and sea ports and patrols along the coastline, reducing demand of illegal drugs through educational campaigns, enforcing harsh penalties, and rehabilitating drug addicts. The UAEG is considering additional enforcement manpower and a larger budget to wage the war on drugs.

A national drug demand reduction plan to increase public awareness of the dangers of drugs and to help drug victims will be fully in place by 2003. Ongoing efforts include public statements by senior UAE officials, including the Commandant General of Dubai Police, who urged the UAEG to fight drug traffickers with the same intensity the USG is fighting terrorism; and the printing of counternarcotics messages on bills mailed out by the country's telecommunications monopoly. The Interior Minister has an annual budget of U.S. \$65,575 for narcotics intelligence information.

In cooperation with the authorities in Saudi Arabia, the UAEG in 2002 imposed restrictions and more stringent reporting and verification requirements for Saudi citizens operating bank accounts in the UAE.

These measures were largely aimed at preventing abuse of the financial system by unscrupulous elements, including narcotics traffickers.

The UAE Interior Ministry has seven offices throughout the country dedicated to the issue of precursor chemicals. These units pursue investigative leads and are active in stopping illicit chemical shipments. The Interior Ministry closely coordinates its efforts with the Ministry of Health, which oversees the granting of licenses to companies seeking to import/export chemicals, as well as the Customs and Port Authorities of all seven emirates. According to press accounts, 58 tons of chemical precursor were confiscated during the past several years in Dubai on the way to Afghanistan—32 tons were seized in Fujairah going from Armenia to Afghanistan, 10 tons of precursor chemical were stopped going to Pakistan, nine tons were seized headed for India and seven tons seized while being smuggled via Dubai from China to Iran The UAE has also conducted successful controlled delivery operations of precursor chemicals with Saudi Arabia, Pakistan, Qatar, and Oman.

Law Enforcement. UAE authorities acknowledge that narcotics consumption is an increasing problem among the local population. Government statistics reveal that the number of arrests in drug-related cases surged from 1,210 in 2001 to 1,558 in 2002 with 726 (46.6 percent) of those arrested being Emiratis.

According to the UAEG, the number of drug cases climbed from 743 to 1,023 between 2000 and 2001 while the amount of hashish seized by local authorities jumped. Interestingly, as the amount of confiscated hashish and heroin soared, the amount of opium, suggesting that opium abuse waned this year.

The U.S. Drug Enforcement Agency (DEA) has a close and continuing relationship with UAE officials and provided drug interdiction training to the Emirates in 2001.

Punishment for drug offenses is severe; a 1995 law stipulates capital punishment as the penalty for drug trafficking. No executions, however, have ever been announced. The only known case of a person receiving the death sentence for drug trafficking occurred in 1999, 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, and seven years if a possession charge is added, as is often the case.

Corruption. UAE officials aggressively pursue and arrest individuals involved in illegal narcotics trafficking and/or abuse. There is no evidence that drug-related corruption of public officials is a systemic problem; however, the former head of Dubai Customs and Port Authority—along with five other Customs officials—was tried, convicted, and sentenced in April 2001 to 27 years in prison on charges of financial corruption and embezzlement. Four months later he was pardoned by the Dubai government for his crimes and released.

Agreements and Treaties. No extradition or Mutual Legal Assistance treaties (MLAT) currently exist between the United States and the United Arab Emirates. Requests for renditions are handled on a case-by-case basis. The United States and the UAE continue to share information and exchange information in connection with terrorist financing and other money-laundering cases on an ad hoc basis. USG and the UAE are conducting preliminary discussions about the possibility of concluding an MLAT between the two governments. The UAE is a party to the 1988 UN Drug Convention and the 1971 UN Convention on Psychotropic Substances.

Cultivation/Production. There is no evidence of drug cultivation and/or production in the UAE.

Drug Flow/Transit. Narcotics smuggling through the UAE from south and southwest Asia and onward to Europe and, to the United States in a significantly lesser degree, is the typical trafficking pattern. Hashish, heroin, and opium shipments that originate in Pakistan and Afghanistan, and that transit Iran are smuggled in cargo containers, via small vessels and powerboats, and/or sent overland via Oman. UAE authorities recognize that the number of human carriers of illicit narcotics transiting local airports is also on the rise.

Recognizing the need for increased monitoring at its commercial shipping ports, airports, and borders, the UAEG is making efforts to tighten inspections of cargo containers, as well as of passengers transiting the UAE. (Container throughput in 2001 for Dubai's Jebel Ali Port was 3.5 million and an estimated 13.5 million people passed through the emirate's airport in 2001.) Customs officials randomly search containers and follow-up leads of suspicious cargo. The UAEG is in the process of procuring state-of-the-art equipment, which allows for rapid, thorough searches of shipping containers and vehicles.

Domestic Programs/Demand Reduction. The focus of the UAEG's domestic program is to reduce demand through public awareness campaigns directed at young people. Treatment is dealt with through a system of rehabilitation centers. UAE officials believe that appeals to adherence to Muslim religious mores as well as imposing severe prison sentences for individuals convicted of drug offenses are an effective deterrent to narcotics abuse.

A demand reduction plan is being formulated as part of the UAE's national drug control strategy. Although parts of the plan are already in place, the full plan will not be executed until mid-2003. In the emirate of Sharjah, a study of drug users seeking rehabilitation indicated that most addicts fell in the age group 18 to 29, that 44 percent had a good income (between U.S. \$683 to U.S. \$2,732 per month) and that hashish—followed by heroin—was the drug of choice. Emirati officials also cite the increasing number of drug addicts who die from their habit as a sign of the worsening drug problem.

An affluent country, the UAE has established an extensive treatment and rehabilitation program for its citizens. There is a rehabilitation center in Abu Dhabi, two in Dubai, and one each in Ajman and Sharjah for those identified as addicts. In accordance with federal law no. 1511995, 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. Third-country nationals or "guest workers," who make up approximately 80 percent of the UAE's population, generally receive prison sentences upon conviction of narcotics offenses and are deported upon completing their sentences.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. Government policy seeks continued participation by the UAEG in programs dealing with narcotics trafficking, precursor chemicals diversion, border/export control, and money laundering. Among USG initiatives is 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.

Road Ahead. The USG will continue to support the UAEG's efforts to devise and employ bilateral/multilateral strategies against illicit narcotics trafficking and money laundering. The USG will encourage the UAEG to focus enforcement efforts on dismantling major trafficking organizations and prosecuting their leaders, and to enact asset forfeiture and seizure legislation.

Zambia

I. Summary

Zambia is not a major producer or exporter of illegal drugs, nor is Zambia a significant transit route for drug trafficking. Zambia's Drug Enforcement Commission (DEC) reported seizures of cannabis in 2002 comparable to those of the previous year. The DEC also reported a lower success rate for drug prosecutions in 2002. The DEC works closely with other Zambian law enforcement agencies and has a strong record of cooperation with foreign governments, including the United States. As is true of the Zambian Government generally, the DEC is hampered by a lack of resources. Zambia is a party to the 1988 UN Drug Convention and, in 2001, the National Assembly passed legislation to criminalize money laundering.

II. Status of Country

Apart from small-scale cultivation of cannabis, Zambia is not a source of illegal drugs. Zambia is not an important route for drug shipments or a source of precursor chemicals.

Almost all of the DEC's interdiction effort is related to cannabis. Measured by market value, cannabis accounted for over 90 percent of illegal drug seizures in 2002. According to the DEC, cannabis is typically cultivated in Zambia by subsistence farmers who plant it alongside other crops grown for food and income. Most of Zambia's cannabis crop is exported to other countries.

Eradication of cannabis is one of the DEC's main enforcement goals, and it has a program in place for this purpose. Other DEC programs focus on training of officers, drug demand reduction, and money-laundering investigations. Following Zambia's enactment in 2001 of the "Prohibition and Prevention of Money Laundering Bill," the DEC has taken the lead among Zambian law enforcement agencies for investigating and prosecuting money laundering.

III. Country Actions Against Drugs in 2002

Policy Initiatives. Zambia undertook no new policy initiatives with respect to narcotics control in 2002. The DEC played a central role in a government initiative to curb corruption. The DEC continues to assess results achieved under a drug control master plan implemented between 1998 and 2001. The shape of future policy initiatives will depend upon the results of that assessment and the government's resource constraints.

Law Enforcement Efforts. DEC statistics reported for the period from January through October 2002 show results broadly consistent with those for the same period of the previous year. The DEC confiscated 12 tons of cannabis in 2002, one ton less than in 2001. As in 2001, the DEC seized only small quantities of amphetamine, including 19 grams of methaqualone ("Mandrax"), compared to 15 grams the previous year. The number of drug-related arrests was significantly higher in 2002, with 3,288 compared to 2,697 in 2001 (as revised). The success rate for prosecutions was lower, however: 44 percent in 2002 versus 56 percent in 2001. Of the 3,288 persons arrested for drug offenses in the first ten months of 2002, 169 were foreign nationals. Of these, 38 came from the Democratic Republic of Congo, 24 from Angola, and 18 from Tanzania.

Corruption. In 2002 the Government of Zambia began an important new initiative to curb corruption among public officials. While the DEC has played a central role in this initiative, especially through its anti-money laundering unit, these efforts had no direct relationship to narcotics control. No evidence has emerged to suggest that current government officials are involved in production or trafficking of drugs.

Of course, any efforts focused on corruption will have a spin off benefit for enforcement efforts against narcotics.

Agreements and Treaties. Zambia is a party to the 1988 UN Drug Convention. The 1931 U.S.-U.K. Extradition Treaty is applicable to Zambia.

Drug Flow and Transit. In 2002 there were no reports of significant quantities of illegal drugs being transported through Zambia from drug-producing countries to other jurisdictions, including the U.S.

Domestic Programs. The DEC's demand-reduction effort consists mainly of education programs carried out in schools and the workplace. The government has no specialized facilities for drug treatment. According to the DEC, there are 125 known addicted users of drugs in Zambia., but this figure is not reflective of the extent of domestic cannabis abuse. Cannabis users do not seek treatment and are not reflected in the few known addicts of more addictive drugs of abuse, such as methaqualone (mandrax), etc.

IV. U.S. Policy Initiatives and Programs

The U.S. provides significant training assistance to Zambian law enforcement agencies, including the DEC. In 2002 over one hundred Zambian law enforcement officers, at least a quarter of whom are active in narcotics control, completed training at the U.S.-sponsored International Law Enforcement Academies in Gaborone, Botswana and Roswell, New Mexico.

The Road Ahead. Zambia appears to have avoided some of the narcotics problems of its neighbors. Working closely with Zambia's competent government and effective enforcement officials, the U.S. will try to assist Zambia's future efforts.

Zimbabwe

I. Summary

Zimbabwe is not a major producer, supplier, or exporter of drugs or precursor chemicals. Cannabis (Dagga) remains the biggest drug problem in Zimbabwe, with the majority (80 percent) being imported from Malawi, Mozambique, and Zambia, while the remainder is home grown. 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, a unified government program of prevention and enforcement remains largely inactive. Zimbabwe has neither requested, nor has it received U.S.-funded assistance in recent years and is not considered to be a major money laundering country.

II. Status of Country

Production, cultivation, and trafficking in illicit drugs in Zimbabwe is considered 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 youth. Ecstasy use has reportedly been on the rise, giving it the position of the second most popular drug in Zimbabwe. The drug is predominately a product of the Rave/night club 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 2002

Zimbabwe is a party to the 1988 UN Drug Convention, as well as the SADC Protocol. While the five-year Zimbabwe Drug Control Master Plan was formulated in 2000, it has yet to be approved by the Government of Zimbabwe. As drug seizures have reportedly declined in the past two years, these actions are generally considered byproducts of law enforcement activities other than those in the counternarcotics arena. Nevertheless, offenders continue to be prosecuted in the courts. Narcotics money laundering does not appear to be significant, and there is no available evidence to suggest that government officials are engaged in or encourage illicit drug production or distribution.

IV. U.S. Policy Initiatives and Programs

The USG neither conducted nor proposed any counternarcotics policy initiatives in Zimbabwe during the past year. No foreign assistance funds were requested, approved, or directed in any way to support Zimbabwe's waning counternarcotics program.

The Road Ahead. Zimbabwe's overall problems with illicit drugs are relatively small, certainly in comparison with many neighboring countries, but unfortunately it appears the Government of

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Zimbabwe's emphasis in the 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 synthetic drugs must be manufactured. This process requires chemicals.

Chemical diversion control is a proactive and straightforward strategy to deny traffickers these chemicals. It involves the regulation of licit commerce in the chemicals most necessary for drug manufacture to ensure that transactions are permitted to proceed only after the legitimate end-uses of the chemicals involved have been established. This requires verifying that both the chemicals and the quantities ordered are appropriate for the needs of the buyer. Chemical control is a cost-effective strategy to prevent the manufacture of illicit drugs through the regulation of licit commerce.

Chemical control, as a strategy to prevent a crime, requires the examination of proposed commercial transactions, the bulk of which are legitimate. Chemical manufacturers and traders must provide transaction details to their national authorities. In the case of export transactions, at least a portion of this information must be shared with importing governments so they can ascertain the legitimacy of the proposed end-uses of the chemicals. Information sharing is also essential to prevent traffickers from turning to alternative chemical source countries when transactions in one country are denied. To avoid hindering legitimate commerce, the information exchange and the decision-making must be rapid.

Many governments consider chemical control a trade issue to be handled by trade ministries/agencies with a bias towards 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 can also reinforce the reluctance of companies to provide information that will be shared with other governments for fear that it will reach competitors. This concern is unfounded. There is no evidence that the multilateral chemical information exchange now occurring is being abused by governments or firms to gain competitive advantage.

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. All countries having commerce in regulated chemicals – exporting, trading, transit, and importing – must participate in the information exchange. Rapid multilateral information exchange between their competent national authorities on proposed transactions in regulated chemicals is essential to identify and stop or seize suspect shipments. The information exchange must include feedback from receiving countries, particularly importing countries, on actions they have taken in response to the information received. The U.S. continues to seek implementation of effective multilateral mechanisms for this information exchange.

To participate in multilateral chemical control mechanisms, countries must establish national chemical control regimes, with administrative structures to support them. The national regimes must include provisions for the multilateral information exchange 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 recognized. 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 23 chemicals as those most necessary for

drug manufacture and, therefore, subject to control. Signatories to the Convention accept the obligation to enact national laws and 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 European Union has two chemical control 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 regulations have been recently updated to better deal with the problem of synthetic drug chemicals.

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. In 1996, the United States introduced a resolution which was adopted by the CND requesting the UN International Narcotics Control Board (INCB), with the UN International Drug Control Program, to establish a limited international special surveillance list of chemicals not included in the conventions for which substantial information exists of their use in illicit drug manufacture. In 1998, the INCB, drawing on contributions of different governments, established the list to alert governments to the chemicals.

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 April 2003 CND will review progress to date in achieving the goals and objectives laid out in the UNGASS documents.

The U.S. has a chemical control agreement with the European Union, signed on May 28, 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. It also importantly provides for the exchange of information on chemical transactions with third countries.

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 and other methods used to obtain chemicals.

- 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 adequately to
 investigate legitimate end-use before issuing import permits, and the acceptance by

exporting countries of import permits as sufficient proof of legitimate end-use without any effort at independent verification, make this possible.

- Chemicals are manufactured in or imported by one country, diverted from domestic commerce, and smuggled into neighboring drug-producing countries. Inadequate internal and import controls and weak border security make this type of diversion possible.
- Chemicals are mislabeled throughout a transaction, either domestic or international, as non-controlled chemicals. In this case, the diversion takes place at the manufacturer or distributor level. Poor domestic controls that permit the initial diversion, coupled with the inability of enforcement officials to determine the true nature of the chemicals, permit this form of diversion.
- Chemicals are shipped to countries or regions where no systems exist for their control.
 This occurs because some chemical source countries do not insist that exports of controlled chemicals be only to countries that have in place viable, countrywide regulatory systems.
- New drugs ("designer drugs") are developed that have physical and psychological effects similar to controlled drugs, but which can be manufactured with non-controlled chemicals.
- Traffickers manufacture the controlled chemicals they require from unregulated raw materials, a costly and difficult process.

These tactics are masked by the use of front companies, false invoicing, multiple transshipments, use of free trade zones, and any other device that will conceal the true nature of the product, its ultimate recipient or its final end-use.

There is some recycling of the solvents used in illicit drug manufacture; recycling cannot be used for acids, alkaline materials or oxidizing agents. Since recycling requires some sophistication, and there is a loss of chemical with each recycling process, it is not a preferred method for unsophisticated heroin and cocaine laboratories. The precursor chemicals used in the manufacture of synthetic drugs such as methamphetamine and Ecstasy cannot be recycled.

2002 Chemical Diversion Control Trends and Initiatives

Positive movement to develop multilateral cooperative systems to control better the chemicals and equipment required for amphetamine-type-stimulants (ATS) manufacture, and the re-emergence of opium poppy cultivation in Afghanistan, creating a demand for chemicals to process it into heroin, were the two major international developments in chemical control during 2002. Operations Purple and Topaz – efforts aimed at controlling potassium permanganate and acetic anhydride—continue, but so does the trend noted last year of traffickers turning to countries not participating in the operations to obtain these chemicals.

The International Narcotics Control Board (INCB) has taken the lead in the design and promotion of Project Prism, a voluntary multilateral initiative to assist governments in preventing the diversion of chemicals and equipment to illicit ATS manufacture. The INCB convened and DEA hosted an initial organizational meeting in Washington in June 2002. The USG and the European Commission helped fund the meeting. Delegations from over 38 governments and international organizations attended.

The objectives of the meeting were to initiate an international project to assist governments in:

- Developing and implementing standard mechanisms and operating procedures to more
 effectively control and monitor both international trade and domestic distribution of
 ATS precursors to prevent diversion from these sources; and
- Developing and implementing effective mechanisms to carry out international follow-up
 investigations by law enforcement authorities into seizures, diversions and smuggling of
 ATS precursors with a view to tracking back to their sources.

The June meeting established a task force to carry forward the established objectives. It met twice in 2002, in August in Vienna, Austria and in December in The Hague, The Netherlands. Two backtracking operations have been launched on seized materials and chemicals to attempt to determine their sources.

The ATS problem is complicated by the changing nature of the drugs and the chemicals used in their manufacture. Traffickers design new drugs – "designer drugs" – with the same physical/psychological effects of regulated drugs to escape controls. They can also use unregulated substitute chemicals in their manufacture. So 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. A persistent problem has also been the advertisement and sale of ATS chemicals and equipment on the Internet.

Operation Topaz took on new importance in 2002 with the re-emergence of opium poppy cultivation in Afghanistan after the dip caused by the Taliban poppy ban in 2000. The INCB organized an informal roundtable consultation in Tashkent, Uzbekistan in October 2002, with Afghanistan and its northern neighbors, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Also attending were representatives from Germany, China, Russia, the United Kingdom, South Africa and the USG, all Operation Topaz participants. A principal purpose of the meeting was to brief the regional countries on Operation Topaz and to invite their participation.

While Uzbekistan already participates and is on the Topaz steering committee, the other neighboring countries declined to join. The Afghan delegation readily agreed to join, but the country lacks sufficient infrastructure to participate fully.

Operation Topaz now has 40 participating countries. The INCB reports that during the period January 1-June 30, 2002, 1,962 pre-export notifications involving 222,000 metric tons of acetic anhydride were submitted. During the same period, the authorities of India, Russia and Turkey reported fifteen seizures of acetic anhydride, totaling 33 metric tons.

The effectiveness of Operation Purple has diminished, after its successful start. Since its inception in April 1999 through June 30, 2002, 1,658 shipments totaling approximately 44,934 metric tons of potassium permanganate have been tracked and 66 shipments totaling 4,326 MT have been stopped or seized.

A shift in trade patterns to non-Operation Purple countries has been detected. INCB figures show that during the period January 1-June 30, 2002, 162 shipments totaling 3,690 MT were destined to 46 non-participating countries. This represents 57 percent of total shipments, and 53 percent of the quantities shipped during the period.

The Road Ahead

Three of the most important challenges for 2003 will be the effective initiation of Project Prism, the continuation of Operations Purple and Topaz, and the increased involvement of law enforcement agencies in the implementation of national chemical control laws and regulations. The achievement of the third will have an important impact on success in the first two.

The international consensus that more needs to be done to battle synthetic drugs is an opportunity to develop specific multilateral mechanisms for the control of their precursor chemicals. Project Prism is a

direct result of this. For it to succeed the initial level of involvement and enthusiasm must be maintained; this is a major goal for 2003.

Operation Topaz needs to be maintained and strengthened. There are two important elements to this. Non-participating countries that trade in the chemicals involved need to join, and direct communications between participating countries concerning bilateral chemical transactions and those with third countries need to be expanded. An additional specific goal is to restrict and stem the flow, primarily through smuggling, of acetic anhydride into Afghanistan.

The involvement of law enforcement agencies in the implementation of national chemical control laws and regulations is essential to their success. Some governments assign responsibility for chemical control to commerce or health ministries because it involves trade regulation or, in the case of ATS precursors, pharmaceutical-related chemicals. However, chemical diversion is a criminal activity undertaken by criminals to obtain chemicals illegally to manufacture heroin, cocaine and synthetic drugs. Law enforcement personnel are best trained and equipped to investigate and stop diversion and to arrest those involved. Law enforcement agencies are also best able to exchange and use information in pursuit of this goal. So, regardless of what agency has primary responsibility for chemical control, law enforcement must be involved in its implementation.

Major Chemical Source Countries

The countries included 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 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 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. Canada has been added for the first time because of the large increase in its imports of pseudoephedrine, a controlled chemical used in the manufacture of methamphetamine, which is susceptible to smuggling into the United States.

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 Annex to the Convention lists the 23 chemicals most essential to illicit drug manufacture. The Convention includes provisions for the Parties to maintain records on transactions involving such chemicals, and to provide for their seizure if there is sufficient evidence that they are intended for illicit drug manufacture.

Western Hemisphere

Argentina

Argentina is one of the largest producers of chemicals in South America. It is a party to the 1988 UN Drug Convention and has laws meeting the convention's requirements for record keeping, import and export licensing, and the authority to suspend shipments. Presidential decrees have added the requirement that all manufacturers, importers and exporters, distributors, and transporters be registered with the Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR).

During 2002, elements of the Argentine Government, including SEDRONAR, Gendarmeria Nacional and the National Police, jointly worked toward improving the country's chemical control system and interagency cooperation. SEDRONAR is the lead agency, and regulatory inspections of chemical companies are now taking place. Since SEDRONAR does not have the law enforcement authority to investigate companies, it is attempting to establish an informal task force with the Gendarmeria Nacional, Customs, the National Police, and the Buenos Aires Provincial Police who do have these authorities.

The USG continues to work with Argentine authorities to discuss and identify solutions to the problems of controlling domestic and international diversion of Argentine chemicals. Argentina is a participant in Operation Topaz and Operation Seis Fronteras, and recorded the second highest total of chemical seizures of the participating countries in the latter operation. Argentine and U.S. law enforcement personnel exchange chemical control information in the normal course of law enforcement cooperation.

Brazil

Brazil has South America's largest chemical industry. It also imports significant quantities of chemicals to meet its industrial needs. The country is a party to the 1988 UN Drug Convention.

Brazilian law requires registration with the Federal Narcotics Police of all producers, transporters and distributors of precursor chemicals. New regulations, effective in January 2002, increased the number of controlled chemicals to 150. The law gives the chemical section of the Drug Enforcement Division of the Federal Police the authority to add or delete chemicals. The regulations also require that currently registered chemical handlers re-register. The re-registration will be approved after the authorities have inspected the facilities. Records are required and the companies on a monthly basis must submit audits and reports.

In February 2002, 46 agents of the Brazilian Federal Police attended the DEA academy in Quantico, Virginia. The agents are part of a special vetted investigative unit working closely with DEA. Of the 46, 20 will be working directly in a unit dedicated to chemical control. Nevertheless, an overall shortage of agents and resources, as well as other law enforcement priorities, hinders the development and expansion of this unit.

Brazil continues to support and participate in international initiatives targeting chemical diversion, such as Operations Purple and Topaz, and the new Project Prism. It also participates in Operation Seis Fronteras, a regional exercise involving Argentina, Brazil, Colombia, Ecuador, Peru, Venezuela and DEA to concentrate counternarcotics law enforcement efforts on chemical control.

Brazil has established procedures under which records of transactions in precursor and essential chemicals can be made available to other countries' law enforcement authorities. The 1995 bilateral U.S./Brazil Counternarcotics Agreement provides the formal basis for information sharing with U.S. authorities.

Canada

Canada has become a significant producer and transit country for precursor chemicals and over-the-counter drugs used to produce synthetic drugs. The chemical most widely used for this purpose is pseudoephedrine, a regulated chemical on list 1 of the 1988 UN Drug Convention and a key chemical used for the manufacture of methamphetamine. Canada has not controlled imports of this chemical, with the result that legal imports, primarily from China, India and Germany, more than quadrupled from 1977 through the first nine months of 2001. Significant amounts of these imports were smuggled into the U.S., either in bulk, or in tablet form as an antihistamine, for use in U.S. methamphetamine labs. In January 2002, U.S. law enforcement, together with the Royal Canadian Mounted Police, announced the arrest in the U.S of 121 individuals involved in the smuggling. Over 30 tons of pseudoephedrine were seized. This represents 25 percent of the pseudoephedrine legally imported into Canada in 2001. Other precursor chemicals available in Canada that are used in the manufacture of synthetic drugs include sassafras oil, pipernol and gamma butyrolactone.

The Government of Canada has passed legislation to strengthen chemical controls. The promulgation of regulations on January 9, 2003 brought the chemical control provisions of the Controlled Drugs and Substances Act into force. The new legislation provides for control of the 23 chemicals listed in the 1988 UN Convention. The agency with primary responsibility for implementing the legislation is Health Canada, but lead enforcement responsibility lies with the Royal Canadian Mounted Police. At the request of Health Canada, DEA has sent a chemical diversion investigator and chemical diversion program analyst to Ottawa to advise on U.S. experience in implementing chemical controls.

Canada is a party to the 1988 UN Drug Convention. Cooperation between U.S. and Canadian law enforcement agencies in chemical control has been good, within the constraints of the unrestricted import situation that had existed before January 2003. Canadian law enforcement agencies share chemical transaction information available to them with U.S. law enforcement.

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 of potassium permanganate, and has become a transit country for the illicit exportation of the product to the Andean region. Mexico manufactures, imports and exports acetic anhydride. Mexico is a significant importer of ephedrine and pseudoephedrine. During 2002, Mexican authorities seized one of the largest Ecstasy labs in the world. However, Mexico has yet to establish controls for mythylamine, an Ecstasy precursor.

Comprehensive chemical control legislation adopted in 1997 placed 24 chemicals under government regulation. In September 1998, implementing regulations were published that established reporting and notification requirements for the import and export of these chemicals, and authorized Mexican officials to share information with foreign governments. The laws and regulations meet the requirements of the 1988 UN Drug Convention, to which Mexico is a party. However, enforcement of these laws and regulations has been weak. Chemical control and enforcement responsibilities are splintered among numerous different government entities, leading to information gaps, duplication of efforts, and lack of accountability coordination and cooperation.

Mexico is a participant in Operation Purple. Nevertheless, more than half the potassium permanganate seized in Colombia since the operation's inception in 1999 came clandestinely from Mexico.

Mexico also is a participant in Operation Topaz, the international initiative to track acetic anhydride shipments. Mexico manufactures, imports and exports this heroin essential chemical, but Mexico has failed to provide pre-export notification from shipments of this chemical as required by Operation Topaz guidelines and the 1988 UN Drug Convention.

The U.S.-Mexico bilateral chemical control working group, established in 1996, met once in 2002, for a frank discussion of challenges and proposed plans of action. Communications and information sharing have improved. However, problems have surfaced when chemical shipments have been voluntarily suspended or detained by U.S. authorities at the request of Mexican counterparts, because they lacked proper import permits or notifications. The Mexican Health Quality Commission subsequently authorized all but one of these shipments, undermining the efforts of U.S. and Mexican investigators.

As 2002 drew to a close, there were promising changes in Mexico's organization and commitment to implement a sound chemical control program. Unannounced inspections of chemical firms have begun. The elements of the Attorney General's Office responsible for investigating chemical diversion have pledged to cooperate with regulatory officials in the conduct investigations of suspect shipments, persons and firms.

The United States

The United States manufactures and/or trades in all 23 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 U.S. chemical control law is the Chemical Diversion and Trafficking Act of 1988. This law and three subsequent chemical control amendments were all designed as amendments to the U.S. controlled substances laws rather than stand-alone legislation and are administered by the Drug Enforcement Administration (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 10 key countries and one at INTERPOL to assist in determining legitimate enduse. 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 to DEA suspicious transactions such as those involving extraordinary quantities, unusual methods of payment, etc. Close cooperation has developed between the U.S. chemical industry and DEA in the course of implementing the legislation.

The U.S. aggressively investigates cases of suspected chemical diversion, especially to illicit methamphetamine labs, and applies the whole gamut of criminal, civil and administrative sanctions to violators. Criminal penalties for chemical diversion are strict; they are tied to the quantities of drugs that could have been produced with the diverted chemicals.

The U.S. 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 U.S. initiative. DEA organized the two international conferences in 1999 that resulted in Operation Purple. The U.S. participated in and supported the meeting in 2000 organized by the International Narcotics Control Board to plan Operation Topaz.

The U.S. organized and hosted a June 2002 meeting in Washington, chaired by the International Narcotics Control Board, to design an international initiative to better control the chemicals and equipment used in the manufacture of synthetic drugs. The European Union helped finance the meeting. The U.S. serves on the "task force" or steering group for the initiative, Project Prism, which the meeting agreed to launch.

Asia

China

China has a large chemical industry. It is a major producer of acetic anhydride, potassium permanganate, ephedrine, and pseudoephedrine, all chemicals on list 1 of the 1988 UN Drug Convention. The country is a party to the 1988 UN Drug Convention and has regulations for record keeping and import/export controls on the 23 chemicals included in the Convention. Several provinces, including Yunnan (which shares a border with Burma), have more stringent controls than called for in the Convention.

The Chinese Public Security Bureau maintains a small chemical control unit in Beijing to investigate chemical diversion and to verify the legitimacy of chemical handlers and transactions. In the provinces, provincial police only address controlled chemicals when they are discovered at a clandestine laboratory. China also requests "letters of no objection" from importing countries prior to authorizing exports of methamphetamine precursor chemicals. China participates in Operations Purple and Topaz and Project Prism.

Despite adequate legislation, China is a significant source country for chemicals diverted worldwide for the illicit production of cocaine, heroin, methamphetamine, and ecstasy. The country lacks the infrastructure to monitor adequately its large chemical production capacity and its international trade in chemicals.

U.S. and Chinese cooperation in chemical control is good, within the limits of Chinese capabilities. Information is exchanged through mechanisms such as Operations Purple and Topaz and in the course of normal counternarcotics cooperation.

India

India continues to be a focal point for the procurement of diverted chemicals in South Asia. It is a producer of ephedrine, pseudoephedrine and acetic anhydride, sought for amphetamine, methamphetamine and heroin manufacture in Burma and heroin manufacture in Afghanistan.

India is a party to the 1988 UN Drug Convention, but it does not have controls on all the chemicals listed in the convention. There are controls on the chemicals most likely to be diverted, ephedrine, pseudoephedrine, acetic anhydride, and N-acetylanthranilic acid, all chemicals listed in the convention. The Indian Government has proposed controls on anthranillic acid, since it has been misused in the manufacture of methalqualone (mandrax). India is a major source of methalqualone illicitly exported to Africa, especially South Africa, and seizures of illicit methalqualone exports have increased sharply in the past few years.

The Government of India has made significant progress in controlling the production and export of controlled chemicals. There is a system of letters of no objection from the importing country to regulate exports of controlled chemicals. Imports of acetic anhydride also require no-objection certificates issued by the Central Bureau of Narcotics.

Indian authorities have been very cooperative with the U.S. on letters of no objection and verification of end-users, especially with regard to ephedrine and pseudoephedrine. Information is shared between Indian and U.S. authorities and India is a participant in Operations Purple and Topaz and Project Prism. 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.

The U.S./EU Chemical Control Agreement, signed May 28, 1997, is the formal basis for U.S. and EU Member State cooperation in chemical control. The agreement calls for annual meetings of a Joint Chemical Working Group to review implementation of the agreement and to coordinate positions in other areas. The annual meeting has been particularly useful in coordinating national or joint initiatives such as resolutions at the annual UN Commission on Narcotic Drugs.

Bilateral chemical control cooperation is also good between the U.S. and EU Member States, and many are participating in and actively supporting voluntary initiatives such as the Multilateral Chemical Reporting Initiative, Operations Purple and Topaz, and the new Project Prism.

Germany and The Netherlands, with large chemical manufacturing or trading sectors and significant trade with drug-producing areas, are considered the major European chemical source countries. Other European countries have important chemical industries, but the level of chemical trade with drug-producing areas is not as large and broad-scale as these countries.

Germany

Germany's large chemical industry manufactures and sells most of the precursor and essential chemicals used in illicit drug manufacture. Germany is a party to the 1988 UN Drug Convention and has chemical control laws and regulations, based on the EU regulations, meeting the Convention's requirements. The federal Precursor Control Act criminalizes the diversion of controlled chemicals for the illicit manufacture of drugs. The 1994 code was amended in 2002, and a regulation for criminalizing violations of the EU chemical regulations was adopted.

Precursor control as a preventive measure is a major focus in combating drug crime in Germany. The country has an effective and well-respected chemical control program that monitors the 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 devoted exclusively to chemical diversion investigations.

Germany is in the forefront in international cooperation in chemical control. It developed and promoted the concept that led to Operation Purple and co-chairs its Steering Committee. Germany was one of the leaders in the organization of Operation Topaz and is now actively participating in its operation. It actively supports the new Project Prism.

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. There are large chemical storage facilities, and Rotterdam is the world's busiest port. These combine to make the country attractive to criminals seeking chemicals for illicit drug manufacture.

The Netherlands is a party to the 1988 UN Drug Convention and has legislation meeting the chemical control requirements of the Convention and the EU regulations. The 1995 Act to Prevent Abuse of Controlled Substances provides for prison sentences (maximum of six years), and fines (up to \$50,000) or asset seizures for chemical diversion offenses. The Fiscal Information and Investigative Service and the Economic Control Service oversee implementation of the law. A May 2001 government offensive against synthetic drugs included measures to intensify controls on chemical trade.

The Netherlands supports and participates in multilateral chemical control initiatives such as Operations Purple and Topaz. It is taking an active role in the development of Project Prism, and it hosted an important organizational meeting for the project in December 2002.

Large quantities of Ecstasy are manufactured in The Netherlands. The government has concluded that most of the chemicals required for this manufacture come from China. The government has decided to provide the International Narcotics Control Board and exporting countries (mostly China) with administrative information on precursor seizures. However, in view of the human rights situation in China, The Netherlands will not enter into a mutual legal assistance treaty with that country and will not provide criminal information.

The Dutch work closely with the U.S. on precursor controls and investigations. This cooperation includes formal and informal arrangements for information exchange. U.S. and Dutch authorities cooperate closely in multilateral operational initiatives and in international meetings such as the Commission on Narcotic Drugs.

Major Drug Countries

Drug manufacture requires significant quantities of chemicals. Most major illicit drug manufacturing countries do not produce all the required chemicals, and traffickers must meet their chemical requirements from external sources. This section summarizes the sources of chemicals used in major drug manufacturing countries and their initiatives to control these chemicals.

Asia

Afghanistan

Afghan opium poppy cultivation is rising again after a lull resulting from 2000 Taliban poppy ban. Afghanistan is in a position to become again the world's largest heroin producer. The chemicals required for heroin processing must come from abroad. The principal sources have been Europe, the Central Asian States and India. They are smuggled through the Central Asian States, the Persian Gulf and Pakistan, after being diverted elsewhere.

Afghanistan is a party to the 1988 UN Drug Convention. Article 27 of Afghanistan's 1990 drug control law, still considered to be in effect, states: "Anyone found to be importing equipment and chemicals for drug production or using them for drug production shall be sentenced to long-term or life imprisonment depending on the circumstances, and the equipment shall be confiscated on the court order."

The Transitional Islamic State of Afghanistan is currently working on a new drug law that will meet international standards. The country has also joined Operation Topaz, but it lacks the infrastructure to participate effectively. Until the infrastructure is developed, Afghanistan will require regional cooperation to prevent the transit of chemicals for smuggling into the country.

Burma

Burma is a major heroin and amphetamine-type-stimulant producer. Burma does not have a chemical industry and chemical requirements are met primarily by smuggling from China and India of chemicals diverted in those countries.

Although a party to the 1988 UN Drug Convention, Burma does not have laws and regulations to meet its chemical control provisions. In 2002, the Ministry of Health issued notification No.1/2002 identifying 25 substances as precursor chemicals and prohibiting their import, sale or use in Burma.

Burma is one of six regional countries participating in the UN International Drug Control Program's sub-regional action plan for controlling precursor chemicals and reducing illicit drug production and trafficking in the highlands of Southeast Asia. Burma is a nominal participant in Operation Topaz, but has not been represented at any of its meetings.

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. Bolivia has developed a national chemical control strategy. The implementing agency is the National Directorate for the Control of Chemicals, which under Bolivian Narcotics Law 1008 has the authority to register and inspect all controlled chemical handlers. The agency also approves all importation, exportation and domestic distribution of controlled chemicals. The National Directorate works with the Bolivian Chemical Control Police to monitor and inspect registered Bolivian chemical companies. In response to the Bolivian chemical control programs, traffickers have been forced to alter the cocaine production process, substituting inferior and recycled chemicals. They have, however, been able to maintain a fairly high level of purity for cocaine base. Based on a study of 108 samples taken in the Chapare in 2001 and 2002, the average purity of cocaine case tested was 74 percent.

Bolivia participates in voluntary multilateral chemical control initiatives such as Operation Purple and Operation Seis Fronteras, and cooperates closely with U.S. officials.

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 countries, 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. Regulatory inspections and criminal investigations of registered chemical companies are conducted by the Colombian National Police Anti-Narcotics Chemicals Units.

In addition, the units also work with the Direccion Nacional de Estupefacientes to conduct operations targeting chemical companies authorized to handle the key cocaine and heroin precursors, potassium permanganate and acetic anhydride, in order to determine their legitimate industrial needs.

A major problem in Colombian chemical control is the system for issuing import permits. They are not reliable proof that the legitimate end-use for the chemicals has been verified prior to issuance. 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.

Colombia participates in Operations Purple and Topaz, and Operation Seis Fronteras.

Peru

Peru produces some of the chemicals required for cocaine processing. The remainder are imported legally and diverted, as with domestically produced chemicals, or smuggled in, usually via rivers from Brazil and Colombia.

Peru is a party to the 1988 UN Drug Convention and has laws meeting its chemical control provisions. However, the laws need to be strengthened to establish a tracking system for the sale and distribution of controlled chemicals, and to increase the criminal penalties for trafficking in controlled chemicals. Legislation on both issues is pending.

U.S. and Peruvian authorities cooperate closely in chemical control. The Government has requested U.S. assistance in improving Peruvian chemical importation regulations, and to consider safe chemical disposal options. Peru is a strong supporter of Operation Seis Fronteras and participates in Operation Purple.

MONEY LAUNDERING AND FINANCIAL CRIMES

The Money Laundering and Financial Crimes section of the International Narcotics Control Strategy Report is based upon the contributions of many U.S. Government agencies. The Financial Crimes Enforcement Network (FinCEN) of the Department of the Treasury, as a member of the international Egmont Group of Financial Intelligence Units, has a unique strategic and tactical perspective on international anti-money laundering developments. It is the primary contributor to the majority of the country write-ups and the SAR analyses in this section. Other agencies that have helped produce this section include (from the Department of Treasury) the U.S. Customs Service, the Internal Revenue Service, the Office of the Comptroller of the Currency, the Office of Technical Assistance, the Office of Foreign Asset Control, and the Secret Service; (from the Department of Justice) the Drug Enforcement Administration, the Federal Bureau of Investigation; the Criminal Division's Asset Forfeiture and Money Laundering Section, the Counterterrorism Section, and the Overseas Prosecutorial Development Assistance and Training Office. The Federal Deposit Insurance Corporation and the Federal Reserve Board also contributed to this section.

Introduction

Today the world is a riskier place for criminals to launder their ill-gotten gains and for terrorists to finance their operations than it was a year ago. This progress is largely the result of intensified international efforts to combat terrorist financing that followed the September 11 attacks. While money laundering and terrorist financing are not identical phenomena, the legal, regulatory and enforcement tool kit necessary to combat both are virtually the same. Yet, even without the response to the terrorist attacks, international anti-money laundering efforts were reaching a new level in 2002. The international community, seeking to respond immediately to September 11, was fortunate to have an excellent model and foundation in the form of well-established anti-money laundering standards and procedures developed over the previous twelve years by the multi-lateral Financial Action Task Force on Money Laundering (FATF), the flagship of international anti-money laundering/anti-terrorist financing efforts; the global network of FATF-styled regional bodies; and unilateral actions taken by committed countries in accordance with these norms and standards. The 31-member FATF, through its four-year old Non-Cooperative Countries and Territories (NCCT) process, directed for the first time that "counter-measures" be applied to long-identified NCCTs of Nauru and Ukraine. These counter-measures were applied to countries and territories that persisted in their failure to pass adequate anti-money laundering legislation as the necessary first step toward building and implementing a comprehensive and effective anti-money laundering regime. The exercise has had an impact, as country after country either subject to, or faced with the prospect of, counter-measures began passing the legislation necessary to avoid counter-measures and taking, in many cases, the additional steps to be removed from the NCCT list. Nigeria avoided countermeasures by passing legislation that remedied some of the deficiencies that FATF had identified. The imposition of countermeasures against the Ukraine in December 2002 had an immediate effect. In early 2003, Ukraine passed necessary amendments to its anti-money laundering legislation and FATF, at its February, 2003 Plenary called for removal of countermeasures.

Some notable 2002 accomplishments achieved through the FATF NCCT process include the following: Dominica, Hungary, Israel, Lebanon, the Marshall Islands, Niue, Russia and St. Kitts & Nevis made sufficient progress in remedying the deficiencies in their anti-money laundering regimes that they were removed from the NCCT list. Other NCCTs, notably St. Vincent and the Grenadines and Grenada, enacted significant new legislation or implementing regulations in 2002. At its February 2003 Plenary, FATF removed Grenada from the NCCT list.

While the NCCT process focused on money laundering and not terrorist financing per se, FATF, the United Nations (UN), and other international entities lost little time in 2002 moving to ensure that the international community incorporated anti-terrorist financing into its anti-money laundering regimes. FATF and the UN Counter-terrorism Committee (CTC) led the way by requesting, collecting and analyzing reports and self-assessments from nearly every jurisdiction about its ability to address terrorist financing. Against the backdrop of all of these efforts, and with the United States in the lead as the year closed, the international donor community was beginning to accelerate its efforts to provide anti-money laundering/anti-terrorist financing technical assistance to committed countries most vulnerable to terrorist financing. Much remains to be done, however, and it will require a sustained and increasingly broadened effort to accomplish the international anti-money laundering/anti-terrorist financing objectives that still lie ahead.

The United States' international efforts to combat terrorist financing rely on a mix of multilateral and bilateral initiatives. Our strategy includes the following central elements:

- Establishing a clear set of norms, starting with key UN Security Council Resolutions and relevant international conventions concerning terrorist financing;
- Making the fight against terrorist financing a central element of every relationship the United States has with other countries and institutions;

- Convincing other countries to identify individuals and institutions involved in financing terrorism and to take appropriate action to shut down their activities, including through the freezing of their financial assets;
- Strengthening law enforcement cooperation in matters related to terrorist financing; and
- Providing training to increase the capacity of other countries to close down terrorist
 financing activities on their own soil, whether these activities occur in financial
 institutions, non-bank financial institutions, alternative remittance systems or through
 other means

Additional diplomatic efforts beyond FATF are also helping to strengthen the international coalition to thwart money laundering and the funding of terrorism. This is playing out in anti-terrorist financing and enhanced anti-money laundering measures by, for instance, the Group of Eight Nations (G-8), the UN, the Asia Pacific Economic Cooperation Forum (APEC), the Organization of American States (OAS), the European Union (EU), the Organization for Security and Co-Operation in Europe (OSCE), and other multilateral and regional organizations. They have variously sponsored conferences, offered technical assistance, crafted recommendations, or adopted conventions and other instruments designed to strengthen measures and enhance cooperation. Some milestones marking this success include the following:

- The Department of the Treasury noted that the United States and 30 other nations have blocked an estimated \$125 million of terrorists' assets to date.
- As of December 31, 2002, 64 countries, including the United States, had ratified the UN
 International Convention for the Suppression of the Financing of Terrorism; another 75
 countries had signed but not ratified the Convention. Among other provisions, this
 Convention obligates 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
 terrorist activity.
- By year's end, 181 of the UN's 191 Member States had provided the CTC with selfassessment reports on their anti-terrorism capabilities, including their ability to combat terrorist financing, in response to requirements in UN Security Council Resolution 1373, adopted on September 28, 2001.
- On June 3, 2002, the United States, along with 29 other countries, signed the Inter-American Convention against Terrorism, which the OAS General Assembly adopted on that day. Three other countries signed the Convention before December 31, 2002, including Canada, which became the first state to ratify it. The Convention includes a provision requiring parties, to the extent they have not already done so, to "institute a legal and regulatory regime to prevent, combat, and eradicate the financing of terrorism and for effective international cooperation thereto . . ." Nearly all major regional political organizations have issued statements denouncing terrorism and have begun the process of implementing work plans designed to enable member states to eradicate terrorist financing.
- Both the International Monetary Fund and the World Bank agreed to include assessments of compliance with relevant FATF Forty Recommendations on Money Laundering and the Special Recommendations on Terrorist Financing in their Financial Sector Assessment Programs to assist in the monitoring of the progress of countries' adherence to international standards.

The United States is relying on this strong foundation of norms and international commitments to implement its most robust anti-money laundering foreign assistance program to date, focused sharply on

terrorist financing. Shortly after September 11, 2001, the Department of State convened an interagency group to identify those countries most vulnerable to terrorist financing and to devise a strategy to provide them with the necessary training and technical assistance to create comprehensive, effective anti-money laundering/anti-terrorist financing regimes. Throughout 2002, State Department-led Financial Systems Assessment Teams (FSATs) of U.S. experts conducted detailed assessments of the legal, regulatory and law enforcement capabilities and vulnerabilities of the most affected countries. By the end of the year, a majority of these countries had been assessed. Training and technical assistance implementation plans had been developed on virtually all of the assessed countries, and assistance had begun being delivered according to these plans. This program remains a high priority in 2003 and will be pursued until comprehensive anti-money laundering regimes are established in all of the priority countries.

The United States, however, does not have enough experts or funds to meet all of the anti-money laundering institution-building requirements worldwide. That is why we have had to prioritize and why we have made "burden-sharing" a key element in our discussions with other donor countries and organizations. International financial institutions and America's friends and allies are increasingly agreeing to provide technical assistance to needy countries. Indonesia—a FATF NCCT—is a unique but illustrative example. Even before the October 2002 terrorist attack in Bali, donors had been providing assistance to the government. This included a joint Australian-U.S. program to draft anti-money laundering legislation; Australian training for police investigators; a \$1.5 million grant by Japan to the Asian Development Bank to develop a comprehensive assistance plan; and consultations with Indonesia's Central Bank and private sector financial institutions by a U.S. non-profit organization of senior bankers. These and other post-Bali generous proposals by our partners, for the development of specific aspects of an anti-money laundering regime, underscore the need to coordinate training and technical assistance so that costly programs are complementary, not duplicative, and so all assistance needs are met. The World Bank is one of several organizations grappling with this challenge. It has created a secure database, accessible to all potential donors, in which FATF-styled regional bodies may enter requests for assistance by their member countries.

The United States also began making greater use of its domestic legislation to combat the international money laundering threat. For instance, significant provisions in the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act) have been used to counter-terrorist financing threats.

In other noteworthy cases, two U.S. financial institutions were penalized for failing to file Suspicious Activity Reports (SARs). Banks in the United States have been required to file SARs since April 1, 1996, but no monetary penalties had been imposed for failing to comply with these regulations until last year. In September 2002, the Financial Crimes Enforcement Network (FinCEN) imposed a \$100,000 civil penalty against Great Eastern Bank of Florida for failing to file SARs for transactions that involved the structuring of cash deposits to avoid currency reporting requirements, and other similar transactions indicative of money laundering activity. In November 2002, Broadway National Bank in New York City pled guilty to three criminal charges for failing to file SARs, failing to have an adequate anti-money laundering program, and allowing the illegal structuring of currency transactions, and paid a fine of \$4 million. These penalties mark the beginning of a new chapter in the enforcement of laws and regulations involving SARs and anti-money laundering programs.

Global efforts against money laundering and the financing and support of terrorism are necessary to achieve successful deterrence of these activities. The United States is actively engaged in this process through its diplomatic efforts and through its assessment, technical assistance and training programs to support governments committed to developing comprehensive anti-money laundering/anti-terrorist financing regimes. The past year saw substantial progress in many nations. With the impetus of international cooperation and assistance, countries will continue to make their financial systems more resistant to money laundering and terrorist financing. Those jurisdictions that fail to meet international standards will be identified and isolated.

Money Laundering and Terrorist Financing—A Global Threat

International recognition and action against the threat posed by money laundering have increased over the last decade. Money laundering produces several deleterious economic, social and political effects. Money laundering undermines free enterprise by crowding out the private sector; threatens the financial stability of countries and the international free flow of capital; and poses international and national security threats through corruption of officials and legal systems. Indeed, the revenue produced by some narcotics-trafficking organizations can far exceed the funding available to the law enforcement and security services of some emerging market countries.

Since the events of September 11, 2001, there has also been a new recognition of the threat posed by money laundering's closely related corollary, terrorist financing. The amount of damage in loss of life and economic after-effects from a relatively small amount of operational funding can be staggering. While terrorist financing shares most of the fundamental attributes of money laundering, (e.g. fundraising, funds transfers, and obfuscation of origin and beneficial owner of funds), and while the legal and regulatory regimes needed to control both are essentially the same, terrorist financing does exhibit some significant differences.

Money Laundering and Terrorist Financing: Differences and Similarities

With the exception of crimes of passion, most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial. While traditional narcotics-traffickers and organized crime groups primarily seek monetary gain, terrorist groups usually seek non-financial goals, such as publicity for their cause and political influence. Terrorist financing also differs from traditional forms of money laundering in other respects. Ordinarily, criminal activity produces 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 may come from illicit activity but are also generated through legitimate means such as fundraising through legal non-profit entities. In fact, a significant portion of terrorists' funding comes from contributors, some who know the intended purpose of their contributions and some who do not. Terrorist financing therefore contrasts with the financing of, for example, a narcotics-trafficking network, which obtains virtually all of its funding from illegal activities.

Operationally, the problems of criminal money launderers and terrorist financiers differ. Traditional money launderers must take large cash deposits and enter them into the financial system without detection. Terrorist financiers need to place substantially fewer funds into the hands of terrorist cells and their members because terrorist operations require relatively little money (for example, the attacks on the World Trade Center and the Pentagon are estimated to have cost approximately \$500,000). This is a significantly easier task than seeking to disguise the large amounts of proceeds generated by organized crime and drug kingpins.

Funding Sources

While the terrorist groups require modest funding for their operations and do not pursue financial gain as a primary goal, international terrorist groups need significant amounts of money to organize, recruit new adherents, train and equip them, and otherwise support their activities. In addition to direct costs, some terrorist organizations also need to fund media campaigns, to buy political influence, and to undertake social projects aimed at maintaining membership and attracting sympathetic supporters.

Because of these larger organizational costs, terrorists often rely in part on funds gained from traditional crimes such as robbery, kidnapping for ransom, narcotics-trafficking, extortion, document forgery, currency and merchandise counterfeiting, fraud, and smuggling. In this respect al-Qaida is an anomaly as,

at least initially, it was largely self-financed by Usama Bin Ladin. In most cases, terrorists engage in criminal activity, at least to some extent, and then use some of the proceeds of these criminal activities to finance their terrorism efforts. Indeed, some Foreign Terrorist Organizations (FTOs), such as the United Self Defense Forces of Colombia (AUC) and the Revolutionary Armed Forces of Colombia, (FARC), and Sendero Luminoso in Peru, are so closely linked to the narcotics trade that they are often referred to as "narcoterrorists".

As is frequently the case with narcotics-related money laundering, terrorist groups also utilize front companies; that is, commercial enterprises that engage in legitimate enterprise, but which are also used to commingle illicit revenues with legitimate profits from the commercial enterprise. Front companies are frequently established in offshore financial centers that provide anonymity to their beneficial owners, thereby insulating the beneficial owners from law enforcement. In addition to commingling the proceeds of crime, terrorist front companies also commingle donations from witting and unwitting sympathizers.

Terrorists tap a wide range of sources for their financial support, including the proceeds of criminal activity, otherwise legitimate commercial enterprises, social and religious organizations and State sponsors of terrorism. (The Secretary of State has designated Cuba, Iran, Iraq, Libya, North Korea, Sudan and Syria as states whose governments have repeatedly provided support for acts of international terrorism.)

Transnational organized crime groups have long relied on criminal proceeds to fund and expand their operations, and were pioneers in using corporate structures to commingle funds to disguise their origin. In particular, it is the terrorists' use of social and religious organizations, and to a lesser extent, state sponsorship, that differentiates their funding sources from those of traditional transnational organized criminal groups.

Money Movements of Criminal and Terrorist Funds

The methods used for moving and laundering money for general criminal purposes are nearly identical to those used to move money to support terrorist activities. Indeed, in many cases, criminal organizations and terrorists employ the services of the same money professionals (currency exchangers, bankers, accountants and lawyers) to help move their funds.

Both terrorists and criminal groups have used and continue to use established mechanisms in the formal financial sector, such as banks, primarily because of their international linkages. Terrorist and criminal organizations have little trouble determining which countries and jurisdictions have poorly regulated banking systems. Both terrorist organizations and narcotics-trafficking groups have exploited these weaknesses, and their built-in impediments to international cooperation, and have made use of their financial services to originate wire transfers and establish accounts that require minimal or no identification and do not require disclosure of ownership.

In addition to the formal financial sector, terrorists and traffickers alike employ other methods as well. One common method is smuggling cash across borders either in bulk or through the use of couriers. Similarly, both traffickers and terrorists rely on currency or moneychangers. Moneychangers play a major role in transferring funds in Asia, the Americas, the Middle East, and other regions. Their presence is largest in countries where currency or exchange rate controls exist and where cash is the traditionally accepted means of settling commercial accounts. These systems are also commonly used by large numbers of expatriates to remit funds to families abroad. Traffickers and terrorists have become adept at exploiting the weaknesses and lack of supervision of these systems to move their funds.

Both terrorists and traffickers have used informal value transfer systems, such as "hawala" or Hundi, and underground banking; these systems use trusted networks to move funds and settle accounts with little or no paper records. Such systems are prevalent throughout Asia and the Middle East as well as within their expatriate communities in other regions.

Trade-based money laundering is known to be used by organized crime groups and is increasingly suspected of being used by terrorist financiers as well. This method involves the use of commodities, false invoicing, and other trade manipulation to move funds. Examples of this include the Black Market Peso Exchange in the Western Hemisphere, the use of gold in the Middle East and South Asia, and the use of conflict diamonds in Africa.

One method of money movement that seems to be used frequently by some terrorist groups is the misuse of Islamic banks to move funds. Islamic banks operate in keeping with Islamic law, which prohibits the payment of interest and certain other activities. They have proliferated throughout Africa, Asia and the Middle East since the mid-1970s. Terrorists find these to be attractive vehicles because, in some instances, these banks are not subject to a wide range of anti-money laundering regulations and controls normally imposed on secular commercial banks. Islamic banks often do not undergo the regulatory or supervisory scrutiny by bank regulators via 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 or the implementation of updated anti-money laundering policies. In addition, many religious charities naturally gravitate to Islamic banks and use their services, which presents another vulnerability, as terrorists often move funds diverted from religious charities. Islamic banking is not unique to the Middle East, but is increasingly found in many regions. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere.

Like money laundering, terrorist financing represents a potential exploitable vulnerability. In money laundering, transnational organized crime groups deliberately distance themselves from the actual crime and the jurisdiction in which it occurs; for them the loss of drugs or products is merely seen as the cost of doing business, but they are never far away from the eventual revenue stream. In terrorist financing the operational funds are very difficult to track, but by adapting methods used to combat money laundering, such as financial analysis and investigations, use of task forces, and administrative blocking procedures, authorities can significantly disrupt the financial networks of terrorists, interdict the potential movement of terrorists' funds and build a paper trail and base of evidence that helps to identify and locate the leaders of the terrorist organizations and cells.

International Cooperation and Capacity Building

Building the capacity of our coalition partners to combat money laundering and terrorist financing through cooperative efforts, and through training and technical assistance programs is critical to our national security. As Deputy Secretary of the Treasury Kenneth Dam stated on June 8, 2002 in an address to the Council on Foreign Relations, "...international cooperation is particularly important because the financial front of the war on terrorism cannot be won without it...you can't bomb a foreign bank account. You need the cooperation of the host government to investigate and freeze that foreign account."

While there are some important differences between money laundering and terrorist financing as noted above, in terms of capacity building through training and technical assistance there is no appreciable difference. The same measures that are required to establish a comprehensive anti-money laundering regime—sound legislation and regulations, suspicious transaction reporting mechanisms, Financial Intelligence Units, on-site supervision of the financial sector, internal controls, trained financial investigators, legal authorization to utilize special investigative techniques, modern asset forfeiture and administrative blocking capability, and the ability to cooperate and share information internationally) that are used to prevent, detect, investigate and prosecute money laundering—are precisely the tools required to identity, interdict and disrupt terrorist financing.

Increasingly, international organizations and regional groups are recognizing this and are adding antiterrorist financing to their objectives and incorporating appropriate measures into their assessment and assistant programs. With increasing frequency around the world, a new FIU is established, or a new money laundering law enacted, or a regulation passed that disrupts the efforts to launder money and finance terrorism. While significant progress is being made, additional efforts are still necessary to secure expertise, devote resources to training and technical assistance, prioritize requirements, and then harmonize assistance efforts to continue the headway made thus far against money laundering and terrorist financing.

The United States Response

The USA PATRIOT Act

Money laundering and terrorist financing enforcement efforts are not limited to targeting charitable fronts and fundraising appeals, freezing assets, or obtaining regulatory cooperation from our foreign partners. Money laundering and terrorist financing enforcement plays a critical role by identifying and thwarting terrorist and transnational organized crime groups before they carry out their plans. The cornerstone of these efforts lies in our legislative response to terrorist financing and money laundering embodied in the USA PATRIOT Act. The USA PATRIOT Act was passed in October 2001, and revises key elements of the criminal code and Bank Secrecy Act to provide powerful new tools in the arsenal against terrorist financing and money laundering.

On the criminal side, the USA PATRIOT Act expands criminal offenses relating to terrorism, including offenses related to the support and financing of terrorism; permits more expansive sharing of information between the intelligence and law enforcement communities; and streamlines procedures concerning the use of domestic electronic intercepts of terrorist information that can be, and have been, used against those who provide, attempt to provide and/or conspire to provide material support or resources to terrorists or foreign terrorist organizations.

On the financial side, the USA PATRIOT Act expands the scope of pre-existing forfeiture laws; broadens compliance, reporting and record keeping requirements for certain types of financial institutions; encourages information sharing mechanisms between the government and the private sector; and restricts the ability of shell banks to do business in the United States. The USA PATRIOT Act also amends existing law to make it easier to pursue federal prosecutions of money remitters who fail to comply with state licensing or registration requirements. While the USA PATRIOT Act itself was passed in 2001, it was not until 2002 that many of the implementing regulations were enacted, and the new features of the USA PATRIOT Act began to be successfully employed.

Terrorist Financing and Foreign Terrorist Organizations

By strengthening several sections of the criminal code, provisions in the USA PATRIOT Act make it easier for prosecutors to bring and prove charges of providing material support or resources to terrorists, through financial or other assistance, including through personal services provided by those who voluntarily enroll in terrorist training camps. The U.S. Criminal Code was strengthened by the Act to make it a crime for persons within the United States to provide, conceal or disguise the nature, location, source, or ownership of "material support or resources" used or attempted to be used in the commission of any of the predicate, enumerated terrorist-related crimes.

The USA PATRIOT Act also expanded an existing provision of the U.S. Criminal Code, enacted in 1994, that makes it a crime to provide "material support or resources" to terrorists. The USA PATRIOT Act amendments expand the existing definition of "material support or resources" to make it a crime for anyone subject to U.S. jurisdiction to provide anything of value—including expert advice or assistance—to those involved in terrorist activity. The USA PATRIOT Act amendments also expand the scope of another provision in the U.S. Criminal Code, enacted in 1996, which makes it a crime for anyone, within the United States or subject to the jurisdiction of the United States, knowingly to provide "material support or resources" to a foreign terrorist organization.

In 2002, the United States enacted other important legislation to combat terrorist financing. The Suppression of the Financing of Terrorism Convention Implementation Act of 2002, enacted as title II of Public Law 107-197, implements the requirements of the International Convention for the Suppression of the Financing of Terrorism. Among its provisions, this statute makes it a crime, by any means, directly or indirectly, unlawfully and willfully to provide or collect funds with the intention that such funds be used, or with the knowledge that such funds are to be used to carry out an offense set forth in the Convention, or any other act intended to cause death or serious bodily injury to a civilian, or to any other person not taking an active part in the hostilities in a situation of armed conflict, when the purpose of such act, by its nature or context, is to intimidate a population, or to compel a government or an international organization to do or to abstain from doing any act.

Strengthening Asset Forfeiture

One of the significant provisions in the USA PATRIOT Act is a stipulation that amends the civil forfeiture statute in the United States to permit the forfeiture of funds held in U.S. correspondent accounts on behalf of foreign banks. Where the government can show that forfeitable property was deposited into an account at a foreign bank, U.S. prosecutors can now file a civil forfeiture action against the equivalent amount of money in that foreign bank's correspondent account in the United States. This new power was used for the first time in 2001 and demonstrates the increasing reach of laws to seize and freeze terrorist funds.

The USA PATRIOT Act also expands the scope of forfeiture laws to permit the forfeiture of any property involved in the commission of a terrorist act. In addition, the Act remedies a technical problem that made it more difficult to prosecute and forfeit unreported cash smuggled in bulk into, or out of, the United States.

Special Measures

The Act also contains several provisions that increase the means available to the United States to advance worldwide initiatives against money laundering and terrorist financing. Prominent among these are the special measures contained in Section 311 of the Act which can be employed to protect the U.S. financial system from abuse by money launderers operating from or through international financial crime havens.

In the past, the United States has had limited choices when it came to protecting itself from such abuse, having on the one hand informational advisories issued to domestic banks about specific jurisdictions, and on the other hand, sanctions authorized by the International Emergency Economic Powers Act that blocked transactions with designated entities in a jurisdiction. Now, under Section 311, the United States has available a graduated set of five special measures that give it much greater flexibility in responding to current and emerging international money laundering and terrorist financing threats: requiring domestic financial institutions to broadly implement enhanced reporting requirements; additional requirements to identify beneficial owners of accounts; requirements for additional due diligence for payable-through accounts; requirements for additional information and record keeping on correspondent accounts; and a prohibition on the opening or maintenance of correspondent accounts for institutions from a named jurisdiction.

The authority of Section 311 of the Act was invoked for the first time in December 2002 when the United States designated Ukraine and the Republic of Nauru as primary money laundering concerns. (Both had already been listed by the Financial Action Task Force (FATF) as a Non-Cooperating Country or Territory (NCCT), and had been singled out by FATF for countermeasures for their lack of progress in strengthening their anti-money laundering regimes.) Designation is the required first step before implementing one or more of the above special measures, and it indicates that the United States is prepared to use this new authority to help counter international money laundering and terrorist financing threats.

Financial Institution Responsibilities

The Act calls for the implementation of new suspicious activity reporting requirements for several categories of non-depository financial institutions, including securities broker/dealers, mutual funds, money service businesses, and currency exchanges. Additionally, such entities are tasked with developing and implementing anti-money laundering compliance programs.

Banks are restricted from doing business directly, or indirectly, with foreign shell banks. Any correspondent account a domestic bank holds for a foreign bank is subject to scrutiny to determine whether the foreign bank has a physical presence in another jurisdiction and to ensure that the foreign bank is not providing United States banking privileges to a shell bank through the use of a U.S. correspondent account. Any accounts found to fall within the shell bank prohibitions must be closed. Banks are also subject to enhanced due diligence requirements when doing business with foreign citizens opening large-dollar private banking accounts.

Finally, the Act makes it easier to prosecute, federally, money remitters who fail to comply with state licensing or registration requirements. Several cases were brought in 2002 to attack the problem of unlicensed money remitters. The first conviction of an unlicensed remitter occurred in November 2002.

The increased scrutiny of those conducting financial transactions through U.S. institutions is designed to limit the vulnerabilities of the U.S. financial sector and to detect money laundering and terrorist financing.

Federal Bureau of Investigation

Terrorist Financing Operations Section

The FBI's Terrorist Financing Operations Section (TFOS), formerly known as the Terrorist Financial Review Group, was formed in response to the critical need for a more comprehensive, centralized approach to investigate the financing of terrorists and terrorism. The mission of TFOS is to provide a coordinated financial investigative component to terrorism investigations and to develop predictive terrorist identification mechanisms to identify terrorists and their networks, and to disrupt and dismantle those networks and their funding mechanisms. The efforts of TFOS were initially focused on conducting and coordinating a comprehensive financial analysis of the 19 hijackers in order to link them together and to identify their financial support structure within the United States and abroad.

Terrorists, their networks and their support structures require funding in some form to exist and operate. Whether the funding and financial support is minimal or substantial, it leaves a financial trail that can be traced, tracked, and exploited for pro-active and reactive purposes. Being able to identify and track financial transactions and links after a terrorist act has occurred or terrorist activity has been identified represents only a small portion of the mission; the key lies in exploiting financial information to identify previously unknown terrorist cells, recognize potential terrorist activity/planning, and predict and prevent potential terrorist acts. The importance of the terrorist financing component of terrorism investigations is readily apparent from the fact that, through financial information, the TFOS and FBI established how the hijackers responsible for the September 11 attacks received their money, where they lived, and details concerning their flight training and associates.

TFOS provides assistance with the financial aspects of terrorism investigations to FBI Field Offices. Depending upon resource needs and expertise, assistance consisting of investigative, analytical, and document handling support, or the conduct of all aspects of the financial investigation, is also provided to Joint Terrorism Task Forces (JTTFs) operating in the FBI Field Offices, and to the 44 FBI Legal Attaché Offices located in foreign countries. TFOS also conducts independent terrorist financing investigations from FBI Headquarters.

TFOS use a relational database to organize, capture and analyze all TFOS financial documents. As information is entered into the database, link analysis and queries can be conducted to identify associations and further expand the scope of an investigation. The ultimate purpose of this process is to help investigators and analysts identify and clarify the activities of individuals, illicit charities, and corrupt financial institutions engaged as facilitators of terrorist funding. TFOS has used the database in connection with financial investigations of over 3,195 individuals and groups. Over 137,500 financial documents encompassing approximately 144,788 financial transactions have been entered into the database for link analysis. As part of its analytical efforts, TFOS also cultivates and maintains a contact database of private industry and government sources, and persons who can provide financial and other data in support of investigations.

TFOS has conducted a comprehensive national and international outreach initiative in an effort to share information regarding terrorist financing methods with the financial community and law enforcement. TFOS support of domestic and international terrorism investigations has led to TFOS-sponsored training programs on terrorism financing both domestically and with over 38 countries worldwide.

U.S. Customs Service: Operation Green Quest

The U.S. Treasury Department established Operation Green Quest in October 2001 as part of America's response to the events of September 11. Operation Green Quest is a multi-agency terrorist financing task force, headed by the U.S. Customs Service, that attempts to bring the full scope of the Treasury's financial expertise to bear upon "...identifying, disrupting, and dismantling the financial infrastructures and sources of terrorist funding."

The Green Quest Task Force includes representatives from the U.S. Customs Service; Internal Revenue Service; Secret Service; Bureau of Alcohol, Tobacco and Firearms; Office of Foreign Assets Control; Financial Crimes Enforcement Network; Federal Bureau of Investigation; Postal Inspection Service; Naval Criminal Investigative Service; and the Department of Justice. Members of the Task Force assist in coordinating U.S. investigations of terrorist financing and prioritizing resources to meet national security objectives.

Operation Green Quest has initiated a proactive, multi-faceted approach to increase communication among the private sector, financial institutions, and Green Quest. Over the years, law enforcement has found that outreach to, and dialog with, the private sector can yield enormous dividends.

Office of Foreign Assets Control

The Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions against international narcotics-traffickers, targeted foreign countries, and terrorists and terrorism-sponsoring organizations, based on U.S. foreign policy and national security goals. OFAC acts under Presidential wartime and national emergency powers, as well as authority granted by specific legislation, to impose controls on transactions and freeze foreign assets under U.S. jurisdiction. Many of the sanctions are based on United Nations and other international mandates, are multilateral in scope, and involve close cooperation with allied governments.

OFAC's economic sanction programs against narcotics-traffickers began in October 1995 with President's Clinton's signing of Executive Order 12978, imposing sanctions on named narcotics traffickers centered in Colombia. In 1999, the Foreign Narcotics Designation Kingpin Act (Kingpin Act) provided the authority to impose similar sanctions on a global basis. Currently, OFAC's economic sanctions programs involving foreign narcotics traffickers rely principally on the President's broad powers under the International Emergency Economic Powers Act (IEEPA) and the Kingpin Act to prohibit commercial transactions involving specific individuals and entities. The Kingpin Act "de-certifies" foreign drug lords rather than foreign governments and countries. It also is designed to deny significant foreign narcotics

traffickers and their organizations, including related businesses and operatives, access to the U.S. financial system and all trade and transactions involving U.S. companies and individuals.

OFAC implements and administers the IEEPA-based designation of terrorists, terrorist organizations, and terrorist supporters and networks as Specially Designated Global Terrorists (SDGTs) under Executive Order 13224, which President Bush issued on September 23, 2001 as part of the war on terrorist financing. Designation leads to the freezing of their assets and public exposure of their connections with terrorism or terrorist fundraising activities. Under this Executive Order, as amended, the Secretary of State, in consultation with the Secretary of the Treasury, the Attorney General, and the Secretary of Homeland Security, designates foreign persons that have committed, or pose a significant risk of committing, acts of terrorism that threaten the security of U.S. nationals or the national security, foreign policy or economy of the United States. Designations of persons who act for or on behalf of, support or sponsor, or are otherwise associated with, terrorists and terrorist organizations are prepared by OFAC's International Programs and Foreign Terrorist Divisions. OFAC's Licensing, Compliance and Blocked Assets Divisions administer the programs and conduct funds interdiction activities, and its Civil Penalties and Enforcement Divisions issue civil penalties and coordinate criminal investigations relating to transactions of the sanctions prohibitions.

The office also administers an umbrella of other asset freeze and trade embargo programs involving terrorists or sponsors of terrorism, including those targeting:

- Terrorist-supporting states designated under 6(j) of the Export Administration Act of 1979, including Cuba (since 1963), Iran (since 1979), Iraq (since 1990), Libya (since 1986), North Korea (since 1950), Sudan (since 1997), and Syria (since1979);
- Foreign Terrorist Organizations (FTOs) designated under section 219 of the Immigration and Nationality Act, as amended; and,
- Specially Designated Terrorists (SDTs) named under earlier IEEPA-based freeze orders issued in 1995 and 1998 targeting certain Middle East terrorist groups and individuals.

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 is a review of U.S. money laundering trends in 2002 are examples of the various money laundering/terrorist financing typologies.

Statistical Overview of U.S. Money Laundering Trends in 2002

The U.S. Suspicious Activity Reporting System 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. Suspicious Activity Reports (SARs) help illustrate the nature of illegal proceeds and the relative scale of the problem. Depository institutions (i.e., banks, thrifts, savings and loans, and credit unions) have been required to file SARs since 1996. The USA PATRIOT Act extended the mandatory reporting requirements to brokers and dealers in securities, and the Department of the Treasury, pursuant to its rulemaking authority extended it to casinos and money services businesses, including money exchangers, sellers of traveler's checks and money transmitters (MSBs). The requirements went into effect on January 1, 2002 for MSBs, and on January 1, 2003 for brokers and

dealers in securities, and will become effective for casinos in March 2003. The regulations generally require that covered financial institutions file a SAR when they suspect transactions of law or suspicious activities involving amounts greater than between \$2,000 and \$5,000. The following statistics provide aggregate totals for SARs filed by depository institutions since implementation of the system on April 1, 1996 through October 2002. Additionally, a small part of the total volume reflects 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 or gaming businesses that, as of October 2002, were not yet required under the Bank Secrecy Act (BSA) to file SARs.

Table 1: SAR Filings by Year and Month

Month	Number of Filings					
	1997	1998	1999	2000	2001	2002
January	6,123	6,832	8,621	13,399	13,767	19,424
February	5,519	7,055	9,949	13,634	14,660	17,881
March	6,850	8,938	11,492	15,154	16,084	25,037
April	7,148	8,057	9,478	11,499	15,357	19,249
May	6,754	7,409	10,400	13,674	16,335	27,313
June	6,696	8,737	10,956	13,963	14,387	16,590
July	7,175	8,757	8,518	12,611	16,823	26,600
August	6,322	8,532	10,484	14,111	19,283	22,433
September	7,561	7,577	8,471	13,321	14,283	24,571
October	7,439	8,165	9,842	13,148	20,571	25,134
November	5,960	7,848	11,243	14,437	20,444	
December	7,604	8,614	11,050	13,769	21,624	
Subtotal	81,151	96,521	120,504	162,720	203,538	224,232
Total Filings	888,666					

Table 2 provides a rank ordering of the underlying suspicious activity identified in the SAR data between April 1997 and October 2002.

Table 2: Frequency Distribution of SAR Filings by Characterization of Suspicious Activity

April 1, 1997 Through October 31, 2002

Violation Type	1997	1998	1999	2000	2001	2002
BSA/Structuring/Money Laundering	35,625	47,223	60,983	90,606	108,925	126,971
Bribery/Gratuity	109	92	101	150	201	331
Check Fraud	13,245	13,767	16,232	19,637	26,012	26,170
Check Kiting	4,294	4,032	4,058	6,163	7,350	7,686
Commercial Loan Fraud	960	905	1,080	1,320	1348	1,571
Computer Intrusion	0	0	0	65	419	1,293
Consumer Loan Fraud	2,048	2,183	2,548	3,432	4,143	3,644
Counterfeit Check	4,226	5,897	7,392	9,033	10,139	10,198
Counterfeit Credit/Debit Card	387	182	351	664	1,100	1,050
Counterfeit Instrument (Other)	294	263	320	474	769	659
Credit Card Fraud	5,075	4,377	4,936	6,275	8,393	12,347
Debit Card Fraud	612	565	721	1,210	1,437	975
Defalcation/Embezzlement	5,284	5,252	5,178	6,117	6,182	5,101
False Statement	2,200	1,970	2,376	3,051	3,232	2,995
Misuse of Position or Self Dealing	1,532	1,640	2,064	2,186	2,325	2,217
Mortgage Loan Fraud	1,720	2,269	2,934	3,515	4,696	4,617
Mysterious Disappearance	1,765	1,855	1,854	2,225	2,179	1,869
Wire Transfer Fraud	509	593	771	972	1,527	3,293
Other	6,675	8,583	8,739	11,148	18,318	25,346
Unknown/Blank	2,317	2,691	6,961	6,971	11,908	6,753

General Money Laundering Trends in 2002

Organized crime and narcotics-traffickers have used the following methods for decades to launder their illegal proceeds:

- Financial activity inconsistent with the stated purpose of the business;
- Financial activity not commensurate with stated occupation;
- Use of multiple accounts at a single bank for no apparent legitimate purpose;
- Importation of high dollar currency and traveler's checks not commensurate with stated occupation;
- Significant and even dollar deposits to personal accounts over a short period;

- Structuring of deposits at multiple bank branches to avoid Bank Secrecy Act requirements;
- Refusal by any party conducting transactions to provide identification;
- Apparent use of personal account for business purposes;
- Abrupt change in account activity;
- Use of multiple personal and business accounts to collect and then funnel funds to a small number of foreign beneficiaries;
- Deposits followed within a short period of time by wire transfers of funds;
- Deposits of a combination of monetary instruments atypical of legitimate business activity (business checks, payroll checks and social security checks); and
- Movement of funds through countries that are on the FATF list of NCCTs.

SARS Related to NCCT Countries

Financial institutions identifying suspicious transactions under the Bank Secrecy Act of 1970, chapter 53 of title 31, United States Code (BSA) are required to report such transactions by filing a SAR with the Financial Crimes Enforcement Network (FinCEN), in accordance with applicable regulations. SARs are not proof of illegal activity; rather they note possible wrongdoing that warrants further investigation. An actual determination of criminal activity can only be made following an investigation by law enforcement of the activity addressed in the SAR.

FinCEN did an analysis of the Suspicious Activity Reporting System to determine the volume of SARs filed that relate to jurisdictions the FATF has placed on the NCCT list since 2000.

The results of that analysis follow. Again, the results represent possible illegal activity; they are not positive determinations that criminal activity has occurred.

An asterisk (*) following the name of a jurisdiction indicates that FATF removed the jurisdiction from the NCCT list prior to December 31, 2002.

Bahamas. * An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals that there are 227 SARs that could be linked to transactions associated with the Bahamas. These SARs were filed by 50 U.S. banks, 11 foreign banks, 15 brokerage services firms, and one money service business with reported amounts ranging from a low of zero dollars to a high of \$81,000,000. This is a slight increase over the 214 SARs filed in the first ten months of 2001. A significant number of financial violations relate to suspicious or fraudulent wire transfer activity to or from the Bahamas. Narratives describe processing large numbers of wire transfers, often in even numbered amounts, many times for several million dollars each. Other activity reported in SARs includes suspicious deposits of money orders and Nigerian advance fee fraud letters.

Burma. An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals that there are eight SARs that could be linked to transactions associated with Burma. Most of the reported activity involves suspicious wire transfer activity to or from Burma or involving a citizen of Burma. SARs report wire transfers originating in Tokyo, Hong Kong, and Singapore flowing into the United States and sent by individuals using Burmese passports for identification. Banks identify the activity as suspicious due to a lack of information linking the activity to legitimate funds. Additional activity reported on the SARs includes structured cash deposits made by Burmese citizens in an apparent attempt to avoid BSA filing requirements.

Cayman Islands. * An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, identifies 215 SARs that could be linked to transactions associated with the Cayman Islands. These SARs were filed by 26 U.S. banks, 13 foreign banks, and eight brokerage services firms, with reported amounts ranging from a low of zero dollars to a high of \$14,250,000. This is a noticeable increase over the 187 SARs filed in the first ten months of 2001. The analysis reveals that a significant number (156 or 72.6 percent) involve suspicious or fraudulent wire transfer activity to or from the Cayman Islands. A number of the reports cite "structuring" instances in order to avoid reporting requirements, and Nigerian advance fee fraud letters. Also reported are instances of traveler's checks, money orders, personal and cashier's checks being deposited to personal accounts over a relatively short period of time in excessive dollar amounts, followed by issuance of personal checks or wire transfer of funds.

Cook Islands. An analysis by FinCEN of the Suspicious Activity Reporting System for transactions relating to the Cook Islands reveals that 62 SARs were filed by U.S. and foreign banks, brokerage services firms, and money service businesses from January 1, 2002 through October 31, 2002. Reports indicate that 80 percent of the activities involve suspicious or fraudulent wire transfer activity involving Cook Islands entities. The reporting financial institutions in the United States have been unable to verify a physical presence for these entities, described as banks. The banks, reportedly operating in the Cook Islands, maintain correspondent relationships with several banks located in Hong Kong, Taiwan, New Zealand, and Estonia, and have been sending and receiving wire transfers to and from various locations. Each of the correspondent banks has a relationship with United States filing institutions. Incoming wire transfers originate in Cyprus, Russia, Thailand, Azerbaijan, Hong Kong, Germany, Belize, Taiwan, Switzerland, Denmark, Slovenia, Georgia, St. Vincent and the Grenadines, and the Cook Islands itself. Outgoing wires are sent to Belize, Denmark, Cook Islands, Switzerland, Taiwan and Hong Kong.

Dominica. * An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals that 23 SARs have been filed which could be linked to transactions associated with Dominica. These SARs were filed by 16 U.S. banks and one brokerage services firm with reported amounts ranging from a low of zero dollars to \$4,246,936. This is an increase over 16 SARs filed in 2001, with almost 58 percent (15) of the filings citing "Bank Secrecy Act/structuring/money laundering"; 12 percent (three) citing "Other", and another 12 percent (three) citing wire transfer fraud.

The majority of the reported activity (16 filings or 70 percent) involves suspicious wire transfers originating and/or terminating in Dominica. Often this is seen in concert with structured cash deposits to avoid BSA reporting requirements, large cash deposits, and the receipt of large checks. Dominica-based financial institutions, as well as companies in various industries including financial services, securities trading, commodities trading, and some retail establishments, are cited as being involved with suspect activity. An interesting trend is the number of SARs citing activity by companies related to Internet gaming/gambling, with several companies mentioned in multiple SARs. Another prevalent feature of wire activity is the use of correspondent banking relationships by Dominica-based financial institutions and companies.

Egypt. An analysis FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals 481 SARs that could be linked to transactions associated with Egypt, an increase of 53 percent from the 315 SARs filed in all of 2001. The SARs report transaction amounts ranging from zero dollars to \$84 million.

Most of the reported activity involves suspicious or fraudulent wire transfers destined for Egypt or originating from Egypt. A significant number of overall filings describe transactions conducted by or involving Egyptian nationals. Twenty percent of the SARs report that the specific reason for their filing is a possible relationship to terrorist attacks. It should also be noted that filings display a dramatically increased awareness and scrutiny of all financial activities involving Egypt, although they may not be directly related to the attacks of September 11, 2001. Furthermore, some of these filings make specific

references to transactions by Islamic charitable organizations now suspected of being involved in funding terrorist activities.

Another type of possible money laundering activity noted in Egypt-related filings is the use of credit card accounts. Many SARs report large cash payments (\$9,900 to \$20,000) to credit card accounts with small or zero balances. Two SARs indicate the deposits were made in Cairo, that is, outside of the United States, with the U.S.-based cardholders requesting "Credit Balance Refund Checks" to be sent to them within days of the cash deposits being made. This activity circumvents BSA rules while allowing accessibility to funds virtually worldwide.

Grenada. * FATF removed Grenada from the NCCT list in February 2003. An analysis by FinCEN of the Suspicious Activity Reporting System, for the period of January 1, 2002 to October 31, 2002, reveals 37 SARs involving Grenada, which is lower than the 46 SARs filed in 2001. The 2002 SARs were filed by 16 U.S. banks, two brokerage or mortgage service firms, one foreign bank, and one money service business. Two SARs filed in February 2002 relate to the September 11 terrorist attacks on the United States. Both SARs, which were filed by the same U.S. bank, describe an attempt to open accounts for the benefit of the victims of the September 11 attacks. The trust funds were allegedly going to be donated by a trust organization incorporated in Belize, which has its headquarters in Grenada, and an office in Canada. Bank research indicates that the trust organization's sources of funding are suspect and the bank did not open the accounts.

Guatemala. The FinCEN conducted an analysis of the Suspicious Activity Reporting System for transactions relating to Guatemala for the period January 1, 2002 through October 31, 2002. Results of the query include identification of 184 SARs that could be linked to transactions associated with Guatemala. These SARs were filed by 50 U.S. banks, nine foreign banks, and six money service businesses, with reported transaction amounts ranging from a low of zero dollars to \$300 million.

Most of the reported activity involves suspicious or fraudulent wire transfer activity to or from Guatemala. Scenarios reported include groups of individuals sending wire transfers within minutes of each other from the same U.S. money service business location to the same locations in Guatemala, attempts to disguise originating countries in North Africa and Southwest Asia by routing wire transfers through European countries, and excessive cash and/or monetary instrument deposits followed by wire transfers that are not commensurate with the type of business. Several instances of wire transfer activity are reported in conjunction with allegations of political corruption in Guatemala. Businesses involved in the wire transfer activities reported include import/export companies, recycling companies, and money exchange services. Another ongoing trend seen during the past year involves large currency deposits, some of which contain suspicious traveler's checks and money orders, by Guatemalan financial institutions. The traveler's checks and money orders are usually consecutively numbered and payable to the same beneficiaries.

Hungary. * FinCEN conducted an analysis of the Suspicious Activity Reporting System and determined there are 67 SARs that could be linked to transactions associated with Hungary. The SARs were filed by U.S. and foreign banks and money services businesses during the period January 1, 2002 to October 31, 2002. Twenty-one SARs (36.8 percent) involve suspicious or fraudulent wire transfer activity to or from Hungary. Other activity reported includes deposits of multiple postal money orders over short periods of time, most of which were purchased four at a time, many times at different post offices. The deposits are structured in amounts under BSA reporting thresholds and are accompanied by letters instructing that the money be transferred to an offshore mutual fund account. Additional instances of "structuring" in order to avoid reporting requirements are noted. One SAR reports activity involving individuals, who are suspected of being involved in the funding of HAMAS, sending wire transfers to Lebanon. One of the wires came from a Hungarian bank.

Indonesia. FinCEN conducted an analysis of the Suspicious Activity Reporting System for the period from January 1, 2002 through October 31, 2002. Results identify 497 SARs that could be linked to transactions associated with Indonesia. These SARs were filed by 56 U.S. banks, 19 foreign banks, four brokerage services firms, and three money service businesses, with reported transaction amounts ranging

from zero dollars to \$500 million. Three hundred thirty-three (66 percent) of the filings cite "Bank Secrecy Act/money laundering," while 137 (28 percent) cite "Other" transactions. It is noteworthy that the majority of the transactions listed in the "Other" category are reported as related to terrorist activities.

Most of the reported activity (64 percent) involves suspicious or fraudulent wire transfer activity to or from Indonesia. Incoming and outgoing wire activity, routed through, originating in, and/or terminating in Indonesia involves several different geographical locations, including locations in the Middle East and Asia. The primary pattern of activity, however, involves funds moving from Indonesia to the United States.

Since September 11, 2001, there has been a large increase in filings regarding terrorist-related activities. The searched period yields 85 SARs filed by various financial institutions in response to the attacks of September 11. The following scenarios are seen: (1) financial activity is found for individuals with names similar to known terrorists documented in governmental, regulatory, or media reports; (2) suspect purchases at military supply stores, discount knife stores, aviation schools, and global positioning services; and charitable donations by individuals where the occupations do not support such expenditures; (3) multiple individuals use a single account to conduct suspect financial activity such as outlined above; and (4) automated teller machine (ATM) activity in foreign locations is not commensurate with the stated occupation of the suspects.

Israel. * FinCEN conducted an analysis of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, and determined there are 395 SARs that could be linked to transactions associated with Israel. The SARs indicate that many of the reported financial transactions (311 or 79 percent) involve suspicious or fraudulent wire transfer activity to or from Israel. Frequently the wire transfers seem to be structured to avoid reporting requirements. A number of SARs indicate that family members, or agents claiming to be acting for a person in Israel, conducted wire transfers and other account activities. Financial institutions also filed SARs because the amounts or frequency of the activity is much higher than in the past, because the source of the funds is unknown, or because the filer suspects an agent of using the account for laundering money without the knowledge of the account holder. SARs also report suspicious deposits of sequentially numbered money orders or apparently structured purchases of money orders, and the use of traveler's checks, often in large volumes. Many of the filing financial institutions suspect that traveler's checks are used to move money internationally, when other available means would be safer and easier, to avoid reporting requirements.

Sixteen of the SARs report the reason for their filing is related to possible terrorism. For example, among the SARs, five detail wire transfers and other account activity of individuals who are exact or partial matches to names designated by the U.S. Government pursuant to various legal authorities, six recount wire transfers and other account activity that could possibly be pertinent to terrorist funding, and one reports wire transfers involving a charity suspected of funding terrorist activities.

Lebanon. * An analysis by FinCEN of the Suspicious Activity Reporting System related to Lebanon for the period January 1, 2002 through October 31, 2002, reveals there are 286 SARs that could be linked to transactions associated with Lebanon. It also reveals that much of the reported activity (156 or 54.5 percent) involves suspicious or fraudulent wire transfer activity between Lebanon and other countries. Many of the SAR narratives cite "structuring" instances in order to avoid reporting requirements. Other narratives describe the use of traveler's checks in money laundering attempts and Nigerian advance fee fraud scams. Still other SARs report suspicious use of money orders. Two of the SARs report the reason for their filing is related to possible terrorism.

Liechtenstein. * FinCEN conducted an analysis of its Suspicious Activity Reporting System and found 26 SARs relating to Liechtenstein. SARs were filed by banks (U.S. and foreign) and one brokerage services firm between January 1, 2002 and October 31, 2002. Much of the reported activity (24 SARs, or 92 percent) involves suspicious or fraudulent wire transfer activity to or from Liechtenstein. The SAR narratives report sudden wire transfer activity for large amounts in accounts that had never experienced wire transfer activity. Others note funds wire transferred from unidentified individuals in Liechtenstein

that were then rerouted out of the United States. The SARs seem to indicate a pattern of high dollar value transfers, rather than structuring, which is reported in only one SAR. The reported high value transfers are often by, or to, individuals or companies for whom such activity is an anomaly, or for no discernible reason.

Marshall Islands. * FinCEN conducted an analysis of the Suspicious Activity Reporting System for transactions relating to the Marshall Islands. The SARs were filed by U.S. and foreign banks, brokerage services firms, and money service businesses from January 1, 2002 through October 31, 2002. Two SARs were filed reporting possible transaction amounts ranging from \$2,400 to \$640,000. One SAR cites "Bank Secrecy Act/structuring/money laundering," while the other SAR cites a check fraud transaction. Activity described in the SARs includes outgoing wire activity originating in the United States and terminating in the Marshall Islands with no apparent business reason for the transaction, and an alleged embezzlement. In this instance, checks drawn on the suspect account were made payable to a U.S. bank, endorsed with two signatures, and cash was received for the amount of the checks.

Nauru. An analysis by FinCEN of the Suspicious Activity Reporting System identifies five SARs that could be linked to transactions associated with Nauru. These SARs were filed by three foreign banks and one brokerage services firm from January 1, 2002 through October 31, 2002. Reported transaction amounts range from a low of zero dollars up to \$55 million (a fraudulent bank guarantee). This is a significant decrease from the 25 SARs filed in 2001. The SARs report activity involving suspicious or fraudulent wires associated with companies or financial institutions either registered or with addresses in Nauru. SAR narratives describe Nauru banks (using only a post office box address) as receiving high dollar value wire transfers and requesting third party wire transfers and checks, deemed to be suspicious by the filing financial institution. The wire transfer activity was rejected and the accounts closed. Additional scenarios identified in SAR narratives include the attempted use of fraudulent bank guarantee documents.

Nigeria. An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals there are 2,399 SARs that could be linked to transactions associated with Nigeria. There are a high number of financial transactions related to wire transfer fraud, check fraud, and counterfeit checks and money orders. A typical check fraud scheme includes the deposit of counterfeit or fraudulent checks that are sent to United States account holders as payment for merchandise purchased from Nigeria, often over the Internet. A similar, less prevalent check fraud trend involves new account fraud--Nigerian organized crime groups who open new bank accounts using false or stolen information, then deposit fraudulent checks and attempt to withdraw the money before the checks are returned. SAR information also reveals suspicious transactions related to large-volume deposits of traveler's checks usually purchased or negotiated in Nigeria. Overall, the most frequently reported activity involves advance fee fraud where financial institutions receive solicitations for participation in the fraud scheme, or institutions report on customer activities that indicate their possible involvement in a fraud scheme.

Niue. * An analysis by FinCEN of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, reveals that one SAR has been filed that could be linked to transactions associated with Niue. This is a decrease over the two SARs filed in 2001. The SAR reports "Other" as the transaction and describes suspicious wire transfer activity. The wire was for the benefit of a company with an address in Niue. The SAR filer was unable to obtain a sufficient explanation for the purpose of the wire, did not complete the transaction, and was in the process of closing the account when the SAR was filed.

Panama. * An analysis by FinCEN of the Suspicious Activity Reporting System identifies 304 SARs that could be linked to transactions associated with Panama. These SARs were filed by U.S. and foreign banks, brokerage services firms, and money service businesses from January 1, 2002 through October 31, 2002. The amounts of the transactions range from zero dollars to a high of \$300,000,000. Eighty-two percent of the SARs report "Bank Secrecy Act/money laundering" as the type of transaction, many of which are

"structuring" instances designed to avoid reporting requirements. Much of the reported activity (64 percent) involves suspicious or fraudulent wire transfer activity to or from Panama. In many instances, the individuals deposit cash and then immediately wire out the same amount, or a slightly lesser amount, to beneficiaries in Panama or other countries. A few SARs report "related to terrorism" as the reason for filing the report, because they involve wire transfers by individuals whose names are partial matches to names designated by the U.S. Government pursuant to various legal authorities. These SARs list wire transfers between Panama and Spain, Canada, and Pakistan. One SAR lists dozens of international money transfers by an individual whose name resembles two names on the Specially Designated Nationals list of the USG Treasury Office of Foreign Assets Control (OFAC).

Philippines. FinCEN conducted an analysis of the Suspicious Activity Reporting System for transactions relating to the Philippines. The 407 related SARs were filed by U.S. and foreign banks, brokerage services firms, and money service businesses from January 1, 2002 through October 31, 2002. Incoming and outgoing wire transfer activity, routed through, originating in, and/or terminating in the Philippines represents the majority of the SAR reporting. Most of the SAR narratives report large cash deposits followed by wire transfers to the Philippines. Additional activities reported in SAR narratives include issuance of numerous consecutively numbered checks by a global payment service; involvement in a pyramid scheme operating in Malaysia, Hong Kong, Thailand, Singapore, and Indonesia; and structured cash deposits to avoid reporting requirements.

Russia. * FinCEN conducted a review of the Suspicious Activity Reporting System, for the period January 1, 2002 to October 31, 2002, and identified 664 SARs that could be linked to transactions relating to Russia. The SARs were filed by U.S. and foreign banks, brokerage services firms, and money services businesses. The majority of filings (65 percent) involve wire transfers either to Russia from U.S. accounts, or vice versa. Many of the wires are in large and/or even dollar amounts totaling hundreds of thousands, or even millions of dollars, over periods of months to a year. In many instances funds are wired to an account at a Russian bank with no beneficiary identified. The majority of activity that involves Russian banks cites correspondent-banking relationships with U.S. banks. A behavior noted frequently in SARs citing suspicious wire transfers is the use of ATMs to withdraw funds via locations in the United States as well as in Russia and other European nations.

Approximately 15 percent of SAR filings report that the reason for their filing is related to the terrorist attacks of September 11, 2001, and awareness or scrutiny of all transactions involving customers and businesses associated with Russia, a country on FATF's NCCT list. A small but significant number of filings mention Russian companies or banks involved in financial fraud schemes. Some of these firms were found to be associated with well-known Russian organized crime groups operating worldwide, while other businesses were identified by local or regional law enforcement from previous incidents in a specific area. Some of the filings cite examples of Nigerian Advanced Fee Fraud, or 419 fraud (referring to the relevant provision in the Nigerian criminal code), indicating that the funds to be moved are allegedly a result of a "pay-back contract" between a Nigerian and a Russian firm operating in Nigeria.

St. Kitts and Nevis. * FinCEN conducted an analysis of the Suspicious Activity Reporting System for transactions relating to St. Kitts and Nevis for the period January 1, 2002 through October 31, 2002. The 53 SARs that could be linked to transactions associated with St. Kitts and Nevis were filed by 19 U.S. banks, three foreign banks, six brokerage services firms, and one money service business, with reported transaction amounts ranging from a low of zero dollars to a high of \$100,000,000. This is a significant decrease over 137 SARs filed in the first ten months of 2001.

The FinCEN analysis reveals significant activity (36 or 64 percent) involving suspicious or fraudulent wire transfer activity to or from Saint Kitts and Nevis. Other SAR narratives describe what appears to be computer intrusion and identity theft, and refer to an apparent fraud that netted over \$200,000. Almost all of the money comes from a bank in Nevis. Other narratives describe alleged real estate investments involving bank guarantees in the \$100 million range, of which the filing institutions were suspicious, and therefore, the reporting institutions decided to close the business accounts involved.

St. Vincent and the Grenadines. FinCEN conducted an analysis of the Suspicious Activity Reporting System for transactions involving St. Vincent and the Grenadines (SVG) for the period January 1, 2002 through October 31, 2002. U.S. banks, money service businesses, and brokerage service companies filed 37 SARs. Overall, SAR narratives report activity involving suspicious wire transfers, most frequently wires sent to SVG. Other SAR narratives (36.4 percent of the total number of SARs), all filed by the same U.S. bank, report suspicious activity carried out by a bank registered in St. Vincent, believed to be operating as a shell bank, since no physical presence could be confirmed. The SAR describes large volumes of suspicious wire transfers into what appear to be three different business accounts at the St. Vincent bank. Additional activities reported include possible securities fraud, structured cash deposits, suspicious account applications, and check fraud activity.

Ukraine. An analysis by FinCEN of the Suspicious Activity Reporting System reveals that the majority of the 130 SARs relating to Ukraine, filed by U.S. and foreign banks, money services businesses, and brokerage service firms from January 1, 2002 to October 31, 2002, report suspicious wire transfer activity. Some of this wire transfer activity is possibly related to charitable organizations with alleged links to terrorism. Narratives describe businesses allegedly operating as shell banks (registration and address information could not be verified) that continue to send and receive wire transfers, as well as fraudulent or suspicious letters of credit, bonds, checks, and certificates of deposit.

SARS Relating to Terrorist Financing

As part of its support to law enforcement, FinCEN routinely prepares proactive referral packages developed from SARs and other BSA information. In 2002, FinCEN conducted a search of the SAR database to determine the extent of SAR filings related to terrorism.

Between September 12, 2001 and March 31, 2002, more than 1,600 SARs were filed that contained references to terrorism or terrorist groups:

September 2001	27
October 2001	446
November 2001	324
December 2001	215
January 2002	292
February 2002	112
March 2002	241

The review indicates that the increase in filings was attributed to the issuance of various government lists of known or suspected terrorists, against which financial institutions researched their files/databases for possible matches. Eighty-five percent of the SARs (1,369) indicate the SAR was filed as the result of apparent matches to the names of individuals or entities provided to institutions by government agencies.

- The SARs were filed by 255 financial institutions.
- The suspicious activity reported in the SARs occurred in 43 states, the District of Columbia, Puerto Rico and Guam.
- Foreign branches of U.S. banks located in Saudi Arabia, Sri Lanka, the United Kingdom and Costa Rica filed SARs relating to terrorist activity.

- Transaction amounts ranged from \$0 to \$300 million.
- There were 1,016 SARs that were filed for reasons other than an attempt to complete a transaction.

The three main activities described in the SARs filed as a result of apparent name matches are:

- Wire transfers;
- Use of ATMs; and
- Large cash transactions.

The suspicious wire transfers occurred predominantly to or from Middle-Eastern countries. Other countries identified in connection with suspicious wire transfer activity included Pakistan, Malaysia, Indonesia, the Philippines, Liberia, Tanzania, Switzerland, the United States and Canada.

The ATM activity was described as suspicious because of the frequency of use and the geographic location of usage. The countries cited in SARs that reported suspicious use of ATMs included Lebanon, Morocco, Saudi Arabia, Jordan and the United States.

The suspicious cash transactions described in SAR narratives were conducted to establish new accounts, pay off credit card debts, effect wire transfers, and purchase money orders and/or travelers checks.

FinCEN further reviewed the SARs to evaluate whether any of them could possibly involve mechanisms to fund terrorist activities. The review reveals that traditional methods of money laundering were used, and at least one of the following additional indicators was involved:

- Movement of funds through state sponsors of terrorism and countries listed as having highly active anti-American terrorist activities;
- Use of unfamiliar charity/relief organization as a link in transactions;
- Wire transfer activities to and from multiple relief and/or charitable organizations, domestic and foreign; and/or
- The individual or entity involved is identified on one of the lists of suspected terrorists, terrorist organizations, or associated individuals or entities.

While these indicators alone may or may not denote terrorist funding, when combined with the common indicators of financial crime and money laundering, such transactions or patterns could be associated with terrorist financing activity. Additionally, when one or more of the potentially suspicious factors exist in regard to a specific financial transaction, increased scrutiny is warranted. Moreover, when the individual or entity appears on one of the lists of terrorist organizations or associated individuals or entities, the transaction may be subject to blocking or forfeiture.

The five synopses below were developed from SARs and other BSA information. They are provided here as illustrations of behavior that could indicate terrorist fundraising activities.

SARS and Terrorist Financing Leads/Cases

Relief/Charitable Organizations in the United States

A bank filed three SARs reporting the activities of a relief organization operating in the United States, whose stated primary purpose is the collection of donations and funds for worthwhile causes in Middle Eastern countries. Over an approximate 15-month period, the relief organization initiated wire transfers from its U.S. bank account totaling \$685,560, through its primary account in a former Soviet Republic, to its accounts in other former Soviet Republic countries. The relief organization's U.S. bank account also

received wire transfers totaling \$724,694 from unknown senders at a European bank, and wired a total of \$65,740 to a U.S. charitable organization. The filing institution deemed this activity inconsistent with the stated purpose of the account.

FinCEN identified two other SARs filed by two banks regarding financial activity of the U.S. charitable organization. The SARs identify \$445,325 wired to the U.S. charitable organization's account in the Middle East through the filing banks' U.S. correspondent bank. The organization also wired \$18,000 to a media services business in the Middle East in 2001. Four different accounts were used. SARs also describe structured cash deposits totaling \$53,800, and check deposits totaling \$121,705. FinCEN identified three additional accounts at three other banks through currency transaction reports (CTRs). Those CTRs report cash deposits totaling \$227,519.

Relief Organization in the Middle East

FinCEN identified 649 SARs filed by seven depository institutions, reporting transactions totaling \$9 million involving structured cash deposits and deposits of business, payroll and Social Security benefit checks. These SARs were filed during a 3-1/2 year period. Deposited funds were subsequently wire transferred within one or two days to a company located in the Middle East. The deposit and wire transfer activity involved 37 individuals conducting transactions through 44 accounts on behalf of four businesses. Two of the businesses were wire remittance companies; one was described as a relief organization at the same location as one of the wire remittance businesses; the fourth undescribed business, located in the Middle East, was the beneficiary of the wire transfer activity. The majority of the wire transfers were sent to two accounts in the Middle East. Other wire transfers were made to accounts at three different banks in foreign locations. The majority of the transactions (83 percent) were structured. Amounts of the deposits ranged from \$350 to \$636,790; most deposits fell between \$2,000 and \$8,000.

Owner of Pharmaceutical Company

A SAR was filed reporting two same-day deposits (\$3,500 and \$9,900), made three hours apart to a savings account by a bank customer. The bank initiated a review of the customer's accounts. The review identified additional suspicious activity in four of his personal accounts, including the original savings account. From December 1999 through April 2001, 38 cash/non-cash deposits and one wire transfer deposit totaled \$2,202,384. During the same time period, one withdrawal, two redemptions of negotiable instruments, three wire transfers and two other debit transactions totaled \$2,256,223. Of this total, \$2,040,370 flowed into the original suspect's savings account and \$2,097,323 flowed out of the account. Cash and non-cash deposits were described as even dollar amounts ranging from \$1,000 to \$100,000. Wire transfer activity included a \$25,000 wire transfer received from an individual and three transfers totaling \$100,000 sent to two different individuals. The SAR, and related CTRs, describe the individual as the owner/president of a pharmaceutical company and the owner/CEO of a biochemical laboratory.

In July 1996, this individual transported \$11,200 into the United States from a Caribbean country, and in December 2000, he transported \$11,500 from the United States to Europe. In both instances, he claimed citizenship in a country subject to a travel warning for anti-American terrorist activity and provided a non-U.S. passport as identification. He is also cited as entering the United States a total of 32 times from March 1996 through August 2001. Identification provided, as cited in the entry records, was an alien registration number.

Law Enforcement Cases Relating to Terrorism

In 2002, law enforcement agencies continued to use both the financial transparency "paper trail" and investigative techniques such as informants and undercover investigations to penetrate suspect criminal organizations. Generally, law enforcement uses a combination of resources and techniques to put a case together. The following case examples highlight successful law enforcement investigations and techniques:

Operation Smoke Screen

In a far-reaching case involving the prosecution of individuals involved in the financing of terrorism, two men in Charlotte, North Carolina were convicted in May 2002 (seven defendants previously pled guilty) of providing, and conspiring to provide, material support to Hizballah, a designated Foreign Terrorist Organization. The criminal group perpetrated an interstate cigarette tax evasion scheme whereby inexpensive cigarettes from North Carolina were transported to and then sold in Michigan to avoid the latter state's higher taxes. Profits from the operation were forwarded to Hizballah. Law enforcement authorities around the world have recognized that cigarette smuggling networks can generate enormous profits. Moreover, trafficking in cigarettes often is the precursor to other types of contraband smuggling such as weapons and narcotics.

The case was initiated when a deputy sheriff working part-time at a large tobacco wholesaler in North Carolina noticed the same individuals purchasing large quantities of cigarettes. The suspects drove vehicles with out-of-state license plates. A joint investigation among federal, state, and local authorities ensued. Surveillance of the suspects revealed a large-scale cigarette smuggling ring involving the use of tobacco storefront operations in North Carolina to justify the large purchases and bulk sale of cigarettes. Based on the surveillance, search warrants were obtained for the businesses and residences of the subjects. As a result of the warrants, law enforcement personnel seized photos of the subjects counting large volumes of cash, a Hizballah banner, a Hizballah propaganda video of suicide bombers, and materials evidencing the involvement of some of the suspects with military training and/or operations. A receipt from a Hizballah leader for money received from the smuggling ring was located during the searches. Numerous false identification documents for the subjects were also found. Further evidence recovered showed that the criminal group intended to purchase a variety of items for Hizballah including night vision devices, radios and receivers, and metal detection devices. Ultimately, 25 individuals were charged with various transactions, including material support to a terrorist organization, money laundering, conspiracy, bank fraud, credit card fraud, and visa entry fraud. The Bureau of Alcohol, Tobacco, and Firearms played a large role during the initial stages of the investigation and the Federal Bureau of Investigation contributed during the later stages by helping to develop the link to a terrorist organization.

HAMAS Leader Indicted

In Dallas, Texas, an indictment was returned against a senior leader of HAMAS (a designated Foreign Terrorist organization) for conspiring to violate United States laws that prohibit dealings in terrorist funds. The HAMAS leader and a Texas-based company, INFOCOM Corporation, allegedly conspired to hide his continuing financial interests with the computer company. The indictment asserts that INFOCOM continued to engage in financial transactions with the HAMAS leader after his designation as a terrorist, in violation of the International Emergency Economic Powers Act.

Terrorist Organization Donor Indicted

In another case, the director of an Islamic charity in suburban Chicago was charged with funneling money to a terror network and other violent groups through his Benevolence International Foundation. The indictment describes a multi-national criminal enterprise that over many years fraudulently used charitable contributions from innocent Americans—Muslim, non-Muslim and corporations alike—to support al-Qaida, the Chechen mujahedin, and armed violence in Bosnia. The charges include providing material support to terrorists, mail and wire fraud, and transactions of the Racketeer Influenced and Corrupt Organizations (RICO) statute.

Narcoterrorism

Indictments were issued against terrorist groups that directly combine narcotics-trafficking with their terrorism activities. Leaders of the United Self-Defense Forces of Colombia (AUC), a Colombian right-

wing paramilitary group listed on the State Department's Foreign Terrorist Organization list since 2001, were charged with various narcotics-trafficking offenses. The indictment alleges that, since January 1997, they caused the maritime shipment of approximately 17 tons of cocaine to the United States and Europe. The United States has requested that the Colombian government extradite all defendants to the United States for trial. A second case against members of AUC commenced in Houston, Texas. This case also involved a massive cocaine-for-arms scheme. Through three separate indictments, the United States has charged several members of a second Colombian terrorist group, the Revolutionary Armed Forces of Colombia, or FARC, with murder, kidnapping of U.S. citizens, and trading illegal drugs for weapons. The United States has long considered FARC a terrorist organization. Finally, in October 2002, an indictment was issued in San Diego that charged three individuals with a drug conspiracy and with conspiring to provide material support or resources to al-Qaida. This case started as an undercover sting operation, in which an FBI agent posing as a prospective drug buyer approached a person in the United States who claimed to have contacts in Pakistan with narcotics available for sale. The scheme evolved into discussions about an exchange of drugs for Stinger missiles, which the Pakistani defendants claimed were needed for persons fighting in Afghanistan (i.e., the Taliban or al-Qaida).

Charity Maze

In December 2001, Operation Green Quest developed information that a group of individuals were allegedly funneling funds to designated terrorist organizations through a maze of interrelated charities. The initial analysis reflected that these organizations were conducting transactions in excess of \$1 billion. In 2002, Operation Green Quest coordinated the execution of approximately 20 search warrants on businesses and residences associated with this organization. Ten warrants were also executed on identified Internet servers. The ongoing investigation includes the review of seized documents, electronic files, and financial transactions in order to identify the suspect terrorist connections.

Bulk Currency Smuggling

In the United States, "bulk currency smuggling" is a money laundering and/or terrorism financing technique that is designed to bypass financial transparency reporting requirements and the U.S. Customs Service Currency and Monetary Instrument Report (CMIR), which obligates the filer to declare if he or she is transporting across the border \$10,000 or more of cash or monetary instruments. Often the currency is smuggled into or out of the United States concealed in personal effects, secreted in shipping containers, or transported in bulk across the border via vehicle, vessel or aircraft. In 2002, an Operation Green Quest investigation was initiated in response to two seizures by U.S. Customs of approximately \$300,000 concealed within the lining of clothing being shipped to Lebanon. Search warrants executed on the address associated with the violator resulted in the seizure of approximately \$2.2 million. The investigation is progressing as a joint effort between U.S. Customs and other federal law enforcement agencies.

Outreach and Unlicensed Remitter

In 2002, U.S. Customs initiated an investigation of a company suspected of providing financial support to terrorism. The investigation was based on a referral from a financial institution. Customs agents identified \$28 million that the targeted company wired overseas from the United States. As the investigation progressed, agents determined the target was operating as an unlicensed remitter, and a significant amount of the funds were illegally being transferred to an embargoed country. A search warrant executed on the business subsequently led to approximately 29 search warrants throughout the United States. The investigation culminated with the indictment and arrest of the primary target and five of his representatives. Charges include money laundering, with transactions of the International Emergency Economic Powers Act as the predicate crime. In an effort to trace the flow of funds and merchandise internationally, agents are working with their foreign counterparts to determine the end users and prosecute the intermediaries who were involved in the transactions.

Trade-Based Money Laundering

The misuse of international trade has long been employed to avoid taxes, tariffs, and customs duties. It is believed that with the increasing transparency governing financial transactions around the world, criminal elements may also increasingly use traditional and widespread fraudulent trading practices to launder funds. For example, the under-invoicing of a shipment of trade goods from country A to country B is a simple and effective way of avoiding or lowering customs duties or tariffs. Trade is also used to launder the proceeds of criminal activity. Over-invoicing a shipment of goods can provide criminal organizations the paper rationale to send payment abroad and/or launder money. For example, if a container of electronics is worth \$50,000 dollars but is over-invoiced for \$100,000, the subsequent payment of \$100,000 will pay both for the legitimate cost of the merchandise (\$50,000) and also allow an extra \$50,000 to be remitted or laundered abroad. The cover of the business transaction and related documentation wash the money clean. There are a multitude of other types of invoice fraud and trade manipulation. For example, export incentives often encourage fraud. There have been numerous examples of governments paying a company cash incentives to export products at the same time the company is using the same export to launder money. In some countries, traders report to exchange control authorities that imports cost more or exports less than the actual cost. The excess foreign exchange generated can be used to purchase additional foreign trade items. And in some areas of the world, trade goods (including narcotics) are simply bartered for other commodities of value.

The simple examples above are made complex when the misuse of trade also involves traditional and entrenched ethnic trading networks, indigenous business practices, smuggling, corruption, narcotics-trafficking, the need for foreign exchange, capital flight, terrorist financing, and tax avoidance. Frequently, many of these elements are commingled and intertwined, making it extremely difficult for criminal investigators to follow the trail.

Trade-based money laundering can also be viewed as a component of other types of alternative remittance systems, such as hawala, the Black Market Peso Exchange, and the use of precious metals and gems. Alternative remittance systems, sometimes also known as informal value transfer systems (IVTS), parallel banking or underground banking, move money or transfer value without necessarily using the regulated financial industry. In all of these alternative systems, trade is most often the vehicle that provides "counter-valuation" or a method of "balancing the books".

Because of the increased worldwide focus on counter-terrorist financing, increased attention is also being given to these non-traditional methodologies that are frequently found in regions of concern. It is difficult for law enforcement and customs to interdict suspect transactions in this underworld of trade. But at times, these systems may intersect with banks and other traditional financial institutions in order to obtain currency needed to make disbursements, or as links in the clearing process involving wire transfers. It is at these intersections with financial institutions that the brokers or their representatives may become known, and their transactions reviewed for indications of unusual activity in countries that require suspicious transaction reports. Customs and law enforcement officials must play a much more aggressive role in recognizing and investigating how trade can be used in money laundering and in the financing of terrorism.

Gold, Gems, Diamonds and Trade

The trade in gold, diamonds other precious metals and gems has long been associated with money laundering. Terrorist organizations around the world have also used gold and the trade of precious commodities to launder money or transfer value. Since there has been increasing worldwide success in implementing financial transparency, the underworld of gold and other precious metals and gems may increasingly be used as an alternative method of laundering funds.

There are many reasons for gold's popularity with money launderers. For example, gold has been a haven for wealth since antiquity; it is a readily acceptable medium of exchange around the world; its value is

relatively constant; it offers easy anonymity; it is portable; the form of gold can be readily altered; the trade is easily manipulated; there are often cultural reasons that ensure a constant demand for gold; depending on the form of gold, it can act as either a commodity or a de facto bearer instrument. Gold is used in all stages of money laundering, i.e. placement, layering, and integration. Gold is an alternative remittance system by itself. It is also an integral part of other alternative remittance systems such as hawala and the Black Market Peso Exchange. Although almost any trade item can be used to launder money, gold is particularly attractive to money launderers because it is less bulky than many other commodities and has a relatively constant high dollar value.

Because of gold's unique properties, it has also long been used as a vehicle to help finance terrorist operations. For example, the right-wing Posse Comitatus in the United States, the Aum Shinri Kyo cult in Japan, and Colombian narcotics traffickers have used gold. Most recently, there are reports that al-Qaida has used gold as an instrument of finance.

Gems such as emeralds and tanzanite are also linked to money laundering and terrorist financing. For example, much of the trade in emerald gemstones identified as originating in Pakistan actually originates in Afghanistan. The gems are often traded through Mumbai and Jaipur, India, and the resulting sale revenue goes directly to Dubai, where it is traded for gold bullion, which goes back to India. Gemstone auctions in Burma are used to launder narcotics monies. There are reports that tanzanite, mined only in northeastern Tanzania, is smuggled through ports in East Africa to bazaars in the Middle East. The black market trade in these gems is susceptible to manipulation by money launderers and those that help finance terrorism.

The extra-legal trade in diamonds in Africa often involves money laundering for criminal and political purposes, and loss of revenue via tax evasion. It also provides the means to purchase arms and influence the political arena. "Blood diamonds" is the term used to describe the diamond trade that has helped finance African civil wars in Angola, Sierra Leone, Liberia, and other countries. There are also allegations that the diamond trade intersects terrorist financing operations. The diamond trade in Africa is susceptible at many levels to exploitation, including cross-border trade using established diamond trade routes, secondary level traders and agents, and suspect buyers. Diamond traders in Africa are often non-African. Operating from secured compounds, expatriate buyers often purchase rough diamonds via local currency. (Although purchases occur in local currency, the diamond trade uses U.S. dollars at all levels of commerce including the payment to buyers.) Subsequent exports by the diamond buyers to the major diamond trading centers are often under-valued. Diamonds are also used to provide counter-valuation in hawala transactions. Many of the diamond buyers involved with illicit diamond dealing in West and Central Africa pay protection money to groups identified as terrorist organizations.

Trade and Terrorist Financing

A south Asian trader based in southern Africa has a legitimate business involving the importation of electronics from a supplier based in Dubai. He also has a side business that launders money for numerous businessmen who are also based in southern Africa and are of the same ethnic group as the trader. Most of the laundered money originates from the black trade in precious gems. During the course of his import business, he asks the Dubai supplier, a member of his same extended family, to over invoice the electronics by 100 per cent. For example, a legitimate invoice for \$100,000 would be invoiced as \$200,000. The electronics are then shipped from Dubai to the trader in southern Africa where they are sold for profit.

The trader then sends a wire transfer for payment of the \$200,000 from his bank in southern Africa to the bank of the Dubai supplier. The difference between the \$100,000 actual price of the electronics and the fictitious price of \$200,000 represents \$100,000 laundered from his colleague's criminal activity involving the trade in precious gems. Some of the money in Dubai is then transferred to a third country as legitimate business profits via normal banking procedures. The participants in the money laundering network share the same political ideology. Thus, twenty percent of the profits from the laundering operation are transferred to terrorist affiliated organizations.

Trade and Hawala

In Somalia, there currently is an absence of regulated commercial banks. As a result, remittance companies are the primary conduits for moving funds into and out of Somalia. Although the overwhelming majority of these funds are used for legitimate purposes, a small percentage of transactions—sometimes labeled "black hawala"—mask the transfer of value for criminal purposes. The following is an example of how trade is used to provide counter-valuation for hawala¹: A Somali trader buys commodities from Dubai for resale in Somalia. In order to finance the trade, the Somali trader contacts a local agent of a remittance company in Mogadishu. The trader gives cash to the local remittance agent. (Most transactions are dollar-based but other currencies are used as well.) A commission is charged for the exchange. The trader asks that the funds be transferred to his foreign bank account located in Dubai.

The local agent of the remittance company contacts a hawala clearinghouse that is also located in Dubai and asks that funds be transferred to the Dubai-based bank account identified by the Somali trader. The Dubai bank issues a letter of credit so that goods can be purchased. The desired goods are purchased in Dubai and the venders have no idea—nor do they care—that the origin of the funds is actually the result of a hawala exchange. The trade goods are then shipped to Somalia and sold by the trader. A percentage of the profit is kept and the balance is used to pay suppliers, and the cycle is repeated. Although this example focuses on Somalia, reports have indicated that the same hawala/trade networks are also used in other countries in Eastern Africa.

Black Market Peso Exchange—Trade and the Underground Economy

One of the most prevalent methods of laundering money through trade in the Western Hemisphere is via the Colombian Black Market Peso Exchange or BMPE. This money laundering technique is used to evade detection through the U.S. Bank Secrecy Act reporting requirements. In simple terms, Colombian cartels sell drug-related, U.S. dollars to black market peso exchangers in Colombia. Once this currency exchange has occurred, the trafficking organization has effectively laundered its money and is out of the BMPE process. The peso broker, on the other hand, must then launder the accumulated U.S. dollars in the United States. The peso broker uses a variety of methods to place the U.S. narcotics proceeds into financial institutions. (For U.S. law enforcement, the "placement" stage in money laundering represents the best opportunity to identify and interdict money laundering.) The peso broker, operating in Colombia, thus has a pool of narcotics-derived funds in the United States to "sell" or "exchange" to legitimate Colombian importers. The funds are used to purchase trade goods such as cigarettes, electronics, and gold.

The U.S. Department of Treasury's Internal Revenue Service Criminal Investigation Division (CID) has an Illegal Source Financial Crimes Program that recognizes that money gained through illegal sources is part of the untaxed underground economy. The underground economy is a threat to the U.S. voluntary tax compliance system and undermines the overall public confidence in the tax system. The Internal Revenue Code generally states that all income is taxable, from whatever source it is derived. The IRS Narcotics Related Financial Crimes Program seeks to reduce the profits and financial gains of narcotics-trafficking and money laundering organizations that comprise a significant portion of the untaxed underground economy. In the case of BMPE investigations, the IRS and other law enforcement agencies, such as the U.S. Customs Service and the Drug Enforcement Administration, seek to disrupt a trade-based money laundering methodology that aims to legitimize the proceeds of narcotics-trafficking by exchanging funds for trade items often found in the untaxed underground economy.

¹ Abdusakem Omer, "A Report on Supporting Systems and Procedures for the Effective Regulation and Monitoring of Somali Remittance Companies (Hawala)" prepared for the United Nations Development Program, Mogadishu , 2002, pp 12-13.

Bank Secrecy Act CTR Filings: BMPE Structuring Case

On April 22, 2002 in Miami Florida, Lourdes Garcia-Rodriguez and Nancy Torguet-Cavantes were found guilty of conspiracy to launder drug money and conspiracy to structure bank deposits in amounts under the \$10,000 IRS reporting threshold. The subjects laundered approximately \$5 million in drug proceeds through the Colombian BMPE. The subjects used their Miami-based freight company to export over \$5 million worth of household appliances to customers in Colombia. Those customers paid for the appliances with bulk amounts of drug cash delivered to the offices of the Miami freight company. The subjects accepted the cash without completing the IRS forms required to document the receipt of cash over \$10,000. They then deposited the drug dollars into a series of bank accounts in structured deposits of less than \$10,000 each; this enabled them to avoid the financial reporting laws that require banks to report all cash transactions over \$10,000. As a result of this IRS investigation, in January 2003, the subjects were sentenced to a total of 70 months imprisonment.

BMPE—Undercover Operation and International Cooperation

Operation Wire Cutter is another example of targeting a BMPE exchange that attempted to launder millions of drug dollars. Operation Wire Cutter used undercover operations as a successful law enforcement technique to interdict and thwart the BMPE methodology. Operation Wire Cutter began in September 1999 when U.S. Customs Service agents of the multi-agency "El Dorado" Task Force in New York developed information about suspected money brokers using the BMPE. The primary suspects were eight senior money brokers, located in Bogotá, believed to have over 50 years combined experience laundering drug money for Colombian cartels. Each of the money brokers headed distinct organizations that provided money laundering services to several organizations on a contract basis.

Undercover U.S. Customs agents in New York, posing as money launderers, entered into agreements with the Colombian brokers. Acting on instructions from the Colombian brokers, the undercover Customs agents "picked-up" drug currency in various U. S. cities and wired it to accounts specified by the brokers. At the same time, the Colombian Departmento Administrativo de Seguridad (DAS) working with Customs and the U.S. Drug Enforcement Administration (DEA) conducted a parallel investigation of the BMPE money brokers and their associates in Colombia. This was the first time that U.S. authorities were able to combine undercover pick-ups of drug proceeds in the U.S. with investigative efforts by Colombian authorities to target BMPE money brokers. By coordinating investigative resources, authorities in both countries were able to monitor the money laundering process "full-circle"—watching drug funds enter the system in the United States and exit the system in Colombia.

Operation Wire Cutter resulted in the arrest of 37 individuals, 29 in the United States and eight in Colombia. United States authorities also seized more than \$8 million dollars as well as 400 kilos of cocaine, 100 kilos of marijuana and 6.5 kilos of heroin.

Bilateral Activities

Training and Technical Assistance

During 2002, 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 United States as well as in the jurisdictions where the programs are targeted.

Department of State

Through the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) in close coordination with the Department's Office of the Coordinator for Counter-Terrorism on terrorist financing issues, \$3.27 million was expended in fiscal year 2002 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 capable of combating not only money laundering activities but terrorist financing in selected jurisdictions. Supported by and in coordination with the State Department, the Department of Justice, Treasury Department component agencies, the Board of Governors of the Federal Reserve, the Federal Deposit Insurance Corporation, and non-government organizations offered law enforcement, regulatory and criminal justice programs worldwide.

During 2002, 37 INL-funded programs were delivered in 31 countries to combat international financial crimes, money laundering and terrorist financing. 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, INL made funds 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. INL also provided several federal agencies funding to conduct multi-agency financial crime training assessments and develop specialized training in specific jurisdictions worldwide to combat money laundering.

INL along with the European Union and the Government of the United Kingdom continues to fund the Caribbean Anti-Money Laundering Programme (CALP). INL contributed \$600,000 to the CALP in 2002. The objectives of CALP are to reduce 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.

In 2002, INL contributed \$1.5 million to 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 viable Financial Intelligence Units. A GPML mentor provided advice on money laundering and asset forfeiture legislation to Antigua and Barbuda as well. Another GPML mentor provided assistance to the Secretariat of the East and South Africa Anti-Money Laundering Group (ESAAMLG). INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2002, INL support was furnished to the Financial Action Task Force on Money Laundering (FATF), the international standard setting organization, and to FATF-styled regional bodies (FSRBs) including the Asia/Pacific Group on Money Laundering (APG), the Council of Europe's Moneyval, formerly known as the Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (PC-R-EV, and the Caribbean Financial Action Task Force (CFATF). INL also provided financial support to the evolving ESAAMLG and the South American Financial Action Task Force, Grupo de Accion Financiera de Sudamerica Contra el Lavado de Activos (GAFISUD), the FATF-styled regional 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 assistance to the International Law Enforcement Academies (ILEAs).

International Law Enforcement Academies (ILEAs)

The ILEAs are a progressive concept in the area of international assistance programs. These four—soon to be five—academies offer a core law enforcement management program, regional seminars, and specialized training programs tailored to region-specific needs and emerging global threats, such as terrorism. Indeed, underscoring the ability of ILEAs to adapt quickly, the United States has already amended the money laundering portion of the "core" course presented at each ILEA to address terrorist financing, and the ILEA program is working on finalizing a new "specialized" course that would focus specifically and in detail on terrorist financing. The ILEAs help develop an extensive network of alumni that exchange information with their U.S. counterparts and assist in transnational investigations. These graduates are also expected to become the leaders and decision-makers in their respective societies. 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 10,000 officials from 50 countries. The annual ILEA budget averages approximately \$18-19 million.

Europe. ILEA Budapest (Hungary) opened in 1995 to provide assistance to Russia, Central Asian and Eastern European countries. Trainers from the United States, Hungary, Canada, Germany, Great Britain, Holland, Ireland, Italy, Russia, INTERPOL and the Council of Europe provide instruction. ILEA Budapest trains approximately 750 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. The curriculum and structure of this Academy are similar to Budapest, except for the shorter duration of the core course and an added emphasis in narcotics matters. Participation is open to members of the Association of South East Asian Nations (ASEAN) and the Peoples Republic of China. Trainers from the United States, Thailand, Japan, Netherlands, Australia, Philippines and Hong Kong provide instruction. ILEA Bangkok trains approximately 550 students annually.

Africa. ILEA Gaborone (Botswana) opened in 2001. Its overall instructional format is similar to Budapest and Bangkok, but adjusted to suit the needs of the region. Participation is open to members of the Southern African Development Community (SADC), with expectations of future expansion to East African and other sub-Saharan African countries. ILEA Gaborone trains approximately 450 students annually.

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 by, 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. ILEA Roswell trains approximately 450 students annually.

Latin America. The Department of State is in the process of establishing an ILEA in San Jose, Costa Rica, along the lines of the existing academies in Budapest, Bangkok and Gaborone. A Bilateral Agreement establishing the ILEA was signed with the government of Costa Rica in June 2002, and training activities are expected to begin in 2003.

Board of Governors of the Federal Reserve System (FRB)

The FRB is active in the effort to deter money laundering, primarily through ensuring compliance with the Bank Secrecy Act and the USA PATRIOT Act by the domestic and foreign banking organizations that it supervises. In another initiative to combat money laundering, FRB staff conducted training in anti-money laundering tactics and provided technical assistance to banking supervisors and law enforcement officials throughout the world. Programs for Malaysia, Dominican Republic, Argentina, Barbados, Turkey, and the Philippines were provided in 2002.

In addition to its international training programs, the FRB presented training courses to U.S. law enforcement agencies, including the Federal Law Enforcement Training Center, Internal Revenue Service, Federal Bureau of Investigation, U.S. Customs Service, and Drug Enforcement Administration. The FRB

also participated in financial sector assessment trips to several countries in the Middle East as a member of U.S. interagency teams.

Drug Enforcement Administration (DEA)

The DEA Office of Training, International Training Section, conducts the International Asset Forfeiture and Money Laundering Seminar portions of the U.S. Department of Justice Asset Forfeiture Program. The intent of these seminars is to share, compare, and contrast U.S. legislation with that of other countries, building a relationship and fostering communications with foreign narcotics enforcement officials and prosecutors. Approximately 35 foreign government officials attend each seminar.

The week-long seminars employ lectures, presentations, case studies, and practical application exercises. The Department of Justice Asset Forfeiture Section, the U.S. Customs Service, the U.S. Marshal Service, and various divisional offices of DEA provide the guest lecturers.

The course curriculum includes instruction addressing money laundering and its relation to central bank operations, asset identification, seizure and forfeiture techniques, financial investigations, document exploitation, and international banking. Overviews of U.S. asset forfeiture law, country forfeiture and customs law, and prosecutorial perspectives are also included.

All seminars are conducted in-country. In 2002, seminars were conducted in Germany, Guatemala, Ecuador, Netherlands, Dominican Republic, and the United Kingdom.

Federal Bureau of Investigation (FBI)

During 2002, FBI agents and analysts assigned to the Terrorist Finance Operations Section (TFOS) provided training and presentations relating to terrorism financing methods and money laundering to law enforcement and banking officials of Australia, Belgium, Canada, Germany, Kuwait, the Netherlands, New Zealand, Finland, Germany, Jordan, Paraguay, Pakistan, Philippines, Russia, Singapore, Switzerland, Turkey, Thailand, United Arab Emirates and the United Kingdom. In many instances additional course instruction was also provided on topics ranging from evidence acquisition and case organization to computer forensic examination techniques. Additionally, in November 2002, TFOS sponsored an international seminar in the United States on the informal value transfer system hawala Officials from India, Pakistan, Jordan, and the United Kingdom attended this week-long conference.

Federal Deposit Insurance Corporation (FDIC)

The FDIC is working in partnership with several agencies against money laundering and the global flow of terrorist funds. Additionally, the agency participates in the planning and conduct of missions to assess vulnerabilities to terrorist financing activity worldwide, and to develop and implement plans to assist foreign governments in their efforts in this regard. To better achieve this end, the FDIC solicited employees interested in providing examination and other pertinent expertise. The response was overwhelming, with almost 100 candidates. Twenty individuals were selected to participate in foreign missions.

A training session was held in June 2002 that provided mission participants with background information on the international conventions on money laundering and terrorism, and expectations for foreign mission participants. A multi-agency team of instructors brought varying perspectives and experience to the session.

The FDIC's Division of Supervision and Consumer Protection participated in the decision-making process of the Basel Committee that led to the approval, and April 17, 2002 issuance of the Sharing of Financial Records Between Jurisdictions in Connection with the Fight Against Terrorist Financing.

Periodically, FDIC staff meets with supervisory and law enforcement representatives from various countries to discuss anti-money laundering issues, including examination policies and procedures, the USA PATRIOT Act and its requirements, the FDIC's asset forfeiture programs, suspicious activity reporting requirements and interagency information sharing mechanisms. In 2002, such presentations were given to Antigua, Barbados, Brazil, Chile, Dominica, Grenada, Russia, St. Lucia, St. Vincent and the Grenadines, and Thailand.

In April 2002, the FDIC sponsored the FDIC International Visitors Training Program. In addition to sessions on deposit insurance, bank closing procedures and general supervisory issues, one of the segments addressed the USA PATRIOT Act and anti-terrorist financing efforts. The session covered international conventions and specific requirements of the USA PATRIOT Act that will affect the international community. Attendees represented Armenia, Bosnia and Herzegovina, Bulgaria, Canada, China, Czech Republic, Estonia, Germany, Hong Kong, Hungary, Indonesia, Japan, Mozambique, Serbia, Thailand, Turkey and Venezuela.

FDIC provided anti-money laundering training and technical assistance to the Republic of the Marshall Islands (RMI) in February 2002. Staff assisted RMI in developing anti-money laundering regulations and examination procedures. The RMI had been on the FATF NCCT list, and the U.S. Treasury Department had issued financial advisories to U.S. banks warning them to scrutinize RMI transactions. Among the deficiencies cited by FATF was the lack of a regulatory scheme to detect money laundering in financial institutions. FDIC's assistance to the RMI was a valuable part of the RMI's efforts to be removed from the NCCT list.

FDIC staff also provided anti-money laundering technical assistance to the Government of Fiji in February 2002. The technical assistance request came from the Asia/Pacific Group on Money Laundering through the U.S. Treasury Department. Working collaboratively with anti-money laundering experts from Malaysia and New Zealand, the FDIC's staff evaluated Fiji's compliance with the FATF Forty Recommendations on Money Laundering.

In September 2002, FDIC staff gave an anti-money laundering presentation to the Taiwan Academy of Banking and Finance, a group comprised of various banking supervisory agencies. Topics included the Bank Secrecy Act, the USA PATRIOT Act, components of anti-money laundering examination programs and procedures, and an effective bank anti-money laundering program.

Financial Crimes Enforcement Network

FinCEN, the U.S. Financial Intelligence Unit (FIU), a Bureau of the U.S. Treasury Department, coordinates and provides training and technical assistance to partner nations seeking to work against financial crimes, put in place anti-money laundering regulatory regimes, and establish Financial Intelligence Units. Its international training program focuses on providing training and technical assistance to a broad spectrum of foreign government officials, financial regulators, law enforcement personnel, and bankers. FinCEN's international training program has two main components: (1) instruction to a broad range of government officials, financial regulators, law enforcement officers, and others, on the subject of money laundering and FinCEN's mission and operation; and (2) financial intelligence analysis training and the operational aspects of FIUs such as FinCEN. For those FIUs that are fully functional the goal is to help them achieve an improved level of cooperation with U.S. and other FIUs in the exchange of information and the achievement of a better understanding of money laundering phenomena. As a member of the Egmont Group of FIUs, FinCEN also works closely with other members of the Egmont Group to provide training and technical assistance to various jurisdictions in establishing and operating their own FIUs.

During 2002, FinCEN conducted training courses independently, as well as with other agencies. In some instances courses are developed jointly with other agencies to address specific needs of the jurisdictions. A

number of these courses are provided abroad to maximize the utility to the FIU. Such training sessions were held in Bulgaria and Poland in 2002.

Much of FinCEN's work also involves strengthening existing FIUs and reinforcing channels for communicating operational information in support of anti-money laundering investigations. This includes participation in personnel exchanges (from the foreign FIU to FinCEN and vice versa) and regional and operational workshops. For instance FinCEN hosted a workshop on Informal Value Transfer Systems (IVTS) in Mexico in October 2002 that included presentations and discussions about the money laundering risks posed by IVTS service providers, such as hawala, and the law enforcement and regulatory challenges posed by such systems. Over 50 countries sent representatives. During the past year, FinCEN has also engaged in week-long personnel exchanges with the FIUs of Turkey and South Korea.

In 2002, representatives from well over 50 countries visited FinCEN to learn what is new in money laundering trends and patterns, details of the USA PATRIOT Act, international case processing, and the regulatory role of FinCEN. Additionally, FinCEN hosted delegations for more intensive seminars in computer software programs, data mining, and case processing from various jurisdictions of the Caribbean, the Middle East, Africa, Southeast Asia and the Pacific, Central and South America, the Gulf States, and Europe.

Internal Revenue Service (IRS)

In 2002, the IRS Criminal Investigation Division (IRS-CI) increased its commitment to international training, multi-agency training efforts and technical assistance programs to foreign law enforcement agencies.

IRS-CI continues to provide training in Financial Investigative Techniques and Money Laundering at the International Law Enforcement Academies (ILEA) at Bangkok, Budapest and Gaborone. In furtherance of this commitment IRS-CI has detailed a special agent to serve as Deputy Director at the ILEA in Bangkok, Thailand. IRS-CI also serves as coordinator of the annual Complex Financial Investigations course, which is provided to senior, mid-level, and first-line law enforcement supervisors, inspectors, investigators, prosecutors and customs officers.

In 2002, IRS-CI also presented training on money laundering, identifying and analyzing business and other types of financial records, indirect methods of proof, and tracing the proceeds of crime at U.S. Government-sponsored seminars for financial investigators of the Royal Thai police; prosecutors and national police from the Philippines; leaders from the Jamaican Tax Administration, Jamaican Bankers Association, the Legal Force and the Jamaican Police Organized Crime Units; and judges, prosecutors, investigators, and banking regulators from Macedonia, Albania, Hungary, and Bulgaria.

A regional Money Laundering/Financial Investigative Techniques course was also provided in St. Johns, Antigua to various law enforcement officials from financial investigative units, FIUs, customs, and local police fraud units. The overall goal was to enhance anti-money laundering efforts, foster an atmosphere of cooperation and exchange among these countries and the United States and to provide financial techniques that would be instrumental in combating financial crimes. The participants represented the nine Caribbean nations, two of which are on FATF's NCCT list. Attending were Anguilla, Antigua, Barbados, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Similar courses were presented to financial investigators, police officers and prosecutors in the Czech Republic and Dar es Salaam, Tanzania.

Country-specific money laundering training was delivered to financial investigators, banking officials, prosecutors, customs agents, revenue agents, bank examiners, judges and police officers in Bogotá, Colombia and Abuja, Nigeria. The overall focus in both countries was to introduce techniques to combat money laundering and to foster cooperation among the local banking regulators, law enforcement officials, prosecutors and the U.S. Government.

IRS-CI assisted in conducting a Money Laundering and Evidence Control Training session sponsored by the Department of Justice in Bridgetown, Barbados. Participants included customs and law enforcement officials, prosecutors, and banking regulators. In particular, IRS-CI provided training on search warrants, its search warrant program, and seized evidence control and custody.

Technical assistance and guidance was provided to the Board of Inland Revenue in Trinidad and Tobago to assist with the design of its new Criminal Investigator Training Program.

Office of the Comptroller of the Currency (OCC)

The OCC supported and sponsored several anti-money laundering training initiatives during 2002. The following highlights the OCC's efforts:

- Presented four sessions of the four-day Anti-Money Laundering School to foreign banking supervisors: one in Barbados, two sponsored by the Asociacion de Supervisores de Bancos de las Americas in Peru and Panama, and one in Washington, D.C.
- Presented an Anti-Money Laundering Training Module in two Bank Examination schools for foreign supervisors in Turkey and the United States.
- Participated in a USAID anti-money laundering training mission to Russia for banking supervisors and industry representatives.

United States Department of Treasury Office of Technical Assistance (OTA)

Treasury's OTA 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 U. S. Government (USG). The Enforcement Program 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 international financial crime. The Enforcement Program relies on intermittent and resident advisors 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 funding from the State Department's Bureau for International Narcotics and Law Enforcement Affairs (INL), the State Department Africa Bureau, USAID country missions and direct congressional appropriations.

The Enforcement Program is comprised of a group of approximately 50 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. In 2002, advisors provided assistance to the governments of Albania, Armenia, Azerbaijan, Bosnia, Bulgaria, El Salvador, Guatemala, Hungary, Macedonia, Moldova, Montenegro, Nigeria, Paraguay, Romania, Russia, South Africa, Tanzania, Thailand, Uganda, Ukraine, Honduras, Poland, Serbia and the Eastern Caribbean countries.

OTA conducted several assessments of anti-money laundering regimes in 2002, often working in concert with the U.S. Embassy and/or international bodies. These assessments addressed legislative, regulatory, law enforcement and judicial components of the various programs. The assessments included the development of technical assistance plans to enhance a country's efforts to fight money laundering and terrorist financing. In 2002, such assessments were carried out in Georgia, Montenegro, Peru, Senegal, Ethiopia, Ghana, Guinea, Nicaragua, Bangladesh and Burkina Faso.

Africa

Nigeria. OTA collaborated with the Department of Justice's Overseas Prosecutorial Development, Assistance and Training to provide training to members of Nigeria's nascent Independent Corrupt Practice and Other Related Offenses Commission. The principal objective of the assistance is to strengthen Nigeria's capacity to investigate and prosecute corruption. OTA focused on the legislation and tools used to investigate and prosecute various types of financial crimes, such as money laundering and advanced fee fraud schemes.

Tanzania. An enforcement assessment team visited Tanzania in May 2002. Subsequently, the team completed three working trips, with the cooperation of the U.S. Embassy. A work plan was signed in a public ceremony by the U.S. Ambassador to Tanzania, during a meeting on the fundamentals of money laundering, held for more than 60 high-level government officials and representatives from the business community in Dar es Salaam. The OTA team conducted a seminar that familiarized senior level policy officials with issues of financial crimes and the need for legislation. The team began working with members of the Tanzanian Multi-Disciplinary Committee on Money Laundering, formed to develop antimoney laundering policy, laws, and regulations.

Uganda. An assessment trip to Kampala took place in July 2002. Since then, the Uganda enforcement team completed two additional work trips. OTA is working with a governmental interagency group establishing financial crimes and anti-money laundering policy, procedures and laws. Work has begun on drafting a law to criminalize money laundering. The enforcement team is also working closely with the other Uganda OTA advisors, who work in the Central Bank and in the Capital Markets Authority, to coordinate efforts to strengthen the government's ability to properly supervise financial institutions and markets, and with the IGG (Inspector General for the Government) on strengthening anti-corruption capacity.

Europe

Albania. An OTA advisor assisted the Albanian government in strengthening its asset forfeiture procedures and laws following a request made by the Bank of Albania that had discovered an account of an individual identified by the UN as having links to a terrorist organization.

Bulgaria. Program activities in 2002 included direct assistance to the Bulgarian Financial Intelligence Unit, the Bureau of Financial Intelligence Agency, in the development of its staff, analytic capacity, and information technology resources. The program also focused on the development of amendments to the Bulgarian Law on Measures Against Money Laundering; new legislation to address terrorist financing; and new legislation on asset forfeiture.

Armenia. From 1997 through 2001, OTA 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, including 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.

Azerbaijan. OTA assisted law enforcement officials and regulatory agencies within Azerbaijan to better address financial and economic crimes by developing an improved legal foundation—including regulations and procedures—and to improve training and investigative techniques. The project specifically focuses on money laundering and terrorist financing crimes. In 2002, OTA sponsored a money laundering seminar in Baku, Azerbaijan. The seminar was attended by over 70 Azeri government officials, bankers and businesspeople, and highlighted the need for an effective anti-money laundering regime to fight transnational organized crime and combat groups involved in terrorist financing.

Macedonia. Advisors provided technical assistance regarding the newly implemented amendments to the money laundering law to bank examiners of the National Bank of Macedonia (the Central Bank) and to the compliance officers of the commercial and savings banks.

Moldova. OTA developed and delivered two separate training programs for the National Bank of Moldova and the Bankers Association of Moldova on bank examination procedures and methodologies of detecting and reporting suspicious financial transactions. The OTA team also provided technical assistance in drafting and implementing the Ministry of Finance Tax Law on the establishment of an investigative unit. The team assisted the bank fraud working group in the drafting of anti-fraud amendments to the "bank secrecy" law. Additionally, the team provided specialized forensic training and assistance in implementing the Law on Judicial Examination.

Russia. The current Resident Advisor assisted with the development of the Financial Intelligence Unit, the Financial Monitory Committee.

Asia

Bangladesh. An OTA Advisor participated in a World Bank/ International Monetary Fund-led assessment of Bangladesh's financial sector, including Bangladesh's anti-money laundering/anti-terrorist regime. The OTA Enforcement Advisor participated in the reviews of the regulatory systems in place for non-prudentially regulated sectors, specifically, moneychangers and money transmission companies, and the capacity and implementation of criminal law enforcement.

Thailand. In 2002, OTA placed a resident advisor in Bangkok to assist the Anti-Money Laundering Office.

Latin America

El Salvador. In addition to its ongoing assistance to El Salvador, in September 2002 an OTA team provided training to Salvadoran investigators and judges on money laundering concepts and financial analysis units.

Guatemala. OTA provides technical assistance, through the U.S. Embassy, in establishing, staffing and training a new financial analysis unit authorized by the Anti-Money Laundering Law passed in October 2001. In 2002, discussions were held with the governmental agencies on the front line of the anti-money laundering program. Discussions also were held with the National Civilian Police at the National Training Academy to determine the possibility of augmenting the current program of training in the areas of money laundering and financial crimes investigations.

Paraguay. A team of OTA Advisors provided anti-money laundering training to the Government of Paraguay.

Caribbean

In 2002, two resident advisors were placed in Barbados and Port of Spain, Trinidad. Their role is to provide advice on asset forfeiture and the strengthening of anti-money laundering regimes in Eastern Caribbean countries, primarily those countries on FATF's NCCT list.

Overseas Prosecutorial Development Assistance and Training & the Asset Forfeiture and Money Laundering Section (OPDAT and AFMLS)

Training and Technical Assistance

During 2002, the Justice Department's OPDAT and the AFMLS continued to provide training to foreign prosecutors, judges and law enforcement.

Money Laundering/Asset Forfeiture

The seminars provided by OPDAT and AFMLS enhance the ability of participating countries to prevent, detect, investigate, and prosecute money laundering, and to make appropriate and effective use of asset forfeiture. The content of individual seminars varies depending on the specific needs of the participants, but topics addressed in 2002 included developments in money laundering legislation and investigations, the international standards for an anti-money laundering/terrorist financing regime, illustrations of the methods and techniques to effectively investigate and prosecute money laundering, inter-agency cooperation and communication, criminal and civil forfeiture systems, the importance of international cooperation, and the role of prosecutors. In 2002, in-depth sessions of this seminar were presented to representatives from Antigua, Armenia, Barbados, Bosnia and Herzegovina, Croatia, Dominica, Georgia, Grenada, Hungary, Macedonia, Mexico, Russia, St. Kitts and Nevis, St. Lucia, St. Vincent, Thailand and United Arab Emirates.

Organized Crime

During 2002, a number of seminars were conducted that dealt with transnational or organized crime. The programs focused on current trends in organized crime, including corruption and money laundering, in each participant country. Topics addressed included how to implement complex financial investigations and special investigative techniques within a task force environment, international standards, legislation, mutual legal assistance, and effective investigation techniques. Seminars were presented to representatives from Azerbaijan, Bosnia and Herzegovina, Georgia, Jamaica, Kazakhstan, Kyrgyzstan, Moldova, Russia, Ukraine and Uzbekistan.

Fraud/Anti-Corruption

In 2002, OPDAT conducted programs on fraud and anti-corruption issues in the Dominican Republic, Mexico, Nigeria, Paraguay and South Africa. The programs covered organization of an anti-corruption unit, prosecutorial strategies, the role and techniques of financial and criminal fraud investigations and /or rules of conduct for police.

Terrorism/Terrorist Financing

OPDAT and AFMLS have intensified their efforts since September 11 to assist countries to develop their legal infrastructure to combat terrorism and terrorist financing. OPDAT and AFMLS, with the assistance of the Counterterrorism Section and other Department of Justice (DOJ) components, play a central role in providing technical assistance to foreign counterparts both to attack the financial underpinnings of terrorism and to build legal infrastructures to combat it. In this effort OPDAT and AFMLS work as integral parts of the Interagency Working Group on Terrorist Financing, and in partnership with the Departments of State, Treasury and Commerce, and several other DOJ components.

In 2002, OPDAT, with funding from the Department of State's Anti-Terrorism Assistance Program, organized a number of programs aimed at strengthening counter-terrorism laws abroad. Officials from several regions, including Central Asia, the Middle East, the Caucasus and Russia, Southeast Asia, South Asia, Latin America and Africa, participated in seminars focused on counter-terrorism legislation. The seminars addressed trends in international terrorism, international conventions and agreements, basic investigative tools needed to combat terrorism (e.g., electronic surveillance, wiretaps, undercover operations), methods of financing terrorism, extradition and mutual legal assistance, border security and immigration, export controls, weapons of mass destruction, and model legislation. AFMLS and other U.S. agencies provided instructors for each of the courses. Country groups worked with U.S. experts during the seminar to develop action plans to strengthen their countries' counter-terrorism infrastructures. These programs were presented to representatives from Azerbaijan, Armenia, Bangladesh, Chile, Cote d'Ivoire, Cyprus, Djibouti, El Salvador, Egypt, Georgia, Guatemala, Guyana, India, Indonesia, Jordan, Kazakhstan, Kenya, Kyrgyzstan, Laos, Malaysia, Maldives, Morocco, Nepal, Pakistan, Paraguay, Peru, Philippines, Russia, Sierra Leone, South Africa, Sri Lanka, Tajikistan, Thailand, Turkey, United Arab Emirates and Uzbekistan.

With the assistance of attorneys from AFMLS and the Counterterrorism Section, OPDAT implemented "The Financial Underpinnings of Terrorism Program," which provides intensive seminars covering all aspects of identifying and prosecuting methods of financing terrorism. An initial session for senior policy officials is followed by a longer, more hands-on session for investigators, judges and prosecutors. Officials from the Philippines and Turkey participated in these programs. A day-long roundtable on this topic was held in Washington, D.C. in September 2002 for a Saudi Arabian delegation, and a regional seminar for officials from Brazil, Panama, Paraguay, Argentina and Venezuela took place in December 2002.

OPDAT has organized several conferences at International Law Enforcement Academies (ILEA) relating to terrorism. In Bangkok, in March 2002, OPDAT and the International Criminal Investigative Training Assistance Program (ICITAP) organized a conference to address regional concerns involving terrorism. More than 30 senior criminal justice officials from Brunei, Cambodia, Hong Kong, Indonesia, Laos, Macau, Malaysia, China, Philippines, Singapore, Thailand and Vietnam exchanged views and experiences on tactics used by terrorist groups, anti-terrorism financing measures, and the prospects for regional antiterrorism cooperation. AFMLS and the Counterterrorism Section supplied instructors. In March 2002, in Budapest, OPDAT organized a regional conference at the ILEA on the subject of money laundering, and AFMLS provided instructors. Issues addressed included international standards for legislation and investigations, the role of the FATF, asset forfeiture, mutual legal assistance and legislation countering money laundering, particularly as it relates to terrorist financing. Thirty-eight senior government officials from Azerbaijan, Georgia, Kazakhstan, Moldova, Russia and Ukraine attended. In Budapest, in June 2002, OPDAT organized a second conference at the ILEA to address regional approaches to investigating and prosecuting organized crime, with a large portion of the discussion focusing on money laundering and asset forfeiture, focusing on terrorist financing and international cooperation. Fifty prosecutors, investigators and criminal justice officials from Azerbaijan, Georgia, Kazakhstan, Moldova, Russia, Ukraine and Uzbekistan attended.

In July 2002, OPDAT's representative to the Southeastern European Cooperative Initiative Center in Bucharest, Romania, helped to organize a workshop on the relationship between terrorism and organized crime. The workshop helped advance regional sharing of intelligence on the organized crime groups that facilitate the objectives of terrorism. Participants developed "best practices" and produced a regional action plan on operations to address the connection between organized crime and terrorism.

AFMLS organized and conducted a regional conference on the financing of terrorism in London in September 2002. This conference brought together 50 prosecutors and law enforcement officials from the United States, the United Kingdom, UAE, Germany, Pakistan, France, and Turkey.

AFMLS provides technical assistance in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2002, AFMLS provided such

assistance to 26 countries, including the drafting of a model money laundering, asset forfeiture and terrorist financing law. In 2002, AFMLS assisted Pakistan, Indonesia, Philippines, Marshall Islands, El Salvador, Paraguay, Bulgaria, Georgia, Kazakhstan, Ukraine, Russia, Kosovo, St. Kitts and Nevis, and Thailand. OPDAT provided similar guidance to Azerbaijan.

AFMLS has participated in the Financial Systems Assessment Team (FSAT) led by the Department of State's Coordinator for Counterterrorism Office and the Bureau for International Narcotics and Law Enforcement Affairs.

United States Customs Service/Operation Green Quest

The U.S. Customs Service (Customs) and its Operation Green Quest are extensively involved in multiagency international money laundering and financial-related terrorism training programs. Drawing on their expertise in undercover drug money laundering, as well as in traditional money laundering techniques related to all types of criminal activity, Customs and Operation Green Quest strive to impart their broad experience to law enforcement, the regulatory and trade communities, and banking officials of all jurisdictions.

Operation Green Quest's goal is to assist foreign/domestic agencies to develop the knowledge, skills and abilities needed to strengthen and coordinate terrorist-related financial investigative activities. Operation Green Quest also will benefit from providing training by furthering effective regional cooperation in attacking transnational financial terrorist crimes, particularly financial crimes relating to money laundering in support of terrorist entities; strengthening regional law enforcement; and enhancing the banking and trade communities' efforts in activities having an impact on the United States.

The Financial Terrorist Investigations Training seminar is intended as an introduction to international money laundering linked to terrorism. The seminar is focused on providing the necessary skills to policy makers, law enforcement personnel, and management officials of financial institutions so that they can recognize and combat money laundering by terrorists. This course is specifically designed to address terrorism, its relationship to money laundering issues, and country-specific problems. The training program addresses many of the same topics as the more generalized Customs training, but focuses the discussions on the relationship between money laundering techniques and terrorist financing. Charities and alternative remittance systems are also covered, and specifically their use by terrorists. Reinforced through the use of interactive exercises, students learn techniques used to recognize and investigate terrorist-related money laundering.

Operation Green Quest conducted the Financial Terrorist Investigation seminars domestically and abroad for officials from various nations, including Armenia, Australia, Azerbaijan, Barbados, China, Cyprus, Dominican Republic, Egypt, Georgia, Guyana, Hungary, Jordan, Kazakhstan, Kyrgyzstan, Morocco, Pakistan, Philippines, Russia, St. Kitts and Nevis, Suriname, Tajikistan, Thailand, Trinidad, Turkey, United Arab Emirates and Uzbekistan.

Customs also provides training that addresses the trends and patterns concerning money laundering and international banking, focusing on issues relating to transnational money laundering. The seminars cover the use of free trade zones, offshore banking practices, international monetary flows, bulk-cash and electronic funds transfers, and capital flight. Specialized sessions address the black market peso exchange system, the Money Laundering Coordination Center, and/or an overview of Operation Green Quest. The course addresses both the investigation and prosecution stages of money laundering.

United States Secret Service

The Secret Service continues to send instructors to the International Law Enforcement Academies (ILEA) in Budapest, Hungary, Bangkok, Thailand and Gaborone, Botswana; providing training and strategies to foreign police representatives in the detection of counterfeit U.S. currency and fraud schemes.

The Secret Service's continued presence overseas and the training provided through the ILEAs are paramount in ongoing United States efforts to suppress and seize the ever increasing amount of foreign-produced counterfeit U.S. currency being sold, shipped and trafficked into this, and other, countries throughout the world. The Secret Service estimates that nearly 50 percent of all counterfeit U.S. currency passed in the United States originated overseas. The Secret Service's established relationship with the counterfeit suppression program has generated training at the ILEA sites.

Bilateral overseas development includes training and education for law enforcement prosecutors and financial officials. Added benefits include deterrence, intelligence gathering and education regarding the organized criminal networks involved in transnational crime. An integral part of the Secret Service's efforts in this area is the Combating Economic Fraud and Counterfeiting Seminar. In 2002, this seminar was offered to representatives from Trinidad, Bulgaria, Romania, Macedonia, Turkey, Dominican Republic, and Bulgaria.

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 United States treaty partners. 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, are in force with the following countries: Antigua and Barbuda, Argentina, Australia, Austria, the Bahamas, Barbados, Belgium, Brazil, Canada, Cyprus, Czech Republic, Dominica, Egypt, Estonia, France, Grenada, Greece, Hong Kong SAR, Hungary, Israel, Italy, Jamaica, Latvia, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, Nigeria, Panama, the Philippines, Poland, Romania, Russia, 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 its Caribbean overseas territories (Anguilla, the British Virgin Islands, the Cayman Islands, Montserrat, and the Turks and Caicos Islands), and Uruguay. MLATs have been ratified by the United States but not yet brought into force with the following countries: Belize, Colombia, Cyprus, India, Ireland, Liechtenstein, Nigeria, Sweden, and Venezuela. The United States has also signed and ratified the Inter-American Convention on Mutual Legal Assistance of the Organization of American States. The United States is actively engaged in negotiating additional MLATs with countries around the world. The United States has also signed executive agreements for cooperation in criminal matters with China (PRC) and Nigeria. The American Institute in Taiwan and the Taipei Economic and Cultural Representative Office in the United States have a mutual legal assistance agreement in force.

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; (2) a forfeiture cooperation and asset sharing agreement with the Kingdom of the Netherlands; and (3) a drug forfeiture agreement with Singapore. The United States has asset sharing agreements with Canada, the Cayman Islands (which was extended to Anguilla, British Virgin Islands, Montserrat, and the Turks and Caicos Islands), Colombia, Ecuador, Jamaica, and Mexico.

Financial Information Exchange Agreements (FIEAs) facilitate the exchange of currency transaction information between the U.S. Treasury Department and other finance ministries. The United States has FIEAs with Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, and Venezuela. Treasury's Financial Crimes Enforcement Network (FinCEN) has memoranda of understanding or an exchange of letters in place with other Financial Intelligence Units to facilitate the exchange of information between FinCEN

and the country's Financial Intelligence Unit. FinCEN has an MOU or an exchange of letters with the FIUs in Argentina, Australia, Belgium, France, Netherlands, Slovenia, Spain, and the United Kingdom.

Asset Sharing

Pursuant to the provisions of the 1988 U.S. law, 18 U.S.C. § 981(i), 21 U.S.C. § 881(e)(1)(E), and 31 U.S.C. § 9703(h)(2), the Departments of Justice, State and Treasury have aggressively sought to encourage foreign governments to cooperate in joint investigations of narcotics-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 narcotics-trafficking and money laundering which 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, Liechtenstein, Switzerland and the United Kingdom have shared forfeited assets with the United States.

From 1989 through December 2002, the international asset sharing program, administered by the Department of Justice, resulted in the net forfeiture in the United States of \$404,196,504.61 of which \$178,789,015.71 was shared with foreign governments that cooperated and assisted in the investigations. In 2002, the Department of Justice transferred forfeited proceeds to: Canada (\$546,058.14); Greece (\$2,267,959.05); Luxembourg (\$686,842.66); Switzerland (\$4,035,060.00); and Turkey (\$264,846.42). Prior recipients of shared assets (1989-2001) include: Anguilla, Argentina, the Bahamas, Barbados, British Virgin Islands, Canada, the Cayman Islands, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Guatemala, Guernsey, Hong Kong, Hungary, Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Romania, South Africa, Switzerland, the United Kingdom and Venezuela.

From FY1994 through FY2002, the international asset sharing program, administered by the Department of Treasury, shared \$23,329,648.00 with foreign governments that cooperated and assisted in the investigations. In FY2002, the Department of Treasury transferred forfeited proceeds to: Cayman Islands (\$9,061.00); Canada (\$686,863.00); China (\$216,555.00); Isle of Man (\$300,802.00); Mexico (\$843,388.00); and the Netherlands (\$64,407.00). Prior recipients of shared assets (1995-1999) include: Aruba, the Bahamas, the Dominican Republic, Egypt, Guernsey, Honduras, Jersey, Nicaragua, Panama, Portugal, Qatar, Switzerland and the United Kingdom.

Multilateral Activities

United Nations

United Nations Security Council Resolutions

Several UN Security Council Resolutions (UNSCR) 1267/1390/1455 require UN Member States to implement certain measures—namely, asset freezing, travel restrictions, and an arms embargo—against individuals and entities that are related to Usama Bin Ladin, and members of al-Qaida and the Taliban, and those associated with them. The UN 1267 Sanctions Committee maintains a consolidated list, regularly updated, of such individuals and entities, against which Member States are required to impose the measures. UNSCR 1452 allows for limited exceptions to the asset freeze provisions under certain circumstances. A Monitoring Group reports to the UN 1267 Sanctions Committee on the implementation of the resolutions.

United Nations Security Council Resolution 1373

On September 28, 2001 the United Nations Security Council adopted Resolution 1373 (UNSCR 1373) concerning terrorism. UNSCR 1373 requires States to take certain specified measures to combat terrorism. Among other things, it requires States: to freeze without delay funds, financial assets or other economic resources of persons who commit, attempt to commit, facilitate or participate in the commission of terrorist acts; to prohibit their nationals or any persons and entities within their territories from making any funds, financial assets or economic resources or other related services available—directly or indirectly—for the benefit of persons who commit, attempt to commit, facilitate or participate in the commission of terrorist acts; to ensure that terrorist acts are established as serious criminal offenses in domestic laws and regulations and that punishment duly reflects the seriousness of such terrorist acts; to deny safe haven to those who finance, plan, support or commit terrorist acts; and to ensure that any person who participates in the financing, planning, preparation or perpetration of terrorist acts is brought to justice. The Resolution calls upon States to exchange information and cooperate to prevent the commission of terrorist acts.

UNSCR 1373 established a Committee, the UN Counter-Terrorism Committee (CTC), to monitor implementation of the resolution and to receive reports from States on steps they have taken to implement the resolution. To facilitate this reporting, the Committee sent out a self-assessment questionnaire. By year-end 2002, 181 of the UN's 191 Member States had submitted reports to the CTC.

UN International 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 Forty Recommendations on Money Laundering. 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 that 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, 2002, 64 states had become parties to the Convention; 75 other states had signed, but not ratified, the Convention. It entered into force internationally on April 9, 2002. The United States became a party to the Convention on June 26, 2002.

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 2002, 147 countries had signed the convention and 28 countries 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.

The Financial Action Task Force

The Financial Action Task Force on Money Laundering (FATF), established at the G-7 Economic Summit in Paris in 1989, is an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering.

The FATF 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 Forty Recommendations on 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 patterns, the recommendations are currently undergoing another revision, scheduled to be completed by June 2003, to reflect new trends in money laundering.

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 and two regional organizations, representing the major financial centers of North America, Europe and Asia. The delegations of the FATF'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 2002:

Non-Cooperative Countries and Territories Exercise

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 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 NCCT list, the FATF Plenary must be satisfied that the jurisdiction has addressed the previously identified deficiencies. The FATF relies on its collective judgment, and attaches particular importance to reforms in the areas of criminal law, financial supervision, customer identification, suspicious activity reporting, and international co-operation. As necessary, legislation and regulations must have been 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, the filing and utilization of suspicious activity reports, examinations of financial institutions, and the conduct of money laundering investigations, is considered.

Throughout 2002, the FATF monitored the progress made by NCCTs to address deficiencies and implement corrective measures. In June 2002, four jurisdictions, Hungary, Israel, Lebanon, and St. Kitts and Nevis, were removed from the NCCT list. The FATF also published its third NCCT Review. In October 2002, the FATF again removed four countries from the NCCT list: Dominica, Marshall Islands, Niue and Russia. At the same time, it decided to recommend that its members impose counter-measures on Nigeria and Ukraine starting December 15, 2002, unless the two countries took immediate steps to remedy deficiencies previously identified by the FATF. Ultimately Nigeria took actions sufficient to avoid counter-measures, while on December 20, 2002, FATF again called for the imposition of counter-measures against Ukraine. FATF subsequently called for the removal of countermeasures against Ukraine at its February 2003 plenary because it had passed the necessary amendments to its anti-money laundering law.

Revision of the FATF Forty Recommendations on Money Laundering

The FATF Forty Recommendations on Money Laundering represent the international standard for counter-money laundering regimes. They cover such areas as regulatory, supervisory, and criminal law, as well as international cooperation.

Money laundering methods and techniques change as new measures to combat money laundering are implemented and new technologies are developed. Therefore, in 2001, FATF embarked on another review of the FATF Forty to ensure that they were up-to-date. In May 2002, FATF released a consultation document in order to obtain comments from countries, international organizations, the financial sector and other interested parties. The FATF identified a number of areas where possible changes could be made to the FATF framework, broadly including customer due diligence and suspicious transaction reporting, beneficial ownership and control of corporate vehicles, and the application of anti-money laundering obligations to non-financial businesses and professions. A revised set of the Forty Recommendations on Money Laundering is expected in June 2003.

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, 2001, FATF agreed to Eight Special Recommendations on Terrorist Financing. These Special Recommendations now represent the international standards in this area. The recommendations are reprinted in the Appendix to this report.

The first phase of FATF's self-assessment exercise for the Eight Special Recommendations—that is, the collection and preliminary analysis of relevant data for FATF members—was completed and the results published by the FATF Plenary in June 2002. FATF then called on non-FATF members to take part in the self-assessment process beginning in February 2002. As of December 2002, 95 non-FATF countries have completed the self-assessment exercise.

In order to secure the swift and effective implementation of these new standards, FATF has developed a best practices paper on combating the abuse of non-profit organizations (www.fatf-gafi.org/pdf/SR8-NPO_en.pdf). FATF will also issue Interpretive Notes on Special Recommendations VI (alternative remittance) and VII (wire transfers) in 2003.

In June 2002, FATF initiated a process to identify jurisdictions that lack appropriate measures to combat terrorist financing and is working with the UNCTC, the UN Global Programme Against Money Laundering PML, International Financial Institutions (IFIs), and FATF style regional bodies (FSRBs) to coordinate the delivery of technical assistance to such jurisdictions.

Charities

This year, the United States and the international community devoted more time and resources to combating the abuse of charitable organizations by terrorists, and achieved some noteworthy successes. One key step forward was taken by FATF, when it adopted and disseminated a paper outlining international best practices for combating the abuse of non-profit organizations. These suggestions go far toward setting international standards for encouraging greater transparency in the financial, programmatic, and administrative practices of organizations that raise funds from donors. In addition, the United States has issued best practice guidelines to provide guidance for U.S. charities and donors about how to protect their organizations and donations from being diverted to support terrorism.

FATF, the IMF, and the World Bank

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, 2001, the international community adopted a broad and comprehensive agenda to address both. As an important part of that effort, the IFIs agreed to take on an enhanced role in the global fight against money laundering and the financing of terrorism.

At the 2001 Annual Meeting of the IMF and World Bank in November 2001, the United States and other nations stressed the importance of integrating anti-money laundering and counter-financing of terrorism (AML/CTF) issues into the IFIs' financial sector assessment, surveillance and diagnostic activities. There was increased recognition of the need for the IMF and World Bank to increase their involvement in strengthening financial regulatory frameworks and to provide technical assistance to authorities on AML/CTF issues. A number of nations stressed the importance of a collaborative effort between the FATF and the IFIs in this effort.

Significant progress was made toward meeting these objectives during 2002. The IMF and World Bank are now including assessments of members' AML/CTF regimes in the course of their Financial Sector Assessment Program (FSAP) reviews and in other aspects of their engagement with members. The IMF and Bank collaborated closely with the FATF, other international standard setters (the Basel Committee of Banking Supervisors, the International Association of Insurance Supervisors, and the International Organization of Securities Commissions), and the Egmont Group of Financial Intelligence Units to develop a comprehensive and unified methodology for measuring countries' implementation of AML/CTF principles, based on the FATF Forty Recommendations on Money Laundering and the FATF Eight Special Recommendations on Terrorist Financing.

In the fall of 2002, the FATF membership endorsed, and the IMF and World Bank Executive Boards approved use of the comprehensive methodology to assess member compliance with AML/CTF principles. As an integral part of the enhanced program, the Executive Boards of the IMF and World Bank approved a twelve-month pilot project to assess members' compliance with AML/CTF principles in participation with FATF and FATF-style regional bodies. The pilot project adds the FATF Forty Recommendations on Money Laundering and the FATF Eight Special Recommendations on Terrorist Financing (the FATF 40 + 8) to the list of areas and associated standards and codes that are incorporated into the operational work of the IMF and the World Bank. The United States and other G-7 members have volunteered to be assessed using the new AML/CTF methodology.

FATF 2002-2003 Typologies Exercise

FATF conducted its annual typologies exercise (November 19-20, 2002, in Rome, Italy) to identify current and emerging methods, trends, and patterns in money laundering and terrorist financing, and to discuss effective counter-measures. This year's exercise focused on terrorist financing; money laundering vulnerabilities in the securities sector; the links between money laundering and terrorist financing and the diamond, gold and precious metals trades; and contrasting methods used for money laundering and fiscal offenses.

FATF-Style Regional Bodies (FSRBs)

Asia/Pacific Group on Money Laundering

The Asia/Pacific Group on Money Laundering (APG) is comprised of 25 members from South Asia, Southeast Asia, East Asia and the South Pacific. Australia, Bangladesh, Chinese Taipei, Cook Islands, Fiji Islands, Hong Kong China, India, Indonesia, Japan, Korea (Republic of), Macau China, Malaysia, Marshall Islands, Nepal, New Zealand, Niue, Pakistan, Palau, Philippines, Samoa, Singapore, Sri Lanka, Thailand, United States of America and Vanuatu are APG members. There are also thirteen observer jurisdictions and thirteen observer international and regional organizations

The APG's mission is to contribute to the global fight against money laundering, organized crime and terrorist financing by enhancing anti-money laundering and anti-terrorist financing measures in the Asia/Pacific region.

Major achievements during the year include the following: a further expansion of APG membership with the addition of Nepal, the Marshall Islands, and Palau; the completion of five mutual evaluations (Malaysia, Cook Islands, Fiji, Indonesia and Thailand); further expansion of the APG's work in the area of technical assistance and training; a successful typologies meeting in October in Vancouver, Canada; and, with the assistance of the Asian Development Bank, the launch of a comprehensive APG website (www.apgml.org).

The Fifth Annual Meeting of the APG, held at Brisbane, Australia in June 2002 was quite successful. The meeting was the largest APG meeting to date. The Plenary reached agreement on a range of issues, including revised Terms of Reference (to include a formal commitment to combat the financing of terrorism), the adoption of the five mutual evaluation reports, discussion of the current review of the FATF's Forty Recommendations on Money Laundering and consideration of technical assistance and training outcomes and priorities for the next few years. Outcomes of the meeting included further expansion of the APG's work in the area of technical assistance and training and a Special Forum on Technical Assistance and Training. It was further decided at this meeting that the Republic of Korea would assume the rotating Co-Chair position for two years when Malaysia's term expired. The new Commissioner of the Korea Financial Intelligence Unit, Mr. Gyu-Bok Kim, is now the co-chair.

At the June Annual Meeting, members adopted a revised mission statement and a number of goals as a part of its strategic plan. The APG wants to develop a better understanding of the nature, extent and impact of money laundering in the region, and expand regional awareness of money laundering issues and the role of the APG. The APG intends to identify, agree on, oversee and facilitate implementation of comprehensive anti-money laundering measures appropriate for each jurisdiction in the region, which will include the facilitation and coordination of technical assistance. Finally, the APG plans to facilitate the implementation of the FATF Special Eight Recommendations on Terrorist Financing and the relevant United Nations instruments in all member jurisdictions. The revised mission statement and goals contained in the APG's Strategic Plan July 2001 to June 2004 build on the APG's Strategic Plan 1999 to 2001 and recognize in particular the importance of combating terrorist financing.

Additional outcomes and highlights of the Annual Meeting included:

The presentation of a significant new study on the Negative Effects of Money Laundering on Economic Development; consideration of a draft First Yearly Report on money laundering trends and methods in the region; a detailed discussion of the current review of the FATF Forty Recommendations on Money Laundering and the APG's further input into that process; a discussion of possible areas where regional anti-money laundering measures might be explored in the future, including underground banking/alternative remittance systems, information sharing and the implications of the cash economy; and progress reports from the five previously evaluated jurisdictions—Vanuatu, Samoa, Macau, China, Labuan IOFC and Chinese Taipei.

The APG has an ambitious 2002-03 work program. Among other goals, the APG intends to conduct a number of new mutual evaluations, including South Korea, the Philippines and Bangladesh; coordinate and deliver increased technical assistance and training; contribute to the review of the FATF Forty Recommendations on Money Laundering and subsequently assist with implementation; increase antiterrorist financing activities; continue work by the APG Working Group on Alternative Remittance and Underground Banking Systems and the APG Working Group on Information Sharing; conduct the Sixth Annual Meeting in Manila in May 2003; and continue to cooperate with related organizations and bodies, including the FATF, other regional anti-money laundering bodies, international and regional financial institutions, the UN Global Programme Against Money Laundering, Interpol, the World Customs Organization, the Commonwealth Secretariat and the Pacific Islands Forum Secretariat.

Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF), comprised of 29 jurisdictions, continues to advance its anti-money laundering initiatives within the Caribbean basin. 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, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, the Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, and Venezuela. 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 FATF Forty Recommendations on Money Laundering, the FATF Special Eight Recommendations against Terrorist Financing, as well as the CFATF's additional 19 Recommendations, and to undergo peer review in the form of mutual evaluations to assess their level of implementation of the recommendations. Members are also required to contribute to the CFATF budget and to participate in the activities of the body.

In October 2002, Guatemala, Guyana, and Honduras became full Members of the CFATF, increasing its membership to 29 governments. Also, in October 2002, Alfred Sears, Attorney General and Minister of Education of The Bahamas, assumed Chairmanship of the CFATF.

In July 2001, the CFATF initiated its second round of mutual evaluations, focused on the effective implementation of the FATF and CFATF Recommendations, as well as the FATF's NCCT 25 criteria. In October 2002, the CFATF's Council of Ministers adopted six mutual evaluation reports—on The Bahamas, Cayman Islands, Costa Rica, Dominican Republic, Panama, and Trinidad and Tobago. Mutual evaluation reports on Antigua and Barbuda, Barbados, and the Turks and Caicos Islands, for which onsite visits were conducted during 2002, will be presented and discussed at Plenary XVII in Panama during March 2003. The CFATF plans to conduct workshops for mutual evaluation examiners during 2003, and annually thereafter.

The CFATF has established an initiative to compile annual country reports on each member to assess compliance with the international anti-money laundering and counter-terrorist financing standards. This project is intended to complement the Mutual Evaluation Program and enhance the CFATF's monitoring capacity. The first set of country reports was drafted during 2002 and is expected to be adopted and published during 2003.

In April 2002, the CFATF and GAFISUD conducted a joint two-day typologies exercise in Trinidad and Tobago, focused on terrorist financing and economic citizenship programs (ECPs). During this exercise, 27 presenters from 13 countries and six international organizations shared expertise focused on detecting and combating terrorist financing, as well as on criminal abuse of ECPs.

During the April 2002 CFATF Plenary meeting, CFATF members considered both the FATF Eight Special Recommendations on Terrorist Financing and the associated Self-Assessment Questionnaire (SAQTF). In October 2002, the Council of Ministers endorsed the FATF Eight Special Recommendations, agreed to extend the CFATF mandate to include terrorism and terrorist financing, as well as to participate in the FATF global self-assessment exercise, and to extend the remit of the CFATF Secretariat to facilitate the provision of technical assistance and training relative to terrorist financing to Members. The majority of CFATF member governments have now fully participated in the FATF global assessment.

Council of Europe Moneyval

Formerly known by the French acronym, PC-R-EV (Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures), Moneyval is a FATF-style regional body that includes within its membership those Council of Europe member states that are not members of the FATF. Moneyval members include Albania, Andorra, Armenia, Azerbaijan, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Poland, Romania, the Russian Federation, San Marino, Slovakia, Slovenia, Former Yugoslav Republic of Macedonia, and Ukraine. Moneyval aims to encourage legal, financial and punitive measures among its members that are in line with international standards. To accomplish this, it relies on a system of mutual evaluations and peer pressure.

In 2002, Moneyval continued its second round of mutual evaluations and began a first round of evaluations for new members. The second round of mutual evaluations, covering 22 jurisdictions, will run through December 2003. Reports for Slovenia, Cyprus, and the Czech Republic were discussed and adopted at the 9th plenary meeting of Moneyval in June 2002. At its 10th plenary meeting in December 2002, mutual evaluation reports on Hungary and Andorra were discussed and adopted. Consideration of reports on Slovakia and Malta were postponed for technical reasons until 2003. First round evaluation visits took place in Monaco (October) and Azerbaijan (December) during 2002.

Moneyval agreed at its June 2002 Plenary to apply certain compliance enhancing measures with regard to four member countries lacking sufficient anti-money laundering regimes. Under these special procedures, Moneyval's actions will range from requiring regular reporting to the delivery of high-level warnings. Moneyval's plenary sessions will examine progress by the affected countries, each of which will be monitored closely to ensure that deficiencies in the jurisdiction are addressed.

Like the FATF, Moneyval has taken on additional responsibilities in the area of counter-terrorist financing. In the first half of 2002, the Council's European Committee on Crime Problems revised Moneyval's terms of reference to specifically include the issue of financing terrorism. The new text recognizes the FATF Special Eight Recommendations on Terrorist Financing as international standards and authorizes the evaluation of the performance of Moneyval member states in complying with these standards. By December 2002, 21 out of 24 member states had submitted their self-assessment questionnaires on terrorist financing.

A significant accomplishment of 2002 involved convening the 3rd Moneyval Training Seminar, which took place in Paphos, Cyprus in November 2002. This was a first joint training session for Moneyval and GRECO (the Council's anti-corruption committee) mutual evaluators. Hosted by the Government of Cyprus and its Financial Intelligence Unit, there were general as well as parallel sessions for the Moneyval and GRECO evaluators focusing on the conduct of their respective assessments.

Moneyval is currently discussing with two member States the modalities of a comprehensive technical assistance program to be funded by the European Commission. In addition, it had organized a round-table at its June 2002 plenary meeting on technical assistance needs in the area of counter-terrorist financing and subsequently has forwarded a list of suggested activities to the World Bank for dissemination among potential donor states.

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. The group maintains its Secretariat in Dar es Salaam, Tanzania. Its member countries are: Kenya, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, and Uganda. Botswana, Lesotho, Zambia, and Zimbabwe are invited to ESAAMLG meetings, but are not considered full members because they have not yet signed the Memorandum of Understanding. The United States, United Kingdom, Commonwealth Secretariat, United Nations, and World Bank serve as cooperating nations and organizations. In February 2003, a new Executive Secretary is expected to take office.

The most recent annual meeting of the ESAAMLG's Ministers and senior officials was held in August 2002, in Mbabane, Swaziland. The Ministers endorsed the group's work program for 2003, which includes a mandate to begin the mutual evaluation process. Six countries—Mauritius, Swaziland, Lesotho, South Africa, Mozambique, and Namibia—volunteered to be evaluated during the first round. Mutual evaluation training is scheduled for January 2003, and the first two evaluations are to take place soon after. Also at the August plenary, Swaziland assumed the one-year presidency of ESAAMLG.

In October 2002, a mentor selected by the United Nations Global Programme against Money Laundering began a two-year assignment advising the ESAAMLG Secretariat in Dar es Salaam.

The ESAAMLG has also launched a self-assessment exercise vis-à-vis the FATF Forty Recommendations on Money Laundering and the Eight Special Recommendations on Terrorist Financing. Thus far, seven member countries have completed the exercise on the Forty Recommendations and five on the Special Eight. A full report on the self-assessments will be submitted at the next Plenary in March 2003.

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. Mexico, Portugal, Spain, the United States, the Inter-American Development Bank, the International Monetary Fund, the United Nations Office for Drug Control and Crime Prevention, and the World Bank have joined GAFISUD as cooperating and supporting observer members (PACOS). In addition, the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) is a special advisory member of GAFISUD. GAFISUD is a FATF-style regional body committed to the adoption and implementation of the FATF Forty Recommendations on Money Laundering. GAFISUD's mission also includes member self-assessment and mutual evaluation programs. Headquarters and a permanent Secretariat have been officially established in Buenos Aires, Argentina, and Uruguay has offered a training center as a permanent training venue for 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 Eight Special Recommendations on Terrorist Financing. GAFISUD is now preparing a regional study to facilitate proper implementation of the FATF Special Eight Recommendations.

At the May 2002 Plenary in Buenos Aires, GAFISUD finalized and adopted Mutual Evaluation Reports for Colombia and Uruguay. Additionally, GAFISUD circulated a draft Action Plan to Counter Terrorism that proposed, among other things, the adoption and ratification of the FATF Special Recommendations Against Terrorism. As a prelude to final adoption of this plan, GAFISUD initiated a self-evaluation exercise to determine current levels of compliance by GAFISUD members with these recommendations.

At the December 2002 Plenary in Montevideo, Uruguay was elected to assume the Presidency of GAFISUD. In addition, the Plenary finalized and adopted the FATF Mutual Evaluation Reports on Argentina and Brazil, formally adopted the May Action Plan to Counter Terrorism, and agreed to use the new FATF/World Bank/IMF FSAP methodology, which includes assessments of counter-terrorist financing programs, for the second round of mutual evaluations of its membership.

GAFISUD has also been increasingly active in training and technical assistance. In April 2002, GAFISUD and CFATF organized a joint two-day typologies exercise in Trinidad and Tobago. This unprecedented exercise focused on terrorist financing and 27 presenters from 13 different countries and six international organizations shared their knowledge on defending the Americas from terrorist financiers.

Since the December 2001 Plenary, GAFISUD made a commitment to coordinate training activities in the region. Towards that end, GAFISUD participated in a Technical Assistance Coordination meeting in April 2002 hosted by the World Bank/IMF. Seminars and workshops coordinated for the region in 2002 included a second seminar for mutual evaluators, a forum for coordination and information exchange within national anti-money laundering regimes, and a seminar for FIUs.

In September 2002, GAFISUD, with funding provided by the Inter-American Development Bank, organized and conducted a three-day training session for experts who will conduct mutual evaluation exercises. This session, held in Montevideo, Uruguay, included three experts (legal, bank regulatory and law enforcement) from each GAFISUD member country.

The Plenary adopted a far-reaching training work plan for 2003 that will focus on enhancing legislation to more broadly permit the use, with appropriate safeguards, of special investigative techniques such as the use of informants, under cover operations, task forces, and electronic surveillance as well as advanced training for financial investigators.

Inter-Governmental Action Group against Money Laundering (GIABA)

The Heads of State and Government of the Economic Community of West African States (ECOWAS) established GIABA in December 1999. GIABA's first meeting was held in Dakar, Senegal, in November 2000. Members include: Benin, Burkina Faso, Cape Verde Islands, the Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mauritania, Mali, Niger, Nigeria, Senegal, and Togo. A Senegalese magistrate serves as the acting head of GIABA.

At the first meeting, GIABA endorsed the FATF Forty Recommendations on Money Laundering, recognized the FATF as an observer, and provided 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.

In November 2002, GIABA held a meeting with representatives from 14 of the member countries (Liberia was not represented) to discuss the money laundering situation in the region and international efforts to combat money laundering. Representatives of FATF, the Government of the United Kingdom, the UN Global Programme against Money Laundering, and the U.S. Treasury Department made presentations. GIABA did not set a date for its next meeting.

Other Multi-Lateral Organizations & Programs

Caribbean Anti-Money Laundering Programme

The U.S. Government, in partnership with the European Union and the U.K. Government launched the Caribbean Anti-Money Laundering Programme (CALP) on March 1, 1999. The Programme has been designed to assist the 21 Caribbean Basin member countries of CARIFORUM (the representative organization for Caribbean countries) to develop their anti-money laundering procedures.

The two primary 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 and the seizure and forfeiture of property connected to such laundering activity.
- 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,
 by strengthening existing institutional capacity at the regional level, and developing new,
 or enhancing existing, institutional capacity at the local level.

The holistic approach undertaken by CALP consists of three separate, yet interlinked, sub-programs, detailed as follows using the theme "Taking the Profits out of Crime":

Legal/Judicial

The lawyer responsible for delivering this sub-program is heavily involved in worldwide research of antimoney laundering laws, regulations and working practices. Appropriate recommendations are then made to the respective governments of the member countries to ensure they have the necessary legal structures in place to combat money laundering. Countries with very limited facilities are additionally assisted with drafting of the recommended introduction of our changes to their legislation. Within this sub-program, training is also given to prosecutors, magistrates and judges, and awareness training for other organizations within the financial and law enforcement sectors. In 2002, the CALP legal advisor developed a Model Terrorist Financing Law for use by the common law countries covered by CALP.

Financial Sector

Experience has shown that much of the intelligence and evidence related to money laundering comes from various financial organizations, in particular, banks, casinos and insurance companies. This subprogram has been developed to train, at all levels, staff within such organizations to identify suspicious financial activity and unusual business transactions. Staff members are made aware of the legal requirements and protection in their respective countries. A particular target is compliance officers within the financial industry who are normally responsible for some staff training. Most of such individuals have anti-money laundering issues, as part of their responsibility, so a "train the trainer" theme has been encouraged in an effort to ensure that this aspect of training is sustainable once the Programme has completed.

Law Enforcement

The Law Enforcement expert is principally concerned with the development of training to enable Caribbean law enforcement officers to effectively investigate offenses brought to their attention. The training, from basic to advanced level, has been developed in association with Caribbean law enforcement training establishments. The objective again being for such establishments to take over continued training once the Programme has been discontinued. A further objective of this sub-program is to encourage all member countries to form their own Financial Intelligence Units, with staff trained to liaise with the

financial sector, consider reported suspicious financial activity and prepare intelligence reports to assist the law enforcement officers to investigate suspected offenses.

All experts employed within the overall program are always available to advise investigators, prosecutors and judges on any aspect of anti-money laundering issues.

When the Programme commenced, very few Caribbean countries had any form of anti-money laundering legislation. None had used laws to pursue an anti-money laundering case to completion. As a consequence, most investigators, prosecutors and judges had no experience with such cases.

Since 1999, members of CALP, working with other aid programs and agencies have witnessed a major change in the attitudes of Caribbean governments with respect to money laundering. As of August 2002, all member countries have legislation, although a number of laws or procedures still need to be updated. A majority of countries have effective Financial Intelligence Units, and those who do not have all declared their intention to introduce these units within the foreseeable future.

As a consequence of these advances, a considerable number of money laundering investigations have been undertaken, with many substantial cases now before the courts, and a few have been successfully prosecuted to conviction.

The life of the Programme now extends to December 2004 when it is anticipated that all countries will have effective legislation, and investigative ability. During 2003, it is intended that an independent review will be undertaken to consider the anti-money laundering needs of member countries.

The Egmont Group of Financial Intelligence Units (FIU)

An important recent development in the international approach to combating money laundering is the creation of Financial Intelligence Units (FIUs) around the world. An FIU is a centralized unit for financial intelligence, formed by a nation to protect its financial services sector, to detect criminal abuse of its financial system, and to ensure adherence to its laws against financial crime and money laundering. Since 1995, a number of FIUs have begun working together in an informal organization known as the Egmont Group (named for the location of the first meeting at the Egmont-Arenberg Palace in Brussels). The numbers have grown dramatically. In 1995, 14 units met in Brussels; seven years later, 169 FIUs were recognized in Monaco. The newest FIUs to join the Egmont Group in 2002 are located in Andorra, Barbados, Canada, Israel, Marshall Islands, Poland, Russia, Singapore, South Korea, United Arab Emirates, and Vanuatu.

The Egmont Group serves as an international network, fostering improved communication and interaction among FIUs in such areas as information sharing and training coordination. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve support to their respective governments in the fight against financial crimes. This support includes expanding and systematizing the exchange of financial intelligence information, improving expertise and capabilities of personnel employed by such organizations, and fostering better and more secure communication among FIUs through the application of technology. The Egmont Group'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 (ESW). Currently, there are 55 FIUs connected to the ESW.

Within the Egmont Group, working groups (Legal, Training/Communications, and Outreach) meet three times a year. The Legal Working Group reviews the candidacy of potential members 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 Mexico, in conjunction with an international informal value transfer system seminar hosted by FinCEN in October 2002. This working group has also published a collection of sanitized terrorist and money laundering cases that were used at the typology exercises of

the FATF and other entities. The group intends to publish sanitized cases submitted from various FIUs on a quarterly basis. In addition, Britain's FIU, NCIS, sponsored a technical workshop for information technology specialists in the FIUs. The workshop focused on data mining, information fusion, security, and artificial intelligence.

The Outreach Working Group works to create a global network of FIUs to facilitate international cooperation. The Outreach Working Group identifies countries that the Egmont Group should approach to offer assistance in FIU development. The chair of the Outreach Working Group anticipates at least another 10-11 candidate FIUs may be ready for admission into the Egmont Group at the next plenary in Spring 2003.

The historic and expected future growth of the Egmont Group, as well as its now recognized value to law enforcement in the area of information exchange, necessitated the creation of an infrastructure to handle many of the activities that arise between plenary meetings. One of the most significant events during 2002 was the creation by the "Heads of FIUs" of the Egmont Committee (Committee). This Committee will serve to assist the Egmont Group in a range of activities from internal coordination and administrative consultation to representation with other international fora. Specifically, the Egmont Committee will consult and co-ordinate with the working groups and the Heads of FIUs. FinCEN will chair the newly formed Egmont Committee, with two co-chairs from the FIUs of Colombia and Australia. The Committee is currently composed of regional representation from Asia, Europe, the Americas, and Oceania, and meets three times a year in conjunction with the working groups.

As of June 2002, the members of the Egmont Group were Andorra, Aruba, Australia, Austria, Bahamas, Barbados, Belgium, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominican Republic, El Salvador, Estonia, Finland, France, Greece, Guernsey, Hong Kong, Hungary, Iceland, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Liechtenstein, Lithuania, Luxembourg, Marshall Islands, Mexico, Monaco, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Poland, Portugal, Romania, Russian Federation, Singapore, Slovakia, Slovenia, South Korea, Spain, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Vanuatu, and Venezuela.

The Group of Experts to Control Money Laundering (OAS/CICAD)

OAS/CICAD is the OAS body responsible for combating illicit drugs and related crimes including money laundering. During 2002, OAS/CICAD continued its peer review of member anti-money laundering measures through the Multilateral Evaluation Mechanism (MEM) process, which periodically reviews the progress of individual countries in combating the illicit narcotics and related crimes. The first round of evaluations of all 34 OAS/CICAD member countries was concluded in December 2000. A report on the second round of full evaluations, based on an evaluation of MEM questionnaires that the countries have completed, will cover the years 2001-2002, and is expected to be released in January 2003.

The Group of Experts to Control Money Laundering is the specialized body within CICAD that is responsible for combating money laundering, and works closely with the OAS/Inter-American Committee Against Terrorism (CICTE), on combating terrorist financing. Among the notable achievements of the experts group were:

- Extension of the mandate of the Group of Experts for the Control of Money Laundering to include terrorist financing as well as money laundering.
- Revision of the Model Regulations Concerning Laundering Offenses connected to Illicit
 Drug Trafficking and other Serious Offenses to incorporate the FATF Special Eight
 Recommendations on Terrorist Financing.

- Increasing the effectiveness of money laundering legislation by assisting members in making money laundering a separate, autonomous offense.
- Strengthening Financial Intelligence Units through training and measures to enhance information sharing.
- Conducting typologies (analysis of current trends, patterns and techniques related to corruptions and terrorist financing).

CICAD continues to be active in training and technical assistance. CICAD successfully concluded the initial stage of a joint CICAD-Inter American Development Bank (IADB) Project that trained over 350 judges and prosecutors in seven South American countries (Argentina, Bolivia, Chile, Ecuador, Peru, Uruguay and Venezuela). A follow-up stage of this program has begun in these countries, and it is expected that the courses will be replicated—in a first stage round—in Argentina, Chile and Uruguay. In addition, a training course was conducted during the first week of September, in cooperation with the Spanish Government, for judges, prosecutors and legislators in Guatemala, and for representatives from Costa Rica, El Salvador, Honduras, Nicaragua, and Panama. Professors from Spain and Uruguay taught classes.

In August 2002, the OAS General Secretariat and the IADB signed Non-Reimbursable Technical Cooperation Agreement No. ATN/SF-7884-RG, whereby CICAD will carry out a two-year project to establish and strengthen Financial Intelligence Units (FIUs) in South America. This \$1.9 million project will directly benefit Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela. The program began in August 2002, and depending on countries' needs and the state of development of their FIUs, will provide assistance in four areas: (1) legal framework development; (2) institutional development; (3) training; and (4) technology for information and communication.

Outreach

CICAD actively participated in a number of outreach efforts designed to increase member awareness of money laundering risks and the components of an effective anti-money laundering regime, including for example, the XXXVI Conference of the Inter-American Bar Association (Working Group on Money Laundering) held in Cochabamba, Bolivia. CICAD also made presentations at the "Third Latin American Conference in Money Laundering" organized by Alert Global Media, which took place in San Juan, Puerto Rico in October.

As a special advisory member, CICAD participated in the GAFISUD Plenary Meetings IV and V held in Buenos Aires and Montevideo in May and December, respectively. Also it participated in the Egmont Group X Meeting, held in June 2002. CICAD representatives also attended FATF and CFATF meetings held in Paris and Trinidad respectively.

Pacific Islands Forum

The Pacific Islands Forum (PIF) was formed in 1971, and includes all the independent and self-governing Pacific Island countries, Australia and New Zealand. The 16 members are: Australia, Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Nauru, New Zealand, Niue, Palau, Papua New Guinea, Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu. Annual meetings are held by the heads of member governments, followed by dialogue at the ministerial level with partners Canada, China, European Union, France, Indonesia, Japan, Korea, Malaysia, Philippines, United Kingdom and the United States.

The PIF's mission is to work in support of PIF member governments to enhance the economic and social well being of the South Pacific people by fostering cooperation between governments and international agencies, and by representing the interests of PIF members. Senior government officials from these jurisdictions meet periodically to discuss mutual concerns and regional issues. Meetings have focused heavily on regional trade and economic development issues and, in recent years, the environment. Acting

under the Honiara Declaration, PIF members have developed model legislation on extradition, mutual assistance in criminal matters and forfeiture of the proceeds of crime. In 1994, PIF achieved observer status at the UN. It also is an observer at APEC and APG meetings.

Because many of the PIF members are hampered by a lack of resources, the UN Global Program Against Money Laundering, the United States, Australia and New Zealand are providing assistance to the other PIF members through the PIF Secretariat to enable them to develop and enact laws and procedures to prevent terrorism and transnational crime, and to comply with the provisions of UNSCR 1373 and the FATF Special Recommendations on Terrorist Financing. In addition, the program will help maintain stability in the region by promoting regional cooperation. A multi-lateral legal experts working group will be established to achieve these goals.

United Nations Global Programme against Money Laundering (GPML)

The United Nations is one of the most experienced providers of training and technical assistance to legal, financial and law enforcement authorities globally. The United Nations Global Programme against Money Laundering (GPML) was established in 1997 to assist Member States to comply with the United Nations Conventions and other instruments that deal with money laundering by providing technical assistance and training in the development of the infrastructure and requisite institutions needed to counter the laundering of criminally derived proceeds.

Since 2001, the GPML has broadened this work to help Member States counter the financing of terrorism. GPML now incorporates a focus on counter-financing of terrorism (CFT) in all its technical assistance work. In addition, the Programme collaborates closely with the United Nations Counter-Terrorism Committee (CTC) in New York. In 2002, GPML began drafting model CFT legislative provisions for both common and civil law systems, and worked closely with the U.S. Department of Justice and the Organization for Security and Cooperation in Europe (OSCE) to deliver CFT training.

In 2002, the GPML continued to concentrate on its core activities of assistance to governments with the drafting of legislation, and the development of Financial Intelligence Units (FIUs). Much of the legislative assistance was, as in 2001, delivered in conjunction with the International Monetary Fund (IMF). GPML was among the first technical assistance providers to recognize the importance of countries' creating a financial intelligence capacity, and the Programme's Mentors worked extensively with the development and the implementation phases of FIUs in several countries. Also, in 2002, GPML again supported the Egmont Group's FIU training seminar. More than 200 FIU officials attended the seminar held in Oaxaca, Mexico in October.

In 2002, GPML rapidly expanded its Mentor Programme, providing "on-the-job" training that adapts international standards to specific local/national situations, rather than the traditional, more generic training seminars. The concept originated in response to repeated requests from Member States for longer-term international assistance in this technically demanding and rapidly evolving field. GPML provides experienced prosecutors and law enforcement personnel who work side-by-side with their counterparts in a target country for several months at a time on daily operational matters to help develop capacity. Some advise governments on legislation and policy, while others focus on operating procedures. Regional Mentors in Africa, Asia-Pacific and the Caribbean have significantly added to GPML's capacity.

The UN's Mentor Programme has key advantages over more traditional technical assistance. First, the mentor offers sustained skills and knowledge transfer. Second, mentoring constitutes a unique form of flexible, ongoing needs assessment, where the mentor can pinpoint specific needs over a period of months, and adjust his/her work plan to target assistance that responds to those needs. Third, the Member State has access to an "on-call" resource to provide advice on real cases and problems as they arise. Fourth, a mentor can facilitate access to foreign counterparts for international cooperation and mutual legal assistance at the operational level by using his/her contacts to act as a bridge to the international community.

Pre-requisites for the Mentor Programme include candidate suitability, the commitment of the requesting Member State, and the available timing. The success of the program relies on GPML's selecting the appropriate expert for each circumstance.

In 2002, the GPML's Caribbean Region Mentor provided technical assistance in the development of FIUs in Dominica, Grenada, St. Kitts and Nevis, St. Lucia and St. Vincent and the Grenadines. The joint United Nations-Commonwealth Secretariat Pacific Region Anti-Money Laundering Initiative began in October 2002. The two organizations share the costs of the project, which is designed to enhance the financial investigations capacity of jurisdictions in the Pacific Region. GPML's financial investigations expert is spending 12 months providing technical assistance to the Cook Islands, Fiji, Samoa, and Vanuatu. Additionally, a GPML Regional Mentor began work with the Secretariat of the Eastern and Southern Africa Anti-Money Laundering Group (ESSAMLG) to work with the Secretariat on the development of its activities. At the national level, the GPML Mentors undertook technical assistance work in Antigua and Barbuda, Barbados, Canada, and the Republic of the Marshall Islands. GPML staff members, meanwhile, supplied national technical assistance to other countries, including Georgia, Haiti, and Indonesia.

GPML used both established and new collaborations with other international organizations as a key means of increasing technical assistance and training supply, as well as of ensuring synergy with the activities of other providers in the field. In 2002, the Programme collaborated with the IMF on global legislative assistance, the Commonwealth Secretariat on the joint Mentor in Asia-Pacific, the OSCE in Kyrgyzstan and Kazakhstan, and the World Bank in Russia.

In addition to collaborations with partner organizations which work to enhance the provision of technical assistance at the regional level, GPML has also been working with FATF-style regional bodies to develop their capacity to assist their Member States, particularly in Africa with the Groupe Intergouvernemental Anti-Blanchiment en Afrique (GIABA); the Groupe Anti-Blanchiment d'Afrique Centrale (GABAC), and ESAAMLG.

Research activities in 2002 focused on practitioner tools that could add value to the technical assistance delivered by the United Nations and its partner organizations. The Programme began collaborating with the United Nations Office on Drugs and Crime (UNODC) Field Office in Bangkok to produce computer-based training. The objective is to provide governments with the necessary resources and expert guidance to develop and maintain self-sustaining training programs. The output will be a comprehensive ongoing computer-based interactive anti-money laundering training program that will significantly raise skill levels, knowledge and awareness within the anti-money laundering community.

GPML also maintains a database of legislation and legal analysis of national money laundering laws. The International Money Laundering Information Network (IMoLIN—www.imolin.org) is a practical tool in daily use by government officials, law enforcement and lawyers. The Programme runs this database on behalf of the United Nations and eight major international partners in the field of anti-money laundering: the Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Commonwealth Secretariat, the Council of Europe, the Financial Action Task Force (FATF), Interpol, the Organization of American States (OAS), and the World Customs Organization. The process of adding and updating relevant information on international/national measures, conventions and legislation to combat the financing of terrorism is ongoing. Work on the present phase involves scanning the existing legislation that is not available in electronic format, and adding it to the virtual library of antimoney laundering legislation. In addition, GPML runs the Anti-Money Laundering International Database (AMLID) on IMoLIN, a password-restricted global review of national legislation, available only to public officials. In 2002, GPML updated the AMLID analytical questionnaire to reflect new trends in legislation and policy. Applications for access to AMLID rose in 2002 by 33 percent.

In March, the Programme launched the GPML Global Press Review, which it distributes to the United Nations System, and to governments and partner international organizations involved in anti-money laundering activities as a means of keeping them updated on global developments in the field.

The World Bank and the International Monetary Fund

The World Bank (the Bank) has undertaken a number of steps to raise awareness of AML/CTF issues in its member countries and is providing technical assistance to countries to strengthen AML/CTF regimes.

In 2002, the Bank established the Global Dialogue Series, in order to bring together by videoconference leading experts and senior country officials responsible for formulating public policy on AML/CTF for a constructive exchange of ideas. Nine Global Dialogues have been held since January 2002 for countries in Eastern Europe and Central Asia, Latin America, Africa, South Asia, and East Asia and the Pacific. Government officials from a total of 42 countries have participated in these Dialogues.

In September, the International Monetary Fund (IMF), in collaboration with GAFISUD, organized a conference in Uruguay to develop coordination strategies in South America in the fight against money laundering and financing of terrorism. This workshop brought together the nine member countries of GAFISUD to share experiences with national and regional counterparts, discuss best practices, identify gaps in systems, and formulate practical cooperation strategies. In December, the Bank organized a regional conference in Moscow. The conference focused on building effective Financial Intelligence Units (FIUs). The seminar provided countries that are at a relatively early stage of addressing AML/CTF concerns and do not have fully operational FIUs with the basic information necessary for establishing and operating an FIU that meets international standards. Representatives from 23 countries attended, mostly from Europe and Central Asia but also including Egypt and China.

In addition to the regional conferences, the Bank provided technical assistance to an additional 12 countries in 2002 in response to individual requests. Drafting legislation for AML/CTF and building capacity to implement the AML/CTF standards are among the most frequent requests received in 2002.

Finally, the Bank and the IMF have launched an initiative intended to improve the international coordination of anti-money laundering and counter-terrorist financing technical assistance. On April 22, 2002, the Bank and IMF hosted a meeting in Washington to develop a mechanism for coordinating technical assistance, involving the participation of the FATF, FATF-style regional bodies (FSRB), the UN Global Programme against Money Laundering and UN Counter Terrorism Committee, the regional development banks, including the Asian Development Bank, the Department of State and other key bilateral training and technical assistance providers. Following this meeting, the Bank and IMF have been working closely with the FSRBs to assist them coordinate and meet the technical assistance needs in their region.

As part of this initiative, the Bank and the IMF have established a database of technical assistance requests and responses. The database is intended to support the strategic objectives of the Bank's technical assistance coordination initiative, including identifying high priority needs and filling gaps, strengthening the roles of the regional secretariats in coordinating technical assistance at the regional level, and enhancing information flow on needs and activities among all of the relevant partners.

The Bank is providing the infrastructure and support for the database, including training FSRBs in using the database. The initial technical assistance requests were entered into the database by the Bank based on surveys carried out in 2002 by the regional secretariats. Subsequently, information on technical assistance requests and responses will be maintained primarily by the FSRB secretariats. Technical assistance donors/providers have web-based access to the database in order to view outstanding technical assistance requests and recent technical assistance activities. The Bank will periodically circulate reports to technical assistance providers in order to assess progress in meeting requests on the database.

Offshore Financial Centers

The pressure being brought to bear by the international community on offshore financial centers to comply with anti-money laundering standards has not abated since the 1999 edition of the INCSR first

discussed the issue. Since the inception of its Non-Cooperative Countries and Territories (NCCT) exercise the FATF has designated twenty-three jurisdictions as NCCTs. Sixteen of the 23 NCCTs have either been Offshore Financial Centers (OFCs) or jurisdictions which offer services and products commonly associated with the OFCs. While 12 OFCs have remedied FATF-identified deficiencies in their legal and regulatory regimes and have been de-listed as NCCTs, four OFCs remained on the list of 11 NCCTs as of December 31, 2002.

Nearly simultaneously with the onset of the FATF NCCT exercise, the Financial Stability Forum (FSF), a body created by the G-7 in 1999, comprised primarily of officials from international regulatory bodies) established the Offshore Working Group OWG). The OWG concluded that a number of the OFCs were perceived as having weaknesses in financial supervision, cross-border cooperation and transparency. The OFCs were 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 somewhat more cooperative, more transparent and better supervised than the 26 OFCs in Group III. All 35 OFCs in Groups 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.1

The FSF requested the International Monetary Fund (IMF) to develop, organize and conduct assessments of OFC adherence to international financial standards, including to several of the FATF Forty 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, because the self-assessment constituted the first assessment.). Following the Module II assessment, a broader and more complex IMF-led assessment (Module III) would be undertaken to assess the status of a jurisdiction's modifications recommended in the Module II assessment. The IMF will make no assessments public unless the assessed jurisdiction voluntarily consents. During 2001, the IMF completed Module II assessments of Aruba, Belize, Cyprus, Gibraltar, Macau and Panama, and in 2002, completed Module II assessments of Andorra, Palau, Samoa, the Seychelles and the Bahamas.

While the IMF assessments performed to date confirm that many of the offshore jurisdictions are taking positive steps to increase compliance with anti-money laundering standards, as have the eight OFCs that have been de-listed from the FATF NCCT list, many OFCs continue to be inadequately regulated. The IMF assessments suggest that jurisdictions with a higher gross domestic product (GDP) are more likely to increase compliance supervision. The smaller the GDP, the more likely it is that a jurisdiction does not have adequate resources to devote to supervision and compliance. The tiny NCCT offshore jurisdiction of Niue recognized that it did not have either the necessary infrastructure to adequately regulate its five offshore banks or the financial or human resources to implement essential regulation of an offshore financial sector. As a result, in October of 2002, Niue abolished its offshore banking sector and was removed from the FATF NCCT list.

Regardless of the adequacy of resources, many of the OFCs have attracted a large non-resident customer base by intentionally offering a combination of accommodating legislation, services and products that by definition are designed to protect the anonymity of the client, while providing the client relief from home-country regulators and law enforcement. 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 under-regulated parallel financial system within their own borders. Many jurisdictions with OFCs conduct financial transactions only in currencies other than the local currency. The vast majority of OFCs also differ from onshore jurisdictions in their regulatory regimes and legal frameworks. Many OFCs lack

political will and/or resources to implement 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 some not even a physical presence is required. 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 sector.

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 often free of exchange and interest rate restrictions, minimal or no capital reserve requirements are in place 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 4,000 offshore banks thought to exist, the number that are shell banks remains unknown.

A principal attraction of the OFCs is the frequent 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 maintain the 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. When combined with the use of bearer shares (shares that do not name the owner and ownership is based on physical possession) and "mini-trusts" (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.

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. Narcotics-traffickers, terrorist organizations and their supporters, 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.

Post September 11, 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 and the newer, less economically developed OFCs. The attraction of establishing an offshore financial services market for small states is a dependable source of income that in some instances exceeds 50 percent of a jurisdiction's GDP.

Other practices found in some OFCs cause additional 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 2002, two Caribbean Basin OFCs, Dominica and St. Kitts & Nevis, ld inadequately controlled economic citizenships. In the Pacific region, only Nauru sold improperly controlled economic citizenships. The Marshall Islands abolished this practice several years ago; however, the government has not yet been able to recover all the unauthorized passports.

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, but exert inadequate controls, and likely share in the operator's profits. Costa Rica licenses more Internet gambling and sports betting sites than any country in the Western Hemisphere. Reportedly, 70 such sites are currently registered in Costa Rica as compared to three sites

three years ago. These sites represent a particularly difficult problem for law enforcement, as the Internet server frequently is located in a country other than the country that has licensed the website.

While many of the OFCs have been undertaking reforms to their regulatory systems and have demonstrated a growing willingness to share information with foreign law enforcement and regulatory agencies, issues of transparency still remain. Shell banks, IBCs and other corporate entities with nominee directors, trusts, bearer shares and the lack of transparency associated with them need resolution in the short-term, whether offered onshore or offshore. In a time when terrorist organizations have the capacity to disrupt global political stability, all international financial standard-setters have an obligation to move quickly to resolve these issues. The USA PATRIOT Act that prohibits transactions (directly or indirectly) between U.S. financial institutions and shell banks is but a first step in the right direction.

Explanatory Notes—Offshore Financial Services Table

Public information regarding offshore financial centers (OFCs) 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 table.

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 table, 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, a 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—Offshore Financial Services Table

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 Table

	1										
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)
The Americas											
Anguilla	2	Υ	2,792	Υ	Υ	Υ	N	Ζ	BD		C, IO ¹
Antigua and Barbuda	21	Υ	13,500	Ν	Υ	Υ	N	Υ	BD	R	C, OC
Aruba	2	Y	3,762	Y	N	Y	N	Ν	BD		C, F, O, IO, EG
Bahamas	305	Y	47,040	Z	Y	Y	N	Z	BD	RM	C, O,OC, I, S, EG
Barbados	55	Υ	4,206	N	Y	Y	N	Ν	BD		C, O, OC, S, EG
Belize	7	Υ	18,000	Υ	Υ	Υ	N	Υ	BD	R	C, OC, S, IO
Bermuda	N	Υ	13,020	N	Υ	Υ	N	N	BD	R	C, O, EG
British Virgin Islands	13	Υ	360,000	N	Υ	Υ	N	N	BD	R	C, EG
Cayman Islands	580	Υ	45,000	N	Υ	Υ	N	N	BD	RM	C, O, I, EG
Costa Rica	44	Y	20	Z	N		N	Y	BD	R	C, OC, S, EG
Dominica	2	Υ	1,435	N	Υ	Υ	Υ	Υ	BD	RM	C, OC
Grenada	13	Υ	2,775	N	Υ	Υ	N	Υ	BD	NC	C, OC
Guatemala	13	N		Υ	N			N	BD	NC	OC

¹ 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; EG = The Egmont Group; F = Financial Action Task Force; I = Offshore Group of Insurance Supervisors (OGIS); IO = Observer to the OGIS; O = Offshore Group of Banking Supervisors; OC = OAS/Inter-American Drug Abuse Control Commission; S = International Organization of Security Commissioners.

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)
Montserrat	15		22	Υ		N	N	N	BD		С
Netherlands Antilles	39	Υ	18,750	Υ	N		N	Υ	BD		C, EG,O, I,
Panama	34	Υ	370,000		Y	Υ	N	N	BD	RM	C, O, OC, S, EG
St. Kitts & Nevis				N	Υ	Ν	Υ	Υ	BD	RM	C, OC
(St. Kitts)	Z	Υ	450								
(Nevis)	1	Υ	17,000								
St. Lucia	1	Υ	733	N	Υ	Υ	Ν	Ν	BD	R	C, OC
St. Vincent & The Grenadines	15	Υ	9,734	N	Y	Υ	N	Υ	BD	NC	C, OC
Turks and Caicos	8	Υ	13,952	N	Υ	Υ	N	Υ	BD	R	C, I
Uruguay	12	N	Υ	Y	N	Υ	N	N	BD	R	OC, S
Europe											
Andorra											
Cyprus	28	Υ	57,600	N	Υ	Υ	N	N	BD	R	CE, O, S, EG
Gibraltar	21	Υ	8,300	Υ	Υ	Υ	N	Υ	BD	R	O, I
Guernsey ¹	70	Υ	15,910	N	N	Υ	N	N	BD	R	O, I, S, EG
Alderney	N	Υ	455		N		N	Υ			
Sark	N	Υ			Ν		Ν	N			
Hungary	N	Ν	600	Υ	Ν	N	Ν	N	BD	RM	CE, EG
Ireland	N	Υ	400	N	N	Υ	N	Ν	BD		F, S, EG

¹ Guernsey, Jersey, the Isle of Man, Hong Kong, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

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)
Isle of Man ¹	Y	Υ	24,300	Υ	N	Υ	N	N	BD	R	O, I, S, EG
Jersey ¹	Υ	Υ	30,000	N	N	Υ	N	N	BD	R	O, I, S, EG
Liechtenstein ¹	17	Υ	75,000	Υ	Ν	Υ	Ν	Ν	BD	RM	CE, EG
Luxembourg ¹	200	Υ	68,000	Υ	Ν	Υ	Ν	Ν	BD		F, S, EG
Malta	1	Υ	285	Ν	Ν	Υ	Ν	Ν	BD	R	CE, O, S
Monaco	N		Υ		Ζ		Ν	Ζ	BD	R	EG
Switzerland ¹	500	Υ	Υ	Υ	Ζ		Ν	Z	BD		F, S, EG
"Turkish Republic of No. Cyprus"	32	N	54		Ν	N	N	Ν	D		
Africa & Middle East											
Botswana	1	Υ	Υ					N			E
Bahrain	51	Υ	Υ	N	N	N	N		BD		O, S
Liberia			Υ	Υ	Υ		N	N	N		
Mauritius	11	Υ	10,700	Υ	Υ		N	N	N	R	E, O, S
Madeira (Portugal)	27	Υ	4,100	Υ	N	Υ	N	N	BD		
Seychelles	Y		4,800	Υ	Υ	Υ	N	Υ	BD	R	Е
Tunisia	12		1,500		N		N	N	N		S
Asia											
Brunei	Y	Υ	300	N	N	Υ	N				
Hong Kong ¹	Y	Y	500,000	N	N	Υ	N	N	BD		A, F, O, S, EG

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¹ Guernsey, Jersey, the Isle of Man, Hong Kong, Liechtenstein, Luxembourg and Switzerland are unique. Residents are able to avail themselves of many OFC services and products normally reserved for nonresidents.

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)
Labuan (Malaysia)	53	Υ	2,070	N	Υ	Υ	N	N	BD		A, I, O, S
Macau	Y		Y		N		N	N	BD		A, O
Singapore	59	N	Y	Ν	Ν	Υ	Ν	Ν	BD		A, F,O, S, EG
Pacific											
Cook Islands	25	Υ	1,200	Υ	Υ	Υ	N	N	BD	NC	Α
Marshall Islands	N	Υ	5,500	Υ	N	N	N	N	BD	RM	A, EG
Nauru	400	Υ	Υ	Υ	N	Υ	Υ	N	N	NC	
Niue	N	Υ	6,000	Υ	Υ	Υ	N	N	BD	RM	A
Palau	Y	N	N	Υ		N	N	Υ		R	
Samoa	8	Υ	7,553	Υ	Υ	Υ	N	N	BD	R	A, IO
Vanuatu	55	Υ	2,500	Υ	N	Υ	N	Υ	BD	R	A, O, EG

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 185 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 2002 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 that of 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.

All other countries and jurisdictions evaluated in the INCSR are separated into the two remaining groups, "Jurisdictions of Concern" and "Other Jurisdictions Monitored," on the basis of a number of factors that 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 United States 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 United States or the United Kingdom) can have comprehensive anti-money laundering 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.
- 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, in particular 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 Basel Committee's "Core Principles for Effective 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 foreignowned banks or institutions.
- Jurisdictions where charitable organizations or alternate remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering.
- 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 gold, diamonds and other gems.
- Jurisdictions with large parallel or black market economies.
- Limited or no ability to share financial information with foreign law enforcement authorities.

Upgrades Downgrades Costa Rica Grenada Concern → Primary Primary → Concern Haiti St. Vincent & the Grenadines Concern → Primary Primary → Concern Bosnia & Herzegovina Other → Concern

Changes in INCSR Priorities, 2002-2003

The following countries were added to the Money Laundering & Financial Crimes report this year and are included in the "Other" Column: Andorra, Burkina Faso, Chad, Democratic Republic of the Congo, Republic of the Congo, Gabon, The Gambia, Guinea, San Marino, Sao Tome & Principe, Sierra Leone, and Syria.

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/Jurisdiction	ons of Primary	Countries/Jurisdic	ctions of	Other Countries/J	urisdictions
Concern	,	Concern		Monitored	
Antigua and Barbuda	Taiwan	Albania	St. Vincent	Afghanistan	Macedonia
Australia	Thailand	Argentina	Turks & Caicos	Algeria	Madagascar
Austria	Turkey	Aruba	Vanuatu	Andorra	Malawi
Bahamas	Ukraine	Bahrain	Vietnam	Angola	Maldives
Brazil	United Arab Emirates	Barbados	Yemen	Anguilla	Mali
Burma	United Kingdom	Belgium	Yugoslavia FR	Armenia	Malta
Canada	USA	Belize		Azerbaijan	Mauritius
Cayman Islands	Uruguay	Bolivia		Bangladesh	Micronesia FS
China, People Rep	Venezuela	Bosnia & Herzegovina		Belarus	Moldova
Colombia		British Virgin Islands		Benin	Mongolia
Costa Rica		Bulgaria		Bermuda	Montserrat
Cyprus		Cambodia		Botswana	Morocco
Dominica		Chile		Brunei	Mozambique
Dominican Rep		Cook Islands		Burkina Faso	Namibia
France		Czech Rep		Cameroon	Nepal
Germany		Ecuador		Chad	New Zealand
Greece		Egypt		Congo, Dem. Rep. of	Niger
Guernsey		El Salvador		Congo, Rep. of	Norway
Haiti		Gibraltar		Cote d'Ivoire	Oman
Hong Kong		Grenada		Croatia	Papua New Guinea
Hungary		Guatemala		Cuba	Qatar
India		Honduras		Denmark	Sao Tome & Principe
Indonesia		Ireland		Eritrea	Saudi Arabia
Isle of Man		Jamaica		Estonia	Senegal
Israel		Korea, North		Ethiopia	Sierra Leone
Italy		Korea, South		Fiji	Slovenia
Japan		Latvia		Finland	Soloman Islands
Jersey		Malaysia		Gabon	Sri Lanka
Lebanon		Marshall Islands		Gambia	Suriname
Liechtenstein		Monaco		Georgia	Swaziland
Luxembourg		Netherlands Antilles		Ghana	Sweden
Macau		Nicaragua		Guinea	Syria
Mexico		Niue		Guyana	Tajikistan
Nauru		Palau		Iceland	Tanzania
Netherlands		Peru		Iran	Togo
Nigeria		Poland		Jordan	Tonga
Pakistan		Portugal		Kazakhstan	Trinidad and Tobago
Panama		Romania		Kenya	Tunisia
Paraguay		Samoa		Kuwait	Turkmenistan
Philippines		Seychelles		Kyrgyzstan	Uganda
Russia		Slovakia		Laos	Uzbekistan
Singapore		South Africa		Lesotho	Zambia
Spain		St. Kitts & Nevis		Liberia	Zimbabwe
Switzerland		St. Lucia		Lithuania	

Comparative Table

The comparative table 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, 2002. This reference table provides a comparison of elements that define legislative activity and identify other characteristics that can have a relationship to money laundering vulnerability.

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": By law or regulation, banks are required to record and report suspicious or unusual transactions to designated authorities.
- 6. "Financial Intelligence Unit": The jurisdiction has established an operative 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/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.
- 10. "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.
- 11. "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.
- 12. "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.

- 13. "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.
- 14. "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. ¹
- 15. "Criminalized the Financing of Terrorism." The jurisdiction has criminalized the provision of material support to terrorists and/or terrorist organizations.
- 16. "States Party to the UN International Convention for the Suppression of the Financing of Terrorism." As of December 31, 2002, a party to the International Convention for the Suppression of the Financing of Terrorism, or a territorial entity to which the application of the Convention has been extended by a party to the Convention.

¹ Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat and Turks and Caicos are Overseas Territories of the United Kingdom. Guernsey, the Isle of Man and Jersey are Crown Dependencies of the United Kingdom. As such, they are not members of the United Nations. Niue is not a member of the United Nations; nor is Taiwan.

Comparative Table

Comparativ		-														
Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions	Financial Intelligence Unit	System for Identifying/Forfeiting Asset	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'I. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing
Government/Jurisdiction																
Afghanistan	N	N	N	N	N	N	N	N	N	N	Υ	N	N	Υ	N	N
Albania	Υ	Υ	Υ	Υ	Υ	Υ	N	N	N	N	Υ	N	N	Υ	N	Υ
Algeria	N	N	N	N	Υ	N	Υ	N	N	Υ	N	N	Υ	Υ	Υ	Υ
Andorra	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Angola	Υ	N	Ν	Ν	Ν	N	N	N	Ν	Ν	Υ	N	Ν	Ν	Ν	N
Anguilla	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Ν	N
Antigua & Barbuda	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Argentina	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N
Armenia	N	N	Ν	Υ	N	N	Υ	N	Ν	Ν	Ν	N	Ν	Υ	Ν	N
Aruba	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Ν	N
Australia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Austria	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Z	Υ	Ν	Υ	Υ	Υ	Υ
Azerbaijan	N	N	Ν	Ν	N	N	N	N	Ν	Υ	Υ	N	Ν	Υ	Ν	Υ
Bahamas	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N
Bahrain	Υ	Υ	Ν	Υ	Υ	Υ	Υ	N	Υ	Ν	Υ	N	Υ	Υ	Υ	N
Bangladesh	Υ	Υ	Ν	Υ	Ν	N	N	N	Ν	Ν	Υ	N	Ν	Υ	Ν	N
Barbados	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Belarus	N	N	Υ	Υ	N	N	N	N	N	N	Υ	N	N	Υ	N	N
Belgium	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N
Belize	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
Benin	Υ	Ν	Υ	Ν	Υ	N	Υ	N	Υ	Υ	Ν	Ν	Υ	Υ	Ν	Υ
Bermuda	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Ν	N
Bolivia	Υ	Υ	Ν	Υ	Υ	Υ	Υ	N	Ν	Ν	Υ	Ν	Υ	Υ	Ν	Υ
Bosnia & Herzegovina	N	Ν		Υ	Υ	N	Υ	Ν			Ν	N		Υ	Υ	N

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Botswana	Υ	Υ	Υ	Υ	N	N	Υ	Υ	N	N	N	Ν	N	Υ	N	Υ
Brazil	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
British Virgin Islands	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Brunei Darussalam	Υ	Υ	N	Υ	Υ	N	Υ	N	N	N	N	Υ	N	Υ	N	Υ
Bulgaria	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Burkina Faso	N	N	N	N	N	N	N	N	N	N	N	N	N	Υ	N	N
Burma	Υ	Υ	N	Υ	Υ	N	Υ	N	N	N	Υ	Ν	N	Υ	N	N
Cambodia	Υ	N	Υ	Υ	N	N	N	N	Υ	N	N	N	N	N	N	N
Cameroon	N	N	N	N	N	N	N	N	N	N	N	N	N	Υ	N	N
Canada	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Cayman Islands	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Chad	Υ	Υ	Υ	Υ	Υ	N	Υ	N	N	N	N	N	N	Υ	N	N
Chile	Υ	Ν	N	Υ	Ν	Υ	N	N	Υ	Ν	Υ	Ν	N	Υ	N	Υ
China (PRC)	Υ	Υ	Υ	N	Υ	Ν	Υ	N	Υ	Υ	Υ	Ν	N	Υ	Υ	N
Colombia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Comoros	N	Ν	Ν	N	Ν	Ν	Ν	N	Ν	Ν	Ν	Ν	Ν	Υ	Ν	Ν
Cook Islands	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N	Ν
Congo (Dem. Republic)	N	Ν	Ν	Ν	Z	N	N	N	Ζ	N	Ν	Z	Z	Z	Ν	N
Congo (Republic)	N	Ν	Ν	Ν	Z	N	N	N	Ζ	N	Ν	Z	Z	Z	Ν	N
Costa Rica	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Ν
Cote D'Ivoire	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Ν	Υ	Υ	Ν	Υ	Υ	N	Υ
Croatia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
Cuba	Υ	Υ	Ν	Ν	N	N	Υ	N	N	Υ	Ν	N	N	Υ	Ν	Υ
Cyprus	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Czech Republic	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N
Denmark	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Dominica	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	N

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Dominican Republic	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Ecuador	Υ	N	Υ	Υ	Υ	N	N	Υ	Υ	N	Υ	N	N	Υ	N	N
Egypt	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
El Salvador	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Eritrea	N	N	N	N	Ν	N	N	N	N	Ν	N	N	N	Υ	N	N
Estonia	Υ	Υ	Υ	Υ	Υ	Υ	N	N	Υ	Υ	Υ	N	N	Υ	N	Υ
Ethiopia	N	N	Υ	Υ	Υ	N	N	N	N	N	N	N	N	Υ	N	N
Fiji	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	Υ	Υ	N	N	Υ	N	N
Finland	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ
France	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Gabon	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Gambia	N	Ν	Υ	Υ	Υ	N	N	N	N	Ν	N	N	N	Υ	Ν	N
Georgia	N	N	N	N	N	N	N	N	N	N	Υ	N	N	Υ	N	Υ
Germany	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν
Ghana	Υ	Υ	Ν	Υ	Ν	N	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ		Υ
Gibraltar	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Z	Ν	Υ	Υ	Z	Υ	N
Greece	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Grenada	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ
Guatemala	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ
Guernsey	Υ	Υ	Ν	Ν	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Z	Υ	Υ	N
Guinea	Υ	Ν	Ν	Ν	Z	N	N	N	Ν	Z	Ν	Z	Z	Υ	N	N
Guyana	Υ	Υ	N	Υ	Υ	N	Υ	N	N	Υ	Υ	N	Υ	Υ	N	N
Haiti	Υ	Υ	Υ	Υ	Υ	N	Υ	N	N	Υ	N	Υ	Υ	Υ	N	N
Honduras	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Hong Kong	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Z	Υ	Υ	Υ	Υ	Υ	N
Hungary	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ
Iceland	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Ν	Υ	Υ	Υ	Υ		Υ

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India	Υ	N	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	N	Υ	Υ	Υ	Ν
Indonesia	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	N	N	Υ	Υ	Ν
Iran	N	N	N	Ν	N	N	N	N	N	N	Υ	N	N	Υ	N	Ν
Ireland	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	Ν
Isle of Man	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν
Israel	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
Italy	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
Jamaica	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Japan	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Jersey	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Ν
Jordan	Υ	Υ	N	Υ	Υ	N	N	N	N	N	Υ	N	Υ	Υ	Υ	N
Kazakhstan	Υ	N	N	Υ	Υ	N	N	N	N	Υ	Υ	N	N	Υ	N	N
Kenya	Υ	Ν	Υ	Υ	N	Ν	Υ	N	Υ	N	Υ	N	Ν	Υ	N	Ν
Korea (DPRK)	N	N	Ν	Ζ	N	N	N	N	N	N	N	N	N	N	Ν	Ζ
Korea (Republic of)	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ	N	Z
Kuwait	Υ	Υ	Υ	Υ	Υ	Ζ	N	Ν	Ζ	Υ	Υ	Υ	Υ	Υ	Ν	Ν
Kyrgyzstan	Ν	Ν	Ν	N	Ν	Ζ	Υ	Ν	Ζ	N	Ν	N	Z	Υ	Ν	N
Laos	N	Ν	N	N	N	Ν	N	N	Ν	N	N	N	Ν	N	N	N
Latvia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Ν	Υ
Lebanon	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Lesotho	N	N	Υ	N	Υ	Ν	N	N	N	N	N	N	Ν	Υ	N	Υ
Liberia	N	N	Ν	N	N	Ν	N	N	N	Υ	N	N	Ν	Ν	N	N
Liechtenstein	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Ν	N	Ν
Lithuania	Υ	Υ	Υ	Υ	Υ	Υ	N	Ν	Υ	Υ	Υ	Υ	Υ	Υ	N	Ν
Luxembourg	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	N	N
Macau	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	N
Macedonia	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	Υ	Υ	N	Υ	Υ	N	N

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Madagascar	Υ	N	N	N	N	N	N	N		N	N	N	N	Υ	N	N
Malawi	N	N	Υ	Υ	N	N	N	N		N	N	N	N	Υ	N	N
Malaysia	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Maldives	Υ	N	N	N	N	N	N	N	N	N	N	N	N	Υ	N	N
Mali	N	N	N	N	N	N	N	N	N	N	N	N	N	Υ	N	Υ
Malta	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	N	Υ	Υ	Υ
Marshall Islands	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Ν	Ν	N
Mauritius	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Ν
Mexico	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ		Υ
Micronesia	Υ	Υ	N	Υ	Ν	N	Υ	N	N	Ν	Υ	N	Ν	N	Ν	Υ
Moldova	Υ	Υ	N	Υ	Υ	N	N	N	Ν	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Monaco	Υ	Υ	Ν	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Mongolia	N	Ν	N	Ν	Ν	N	N	N	Ν	Ν	Ν	N	Ν	Ν	Ν	Ν
Montserrat	Υ	Υ	Ν	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Ζ	Ν
Morocco	Ν	N	N	Υ	Ν	N	N	N	Ζ	Z	Υ	Ν	Ν	Υ	Ζ	Υ
Mozambique	Υ	Υ	Υ	Υ	Υ	Ν	Υ	N	Ζ	Υ	Υ	Υ	Υ	Υ	Ν	Υ
Namibia	Ν	N	Υ	Υ	Υ	N	N	N	Ζ	Z	Ν	Ν	Υ	Ν	Ζ	N
Nauru	Υ	Υ	N	Υ	Υ	N	Υ	Υ	Υ	Z	Υ	Ν	Υ	Ν	Ζ	N
Nepal	N	N	N	Υ	Ν	Ν	Ν	N	Υ	Z	Υ	Ν	Ν	Υ	Ζ	N
Netherlands	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ
Netherlands Antilles	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N
New Zealand	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Nicaragua	Υ	Ν	Υ	Υ	Υ	N	Υ	N	N	Υ	Υ	Ν	Ν	Υ	N	Υ
Niger	N	Ν	Υ	N	Ν	N	Υ	N		N	N	Ν	Ν	Υ	N	N
Nigeria	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N
Niue	Υ	Υ	N	Υ	Υ	N	N	N	Υ	N	Υ	Υ	Υ	N	N	N
Norway	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ

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Oman	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Pakistan	Υ	N	N	Υ	N	N	Υ	N	Υ	N	Υ	N	Υ	Υ	N	N
Palau	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	N	N	N	N	Υ
Panama	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Papua New Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Paraguay	Y	Υ	Y	Y	Y	Y	Y	N	Υ	N	Υ	Y	Y	Υ	N	N
Peru	Υ	Υ	Υ	Υ	Y	N	Υ	Y	Υ	N	Υ	Y	Υ	Υ	N	Υ
Philippines	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Poland	Υ	Υ	Υ	Υ	Υ	Υ	N	N	Υ	Υ	Υ	Υ	N	Υ	N	N
Portugal	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Qatar	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Romania	Υ	Υ	Υ	Υ	Υ	Υ	N	N	N	N	Υ	Υ	Υ	Υ	Υ	Υ
Russia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ
Samoa	Υ	Υ	N	Υ	Υ	N	Υ	N	N	Υ	Υ	Υ	Υ	N	Υ	Υ
Sao Tome & Principe	N	N	N	N	N	N	N	N	N	N	N	N	N	Υ	N	N
Saudi Arabia	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Senegal	Υ	Ν	N	Υ	Υ	N	Υ	N	N	N	Υ	Ν	N	Υ	N	N
Seychelles	Υ	Υ	N	Υ	Υ	N	Υ	N	N	N	N	N	Υ	Υ	N	N
Sierra Leone	N	N	N	Υ	Υ	N	N	N	N	N	N	N	N	Υ	N	N
Singapore	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ
Slovakia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	N	Υ
Slovenia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Solomon Islands	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
South Africa	Υ	Υ	N	Υ	Υ	N	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	N	N
Spain	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Sri Lanka	N	N	N	N	N	N	N	N	N	N	Υ	N	N	Υ	Υ	Υ
St Kitts & Nevis	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ

Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions	Financial Intelligence Unit	System for Identifying/Forfeiting	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'I. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing
St. Lucia	Υ	Υ	N	Υ	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ	Υ	N
St. Vincent/Grenadines	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	N	Υ
Suriname	Υ	Υ	N	Υ	Υ	N	Υ		N	N	Υ	Υ	Υ	Υ	N	N
Swaziland	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	N	Υ	N	Υ	Υ	N	N
Sweden	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Ν	Υ	Υ	Υ	Υ	Υ	Υ
Switzerland	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	N	N	N
Syria	N	N	N	N	N	N	Υ	N	N	N	Υ	N	N	Υ	N	N
Taiwan	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	N	N
Tajikistan	Υ	Υ	N	N	N	N	N	N	Υ	N	Υ	N	N	Υ	N	N
Tanzania	Υ	N	Υ	Υ	N	N	Υ	N	Υ	N	Υ	N	Υ	Υ	Υ	Υ
Thailand	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Ν	Υ	N	N	Ν
Togo	Υ	N	Υ	Υ	N	N	Υ	N		Ν			Υ	Υ	Υ	Υ
Tonga	Υ	Υ	Υ	Υ	N	N	Υ	N	Υ	Υ	N	N	N	Υ	N	Υ
Trinidad & Tobago	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	N
Tunisia	N	N	N	N	N	N	N	N	N	Υ	N	N	N	Υ	N	Ν
Turkey	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	N	Υ	N	Υ
Turkmenistan	Υ	Υ			N	Ν	N	N		Υ				Υ	Ν	Ν
Turks & Caicos	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Ν	N
Uganda	Υ	Ν	N	Ν	Ν	N	N	N		Ν	Ν	Ν	N	Υ	Υ	N
Ukraine	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Υ	Υ	Υ	Ν	Υ	Ν	Υ
United Arab Emirates	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Ν	Υ	Z	Υ	Υ	Ν	Υ	Ν	N
United Kingdom	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Z	Υ	Υ	Υ	Υ	Υ	Υ
United States	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ
Uruguay	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Υ	Υ	Υ	Υ	N	N
Uzbekistan	Υ	Υ	Υ	Υ	Υ	Ν	N	N	Ν	Υ	Υ	Z	Ν	Υ	Υ	Υ
Vanuatu	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	N	Υ	N
Venezuela	Υ	N	Υ	Υ	Υ	Υ	Υ	N	Υ	Υ	Υ	Υ	Υ	Υ	Ν	N

Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions	Financial Intelligence Unit	System for Identifying/Forfeiting	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'I. Transportation of Currency	Mutual Legal Assistance	Non-Bank Financial Institutions	Disclosure Protection "Safe Harbor"	States Party to 1988 UN Convention	Criminalized Financing of Terrorism	Internat'l Terrorism Financing
Vietnam	Υ	Υ	Ν	Ν	Ν	N	N	Ν	N	Ν	Υ	Ν	N	Υ	N	Υ
Yemen	Ν	N	N	Z	Z	N	N	Z	Ν	Z	Z	Z	N	Υ	Ν	Ν
Yugoslavia/Serbia	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Υ	Z	Υ	Υ	Υ	Υ	Ν	Υ
Yugoslavia/Montenegro	Υ	Υ	N	N	Υ	Ν	Υ	Ν	Υ	N	Υ	N	N	Υ	Ν	Υ
Zambia	Υ	Υ	Υ	Υ	Υ	N	Υ	N	Ν	N	Ν	N	N	Υ	Ν	N
Zimbabwe	Υ	Ν	Ν	Z	Z	Ν	Ν	Z	Ν	Z	Ν	Z	Ν	Υ	Ν	Ν

Appendix

FATF Special Recommendations on Terrorist Financing

Recognizing the vital importance of taking action to combat the financing of terrorism, the FATF has agreed these Recommendations, which, when combined with the FATF Forty Recommendations on money laundering, set out the basic framework to detect, prevent and suppress the financing of terrorism and terrorist acts.

I. Ratification and implementation of UN instruments

Each country should take immediate steps to ratify and to implement fully the 1999 United Nations International Convention for the Suppression of the Financing of Terrorism.

Countries should also immediately implement the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts, particularly United Nations Security Council Resolution 1373.

II. Criminalizing the financing of terrorism and associated money laundering

Each country should criminalize the financing of terrorism, terrorist acts and terrorist organizations. Countries should ensure that such offenses are designated as money laundering predicate offenses.

III. Freezing and confiscating terrorist assets

Each country should implement measures to freeze without delay funds or other assets of terrorists, those who finance terrorism and terrorist organizations in accordance with the United Nations resolutions relating to the prevention and suppression of the financing of terrorist acts.

Each country should also adopt and implement measures, including legislative ones, which would enable the competent authorities to seize and confiscate property that is the proceeds of, or used in, or intended or allocated for use in, the financing of terrorism, terrorist acts or terrorist organizations.

IV. Reporting suspicious transactions related to terrorism

If financial institutions, or other businesses or entities subject to anti-money laundering obligations, suspect or have reasonable grounds to suspect that funds are linked or related to, or are to be used for terrorism, terrorist acts or by terrorist organizations, they should be required to report promptly their suspicions to the competent authorities.

V. International co-operation

Each country should afford another country, on the basis of a treaty, arrangement or other mechanism for mutual legal assistance or information exchange, the greatest possible measure of assistance in connection with criminal, civil enforcement, and administrative investigations, inquiries and proceedings relating to the financing of terrorism, terrorist acts and terrorist organizations.

Countries should also take all possible measures to ensure that they do not provide safe havens for individuals charged with the financing of terrorism, terrorist acts or terrorist organizations, and should have procedures in place to extradite, where possible, such individuals.

VI. Alternative remittance

Each country should take measures to ensure that persons or legal entities, including agents, that provide a service for the transmission of money or value, including transmission through an informal money or value transfer system or network, should be licensed or registered and subject to all the FATF Recommendations that apply to banks and non-bank financial institutions. Each country should ensure that persons or legal entities that carry out this service illegally are subject to administrative, civil or criminal sanctions.

VII. Wire transfers

Countries should take measures to require financial institutions, including money remitters, to include accurate and meaningful originator information (name, address and account number) on funds transfers and related messages that are sent, and the information should remain with the transfer or related message through the payment chain.

Countries should take measures to ensure that financial institutions, including money remitters, conduct enhanced scrutiny of and monitor for suspicious activity funds transfers which do not contain complete originator information (name, address and account number).

VIII. Nonprofit organizations

Countries should review the adequacy of laws and regulations that relate to entities that can be abused for the financing of terrorism. Non-profit organizations are particularly vulnerable, and countries should ensure that they cannot be misused:

- (i) by terrorist organizations posing as legitimate entities;
- (ii) to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; and
- (iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes to terrorist organizations.

Country Reports

Afghanistan. Afghanistan is not a regional financial or banking center. Its financial and credit institutions are rudimentary. Afghanistan does not have anti-money laundering or terrorist financing legislation. Efforts are being made to strengthen police and customs forces, but there are few resources or expertise to combat financial crimes.

Much of the money laundering in Afghanistan is linked to the trade of narcotics. Afghanistan accounts for the large majority of the world's opium production. The opium is refined into heroin, often broken into small shipments, and smuggled across porous borders via truck or mule caravan for resale broad. Payment for the narcotics is generated through a variety of means, including trade based money laundering. Narcotics are sometimes thought of as just another commodity or trade good. There are reports that the going rate for a kilo of heroin is a color television set. A kind of barter system has developed where narcotics in Afghanistan and neighboring Pakistan are exchanged for foodstuffs, vegetable oils, electronics, and other goods. Many of these trade goods are smuggled into Afghanistan from neighboring countries or enter through the Afghan Transit Trade without payment of customs duties or tariffs. Invoice fraud, corruption, indigenous smuggling networks, and legitimate commerce are all intertwined. Hawala networks are also widespread, and often times trade goods are used to provide counter-valuation in balancing the books. There are allegations that these alternative remittance systems within Afghanistan have also been involved with the financing of terrorist organizations.

Afghanistan is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Much work is required to develop and modernize Afghanistan's infrastructure, financial framework, judiciary, and civil service including its police and customs service. An effective first step in constructing an anti-money laundering program would be to enact anti-money laundering and anti-terrorist finance legislation that complies with international standards.

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. Albanian organized crime groups active outside the country send large sums of illegitimately earned money—estimated by the European Union at \$15 billion annually—back to Albania. The proceeds from these activities are easily laundered in Albania because of weak government controls. Albania's economy is primarily cash-based.

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 in 2000) requires financial institutions to report to an anti-money laundering agency all transactions that exceed approximately \$10,000 as well as those that involve suspicious activity. 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 Bank of Albania has established a task force to confirm banks' compliance with customer verification rules.

The legislation also mandates the establishment of an 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 evaluates 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 ACCML has the ability to enter into bilateral or multilateral information sharing agreements on its own authority. The legislation, however, does not mandate staffing and funding of the ACCML.

Money Laundering and Financial Crimes

Albania has not criminalized terrorist financing, and Albanian law does not authorize freezing or confiscating assets belonging to terrorists. However, the GOA has used its anti-money laundering law to freeze the assets of individuals and organizations on the UN 1267 Sanction Committee's consolidated list of terrorists.

Coordination against money laundering and terrorist financing among agencies is sporadic. Authority and responsibility remains unclear among agencies, and therefore, duplication and confusion are possible.

Albania became a party to the UN International Convention for the Suppression of the Financing of Terrorism on April 10, 2002. On August 21, 2002, Albania ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Albania is a party to the 1988 UN Drug Convention. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly know as PC-R-EV).

The GOA should clarify interagency anti-money laundering responsibilities and should provide adequate legal and financial resources to the ACCML. It should also criminalize terrorist financing.

Algeria. Algeria is not a financial center and the extent of money laundering in Algeria is not known.

On April 7, 2002, the Government of Algeria adopted Executive Order 02-127, which established the Cellule du Traitement du Renseignement Financier (CTRF), an independent unit within the Ministry of Finance. The 2003 Finance Law, approved on December 25, 2002, requires all financial institutions to report suspicious activity to the CTRF. All financial institutions are also obligated to comply with requests for information from the CRTF or face penal liability. The Finance Law allows the CTRF to freeze assets for up to 72 hours based on suspicious activity. Additionally, the Finance Law provides for state protection for officials or informants who cooperate with the CTRF.

The Central Bank monitors all international financial operations carried out by public or private banking institutions. Individuals entering Algeria must declare all foreign currency to the customs authority.

Algeria criminalized terrorist financing by adopting Ordinance 95.11 on February 24, 1994, making the financing of terrorism punishable by 5-10 years of imprisonment.

Algeria is a party to both the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. On October 7, 2002, Algeria became a party to the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Algeria should enact a comprehensive anti-money laundering regime and criminalize money laundering for all serious crimes.

Andorra. Due to its geographical location in the Pyrenees, its relatively strong financial system, and the free movement of money across its frontiers, Andorra is likely to attract money laundering operations.

Andorra substantially revised its anti-money laundering regime in December 2000 with the passage of its Law on International Criminal Co-operation and the Fight against the Laundering of Money and Securities Deriving from International Delinquency. Essentially, this law imposes reporting obligations upon Andorran financial institutions, insurance and re-insurance companies and on natural persons or entities whose professions or business activities involve the movement of money or securities that may be susceptible to laundering. It goes on to specifically cover external accountants and tax advisors, real estate agents, notaries and other legal professionals when acting in certain professional capacities, as well as casinos and dealers in precious stones and metals. Reports of suspicious transactions are made to the Unit for the Prevention of Laundering Operations (UPBO), Andorra's Financial Intelligence Unit. Predicate offenses for money laundering are defined in the criminal code and include drug trafficking, hostage taking, sales of illegal arms, prostitution and terrorism. Article 49 of this law contains a tipping off prohibition and Article 50 provides a safe harbor in that individuals or entities who report suspicious activities or transactions under this law are not liable for violations of any other secrecy or confidentiality statutes.

A decree to set up specific regulations to cover all administrative aspects of the Act of December 2000 was approved in August 2002. The decree requires retail establishments to notify the government of any transactions for gems and jewelry where the payment made in cash is greater than 15,000 euros. The law also requires banks to notify the FIU of any currency exchanges where the amount is over 1,250 euros.

Customer identification, including identification of the beneficial owner, is required at the time a business relationship is established and before any transaction when the obligation to take due care calls for verification of the identity of the beneficial owner. Records verifying identity must be kept for a period of at least ten years from the date when the business relationship ends.

The entirety of Title I of this same law pertains to the organization of international judicial help, generally easing previous restrictions that had applied when a foreign authority requested information protected by Andorran bank secrecy. Information may be furnished in response to requests otherwise conforming to Andorran law.

The UPBO was established in 2001 and has become a member of the Egmont Group. Andorra complies with the Financial Action Task Force (FATF) 40 recommendations plus the Special Recommendations on Terrorist Financing. UPBO, with a staff of four, is an administrative unit with no law enforcement powers of its own. But the police work closely with the FIU, and a newly passed article authorizes the use of telephone taps and undercover officers in money laundering investigations. The UPBO can administratively freeze assets for five days without a judicial order. If the assets need to be held for a longer period, the UPBO can seek a judicial order, which normally occurs within the five-day period the UPBO is authorized to hold the accounts. Judicial freeze orders can be effective for an indefinite period of time. UPBO also acts in a supervisory role, and provides education regarding compliance and money laundering prevention to financial services providers.

The UPBO works closely with its Spanish and French counterparts. During the first seven months of operation (July 24, 2001—February 22, 2002), the UPB received 24 suspicious transaction reports filed by obligated institutions. To date it has not dealt with any cases involving terrorism, but it has frozen assets in some non-terrorist related money laundering cases.

Andorra has signed, but not yet ratified, the UN International Convention on the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Although not a member of the European Union, Andorra has very close cultural and geographic ties to Spain and France. In fact, Andorra does not have a requirement for cross-border currency declarations, because with Spain's threshold at 8,000 euros and France's at 6,000 euros, it would be impossible to enforce.

Andorra should continue to enhance its anti-money laundering regime by broadening its definition of money laundering to expand the list of predicate offenses, and if it has not already done so, should criminalize the financing of terrorism.

Angola. Angola has an underdeveloped financial sector and money laundering does not appear to be a significant problem. Yet the laundering of funds derived from corruption is a concern, as is the illegal trade in diamonds and the usage of diamonds as a conduit for money laundering schemes. It is possible that links exist between the illegal diamond trade and international drug and criminal organizations. Angola is participating in the "Kimberley Process," which is a globally coordinated effort to halt trade in "conflict" diamonds in countries such as Angola by domestically implementing rough diamond trade control regimes. Angola has already implemented a domestic system in accordance with the Kimberley Process.

Angola has no comprehensive laws, regulations, or other procedures to detect money laundering and financial crime. Angola's counternarcotics laws criminalize money laundering related to narcotics-trafficking.

Money Laundering and Financial Crimes

Angola has not deposited its instruments of ratification to the 1988 UN Drug Convention. Angola has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Angola should criminalize terrorist financing and money laundering related to all serious crimes and should develop a viable anti-money laundering regime.

Anguilla. Anguilla's offshore financial sector renders it vulnerable to money laundering. As with the other U.K. 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 Financial Services Department (FSD) Director is responsible for inspecting Trust Companies, Offshore Banks, the Registrar of Insurance and is the Inspector of Company Management.

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 Reporting Authority is now operational, but it is not a member of the international Egmont Group of FIUs. The Criminal Justice (International Co-operation) (Anguilla) Act, 2000 enables Anguilla to directly cooperate with other jurisdictions through mutual legal assistance.

The U.S./U.K. Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to Anguilla in November 1990. Anguilla is also subject to the U.S./U.K. Extradition Treaty. Anguilla is a member of the Caribbean Financial Action Task Force (CFATF), and is subject to the 1988 UN Drug Convention.

Anguilla should continue to strengthen its anti-money laundering regime by adopting measures to immobilize bearer shares and ensure that beneficial owners of IBCs can be identified. Legislation should be passed granting operational independence for the FSD, with its own funding source and a supervisory board.

Antigua and Barbuda. Antigua and Barbuda has comprehensive legislation in place to regulate its financial sector, but it remains susceptible to money laundering because of its loosely regulated offshore financial sectors and its Internet gaming industry. In August 2001, as a result of the enactment of new laws and their substantial implementation, both the U.S. and the UK lifted April 1999 financial advisories recommending that their respective financial institutions give enhanced scrutiny to all financial transactions routed into or out of Antigua and Barbuda.

In response to these advisories, the Government of Antigua and Barbuda (GOAB) in 1999 repealed the 1998 amendments to Antigua and Barbuda's Money Laundering (Prevention) Act (MLPA) of 1996 that had effectively strengthened bank secrecy, inhibited money laundering investigations and infringed on international cooperation. Additional amendments to the MLPA in 2000, 2001 and 2002 enhanced international cooperation, strengthened asset forfeiture provisions and created civil forfeiture powers.

Antigua and Barbuda in October 2001 enacted the Prevention of Terrorism Act, which empowers the Supervisory Authority under the MLPA to nominate any entity as a "terrorist entity" and to seize and forfeit terrorist funds. The law specifies any finances in any way related to terrorism. Antigua circulated all the various "terrorist" lists to all financial institutions in Antigua. The lists did not produce any

disclosures. All institutions were personally contacted to ensure compliance. Thus, no terrorist funds were detected in Antigua. The GOAB has responded to the FATF Self-Assessment for Implementation of the Special Recommendations on Terrorist Financing; based on its responses, it was determined to be compliant with six of the seven recommendations and partially compliant with the recommendation concerning alternative remittances. The GOAB has acceded to the International Convention for the Suppression of the Financing of Terrorism. No known evidence of terrorist financing has been discovered in Antigua and Barbuda to date. The GOAB has not undertaken any specific initiatives focused on the misuse of charitable and non-profit entities.

In 2000, the GOAB amended the International Business Corporations Act (IBCA) of 1982 in order to excise 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. The GOAB further amended the IBCA that year to require that registered agents ensure the accuracy of the records and registers that are kept at the Registrar's office, as well as to know the names of beneficial owners of IBC's and to disclose such information to authorities upon request. 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. In 2002, the IFSRA was replaced by a new entity entitled the Financial Services Regulatory Commission (FSRC). The Director of IFSRA was removed from her position and replaced by a new director. FSRC, was reportedly created, to create a unified regulatory structure of Antigua's financial services' sector. FSRC now has the responsibility of regulating the offshore banking sector, the formation of international business corporations, Internet gaming, and domestic financial services, such as insurance and trusts.

From 1999 through 2002, 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. Of these, however, 11 are foreign shell banks that have no physical presence in Antigua and Barbuda.

Unlike some of the other countries in the Eastern Caribbean, the GOAB has not yet chosen to initiate a unified regulatory structure or uniform supervisory practices for its domestic and offshore banking sectors. Currently, the Eastern Caribbean Central Bank (ECCB) supervises Antigua and Barbuda's domestic banking sector. A domestic entity, the FSRC is responsible for the regulation and supervision of the offshore banking sector as well as conducting examinations and on-site and off-site reviews of the country's offshore financial institutions and of some domestic financial entities, such as insurance companies and trusts. The FSRC, formed in 2002, represents on balance a weaker regulatory structure than its predecessor, the International Financial Services Regulatory Authority (IFSRA). Additionally, the FSRC issues licenses for the international business corporations and maintains the register of all corporations, of which there are approximately 13,500. Bearer shares are not permitted. 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. Service providers are required by law to know the names of beneficial owners.

The Office of National Drug Control and Money Laundering Policy (ONDCP) directs the GOAB's antimoney laundering efforts in coordination with the FSRC. It has primary responsibility for the enforcement of the MLPA. ONDCP is a department of the Prime Minister's Ministry and the GOAB intends to introduce legislation designating the ONDCP as a law enforcement agency with statutory powers of investigation, search and arrest. The GOAB's Financial Intelligence Unit and Financial Investigations Unit are components of the ONDCP. In recent years, a number of GOAB civilian and law enforcement officials, both in and out of the ONDCP, have received anti-money laundering training from the Caribbean Anti-Money Laundering Program and bilateral Department of State, Bureau of International Narcotics and Law Enforcement Affairs funded anti-money laundering training programs.

Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are supervised by the ONDCP and the FSRC, of which the Directorate of Offshore Gaming (DOG)—13 professional and clerical employees—is a part. Antigua and Barbuda's domestic casinos, of which there are six, are required to incorporate as domestic corporations and Internet gaming operations, of which there are 39, are required to incorporate as IBC's. The FSRC and DOG have 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 set financial limits above which customer identification and source of funds information are required. Suspicious activity and suspicious transaction reports from domestic and offshore gaming are sent to the ONDCP and FSRC; currently, they are receiving 2-3 weekly. The GOAB has drafted and is considering legislation and regulations for the licensing of interactive gaming and wagering in order to address possible money laundering through client accounts of Internet gambling operations.

Antigua and Barbuda is a party to the 1988 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), of which it assumed the Vice-Presidency in 2002. The GOAB underwent its Second Round CFATF Mutual Evaluation in October 2002. In 1999, Antigua and Barbuda was the first country in the Eastern Caribbean to exchange instruments of ratification bringing into force a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States. One extradition request related to a fraud and money laundering investigation remains pending under the Treaty, awaiting the outcome of an appeal against a Magistrate's deportation order. Antigua and Barbuda signed a Tax Information Exchange Agreement with the United States in December 2001 that allows the exchange of tax information between the two nations. Antigua and Barbuda ratified the UN Convention against Transnational Organized Crime on July 24, 2002. In 2002, the Bahamas sponsored Antigua and Barbuda for membership in the Egmont Group. The ONDCP expects to be admitted as a full member at the Group's 2003 Plenary.

In 2002 the GOAB continued its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions, including, in particular, the FBI's investigation into the activities in Antigua and Barbuda of John Muhammed, the alleged Washington, D.C. area sniper. The GOAB has provided assistance to U.S. and other countries' law enforcement officials and prosecutors investigating and prosecuting fraud and money laundering cases. The GOAB has benefited through an asset sharing agreement with Canada and has received other asset sharing revenues as a result of its cooperation in the freezing and forfeiture of illegal assets at the request of other countries. However, Antigua and Barbuda has not prosecuted a money laundering or forfeiture case, on its own.

The GOAB should continue its international cooperation and rigorously implement and enforce all provisions of its anti-money laundering legislation, as well as take the necessary legislative and regulatory steps to ensure that its gambling sector is properly covered by anti-money laundering legislation and is strictly supervised. Additionally, the GOAB should vigorously enforce its money laundering laws by actively prosecuting money laundering and asset forfeiture cases. The GOAB should ensure that all offshore banks licensed in Antigua and Barbuda have a physical presence, to avoid possibly losing correspondent accounts in U.S. banks under Section 313 of the USA Patriot Act.

Argentina. Argentina is neither an important regional financial center nor an offshore banking center. Money laundering related to narcotics-trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial system, in spite of the Government of Argentina's (GOA's) efforts, described below, to stop it. The severe financial crisis and capital controls of the past two years may have reduced the opportunities for money laundering through the banking system. However, transactions conducted through non-bank sectors and professions, such as the insurance industry; financial advisors; accountants; notaries; trusts; and companies, real or shell, remain viable mechanisms to launder illicit funds.

In the midst of the political and economic crisis that swept Argentina during 2002, the Government made efforts at implementing the regulations for anti-money laundering law number 25.246 of May 2000. Law 25.236 expands the predicate offenses for money laundering to include all crimes listed in the Penal Code, sets a stricter regulatory framework for the financial sectors, and creates a Financial Intelligence Unit (FIU), in Spanish, Unidad de Informacion Financiera (UIF), under the Ministry of Justice and Human Rights. Under this 2000 law, requirements for customer identification, record keeping, and reporting of suspicious transactions now apply to all financial entities and businesses supervised by the Central Bank, the Securities Exchange Commission (Comisión Nacional de Valores—CNV), and the Superintendency of Insurance. These financial entities and businesses include banks; currency exchange houses; casinos; securities dealers; registrars of real estate; auto dealerships; dealers in art, antiques, and precious metals; insurance companies; issuers of travelers checks; credit card companies; armored car companies; postal money transmitters; notaries; and certified public accountants.

The law forbids the institutions to notify their clients when filing suspicious financial transactions reports, and provides a safe harbor from liability for reporting such transactions. The UIF is expected to establish reporting norms tailored to each type of business. The UIF began operating in June 2002 at a minimum capacity due to a lack of funds, since it was not included in the national budget for 2002. In addition, it has not received the technical and specialized personnel that were to join it from the Central Bank, CNV, and the Superintendency of Insurance. The UIF now has 28 staff, and their 2003 budget will support an increase in staff up to 60. However, that budgeted personnel level is not supported with funds for sufficient computer and security equipment or office furniture and supplies even for the current 28 staff.

Per a rule issued by the UIF, effective October 29, 2002, entities supervised by the Central Bank, CNV, and the Superintendency of Insurance must report all suspicious transactions over 500,000 Argentine pesos (approximately \$140,000) directly to the UIF. Transactions below 500,000 Argentine pesos will go to the appropriate supervisory body for pre-analysis and subsequent transmission to the UIF if deemed necessary. The UIF has now received approximately 200 SARs.

The UIF also issued a rule for the centralized registration at the UIF of transactions involving the transfer of funds (outgoing or incoming), cash deposits, or currency exchanges that are equal to or greater than 10,000 pesos (approximately \$2,700). The UIF further receives copies of the declarations to be made by all individuals (foreigners or Argentine citizens) entering or departing Argentina with over \$10,000 in currency or monetary instruments. These declarations are required by Resolutions 1172/2001 and 1176/2001 issued by the Argentine Customs Service in December 2001. Argentina's Narcotics Law of 1989 authorizes the seizure of assets and profits, and provides that these or the proceeds of sales will be used in the fight against illegal narcotics-trafficking. The money laundering law of May 2000 (25.246) provides that proceeds of assets forfeiture under this law can also be used to fund the UIF.

The GOA remained active in multilateral counternarcotics and international anti-money laundering organizations. It is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention Against Transnational Organized Crime, which is not yet in force internationally. It 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 Financial Action Task Force (FATF) as well as the South American Financial Action Task Force (GAFISUD). The GOA and the United States Government (USG) have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force on June 15, 2000. In March 2001, the GOA signed the UN International Convention for the Suppression of the Financing of Terrorism. On September 26, 2001, the Central Bank of Argentina issued Circular B-6986 instructing financial institutions to identify and freeze the funds and financial assets of the individuals and entities listed by the USG as possibly engaged in acts of terrorism. Although no assets were frozen, the Central Bank continues to monitor the financial institutions.

Argentina should take measures to implement the FATF's 8 Special Recommendations on Terrorist Financing. With strengthened mechanisms available under the May 2000 anti-money laundering law,

including the creation of the UIF, Argentina seems poised to prevent and combat money laundering effectively. Disputes over information sharing between the UIF and the tax agency (AFIP) also need to be resolved for anti-money laundering efforts to succeed. In addition, further implementation efforts are needed in order to succeed: increased public awareness of the problem of money laundering and the requirements under the new law, forceful sanctioning of officials and institutions that fail to comply with the reporting requirements of the law, the pursuit of a training program for all levels of the criminal justice system, and provision of the necessary resources to the UIF to carry out its mission.

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. Schemes used to launder funds include the under-invoicing of imports, double bookkeeping, and misuse of the banking system.

Under banking laws amended in October and November, 2002, the Central Bank requires banks in Armenia to demand certain information from people and businesses making large deposits in order to demonstrate that the funds are of legal origin. The new laws also require banks to confirm the identity of clients wishing to open a bank account. Also under the new laws, the Central Bank can freeze bank accounts suspected of containing funds used for terrorist financing or money derived from criminal activities. The Government of Armenia has drafted a law that would criminalize money laundering.

Armenia is a party to the 1988 UN Drug Convention. Armenia has signed, but not yet become a party to, both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In 2001, Armenia signed, but has not yet become a party to, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. It is, however, a party to the European Convention on Mutual Assistance in Criminal Matters.

Armenia should establish and implement a comprehensive anti-money laundering regime that criminalizes money laundering and terrorist financing.

Aruba. Aruba, which has full internal autonomy, is a part of the Kingdom of the Netherlands. As a transit country for cocaine and heroin, Aruba is both attractive, and therefore, vulnerable to money launderers. While not large, the offshore sector consists of 562 active limited liability companies and 3,762 active offshore tax-exempt companies referred to as Aruba Exempt Companies (AEC). Both types of companies can issue bearer shares. The financial sector is composed of the five onshore banks, two offshore banks, four bank-like institutions, and two credit unions; other financial sector entities include eight life insurance companies, 12 general insurance companies, two captive insurance companies, ten company pension funds, and 30 money remitters and exchange offices. There are also 11 casinos. 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 currently include the offshore Naamloze Vennootschap (NV) or limited liability company, which is a low-tax entity, and the Aruba Exempted Company (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 \$280, and must have a minimum authorized capital of \$6,000. AECs cannot participate in the economy of Aruba, and are exempt from several obligations: all taxes and currency restrictions, and the filing of annual financial statements. Trust companies provide a wide range of corporate management and professional services to AECs, including managing the interests of their shareholders, stockholders, and other creditors. In May 2000, the Government of Aruba (GOA) issued guidance notes on corporate governance practices.

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) also reviewed the draft ordinance. The draft ordinance is still pending enactment.

To replace the offshore sector and keep Aruba competitive for international capital, the GOA is proposing a New Fiscal Framework (NFF or Dutch acronym: NFR) that reportedly contains elements such as a dividend tax and imputation credits. The proposal will have to be consistent with OECD standards regarding its "Harmful Tax Practices" regime. The full content and its practical application, however, cannot be fully assessed at this time.

Following up on the July 4, 2000, Parliamentary approval of the State Ordinance Free Zones Aruba (FZA), the Parliament unanimously approved the designation of a 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. As a result of these tougher standards there was a 65 percent drop in free zone business in Aruba.

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.

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 five that consists of three investigators and two administrative assistants. On March 12 the GOA authorized a doubling of the MOT's staff to 12 and is committed to providing the MOT with additional computer equipment and software in 2003 to increase its effectiveness and efficiency.

The FIU 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 companies, and in early 2003, the MOT will begin on-site inspections. 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. Effective February 19, 2002, suspicious transaction reporting was extended to life insurance companies.

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 \$11,000). The law is still pending implementation.

In July of 2002, there were two convictions for money laundering through supermarkets. In most cases the money laundering offense is integrated into investigations of the underlying offense.

Aruba signed a multilateral directive with Colombia, Panama, the United States, and Venezuela to establish an international working group to fight money laundering that occurs through the Black Market Peso Exchange (BMPE). The final set of recommendations on the BMPE was signed on March 14, 2002. The working group developed policy options and recommendations to enforce actions that will prevent, detect, and prosecute money laundering through the BMPE. The next working group meeting will convene in July 2003 to review countries' progress in implementing the recommendations and to report on results achieved in combating trade-based money laundering.

In October 2002, the MOT took the initiative to host a "Counter-terrorism Financing Anti-Money Laundering Conference" in Aruba for 120 participants drawn from the GOA, the private financial sector, FinCEN, and the FBI.

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, including the Eight Special Recommendations on Terrorist Financing. The local FATF committee reviewed the GOA anti-money

laundering legislation and proposed, in accordance with the FATF Eight Special Recommendations on Terrorist Financing, amendments to existing legislation and introduction of new laws. Currently, there are seven draft ordinances before Parliament. As part of its commitment to combat the financing of terrorism, the GOA formed another committee 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 through a memorandum of understanding (MOU), is now with Parliament. 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. Given the money laundering vulnerability presented by bearer shares, the GOA should ensure that bearer shares are immobilized under the NFF. The GOA should also pass and implement legislation, regulations and MOUs to improve information sharing by its FIU and to improve adherence to the new FATF Eight Special Recommendations on Terrorist Financing. The GOA should also 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. Australia is one of the key centers for capital markets activity in the Asia-Pacific region, with liquid markets in equities, debt, foreign exchange and derivatives. Activity across Australia's exchange and over-the-counter financial markets amounted to \$27.6 trillion through June 2002, an increase of 19.5 percent on the same period 12 months ago. The market capitalization of finance and insurance on the Australian stock exchange (ASX) has increased eightfold from \$18.8 billion in 1991 to \$147 billion in 2001. 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. The last two years have seen a noticeable increase in activities investigated by Australian law enforcement agencies that relate directly to offenses committed overseas. The majority of these matters are connected to frauds committed in an overseas jurisdiction where money has either been laundered into Australia for the purpose of acquiring assets or has been laundered through Australia to overseas countries.

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. Banks and financial institutions are required to verify the identities of all new account holders and new signatories to existing accounts, and must retain the record, or a copy of it, for seven years after the day on which the relevant account is closed. A cash dealer, or an officer, employee or agent of a cash dealer, is protected against any action, suit or proceeding in relation to the reporting process. The FTR also establishes reporting requirements for 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. FTR reporting also applies to non-bank financial institutions such as money exchangers, money remitters, stockbrokers, casinos and other gambling institutions, bookmakers, insurance companies, insurance intermediaries, finance companies, finance intermediaries, trustees or managers of unit trusts, issuers, sellers and redeemers of travelers checks, bullion sellers and other financial services licensees. Lawyers also are

required to report significant cash transactions. Accountants do not have any FTR obligations. However, they do have an obligation under a self-regulatory industry standard not to be involved in money laundering transactions.

The Australian Transaction Reports and Analysis Center (AUSTRAC), Australia's Financial Intelligence Unit (FIU), estimates that approximately \$26 million in reported suspect transactions is reported annually from reporting cash dealers (financial institutions). Australian Federal Police (AFP), based on their intelligence on drug crime and major frauds, estimates that approximately \$1.75-2.1 million is laundered through the Australian economy each year. AUSTRAC 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.

In June 2002, Australia passed the Suppression of the Financing of Terrorism Act 2002. The aim of the bill is to restrict the financial resources available to support the activities of terrorist organizations. This legislation criminalizes terrorist financing and substantially increases the penalties that apply when a person uses or deals with suspected terrorist assets that are subject to freezing. The bill enhances the collection and use of financial intelligence by requiring cash dealers to report suspected terrorist financing transactions to AUSTRAC, and relaxes restrictions on information sharing with relevant authorities regarding the aforementioned transactions. The bill also addresses commitments Australia has made with regard to the UNSCR 1373 and the UN International Convention for the Suppression of the Financing of Terrorism. There have been no prosecutions or arrests under this legislation to date. The Security Legislation Amendment (Terrorism) Act 2002, which received Royal Assent on 5 July 2002, inserted into the Criminal Code offenses of receiving funds from, or making funds available to, a terrorist organization.

On September 6, 2002, the GOA froze three accounts in the name of a listed terrorist entity, the International Sikh Youth Federation (ISYF). A review of the FTR Act is currently being undertaken with regard to improving procedures, implementing international best practices, and addressing further aspects of terrorist financing to include alternative remittance systems.

Australia is a member of the Financial Action Task Force (FATF), co-chairs the Asia/Pacific Group on Money Laundering (APG) and is also a member of 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 11 countries, with approximately 19 additional MOUs in various stages of negotiation. MOUs have recently been signed with Singapore, Isle of Man and Israel. An MOU with Canada is expected to be signed shortly. Other MOUs are with Vanuatu, United States, United Kingdom, New Zealand, Belgium, France, Italy and Denmark. MOUs with Malaysia and Thailand are expected to be signed early in 2003, and with Switzerland in April 2003. In September 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force. In March 2002, Australia signed a bilateral agreement with Vanuatu.

Australia has signed and ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and the 1988 UN Drug Convention. Australia has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Australia ratified the UN International Convention for the Suppression of the Financing of Terrorism on September 26, 2002.

Australia continues to pursue a well-balanced, comprehensive and effective anti-money laundering regime that meets the objectives of the FATF Forty Recommendations and the Special Recommendations on Terrorist Financing. 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 its efforts to emphasize money laundering issues and trends within the APG, and its commitment to providing training and technical assistance to the Asia/Pacific region.

Austria. Austria is not an important regional financial center, offshore tax haven or banking center. There is no hard evidence that Austria is a major money laundering country; however, like any highly developed financial marketplace, Austria's financial and non-financial institutions are vulnerable to money laundering. According to the Austrian Interior Ministry's 2001 National Security Report, organized crime has become a cross-border multinational problem in Austria, representing a considerable share of overall criminal activity. The percentage of undetected organized crime is believed to be enormous, with revenues derived from organized crime often mingled with legitimate income in legal firms. Organized crime, in particular from the former Soviet Union, is trying to launder money in Austria by investing in real estate, exploiting existing business contacts, and trying to establish new contacts in politics and business.

Austria criminalized money laundering in 1993. Adoption of the Banking Act of 1994 creates customer identification, record keeping, and staff training obligations for the financial sector. Entities subject to the Banking Act include banks, leasing and exchange businesses, safe custody services, and portfolio advisers, as well as insurance companies underwriting life policies. The Banking Act created the Austrian Financial Intelligence Unit (AFIU, formerly known as EDOK) within the Interior Ministry. In 2002, the AFIU was absorbed as one section of the newly established Austrian Bundeskriminalamt (Federal Crime Office). AFIU continues to serve as the central repository of suspicious transaction reports.

The Banking Act requires identification of all customers when entering an ongoing business relationship, i.e., in all cases of opening a checking account, a passbook savings account, a securities deposit account, etc. In addition, customer identification is required for all transactions of more than 15,000 euros, (\$14,016) for customers without a permanent business relationship with the bank. Banks and other financial institutions are required to keep records on customers and account owners. Bankers are protected with respect to their cooperation with law enforcement agencies. They are also not liable for damage claims resulting from delays in completing suspicious transactions. There is no requirement for banks to report large currency transactions, unless they are suspicious. AFIU is, however, providing information to banks to raise awareness of large cash transactions.

The existence of anonymous numbered passbook savings accounts spurred the Financial Action Task Force (FATF) to threaten Austria with suspension from FATF if Government of Austria (GOA) did not take action to abolish the accounts. The European Commission had lodged a complaint with the European Court of Justice contending that these anonymous passbook savings accounts violated the Commission's anti-money laundering directive. The FATF lifted its warning about the anonymous passbook savings accounts following the GOA's enactment of legislation, effective November 2, 2000. Since then, new passbook savings accounts and deposits on existing accounts require customer identification. The deadline for identifying existing anonymous accounts was June 30, 2002; since then, special procedures, i.e., delaying payments and reporting such customers to the police, apply for accounts not yet identified. There are no statistics on how many accounts have not been identified. Banks and other financial institutions must maintain records on customer identification for at least five years after the termination of the business relationship. Records of all transactions are kept for at least five years following the execution of those transactions.

The anonymity of securities accounts was abolished in 1996 with the so-called "iceberg solution." Under this arrangement, withdrawals and sales of securities from anonymous accounts opened before August 1, 1996, were allowed without customer identification; these accounts would then "melt away" over time, since no new deposits were allowed. This arrangement expired June 30, 2002. However, for securities accounts not identified by June 30, 2002, special procedures, like those applied to passbook savings accounts, do not apply. In 1997, the GOA tightened restrictions on trustee accounts, applying requirements that encompass identification of the beneficial owner(s).

A planned amendment of the Banking Act to implement the EU's Money Laundering Directive on the prevention of the use of the financial system for the purpose of money laundering, as amended in 2001,

and to incorporate changes related to terrorism financing and implementation of stricter identification requirements (for trustees and beneficial owners, and by requiring banks to ask for and make a copy of an official picture ID and terminate entries of "personally known customer" in banks' records) was not sent to Parliament due to the GOA's early break-up in September 2002.

Another outstanding issue for the next government is the deferred amendment of the Customs Act addressing the problem of international transportation of illegal-source currency and monetary instruments. The planned amendment was to introduce border controls for cash. Presently, there are no cross-border reporting requirements, and there is no declaration requirement at the border relating to the amount of currency that can be legally brought into or taken out of Austria.

The Banking Act includes a due diligence obligation, and individual bankers are held legally responsible if their institutions launder money. In addition, banks have signed a voluntary agreement to prohibit active support for capital flight. On November 26, 2001, the Federal Economic Chamber's banking and insurance department, in cooperation with all banking and insurance associations, published an official "Declaration of the Austrian Banking and Insurance Industries to Prevent Financial Transactions in Connection with Terrorism."

Currently, there are no money laundering controls applied to non-banking financial institutions not subject to the Banking Act. However, an amendment of the Business Code taking effect June 15, 2003, will introduce money laundering regulations regarding identification, record keeping, and reporting of suspicious transactions for dealers in high-value goods such as precious stones or metals, or works of art, auctioneers, and real estate agents. Regulations for accountants, lawyers and notaries are in the drafting phase and will be incorporated in the occupational regulations for these professions, expected to be implemented by mid-2003. For casinos, a planned amendment of the Gambling Act, implementing a legal requirement for customer identification and a reporting requirement of suspected money laundering or terrorism financing activities, was not sent to Parliament due to the GOA's early break-up, and is another issue for the next government. However, absent the legal regulation for customer identification, casinos licensed in Austria are already supervised by the Ministry of Finance, and require and record picture IDs of all visitors.

Legislation implemented in 1996 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 strict banking secrecy regulations, though bank secrecy will be lifted for cases of suspected money laundering. Moreover, bank secrecy does not apply in cases when banks and other financial institutions are required to report suspected money laundering. Such cases are subject to instructions of the authorities (i.e., AFIU) with regard to processing such transactions.

The Criminal Code Amendment 2002, effective October 1, 2002, introduces the following new criminal offense categories: terrorist grouping, terrorist criminal activities, and financing of terrorism. "Financing of terrorism" is defined as a separate criminal offense category in the Criminal Code, punishable in its own right. Terrorism financing is also included in the list of criminal offenses subject to domestic jurisdiction and punishment regardless of the laws where the act occurred. Further, the money laundering offense is expanded to terrorist groupings. The law also gives the judicial system the authority to identify, freeze and seize terrorist financial assets. The Austrian authorities have circulated to all financial institutions the list of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list and those designated by the United States or the EU. According to the Ministry of Justice and the AFIU, no accounts found in Austria ultimately showed any links to terrorist financing. After September 11, 2001, the AFIU froze several accounts on an interim basis, but in trying to establish evidence, only two accounts were designated for seizure. Both later turned out to be cases of mistaken identity.

The GOA has undertaken some initial efforts that may help thwart the misuse of charitable and/or non-profit entities as conduits for terrorist financing. The new law on associations (Vereinsgesetz, published in

Federal Law Gazette number I/66 of April 26, 2002) came into force on July 1, 2002, and covers charities and all other non-profit associations in Austria (including religious associations, sports clubs, etc.). Materially, the new law is very similar to the old law, but it does call for record keeping and auditing on the part of non-profit entities. The Vereinsgesetz regulates the establishment of associations, bylaws, organization, management, association register, appointment of auditors, and detailed accounting requirements. The Ministry of Interior's responsibility is limited to approving the establishment of associations, regardless of the purpose of the association, unless it violates legal regulations. There are no regular or routine checks made on associations established in Austria. Only in case of complaints will the Interior Ministry start investigations and, in case of serious violations of laws, may officially prohibit the association. As mentioned above, the planned amendment of the Banking Act to tighten ID requirements was not sent to Parliament due to GOA's early break-up in September 2002. The draft also included regulations to subject money remittance businesses to the Banking Act.

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 has endorsed fully all core principles of the 1997 Basel Committee. In addition to the exchange of information with home country supervisors permitted within the EU, Austria has defined this information exchange more precisely in agreements with five other EU members (France, Germany, Italy, Netherlands, and UK) and with the Czech Republic, Hungary and Slovenia.

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. In December 2000, Austria signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Austria ratified the UN International Convention for the Suppression of the Financing of Terrorism on April 15, 2002. Austria is a member of the FATF and the EU, and is an observer with the Council of Europe's select committee of experts on the evaluation of anti-money laundering measures (Moneyval, formerly PC-R-EV). The AFIU is a member of the Egmont Group.

The GOA has criminalized money laundering for all serious crime and passed additional legislation necessary to construct a viable anti-money laundering regime. The GOA should ensure its pending laws and regulations are adopted and implemented, particularly those covering financial intermediaries and gaming entities. Additionally, the GOA should adequately regulate its charitable and non-profit entities to reduce their vulnerability to misuse by terrorist organizations and their supporters.

Azerbaijan. Azerbaijan is not considered a major center for international money laundering given its small, underdeveloped banking sector. It is difficult, however, to determine the extent of the money laundering problem, due to existing bank secrecy laws and the number of formal and informal non-bank financial institutions. The large number of cash transactions, as well as the legacy of corruption and tax evasion, compounds the problem. Azerbaijan has not adopted a specific anti-money laundering law, although parliament has made amendments to its banking and currency laws in order to prevent money laundering activities. In November 2001, regulations were enacted that stipulated any person leaving or entering the country with \$50,000 or more in foreign currency must report the amount to customs.

Funds transfers abroad in excess of \$ 10,000 must have the approval of the National Bank of Azerbaijan (NBA). The NBA also has issued "know your customer" directives to individual banks. Reportedly, non-bank financial institutions are probably used to launder money related to tax evasion and avoidance of customs fees.

Article 214-1 of Azerbaijan's Criminal Code criminalizes the financing of terrorism. The NBA also distributes lists of individuals and entities added to the U.S. Executive Order 13224 asset freeze list and submitted to the UN 1267 Sanctions Committee to be included on its consolidated list of

entities/individuals whose assets UN member states are obligated to freeze pursuant to UNSCR 1267 and 1390. To date, NBA has identified and frozen the assets of one designated entity.

Azerbaijan is party to the 1988 UN Drug Convention. In October 2001, Azerbaijan became a party to the UN International Convention for the Suppression of the Financing of Terrorism. In November 2001, Azerbaijan signed the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime but has not yet ratified the Convention. Azerbaijan submitted the Financial Action Task Force (FATF) Terrorist Finance Self-Assessment Questionnaire in October 2002.

Azerbaijan should enact money laundering legislation that establishes a viable anti-money laundering regime that would require filing suspicious transactions to a Financial Intelligence Unit. Additionally, the Government of Azerbaijan should develop awareness programs for its law enforcement and customs agencies.

Bahamas. The Commonwealth of the Bahamas is an important regional and offshore financial center. The U.S. dollar circulates freely in the Bahamas, and is everywhere accepted on a par with the Bahamian dollar.

Money laundering in the Commonwealth of the Bahamas is mostly related to the proceeds of cocaine and marijuana trafficking, although a substantial portion is likely related to financial fraud. During 2001, the Government of the Commonwealth of the Bahamas (GCOB) implemented legislative reforms that strengthened its anti-money laundering regime and made it less vulnerable to exploitation by money launderers and other financial criminals. As a result, in June 2001, the Financial Action Task Force (FATF) removed the Bahamas from the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. The United States and Canada also withdrew financial advisories for the Bahamas. Although removed from the NCCT list, FATF continues to monitor the Bahamas' progress in implementing its anti-money laundering regime. During 2002, the GCOB continued to implement legislative reforms, enacted in 2000, that strengthened its anti-money laundering regime and report such implementation efforts to the Americas Review Group of FATF.

Financial services are the second most important industry in the Bahamas, accounting for 15 percent of the Gross Domestic Product (GDP) and ranking just behind tourism. At the beginning of 2002, there were 356 licensed bank or trust companies, down 13 percent from 410 at the beginning of 2001. The decline was due to the Central Bank of the Bahamas' requirement that "managed banks" (those without a physical presence but which are run by an agent such as a lawyer or another bank) either establish a physical presence in the Bahamas (an office, separate communications links and a resident director) or cease operations. Some 227 of the 356 institutions were permitted to deal with the public and 129 had either restricted or non-active licenses. Of the public institutions, only 44 were Bahamian-based banks and trusts; 106 were subsidiaries of banks and trusts based outside the Bahamas; 53 were euro-currency branches of foreign banks and trusts based in the United States, the United Kingdom, Canada, Europe, South America, Central America and Asia; and 24 were clearing banks or trusts based outside the Bahamas and authorized to deal in Bahamian and foreign currency and gold.

During 2002, the Financial Intelligence Unit (FIU), created in 2000, continued to share financial information with its foreign counterparts, including FinCEN, the U.S. Financial Intelligence Unit. In 2001, the FIU received 246 suspicious transaction reports, and more than 80 reports have been received in 2002.

In 2002, the Bahamian Court of Appeal reversed a controversial lower court decision that had held unconstitutional a provision of the FIU Act 2000. The appellate decision confirmed the power of the FIU to freeze a financial account without first obtaining a court order. The plaintiff, a British Virgin Islands firm, Financial Clearing Corporation, did not pursue a possible appeal to the Judicial Committee of the Privy Council in London.

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. 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. The Act has been amended several times to extend the deadline, which is now December 31, 2003.

All new accounts established in 2001 or later had to be in compliance with KYC rules before they were opened. As of October 2002, only 229,000 accounts had been verified of 538,861 accounts (some 42 percent). From their introduction, 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.) In October 2002, the Minister of Financial Services and Investments, a post created by the Progressive Liberal Party (PLP) government elected in April 2002, lamented that the rigid, overly prescriptive requirements of the KYC rules had caused financial institutions to harass long-standing, well-known clients for documents and observed that those rules had been applied to accounts of low-risk customers, including pensioners, whose opportunities for money laundering were minimal.

The Tracing and Forfeiture/Money Laundering Investigation Section of the Drug Enforcement Unit of the Royal Bahamas Police Force is the primary financial law enforcement agency in the Bahamas, with the responsibility for investigating suspicious transaction reports received from the FIU. This agency is also responsible for investigating all reports of money laundering in the Bahamas received from law enforcement agencies or the public. Furthermore, this agency investigates matters of large cash seizures, in addition to investigating local drug traffickers and other serious crime offenders to determine whether they benefited from their criminal conduct. From January through May 2002 the FIU forwarded 15 suspicious transactions reports to the Tracing and Forfeiture/Money Laundering Investigation Section. Eleven of the reports were investigated and one was forwarded to the Commercial Crime Section for further investigation. The Tracing and Forfeiture/Money Laundering Investigation Section also investigated matters involving seized cash during 2002. Several of these cases are currently before the courts.

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 the 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 in October 2001 was placed on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 (on terrorist financing).

At the beginning of 2001, there were some 100,000 incorporated international business companies (IBCs) in the Bahamas. The International Business Companies Act 2000 eliminated anonymous ownership of IBCs by prohibiting bearer shares and imposing KYC requirements. As a result, the Bahamas became less attractive to both 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. In February 2002, the GCOB approved the employment of nine persons in the Registrar General's Department to assist in reviewing the 90,000 IBC files to verify the companies' compliance with the provisions of the International Business Companies Act 2000. The project began on April 8, 2002, and continued through the year.

The Bahamas has two casinos in Nassau and one in Freeport/Lucaya, and a license for a fourth 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. Under Bahamian law, Bahamian residents cannot gamble in the casinos.

As of March 2002, there were 56 local insurers and 30 offshore insurance companies in the Bahamas. At the beginning of 2002 there were 724 Bahamas-based mutual funds (down 4 percent from 757 at the start of 2001) with a net asset value of \$94 billion.

While most money laundering in the Bahamas is narcotics related, a major money laundering case, that of prominent Bahamian attorney Leslie Vernon Rolle, is related to a \$1.7 million financial fraud scheme. (That much-delayed prosecution is scheduled for trial in the Supreme Court in 2003.)

Some Bahamian bankers contend that under the strengthened anti-money laundering regulations, it is more difficult to make deposits in a Bahamian bank than in other jurisdictions. That this increased strictness may have driven drug traffickers to keep cash in their homes and vehicles is supported by police seizures of large sums of drug-related money in those places in 2001 and 2002. According to the Royal Bahamas Police Force (RBPF), two trends characterized money laundering in the Bahamas in 2002: an increasing "professionalization" of money laundering by the use of professionals in the business and financial sectors, and the prevalent use of cash intensive businesses as fronts for co-mingling illegal gains with legitimate receipts. The RBPF noted that professional money launderers now receive a standard fee of 20 percent of the funds being laundered. The RBPF also cited the use of businesses such as restaurants, small hotels, bars, nightclubs, retail outlets, construction companies, and concert performances as fronts. The RBPF listed several "less creative" money laundering methods employed in the Bahamas, including purchasing of vehicles, placing properties and assets in the names of spouses, children and parents, paying small businesses to prepare false receipts, storing cash in safety deposit boxes, and attempting to smuggle money into the Caribbean and the United States in boxes, luggage, or strapped to the body.

The Bahamas FIU became a member of the Egmont Group in June 2001. The Bahamas FIU and the Belgian FIU signed a memorandum of understanding on November 30, 2001, to exchange information between the two units. The Bahamas FIU has also approached the FIU of Aruba and the Netherlands Antilles to begin drafting a memorandum of understanding. As a result of the Financial Intelligence Unit (Amendment) Act 2001, the Financial Intelligence Unit is now able to cooperate and render assistance to any foreign Financial Intelligence Unit that performs functions similar to the Financial Intelligence Unit and not only those units that are members of the Egmont Group.

On October 2, 2001, the Bahamas signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism. A Terrorism Bill is being drafted to present to Parliament. This Bill is intended to implement the provisions of the UN terrorism conventions and the UN Security Council Resolutions dealing with terrorism and terrorism financing. The Bahamas also participated in the FATF Self-Assessment Exercise on Terrorist Financing, and submitted the Self-Assessment Questionnaire to FATF in May 2002.

In April 2001, the Bahamas signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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. The Attorney General has established an International Affairs Unit to deal specifically with mutual legal assistance matters. The Bahamas is party to the 1988 UN Drug Convention, currently sits as President of the Caribbean Financial Action Task Force, and is a member of the Offshore Group of Banking Supervisors.

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 by criminalizing the financing of terrorists and terrorism. The Bahamas should continue with the enforcement of the anti-money laundering legislation and international cooperation.

Bahrain. Bahrain has one of the most diversified economies in the Gulf Cooperation Council (GCC). Unlike its neighbors, oil accounts for only 18 percent of Bahrain's gross domestic product (GDP). Bahrain

has promoted itself as an international financial center in the Gulf region. It hosts a mix of 178 diverse financial institutions, including 51 offshore banking units (OBUs), 34 investment banks, of which 16 specialize in Islamic banking, and 22 commercial banks, of which 14 are foreign owned. In addition, there are 34 representative offices of international banks, 17 money exchangers, four money brokers, and several other investment institutions. The vast network of its banking system, along with its geographical location in the Middle East as a transit point along the Gulf and into Southwest Asia may attract money laundering activities. It is thought that the greatest risk of money laundering stems from questionable foreign proceeds that transit Bahrain.

In January 2001, the Government of Bahrain (GOB) enacted a new anti-money laundering law that criminalizes the laundering of proceeds derived from any predicate offense. The law stipulates punishment of up to seven years in prison and a fine of up to one million dinars (\$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 \$265,000) and a prison term of not less than one year.

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 6,000 dinars (approximately \$15,000) to the BMA.

The new law also provides 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 BMA, the Bahrain Stock Exchange, and the Ministries of Finance, Interior, Justice, and Commerce. The new law further provides additional powers of confiscation, and allows for better international cooperation.

The law also provides for the creation of a Financial Intelligence Unit (FIU), known as the Anti-Money Laundering Unit (AMLU), which is housed in the Ministry of Interior. AMLU is empowered to receive reports of money laundering offenses, conduct investigations, implement procedures relating to international cooperation under the provisions of the law, and to execute decisions, orders and decrees issued by the competent courts in offenses related to money laundering.

There are 51 BMA-licensed offshore banking units (OBUs) that are branches of international commercial banks. Unlike other banks, these OBUs are exempt from foreign-exchange controls, cash reserve requirements, taxes on interest paid to depositors, and banking income taxes. Such treatment only applies to non-dinar denominated deposits. 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 have records available for examination by the BMA, and to submit statistical reports to the BMA twice a year.

Bahrain law permits the formation of offshore resident companies and offshore non-resident companies that are formed as international business companies (IBCs). Resident companies must have an office within Bahrain, a minimum capital of \$54,000, and a license from the BMA, in order to conduct financial activities.

Bahrain is a member of the GCC, which is a member of the Financial Action Task Force (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. In January 2002, BMA issued a circular intended to implement the FATF Special Eight Recommendations on Terrorist Financing. BMA requested of its licensees that the FATF recommendations be considered part of the

Agency's money laundering regulations. In November 2001, Bahrain signed the UN International Convention for the Suppression of the Financing of Terrorism, but has not yet become a party to it. Terrorist financing is a predicate offense in Bahrain under Articles 1 and 2 of Law No. 4. In exercise of the Royal Prerogative, Law 4 empowers the GOB to issue Prime Ministerial Edicts to seize and confiscate assets used to finance terrorism. The BMA has frozen one account designated by the UN 1267 Sanctions Committee and six accounts listed under U.S. Executive Order 13224.

BMA Circular BC/1/2002 states that money changers may not transfer funds for customers in another country by any means other than Bahrain's banking system, under pain of legal sanctions. In addition, all BMA licensees are required to include details of originator's information with all outbound transfers. With respect to incoming transfers, licensees are required to maintain records of all originator information and to carefully scrutinize inward transfers that do not contain originator's information, as they are presumed to be suspicious transactions. Licensees that suspect, or have reasonable grounds to suspect, that funds are linked or related to suspicious activities—including terrorist financing—are required to file suspicious transaction reports (STRs). Licensees must maintain records of the identity of their customers in accordance with the agency's money laundering regulations, as well as the exact amount of transfers. The BMA requires all money exchanges to produce such information upon request. BMA regulations require high-value goods and bullion dealers to file STRs with the AMLU. The government is considering extending its STR reporting regime to encompass more sectors.

Decree No. 21 of 1989 governs the licensing of non-profit organizations. The Ministry of Labor and Social Affairs (MLSA) is responsible for licensing and supervising the charity organization in Bahrain. The BMA—in consultation with Ministries of Labor, Justice, and Finance and National Economy—is working on a draft regulation for charity organizations in order to insure that such organizations are not being used to finance illegal activities. Under the draft regulation, organizations must keep records of sources and uses of financial resources, organizational structure, and membership. Charitable societies are required to deposit their funds with banks located in Bahrain, and to report any changes in banking relations within a week. MLSA has the right to inspect records of the societies to insure their compliance with the laws.

Bahrain is a leading Islamic finance center in the region. Since the licensing of the first Islamic bank in 1979, the sector has grown considerably, today having 26 Islamic banks and financial institutions. Given the large share of such institutions in Bahrain's banking community, BMA is working to create an appropriate framework for regulating and supervising the Islamic banking sector, applying regulations and supervision as is the case with conventional banks. For example, in March 2002, the BMA developed the Prudential Information and Regulatory Framework for Islamic Banks (PIRI) that seeks to monitor the operations of the banks.

Bahrain has undertaken a number of significant steps in establishing an anti-money laundering regime. The GOB should follow through by enforcing the law and developing and prosecuting anti-money laundering cases. Its officials have attended orientation and training sessions in Bahrain and international locations. The new FIU will need time to train staff and gain experience in tracking suspicious transactions, and law enforcement will need to develop expertise in investigating money laundering offenses.

Bangladesh. Bangladesh is not an important regional financial center. There are no indications that substantial funds are laundered through the official banking system. The principal vulnerability remains the widespread use of the underground hawala or hundi system to transfer value outside the formal banking network. The vast majority of the hawala systems in Bangladesh are used to repatriate wages from Bangladeshi workers abroad. However, the hawala systems are also used to avoid taxes, customs duties and currency controls and as a compensation mechanism for the significant amount of goods smuggling into Bangladesh. There have been substantial seizures of gold at Bangladeshi ports this past year, which could be related to gold's use in the region to provide counter-valuation in hawala transactions.

Money Laundering is a criminal offense. In April 2002, Bangladesh enacted the Money Laundering Prevention Act (MLPA) that applies to all forms of money laundering. The MLPA authorizes the

country's Central Bank, the Bangladesh Bank, to supervise the activities of banks, investigate all offenses related to money laundering, and take appropriate steps to address any problems. The MLPA requires financial institutions to accurately identify customers and to report suspicious transactions to Bangladesh Bank. The MLPA imposes penalties for money laundering and allows the Bangladesh Bank to fine financial institutions no more than 100,000 taka (less than \$2000) for failure to retain or report the required data on suspicious transactions. Because the MLPA has been enacted recently, banks in Bangladesh have not yet established implementing procedures.

Monetary exchanges outside the formal banking system are illegal. Bangladesh has not addressed the issue of international transportation of illegal-source currency and monetary instruments. Offshore financial accounts are not permitted in Bangladesh. There is no asset forfeiture law. Bangladesh does not have a Financial Intelligence Unit (FIU). There has been no known money laundering arrests or prosecutions in Bangladesh.

Bangladesh does not have a law that makes terrorist financing a crime. No terrorist assets have been identified, frozen, or seized to date. Bangladesh has not signed the UN International Convention for the Suppression of the Financing of Terrorism. Bangladesh is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering.

Bangladesh should criminalize terrorist financing. It should also create a centralized FIU to receive suspicious transaction reports and disseminate information to law enforcement. Training should also be given to law enforcement and customs authorities on how to recognize money laundering crimes and initiate investigations from the field. Customs should create a central computerized database that could help to counteract customs fraud, trade-based money laundering, and smuggling. Training should also be given to prosecutors and judicial authorities in order to enhance their understanding of money laundering and their ability to enforce the new MLPA.

Barbados. As a transit country for cocaine and heroin, Barbados is both attractive and vulnerable to money launderers. The Government of Barbados (GOB) has taken a number of steps in recent years to strengthen its anti-money laundering regime.

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. The Money Laundering (Prevention and Control) Act 1988 (MLPCA) 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 dollars (BDS) 2 million (approximately \$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 or 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 BDS 10,000 (approximately \$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 sets forth seizure and criminal forfeiture procedures.

The definition of a financial institution was widened in an amendment to the MLPCA in 2001 to include "any person whose business involves money transmission services, investment services or any other services of a financial nature." This amendment was designed to bring entities other than traditional

financial institutions into the class of persons or institutions that are supervised by the AMLA, and therefore, subject to the requirements of the MLPCA.

The AMLA was established in August 2000 to supervise financial institutions' compliance with the MLPCA and issue training requirements and regulations for financial institutions. The AMLA's FIU was established in September 2000. The FIU is now fully staffed and operational. It was admitted to the Egmont Group in 2002.

Barbados has achieved be the only money laundering conviction in the Eastern Caribbean 2002. The money laundering conviction was in relation to a fraud scheme.

The Barbados Central Bank's 1997 Anti-Money Laundering Guidelines for Licensed Financial Institutions were revised in 2001. The revised Know—Your Customer Guidelines were issued in conjunction with the AMLA, and provide detailed guidance to financial institutions regulated by the Central Bank. The Central Bank undertakes regular on-site examinations of licensees and applies a comprehensive methodology that seeks to assess the level of compliance with legislation and guidelines.

The Offshore Banking Act (1980) gave the Central Bank authority to supervise and regulate offshore banks, in addition to domestic commercial banks. The International Financial Services Act replaced the 1980 Act in June 2002 in order to incorporate fully the standards established in the Basel Committee's "Core Principles for Effective Banking Supervision." The new law provides for on-site examinations of offshore banks. This allows the Central Bank to augment its offsite surveillance system of reviewing antimoney laundering policy documents and analyzing prudential returns. The Ministry of Finance issues banking 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. Supervision of the financial sector is shared among the Central Bank, the Ministry of Commerce, Consumer Affairs and Business Development, the Supervisor of Insurance, the Registrar of Cooperatives and the Barbados Securities Commission.

As of November 30, 2002, six domestic banks (Barbadian, Canadian-parent, and U. K.-parent banks operate on equal terms in Barbados), 14 finance companies or merchant banks and 55 offshore banks were regulated and supervised by the Central Bank. The offshore sector also includes 4,206 international business companies (IBCs), 392 exempt insurance companies, and 1,575 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 \$500,000.

Barbados has bilateral tax treaties that eliminate or reduce double taxation with the United Kingdom, Canada, Finland, Norway, Sweden, Switzerland, and the United States. The treaty with Canada currently allows IBCs and offshore banking profits to be repatriated to Canada tax-free after paying a much lower tax in Barbados. A Mutual Legal Assistance Treaty and an Extradition Treaty between the United States and Barbados each 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, but has not yet ratified, the UN Convention Against Transnational Organized Crime, which is not yet in force internationally. Barbados is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

No evidence of terrorist financing has been known to be developed in Barbados. The GOB has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and non-

profit entities. The Barbados Anti-Terrorism Act, 2002-6, Section 4, gazetted on May 30, 2002, criminalizes the financing of terrorism.

The GOB should maintain strict control over vetting and licensing of offshore entities. The GOB should continue its efforts to prosecute and convict money launderers. 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 cooperate fully 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 made no effort in 2002 to enact an anti-money laundering regime.

Belarus has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Belarus is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Belarus should enact comprehensive anti-money legislation that criminalizes money laundering and the financing of terrorists and terrorism.

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 its neighboring countries, the Netherlands, Luxembourg, Germany, and France. According to a 2001-2002 report from Belgium's Financial Intelligence Unit (FIU), the Financial Intelligence Processing Unit (CTIF-CFI), the largest share of money laundering cases between July 1, 2001, and June 30, 2002, was connected to the unlawful trafficking in goods and merchandise, mainly automobiles, alcohol, and tobacco. There were also a growing number of cases tied to organized crime, fiscal fraud, prostitution, and human trafficking.

The main money laundering techniques are through bureaux de change, international fund transfers and payments, and payments into accounts. The top three venues are bureaux de change, credit establishments, and brokerage firms. Funds are also laundered through the diamond industry, real estate, offshore companies, gambling or amusement halls, and banks. Belgian officials noted in recent reports that "dummy companies," or front companies, figured prominently in cases turned over to legal authorities for prosecution for money laundering. They also stated that money launderers attempt to use notaries to create 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 creating a large number of companies in a short space of time.

On January 1, 2002, the FIU entered into an agreement with the Federal Police to expedite cases to the Public Prosecutor that are the focus of an active police investigation. 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 the CTIF-CFI as its FIU, to receive, process, and analyze them. Since the founding of CTIF-CFI, 659 individuals have been successfully prosecuted under Belgian law, receiving combined total sentences of 1,332 years and 14.2 million euros in fines (approximately \$14.2 million). During the same time period Belgian authorities confiscated nearly 360 million euros. As of June 2002, the CTIF-CFI had created 12,948 distinct case files (representing 66,963 suspicious transaction reports) since becoming operational in 1993, including 2,845 between July 2001 and June 2002. During that time period over 1,045 files were turned over to the Public

Prosecutor. A total of 42 money laundering cases amounting to 2.8 million euros (approximately \$2.8 million), which were connected to the January 1, 2002, introduction of the euro, were submitted to the Public 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 10,000 euros (approximately \$10,000). 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. Non-reporting and non-compliance with other requirements of the 1993 law are punishable by a fine of up to 1.25 million euros, approximately \$1.25 million. Furthermore, a law adopted on April 8, 2002, increases the protection accorded to witnesses, including bank employees, who come forward with information about money laundering crimes.

In 1998, 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 legislation, casinos include any establishments that conduct casino-like gambling activities. CTIF-CFI has observed a marked increase in casino chip purchasing operations, much of it tied to Central and Eastern European organized crime syndicates. There is concern that casino operators are not keeping adequate records of the buying and selling of chips, or of customer identification documents, as required under the anti-money laundering law.

The GOB passed a new law on May 3, 2002, giving Belgium the authority to invoke countermeasures against "Non-Cooperative Countries and Territories" imposed by FATF. The GOB issued its countermeasures against Nauru in a June 10, 2002 Royal Decree. The May 2002 law also imposes further limitations on the operations of bureaux de change.

In July 2002 the Belgian Council of Ministers approved a proposal to establish, as part of Belgian domestic law, the Directive 2001/97/EC of the EU Parliament and Council of December 4, 2001, amending the Council Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering. Belgian law currently mandates that all financial institutions, and non-financial persons subject to the Belgian anti-money laundering law, be obliged to send an STR if there is a suspicion that the origin of money or assets is derived from the commission of an offense linked to terrorism. The new proposal of law extends this reporting obligation to the funds suspected of being derived from the financing of terrorism. Moreover, this new proposal extends the obligations of the anti-money laundering system to lawyers and dealers in diamonds.

On September 27, 2001, Belgium signed the UN International Convention for the Suppression of the Financing of Terrorism. The ratification process is in abeyance, pending Senate approval. Belgium intends to implement legislation by mid-2003 that would bring its domestic laws in line with the EU Council Common Position 2001/930 of December 27, 2001, on the application of specific measures to combat terrorism. Article 1 of Common Position 2001/930 requires that EU member states criminalize the willful provision or collection of funds to carry out terrorist acts. Under EU law, most recently EU Council Regulation No. 881/2002 of May 27, 2002, Belgium has implemented UN resolutions 1267 (1999), 1333 (2000) and 1390 (2002), imposing certain restrictive measures directed against persons and entities associated with Usama Bin Ladin, the al-Qaida network, and the Taliban. Belgium is also subject to enforcing Council Regulation No. 2580/2001 of December 27, 2001, which obligates EU member states to freeze the funds of individuals and entities listed in the Annex to the Council Common Position 2001/931 of December 27, 2001, and which are subject to the EU's asset-freeze regulation.

CTIF-CFI is actively involved in the fight against terrorism and its financing. Belgium has circulated the list of Specially Designated Global Terrorists named by the United States pursuant to E.O. 13224. The GOB, however, lacks the executive-type powers that U.S. authorities have under Executive Order 13324 to administratively freeze accounts. As such, the GOB can freeze accounts with respect to any individual

or entity only after those individuals or entities have been added to the UN Consolidated List pursuant to Security Council resolutions 1267, 1333 and 1390 and/or covered by an EU asset freeze regulation.

CTIF-CFI 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, fiscal fraud, and diamond trafficking, among other activities). As of December 31, 2002, a total of 55 such cases have been transmitted to the Public Prosecutor, 49 of which (37.52 million euros) were forwarded following September 11, 2001. These funds originate from both legal and illicit activities. According to a CTIF-CFI report, there is growing evidence that some Belgian-based non-governmental organizations (NGOs) are being used to funnel terrorist funds. CTIF-CFI has identified financial links in Belgium to al-Qaida, and the FIU has indicated that addressing the problem of terrorist financing has become one its highest priorities.

The Belgian FIU organized a meeting in October 2001 in Brussels that the 15 FIUs of the European Union attended. The purpose of the meeting was to enhance cooperation between the FIUs in their fight against the financing of terrorism.

Belgium is a party to the 1988 UN Drug Convention, and in December 2000 signed the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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. Belgium is a member of the Financial Action Task Force (FATF) and the European Union. The CTIF-CFI is a member of the Egmont Group and has a cooperative relationship with 50 foreign FIUs worldwide.

Belgium should criminalize terrorist financing to enhance its comprehensive anti-money laundering regime. Through the enhanced scrutiny law enforcement agencies are devoting to all sectors of the global economy that may be abused by terrorist organizations and their supporters, the smuggling of diamonds and gems has been identified as a sector through which it is easy to move across international borders without detection. For that reason, the GOB should exert vigilance with regard to its diamond market to prevent its being used as a means to finance terrorism.

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 seven offshore banks, an unknown number of international trusts, over 18,000 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.

Belize is aware that contraband smuggling generates funds that are laundered through the banking system; however, authorities believe that the funds are insignificant in amount and not related to narcotics money laundering. Belize believes that criminal proceeds are derived primarily from foreign criminal activity. To date all evidence of money laundering is the result of foreign criminal activity utilizing the services of the offshore financial sector.

The Money Laundering Prevention Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes including arms and narcotics 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; requires that all licensed financial institutions know their customers; mandates the recording of large currency transactions and the reporting of suspicious transactions by banks and non-bank financial institutions (exchange houses, insurance companies, lawyers, accountants but not casinos); exempts employees of financial institutions from civil, criminal or administrative liability for cooperating with regulators and law enforcement officials in investigating money laundering; 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 (approximately \$5,000) 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 \$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 ongoing 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. Offshore banks are not permitted to issue bearer shares. IBCs are allowed to issue bearer shares; the registered agents of such companies must know the identity of the beneficial owner of the 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 governed under the Belize Trust Act, 1992, and are also prevalent in Belize. 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. While the GOB maintains that trusts are well regulated, it is important to note that the authorities do not know how many trusts are in operation and that no additional measures are being contemplated to thwart the potential misuse of charitable and/or non-profit entities, such as charitable trusts, that can be used as conduits for the financing of terrorism.

Under Belizean law all assets related to money laundering may be forfeited. This includes vessels, vehicles, aircraft and other means of transportation or communication. It also includes property tangible or intangible that may be related to money laundering. There are no limitations to the kinds of property that may be seized, but there are no specific provisions allowing for sharing of seized assets between cooperating foreign authorities.

Belizean authorities have assisted foreign authorities with money laundering investigations. 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 has criminalized terrorist financing with amendments to its anti-money laundering legislation, the Money Laundering Prevention Act. Belize authorities have the power to identify, freeze, and seize terrorist finance assets. Authorities have also circulated to all financial institutions lists of persons alleged to be involved with terrorist financing. None of those on the list have been reported to be engaged in financial transactions in Belize, and no assets belonging to persons alleged to be engaged in terrorist financing have been identified in Belize.

The MLPA provides for the provision of legal assistance to a foreign country when there is bilateral or multilateral treaty in force providing for mutual legal assistance. Whenever possible, the Belize authorities have cooperated with U.S. Government agencies—most specifically with the FBI, Securities and Exchange Commission, U.S. Commodities Futures Trading Commission, and various state and regulated agencies. However, because the MLAT between Belize and the United States is not yet in force, in 2001, a court in Belize ordered that no legal assistance could be provided in a money laundering case. No arrests or prosecutions pertaining to money laundering or terrorist financing have occurred in Belize since January 2002.

Belize is a party to the 1988 UN Drug Convention. Belize has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. 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. Belize signed a Mutual Legal Assistance Treaty (MLAT) with the United States. Belize has ratified the MLAT and the United States is expected to do so in 2003. Belize also has bilateral agreements with the United Kingdom and Canada.

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 also increase its monitoring to ensure that charitable trusts are not vulnerable to abuse by terrorists. The GOB should monitor the Internet and casino gaming industry and require suspicious activity reporting to prevent potential money launderers from using these sectors to launder funds. 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 (GOB) officials believe narcotics traffickers use Benin to launder proceeds. Although the exact nature of money laundering is unknown, GOB 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 above a certain threshold, although compliance with this provision of the law is believed to be low. Cross-border currency reporting requirements exist, but are not enforced.

The GOB has the legal authority to seize narcotics-related assets, but no seizures have been made. Law enforcement authorities lack the training and resources to investigate money laundering cases.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA) based in Dakar, Senegal. In November 2002 GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Benin.

Benin is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Benin's

National Assembly ratified the UN International Convention for the Suppression of the Financing of Terrorism on October 28, 2002.

Benin should criminalize terrorist financing and money laundering related to all serious crimes. Benin should also develop and enforce a viable anti-money laundering regime.

Bermuda. Bermuda, an overseas territory of the United Kingdom (UK), is considered a major offshore financial center and has a reputation, among offshore financial centers, for the integrity of its financial regulatory system. The government of Bermuda (GOB) has been cooperating with the United States and the international community in its money laundering and counter-terrorism efforts.

In 1997, the GOB enacted the Proceeds of Crime Act (PCA). The PCA applies money laundering controls to financial institutions such as banks, deposit companies, trust companies, and investment businesses, including broker-dealers and investment managers. Insurance companies are covered to the extent that they are doing higher risk business. Amendments in 2000, effective June 1, 2001, extended the scope of the legislation beyond the laundering of drug-related moneys to cover the proceeds of all indictable offenses, including tax evasion, corruption, fraud, counterfeiting, theft and forgery. It is likely that when the PCA is amended, which is expected to occur in 2003, the law will be expanded to address terrorist-related assets and to cover gatekeepers, such as attorneys and accountants.

One shortcoming of the current law is that it does not provide measures to detect/monitor cross-border transportation of cash. However, if there are reasonable grounds for suspicion, HM Customs is authorized to seize cash and instruments, and monies can also be seized if travelers fail to report the transportation of cash in excess of \$10,000. The GOB is consulting with industry groups on proposals to enact remedial legislation to govern the transportation of cash.

In addition to the PCA, which has encountered virtually no objections from the financial sector and has not resulted in a decline in deposits, other Bermuda statutes address money laundering. The Criminal Justice (International Co-Operation) (Bermuda) Act 1994, as amended in 1996, provides assistance upon requests from overseas agencies, including securing of evidence in Bermuda and overseas. It directs responsibility for the criminal aspects of financial crime to the Financial Investigation Unit, whereas tax offenses fall under the purview of the Attorney General.

The Investment Business Act 1998 authorizes the Bermuda Monetary Authority (BMA) to obtain any information deemed necessary by regulators to conduct their supervision of investment providers, who are fully subject to know-your-customer requirements under the PCA and its regulations. The BMA's supervision of investment providers includes specific on-site testing of their systems and controls, including their compliance with anti-money laundering requirements. The GOB will propose a new Investment Business Bill in 2003 to enhance its regulatory powers, including revisions expanding the BMA's authority to cooperate with foreign regulatory bodies. There will be no change in the anti-money laundering provisions or in the BMA's compliance testing regime.

As of January 1, 2000, the Banks and Deposit Companies Act 1999 implements the Basel Committee's "Core Principles for Effective Banking Supervision." The BMA is the designated entity for licensing and supervision of deposit-taking institutions, including the worldwide operations of Bermudian banks. As part of its oversight responsibilities, the BMA conducts on-site reviews and detailed compliance testing of banks' anti-money laundering controls. In 2001, the BMA was not required to employ its formal enforcement powers to investigate suspicions of illegal deposit-taking. The BMA may require reports from auditors, accountants or other persons with relevant professional skills on matters pertinent to the authority's responsibilities. Banks and other financial institutions must retain records for a minimum of five years. Bankers and others are protected by law with respect to their cooperation with law enforcement officials. Bermuda has not adopted bank secrecy laws, but does have banker negligence laws. Bearer shares are not permitted in Bermuda.

Bermuda's Trusts (Regulation of Trust Business) Act 2001, effective January 1, 2002, invests the BMA with full licensing, supervision and enforcement powers relating to persons who conduct trust business in

or from Bermuda. The BMA routinely conducts on-site review visits to determine, among other things, compliance with anti-money laundering laws and regulations. Regulatory oversight of Bermuda's insurance industry is undertaken by the BMA.

New legislation to give the BMA a full set of regulatory powers with respect to collective investment schemes is in the early stages of development. In the meantime, collective investment schemes are regulated pursuant to regulations under the Bermuda Monetary Authority Act. In December 2002, Parliament passed the Bermuda Monetary Authority Amendment Act 2002, expanding the authority of the BMA to detect and prevent financial crime. Provision is also made authorizing the BMA to collect fees directly from financial service providers, an indication of its independence from the GOB. In order to implement provisions of UN anti-terrorism Security Council Resolutions, the Act also provides for the manner in which the Minister of Finance may delegate powers to the BMA for blocking accounts.

Although Bermuda is considered an offshore financial center, all financial institutions in Bermuda are subject to the PCA, as amended, which, as noted above, includes know-your-customer requirement and provides for the monitoring of accounts for suspicious activity. The vetting process is undertaken when an entity is incorporated. The BMA requires that a personal declaration form be submitted for principals (beneficial owners) of international businesses prior to licensing. Similar requirements apply to proposals to transfer shares. Additionally, a company must detail its business plan and maintain a register of shareholders at its registered office.

Offshore banking is not permitted in Bermuda, nor are nominee (anonymous) directors allowed. However, the BMA reports that some overseas banks have established operations on the island to provide other forms of financial services, such as licensed trust operations. In such instances, the BMA liaises with the home regulatory body to enhance combined supervision. Neither casinos nor Internet gaming sites are allowed in Bermuda.

International business forms the basis of Bermuda's economy. The BMA licenses and regulates international business in the same manner as it does domestic companies. As of June 30, 2002, the Registrar of Companies recorded 13,020 international businesses registered in Bermuda, compared to 2,772 domestic companies. Of the international businesses, there were 11,806 exempt companies, 557 exempt partnerships, 638 non-resident international companies (incorporated elsewhere to do business in Bermuda), and 19 non-resident insurance companies. The BMA's Report and Accounts records the following breakdown for 2001: 1,641 insurance companies, 1,301 mutual fund companies, and 120 unit trust companies.

The majority of Bermuda's exempt companies are shell companies with no physical presence on the island. Local directors are designated (generally a local lawyer and secretary) who manage corporate affairs in Bermuda. The owners and controllers are vetted by the BMA before they can be established or any shares transferred between non-residents. The register of members is open to public inspection. The GOB regulates offshore companies and domestic companies equally from a prudential standpoint. The difference between the two is the ownership restriction. Domestic companies, which must be at least 60 percent Bermudian-owned, are permitted to do business within Bermuda. Exempted companies are exempt from the 60 percent ownership restriction and in fact can be up to 100 percent foreign-owned, but they are prohibited from doing business locally. The GOB agreed to remove some minor distinctions between the two categories as part of its advance commitment to the OECD.

The Financial Investigation Unit (FIU), within the Bermuda Police Service, serves as Bermuda's Financial Intelligence Unit; The FIU has been a member of the Egmont Group, an organization of Financial Intelligence Units, since 1999. The majority of suspicious transaction reports (STR) have related primarily to conversion of suspected local drug profits to U.S. dollars via the island's Western Union money transmission service, which closed as of October 31, 2002. Because Bermuda law requires money transmission services to be conducted in association with a licensed deposit-taker, conversion of funds is subject to bank reporting standards.

In 2001, there were 2,827 STRs filed with the Financial Investigation Unit of the Bermuda Police Service. The figures were similar in 2002, with 1,742 STRs logged in and another 800 still to be entered into the system. Bank fraud cases, including STRs, totaled 3,556 in 2001 and about 3,800 in 2002. In 2001, there were two arrests but no prosecutions for money laundering. In 2002, there were eight arrests representing three cases, of which two are ongoing investigations and the third is in the hands of the Director of Public Prosecutions.

The PCA, as amended, establishes procedures for identifying, tracing, and freezing the proceeds of drug trafficking and other indictable offenses, including money laundering, tax evasion, corruption, fraud, counterfeiting, stealing and forgery. Additionally, the PCA provides for forfeiture upon criminal conviction if it is proven that benefit was gained from a criminal act. Under the PCA, there is no provision for seizure of physical assets unless intercepted leaving the island. However, the Supreme Court may issue a confiscation order pursuant to which the convicted must satisfy a monetary obligation. The amount paid is placed into the Confiscated Assets Fund and may be shared with other jurisdictions at the direction of the Minister of Finance. If the convicted fails to satisfy the confiscation order, the onus is on the prosecution to apply to the court for appointment of a receiver. Under the Misuse of Drugs Act, physical assets can be seized if used at the time the offense was committed.

The GOB enforces the existing drug-related asset seizure/forfeiture laws. It is the responsibility of the police and the court system to trace/seize assets. Although Bermuda cooperates with the United States and other countries to trace/seize assets and uses tips from other countries, it does not—as an overseas territory—engage in negotiations with other governments to enter into treaty obligations with respect to asset tracing and seizure. This role rests with the United Kingdom. Banks are legally obligated to cooperate in the tracing/seizure of assets. The GOB issued no confiscation orders in 2000, one for approximately \$62,000 in 2001, and none in 2002, although several are being processed. Inexperience by the GOB is perhaps the major impediment in implementing asset forfeiture and seizure legislation.

Bermuda has not formally criminalized terrorist financing, but it is subject by extension to the UK Terrorism (United Nations Measures) (Overseas Territories) Order 2001. That order creates the offense of collecting and making funds available for terrorist purposes and provides for identification and freezing of terrorist-related funds. Nevertheless, Bermuda recognizes the need for domestic terrorism legislation and in 2003 is expected to propose amendments to expand the definition of "serious crimes" under the PCA to include terrorism-related offenses, consistent with FATF guidelines, as well as relevant changes to Bermuda's criminal code. Meanwhile, the BMA has requested that financial institutions treat suspect terrorist financing as if covered by PCA and to report accordingly. Financial institutions have been given the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 (on terrorist financing) and the UN 1267 Sanctions Committee consolidated list, but no matches have been found.

Bermuda is subject 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 party by extension from the UK to the UN International Convention for the Suppression of the Financing of Terrorism. Bermuda is also a member of the Offshore Group of Banking Supervisors.

Bermuda should modify its domestic legislation to ensure that it implements the FATF Special Eight Recommendations on Terrorist Financing and should consider enacting measures to detect/monitor cross-border transportation of cash. Bermuda should also consider devoting additional resources toward investigative efforts to combat money laundering to more thoroughly deter international criminals and follow through on its plans for additional training in areas such as asset forfeiture.

Bolivia. Most money laundering in Bolivia is related to public corruption, contraband smuggling, and narcotics-trafficking. Bolivia's long tradition of banking secrecy facilitates the laundering of the profits of organized crime and drug trafficking, the evasion of taxes, and laundering of other illegally obtained earnings.

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 Superintendency of Banks and Financial Institutions. The UIF is 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 ten years; and report to the UIF 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).

Under the new government, the UIF is now fully operational however, there is still weak political support within the government, and confusion over the UIF's legal role. Its primary responsibility is to analyze information and transactions, and detect irregularities in the banking system. The UIF is obligated to report all detected criminal activity to the Public Ministry, the office responsible for prosecuting money laundering. In 2002, a Financial Investigative Unit, Grupo de Investigaciones y Analsis Financiamento (GIAF) within Bolivia's Special Counternarcotics Force (FELCN) was created to work in coordination with the UIF. Agreements have been established for the formal exchange of bank secrecy information between the two units.

New agreements have also served to strengthen Bolivia's anti-money laundering regime. On June 27, 2002, two new agreements were signed. The first was signed by the Public Ministry, the National Police, and the Ministry of Justice, and allows for the implementation of investigations under the Code of Criminal Procedures (CCP). This agreement commits all entities to the CCP principle that grants prosecutors a broader responsibility over investigations and the work of investigative police. The second agreement defines the correct procedures for handling money laundering cases. The Superintendency of Banks' UIF, the Public Ministry, the National Police and FELCN are parties to this agreement, which establishes mechanisms for exchange and coordination of information, including formal exchange of bank secrecy information.

In spite of advancements in combating money laundering, there are still many weaknesses in the GOB's anti-money laundering system. The controls on the Bolivian banking system to regulate money laundering activities are lacking, and there is little legal support for money laundering investigations carried out by law enforcement officials. In order to prosecute a money laundering case, the crime of money laundering must be tied to an underlying illicit activity; at present, the list of these underlying crimes is extremely restrictive and inhibits money laundering prosecution. Although the Public Ministry is the office responsible for prosecuting money laundering offenses, it does not have a specialized unit dedicated to the prosecution of these cases. In spite of this, it is encouraging to note that the first sentence for money laundering, related to public corruption, in August 2002, was handed out.

The GOB lacks significant legislation regarding terrorist financing. Although Bolivia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and signed the OAS Inter-American Convention Against Terrorism, there are no domestic laws that criminalize the financing of terrorism or grant the GOB the authority to identify, seize, or freeze terrorist assets.

Traditional asset seizure continues to be employed by CN authorities, however the forfeiture continues to be problematic. Prior to 1996 Bolivian law permitted the sale of property seized in drug arrests only after the Supreme Court confirmed the conviction of a defendant. A 1995 decree permitted the sale of seized property with the consent of the accused and in certain other limited circumstances. The Criminal Code further permitted the government to sell certain kinds of property, with or without the consent of the accused, when the property might lose value if stored, cost too much to maintain, etc.

In 1998, the United States Government (USG) suspended its support of the Directorate of Seized Assets, which is responsible for confiscating, maintaining and disposing of the property of persons accused of violating Bolivia's narcotics laws. The two principal problems were first, the Directorate's inability to account for the property in its inventories, and second, its inability to work with the judicial branch. This resulted in judges routinely returning seized property to narcotics defendants before trial, refusing to

authorize the Directorate to conduct sales as permitted by the decree or, when they did, to retain the proceeds. The USG resumed support of the Directorate of Seized Assets in 2001 in an effort to revitalize and reform this important office, to date with limited success.

Bolivia is a party to the 1988 UN Drug Convention, and in December 2000, signed the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Bolivia is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Bolivia is a member of the South America Financial Action Task Force (GAFISUD) and underwent a mutual evaluation by GAFISUD in October 2002. Bolivia's UIF is also a member of the Egmont Group. The GOB and the United States in June of 1995 signed an extradition treaty, which entered into force in November of 1996.

The GOB must continue to strengthen its anti-money laundering regime by improving Bolivia's current money laundering legislation so that it conforms to FATF and GAFISUD standards. The GOB should adopt new laws making money laundering a separate offense without connection to other illicit activities, expanding the list of predicate offenses, criminalizing terrorist financing and expeditiously blocking terrorist assets. The authority of the UIF must also be expanded to cover reporting by non-banking financial institutions. The GOB should continue to strengthen the relationships and cooperation between all government entities involved in the fight against money laundering.

Bosnia and Herzegovina. Bosnia is not a regional financial center. Laundering the proceeds of criminal activity through financial institutions is widespread. However, narcotics proceeds tend to be diverted outside Bosnia. Bosnia has not criminalized money laundering, although it is an offense in the civil code.

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 2003. Although legislation generally reflects the Basel Committee's "Core Principles for Effective Banking Supervision", 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 implementation is rare. Some safe harbor protection has now been afforded to banking officials in fulfilling anti-money laundering compliance requirements. 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 and the financing of terrorism.

In addition, ambiguous lines of responsibility among investigative and regulatory agencies have aggravated already rampant political interference in investigations and direct intimidation of officials.

On October 21, 2002, at the initiative of the United Nations High Representative Paddy Ashdown, the existing banking laws were amended. The amendments prohibit terrorist financing and provide regulatory authorities with the ability to freeze assets of suspected terrorists.

Bosnia is a party to the 1988 UN Drug Convention, and on April, 24, 2002, Bosnia ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Bosnia has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

Bosnia should implement existing laws and banking regulations. Furthermore, Bosnia should criminalize money laundering for all serious crimes, centralize regulatory and law enforcement authority, establish a Financial Intelligence Unit, and require suspicious transaction reporting.

Botswana. Botswana is a developing regional financial center, and therefore, is vulnerable to money laundering. Botswana has a relatively well-developed banking sector.

Section 14 of the Proceeds of Serious Crime Act of 1990 criminalizes money laundering related to all serious crimes. The Bank of Botswana requires financial institutions to report any transaction in which

Pula 100,000 (\$17,800) or more is transferred. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies. In 2001, Botswana amended the Proceeds of Serious Crimes Act to require identification of financial bodies and owners of corporations and accounts.

In 2001, the Government of Botswana began drafting regulations that would require banks to file Suspicious Activity Reports (SARs) with the Bank of Botswana. While the Bank of Botswana has not yet implemented these regulations, banks have already begun filing SARs in anticipation of the regulations.

Botswana is in the early stages of developing an offshore financial center; and consequently, licenses offshore banks and businesses. Background checks are performed on applicants for offshore banking and business licenses, as well as on their directors and senior management. The bank supervisory standards applied to domestic banks are applicable to offshore banks as well. One offshore bank has been licensed in Botswana, but it was not operational as of December 2002. Bank and business directors are subject to the "fit and proper test" required by Section 29 of the Banking Act of 1995. Anonymous directors are not allowed. Offshore trusts are prohibited in Botswana. There are no known offshore international business companies, exempt companies, or shell companies operating in the Botswana offshore financial center.

Terrorist financing is not criminalized as a specific offense in Botswana. However, acts of terrorism and related offenses, such as aiding and abetting, can be prosecuted under the Penal Code and under the Arms and Ammunitions Act. The Bank of Botswana has circulated to financial institutions the names of suspected terrorist individuals and groups on the UN 1267/1390 consolidated list, as well as lists provided by the United States Government and the European Union.

In 2001, an International Law Enforcement Academy (ILEA) opened in Gaborone. The ILEA provides training in money laundering and other law enforcement areas to countries in the southern region of Africa.

Botswana is a party to both the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Botswana is also a party to the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Botswana should criminalize terrorist financing and implement SAR regulations. Botswana should also establish a Financial Intelligence Unit (FIU) that would receive SARs and would be capable of sharing information with other FIUs and law enforcement agencies internationally. Botswana should also join the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) by signing ESAAMLG's Memorandum of Understanding.

Brazil. Despite the important regulatory and investigative steps the Government of Brazil (GOB) has taken, the laundering of proceeds from narcotics-trafficking, illegal gambling, white-collar crime, corruption, trade in contraband, and other crimes remains a problem in Brazil. A highly developed financial sector and a problem with local drug consumption and trafficking have made Brazil a money laundering center.

The GOB has a comprehensive anti-money laundering regulatory regime in place. Law 9,613 of March 3, 1998, criminalizes money laundering related to drug trafficking and other offenses, and penalizes offenders with a maximum of 16 years in prison. The law expands 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 \$10,000, now approximately \$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.

On June 11, 2002, President Cardoso signed Law 10,467, which modified Law 9,613. The new law put into effect Decree 3,678 of November 30, 2000, which penalizes active corruption in international commercial transactions by foreign public officials. Law 10,467 also added penalties for this offense under Chapter II of Law 9,613.

The 1998 Anti-Money Laundering 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 regulates those financial sectors not already under the jurisdiction of another supervising entity. Currently, the COAF has a staff of 28, comprised of 18 analysts, two international organizations specialists and support staff; they have also recently hired a counter-terrorism specialist.

In 1999, the COAF issued eight sets of 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 Private Insurance Superintendency (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. In January 2002, SUSEP introduced Circular No. 181, which specified the insurance entities required to comply with Law No. 9,613 and required these entities to report to SUSEP any cash transactions equal to or higher than 30,000 reals (now approximately \$12,000).

The Central Bank has established the Departamento de Combate a Ilícitos Cambiais e Financeiros; Department to Combat Exchange and Financial Crimes (DECIF) to implement anti-money laundering policy, examine entities under the supervision of the Central Bank to ensure compliance with suspicious transaction reporting, and forward information on the suspect and the 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. While the Central Bank had access to the information, other 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 government authorities, including the COAF, without a court order. On January 11, 2002, President Cardoso signed Brazil's new omnibus drug legislation, which allows for the suspension of bank secrecy during drug trafficking investigations. The president vetoed Chapter III of this law, which would have reduced the penalty for money laundering from the previous legislation's three to ten years, to one to two years, plus fines.

In 2002 COAF received 89 foreign requests for information on money laundering investigations, as well as 257 domestic requests from law enforcement, the Public Ministry, government agencies and the judiciary branch. Since 1998 the COAF has identified 321 cases that show evidence of money laundering. Subsequent investigations have led to the indictments of 149 persons.

Brazil has only a limited to ability to employ advanced law enforcement techniques such as undercover operations, controlled delivery, use of electronic evidence and task force investigations that are critical to the successful investigation of complex crimes, such as money laundering. Generally such techniques can be used only for information purposes, and are not admissible in court. Indeed, there has only been one known money laundering conviction since 1998. This occurred in 2002 as a result of the investigation of Judge Nicolau dos Santos Neto, who was arrested in December 2000 for embezzling 169 million reais (then approximately \$85 million dollars in funds earmarked for construction of a city courthouse. Nicolau allegedly used a system of front companies in offshore havens to transfer money and buy property abroad, including the United States. In June 2002, Judge Nicolau, who was charged with embezzlement, corruption, tax evasion and money laundering, was sentenced to eight years in prison. Some of the embezzled funds have been traced to banks in Paraguay and Panama.

Money laundering in Brazil is primarily related to drugs, corruption and trade in contraband. In 2002 COAF also began investigating instances of money laundering linked to the sale and purchase of luxury automobiles. This market is currently an unregulated sector in Brazil. Other schemes involve the purchase of winning lottery tickets to justify the increase of funds. Under Brazil's anti-money laundering law, the lottery sector must notify COAF of the names and data of any winners of three or more prizes equal to or higher than 10,000 reais within a 12-month period.

Since September 11, 2001, the COAF has responded to U.S. Government efforts to identify and block terrorist-related funds. As a member of the South American Financial Action Task Force (GAFISUD) and the Financial Action Task Force (FATF), Brazil has sought to comply with the Eight Special Recommendations on Terrorist Financing. The GOB has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism and the OAS Inter-American Convention on Terrorism.

Since September 11, 2001, COAF ran inquiries on over 700 individuals and entities, including searching its financial records for entities and individuals on the UN 1267 Sanctions Committee's consolidated list. None of the individuals and entities on the consolidated list, however, were found to be operating or executing financial transactions in Brazil.

According to Mr. Alberto Mendes Cardoso, Brazil's delegate to the OAS Inter-American Committee Against Terrorism (CICTE), "There is an undeniable link between certain forms of organized crime and terrorism. In a speech during the opening debate of the 56th United Nations General Assembly, in November 2001, President Fernando Henrique Cardoso stressed that 'throughout the world, problems of public safety, drug trafficking and consumption, and arms smuggling are evils associated with terrorism, which we must stamp out.' Thus, drug consumption, a scourge that affects all our countries, can contribute to the flourishing of terrorism, through the laundering of the funds used to purchase drugs." This is of concern because of the frequency of money laundering around the region of Foz de Iguaçu, near the tri-border area with Paraguay and Argentina. This is an area with high occurrences of intellectual property violations and illicit commerce, and it is believed to be a haven for smuggling and arms trafficking. And again according to Brazil's representative to CICTE, "Brazil is ready to investigate any report that reaches us about the presence of terrorists or their activities not only along the Triple Frontier but also at any other point within Brazil." However, in spite of the problems in the tri-border area, and the recent conviction of a terrorist financier for income tax evasion in the region, the GOB insists there is no evidence of terrorist financing in the area.

Brazil has no legislation that criminalizes the financing of terrorism. There is legislation pending in the Brazilian Congress that would update Brazil's 1983 law penalizing acts of terrorism. The Brazilian congress is also considering draft legislation that would make terrorism a predicate offense under the money laundering law. Even in the absence of such provisions, Brazilian authorities maintain that the money laundering law and presidential decrees implementing UN Security Council resolutions give the government the authority to search for and if necessary block terrorist financial assets, but these internal security provisions have never been used in this context, nor have they been tested this way in court. In any event there is no domestic legislation that specifies which government agency has the responsibility to monitor the compliance of these resolutions and decrees.

The COAF is a member of the Egmont Group. In June 2000, Brazil became a full member of FATF. In 2000 Brazil also became a founding member of 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, which is not yet in force internationally. The GOB has bilateral information exchange agreements with Belgium, France, Paraguay, Portugal, and Spain, as well as memoranda of understanding with the financial intelligence units of Belgium, Bolivia, Colombia,

Spain, France, Guatemala, Panama, Paraguay, Portugal, and Russia. FinCEN and COAF cooperate with one another on a case-by-case basis.

In order to successfully combat money laundering and other financial crimes, Brazil should develop legislation to regulate the sectors in which money laundering is an emerging issue. Brazil should also adopt new laws that, in compliance with international standards, criminalize the financing of terrorism and define terrorism as a predicate crime for money laundering. Brazil should also consider legislation to provide for the effective use of advanced law enforcement techniques in order to provide its investigators and prosecutors with more advanced tools to tackle sophisticated organizations that engage in money laundering, financial crimes and terrorist financing. In addition, the GOB and the COAF must continue to fight against corruption and ensure the enforcement of existing anti-money laundering laws.

British Virgin Islands. The British Virgin Islands (BVI) is an U.K. 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, 1000 registered vessels, 90 licensed general trust companies, and approximately 360,000 active international business companies (IBCs). The BVI underwent an evaluation of its financial regulations in 2000, co-sponsored by the local and British governments.

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 the BVI except for office leases. BVI has approximately 90 registered agents that are licensed by the Financial Services Commission (FSC), which was established December 7, 2001. 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 vetting by the appropriate supervisor within the FSC. The law transfers responsibility for regulatory oversight of the financial services sector from a government body, the Financial Services Department, to an autonomous regulatory body, the FSC.

In 2000, the Information Assistance (Financial Services) Act (IAFSA) was enacted to increase the scope of cooperation between BVI's regulators and regulators from other countries. On December 29, 2000, the Anti-Money Laundering Code of Practice (AMLCP) of 1999 entered into force. The AMLCP established procedures to identify and report suspicious transactions. The AMLCP also 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 Proceeds of Criminal Conduct Act of 1997 expanded predicate offenses for money laundering to all criminal conduct, and allows the BVI Court to grant confiscation orders against those convicted of an offense and who have benefited from criminal conduct. The law also created a Financial Intelligence Unit (FIU) referred to as the Reporting Authority-Financial Services Inspectorate. The Reporting Authority-Financial Services Inspectorate is an administrative Financial Intelligence Unit (FIU) responsible for the collection of suspicious activity reports. The Reporting Authority reviews approximately 30 suspicious transaction reports annually. Reports requiring investigation are given to the Police Financial Investigations Units. Only one money laundering case has been prosecuted in the BVI.

The BVI has proposed the Code of Conduct (Service Providers) Act (CCSPA) that 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. Additionally, the CCSPA 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 Joint Anti-Money Laundering Coordinating Committee (JAMLCC) was established in 1999 to coordinate all anti-money laundering initiatives in the BVI. The JAMLCC is a broad-based, multi-disciplinary body comprised of private and public sector representatives. The Committee has drafted Guidance Notes based on those of the UK and Guernsey.

The BVI is a member of the Caribbean Financial Action Task Force, and is subject to the 1988 UN Drug Convention. Application of the U.S./U.K. 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 criminalize the financing of terrorists and terrorism and take measures necessary to implement the FATF Special Eight Recommendations on Terrorist Financing. The BVI should continue to strengthen its anti-money laundering regime by implementing legislation that would regulate the conduct of individuals within the financial sector.

Brunei. The Government of Brunei adopted anti-money laundering legislation, the Money Laundering Order, in 2000. Also in 2000, Brunei implemented an asset seizure and forfeiture law, the Criminal Conduct (Recovery of Proceeds) Order. This legislation applies both domestically and to the offshore sector. In 2002, Brunei enacted the Drug Trafficking Recovery of Proceeds Act and the Anti-Terrorism Financial and other Measures Orders.

In 2001, Brunei actuated its plans to become an offshore financial center. The Brunei Darussalam brought into effect a series of laws that established the Brunei International Financial Center (BIFC). The relevant laws are: the International Business Companies Order 2000; the International Banking Order 2000; the Registered Agents and Trustees Licensing Order 2000; the International Trusts Order 2000; the International Limited Partnerships Order 2000; the Mutual Fund Order 2000, the Securities Order 2000 and the International Insurance and Takaful Order 2000. The BIFC launched a virtual Stock Exchange in 2002. The BIFC offers banking, Islamic banking, insurance, international business companies (IBCs), trusts (including asset protection trusts) mutual funds, and securities services. Bearer shares are not permitted, but nominee shareholders are allowed for IBCs. Brunei residents are allowed to become shareholders of IBCs. At present 370 companies are on the Brunei International Financial Center database. The Government also recently established the Brunei Economic Development Board (BEDB) to attract more foreign direct investment. There are no exchange controls.

Brunei has no Central Bank. The Authority, a segregated unit of the Ministry of Finance, acting through the Financial Institutions Division and the Head of Supervision, oversees the BIFC. This unit combines both regulatory and marketing responsibilities. The Authority is a multi-disciplinary unit with individuals with banking, insurance, corporate and trust supervisory skills.

Brunei is a party to the 1988 UN Drug Convention and, in December 2002, acceded to the UN International Convention for the Suppression of the Financing of Terrorism. On November 5, 2001, Brunei signed the Association of Southeast Asian Nations (ASEAN) Declaration on Joint Action to Counter Terrorism, and on November 3, 2002 Brunei joined the other ASEAN countries in adopting a Declaration on Terrorism by the 8th ASEAN Summit. On August 1, 2002, Brunei, on behalf of the other ASEAN countries, signed the non-binding ASEAN-United States of America Joint Declaration for Cooperation to Combat International Terrorism. Brunei is an observer jurisdiction to the Asia/Pacific Group on Money Laundering (APG). Brunei is applying to join the APG in 2003 and has undertaken compliance with the APG's Terms of Reference, which include a commitment to adopt the international standards contained in the Financial Action Task Force Forty Recommendations on Money Laundering and to the procedures for the evaluation of the effectiveness of its anti-money laundering systems.

Brunei should continue to enhance its anti-money laundering regime by separating the regulatory and marketing functions of the Authority to avoid potential conflict of interest. Additionally, Brunei should adequately regulate its offshore sector to reduce its vulnerability to misuse by terrorist organizations and their supporters. For all IBCs, Brunei should provide for identification of all beneficial owners. If its Anti-

Terrorism Financial and other Measures Orders does not explicitly do so, Brunei should also criminalize the financing and support of terrorism.

Bulgaria. Bulgaria is not considered an important regional financial center. 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 anti-crime legislation includes a 1998 money laundering law criminalizing money laundering. The legislation takes an "all-crimes" approach, as opposed to a list approach, meaning that any crime may serve as a predicate crime for money laundering. Other provisions include customer identification and record keeping requirements, suspicious transactions reporting (STR), 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. Penalties for these crimes are not addressed in this legislation, but fall within the penal code. All penalties for every crime fall within the penal code rather than the criminalizing legislation itself. Money laundering was criminalized within the Penal Code in 1997 via Articles 253 and 253(a). In 2001, the code was amended to add a 30-year prison penalty if the money laundering is linked with narcotics-trafficking.

During the fall of 2002, Parliament passed, through three committees, two readings of draft legislation further strengthening anti-money laundering measures. The legislation extends the types of obligated institutions and groups to include lawyers, and will introduce a currency transaction reporting requirement of 30,000 leva, (\$15,000), thus bringing Bulgaria into line with the EU standard. However, this requirement will not become effective until 2004, because Bulgaria's Bureau of Financial Intelligence (BFI) is currently not technologically capable of processing these reports. The legislation also changes the name of the BFI, Bulgaria's Financial Intelligence Unit, into the Financial Intelligence Agency (FIA), commensurate with BFI's status as a full agency within the Ministry of Finance rather than a bureau. It further institutionalizes and guarantees functional independence of the unit's director. The legislation (with the single named exception) will enter into force at the beginning of 2003.

Since its establishment in 1998, the BFI has received over 1,200 suspicious transaction reports. The various obligated institutions submitted over 95 percent of them. Eighty percent of cases are closed. By the end of October 2002, BFI's 37 staff members forwarded 191 cases to the Supreme Prosecutor's Office and the Ministry of Interior. In effect, the first ten months of 2002 saw twice as many cases reported to the Prosecutor's Office—a total of \$180 million—as in previous years. However, some of these cases represent the backlog of previous years. Notwithstanding the increase in activity, BFI remains handicapped technologically, but is working on improving its database and its management to make it more efficient for the analysts' use by being able to track across targets and years.

The National Investigative Service is the only agency authorized to investigate money laundering, and it does so at the behest of the Prosecutor's Office. However, BFI has the authority to close cases, and to pursue cases via appeal that have been closed by the Prosecutor's Office. Although money laundering has been pursued in court cases, there has never been a conviction for the crime. Prosecutors and investigators do not train for or specialize in money laundering, especially at the district level, so there may well be some confusion on their part with regard to pursuing money laundering cases.

The Government of Bulgaria (GOB) is still considering legislation addressing actual forfeiture and seizure of criminal assets, indictment of entities on money laundering charges, and prohibiting the use of funds of dubious or criminal origin in acquiring banks and businesses during privatization.

The GOB recently enacted the Measures against the Financing of Terrorism, that criminalizes the financing of terrorism and links financial intelligence with other anti-terrorist measures in place. The law therefore legislates a link between BFI and the STRs it receives, and terrorism financing, and authorizes the agency to use its financial intelligence to that end as well as in fighting money laundering. In April 2002, Bulgaria became a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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 (Moneyval, PC-R-EV). The BFI is a member of the Egmont Group and participates actively in information sharing with foreign counterparts. In June 2001, Bulgaria was judged by the Technical Consultation 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.

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.

The GOB should approve and implement proposed measures that will address forfeiture and seizure of criminal assets, the indictment of entities on money laundering charges, as well as prohibiting the use of dubious or criminal-origin funds to acquire banks and businesses during privatization. BFI should continue to increase its staff to full capacity and work on its technological improvements for the analysts. The BFI should also continue to work with the police, Prosecutor's Office, National Investigative Service, and Appeals Office to improve the prosecutorial effectiveness in money laundering cases.

Burkina Faso. Burkina Faso is not a regional financial center. Although the economy is primarily cash-based, there are seven banks in Burkina Faso. Only an estimated six percent of the population have bank accounts.

Burkina Faso lacks laws and regulations specifically designed to fight money laundering or financial crimes. Neither money laundering nor terrorist financing is a criminal offense.

The Central Bank of West African States (BCEAO), based in Dakar, Senegal, is the central bank for the countries in the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information.

In September 2002, the WAEMU Council of Ministers, which oversees the BCEAO, approved an antimoney laundering regulation applicable to banks and other financial institutions, casinos, travel agencies, art dealers, gem dealers, accountants, attorneys, and real estate agents. The regulation is subject to review by member countries, which would be responsible for implementing many provisions of the regulation. The regulation is expected to go into effect in early 2003.

Under the WAEMU regulation, financial institutions would be required to verify and record the identity of their customers before establishing any business relationship. The regulation would require financial institutions to maintain customer identification and transaction records for ten years. The regulation would also impose certain customer identification and record maintenance requirements on casinos.

All financial institutions, businesses, and professionals under the scope of the WAEMU regulation would be required to report suspicious transactions. The regulation calls for each member country to establish a National Office for Financial Information Process (CENTIF), which would be responsible for collecting suspicious transactions and would have the authority to share information with other CENTIFs within the WAEMU as well as with the financial intelligence units of non-WAEMU countries.

The WAEMU Council of Ministers issued another directive in September 2002 requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations targeted by the UNSCR 1267/1390 consolidated lists.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002 GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Burkina Faso. In July 2002 Togo participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against narcotics-trafficking, terrorism, and money laundering.

On May 15, 2002, Burkina Faso ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Burkina Faso is a party to the 1988 UN Drug Convention.

Burkina Faso should criminalize money laundering and terrorist financing as part of a viable anti-money laundering regime.

Burma. 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.

In June 2001, the Financial Action Task Force (FATF) identified Burma as non-cooperative in international efforts to fight money laundering (NCCT). This designation was based on Burma's lack of basic anti-money laundering provisions. Money laundering had not been criminalized for crimes other than narcotics-trafficking, and there were no record keeping or reporting requirements. Additionally, oversight of the banking sector was weak, and there were obstacles to international cooperation. Subsequent to the FATF's naming of Burma as NCCT, the U.S. Treasury Department issued an advisory to U.S. financial institutions, warning them to give enhanced scrutiny to all financial transactions relating to Burma. Both actions remain in force.

The Control of Money Laundering Law (The State Peace and Development Council Law No. 6/2002) was passed on June 17, 2002. There are ten predicate offenses listed in Chapter III of this legislation. The Psychotropics Substances Law of 1993 only criminalized narcotics money laundering. The 2002 legislation goes beyond narcotics money laundering and includes human and arms trafficking, smuggling, cybercrime, illegally operating a financial institution, hijacking, and "offenses committed by acts of terrorism" as predicate offenses. The legislation does require suspicious transaction reporting, but does not include a specific timetable for required submission of suspicious transaction reports (STRs), beyond "without delay." Chapter VIII requires financial institutions to maintain records for at least five years. Money laundering is punishable by imprisonment.

Chapter IV allows for the formation of the Central Control Board on Money Laundering, the Burmese Financial Intelligence Unit (FIU), which may conduct an investigation into a money laundering case based on a STR, and which is responsible for establishing the reporting thresholds. The Central Control Board, chaired by the Home Minister, will enforce the legislation. The Board will set policy, direct the Investigation Body (that performs money laundering investigations and conducts seizures), direct the Preliminary Scrutiny Body (that ensures due process and finalizes the case), cooperate with other international money laundering groups, and organize investigation teams. The legislation provides full access to all financial records for investigators from the FIU. The first investigations under this law began in July, resulting in the seizure of several hundred thousand dollars in assets. The first prosecutions should take place within the next several months.

Burma is an observer jurisdiction to the Asia/Pacific Group on Money Laundering and a party to the 1988 UN Drug Convention. Over the past several years, the Government of Burma (GOB) has

significantly extended its counternarcotics cooperation with other states. The GOB has bilateral drug control agreements with India, Bangladesh, Vietnam, Russia, Laos, the Philippines, China and Thailand. It is not known whether these agreements cover cooperation on money laundering issues. In 2001-2002, Burma joined with China in joint operations in northern and eastern Shan State that resulted in the destruction of several major drug-trafficking rings. Burma has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Burma has not signed or ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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 planning to couple the 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 in the legitimate economy. Burma should set the reporting thresholds required under its new anti-money laundering legislation and create the institutions and the environment conducive to establishing a viable anti-money laundering regime. The GOB should also criminalize the financing and support of terrorism. Burma should provide the necessary resources to the administrative and judicial authorities that supervise the financial sector and enforce the financial regulations to successfully fight money laundering.

Cambodia. Cambodia is not an important regional financial center. It is vulnerable to money laundering. Cambodia is a transit country for heroin-trafficking from the Golden Triangle. It has a cash-based economy (heavily dollarized), little control over its borders, and has widespread corruption. Cambodia has a significant black market for smuggled goods and commodities, but there is no indication the market is funded by narcotics proceeds. The black market exists due to high taxes and tariffs and the corresponding massive profits to be made by skirting official duties.

Cambodia's banking sector is small, with 13 general commercial banks and four specialized commercial banks. The National Bank of Cambodia (NBC) maintains strict control over the banking sector and, with a relatively small number of deposits in the system, feels it exercises good oversight over transactions. Casinos dot Cambodia's border with Thailand, most notably at Poipet. The NBC has no authority over these casinos and no knowledge of their financial holdings or transactions. The lack of oversight represents a significant money laundering vulnerability.

In 1996, Cambodia criminalized money laundering related to narcotics-trafficking through the Law on Drug Control. In 1999, the government also passed the Law on Banking and Financial Institutions. These two laws provide the legal basis for the NBC to regulate the financial sector. The NBC also uses the authority of these laws to issue and enforce new regulations. The most recent regulation, dated October 21 2002, is specifically aimed at money laundering and includes setting a threshold for reporting currency transactions valued at \$10,000 or above and requires the maintenance of records for a ten-year period. The NBC regularly audits individual banks to ensure compliance with laws and regulations. The 1996 and 1999 laws include 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 have not been fully promulgated. In addition to the NBC, the Ministries of Economy and Finance, Interior and Justice also are involved in anti-money laundering matters.

Cambodia does not have any laws that specifically address terrorism financing. It does circulate to financial institutions the list of individuals and organizations designated by UN 1267 Sanctions Committee. To date, there have been no known reports of terrorist financing using the Cambodian banking sector. Should sanctioned individuals or entities be discovered using a financial institution in Cambodia, the NBC has the legal authority to freeze the assets but not to seize them. Cambodia has signed, but has not become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Reportedly the Cambodian government plans to incorporate any new draft laws related to terrorism financing and money laundering into its financial roadmap as developed in cooperation with the Asian Development Bank. In the interim, the Royal Government of Cambodia should fully implement its existing anti-money laundering legislation and regulations and work towards new legislation that fully complies with world standards governing money laundering and terrorist financing.

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. BEAC is a regional central bank that serves six countries of Central Africa.

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counter-terrorist financing regulations that would apply to banks, exchange houses, stock brokerages, casinos, insurance companies, and intermediaries such as lawyers and accountants in all six member countries. The BEAC intends to submit the draft regulations to the Ministerial Committee of the Central African Economic and Monetary Community (CEMAC) for approval in January 2003.

If approved, the BEAC regulations would treat money laundering and terrorist financing as criminal offenses. The regulations would also require banks to record and report the identity of customers engaging in large transactions. The threshold for reporting large transactions would be set at a later date by the CEMAC Ministerial Committee at levels appropriate to each country's economic situation. Financial institutions would have to maintain records of large transactions for five years.

The regulations would require financial institutions to report suspicious transactions. Under the regulations, each country would establish a National Agency for Financial Investigation (NAFI), which would be responsible for collecting suspicious transaction reports. Bankers and other individuals responsible for submitting suspicious transaction reports would be protected by law with respect to their cooperation with law enforcement entities. If a NAFI investigation were to confirm suspicions of terrorist financing, the Cameroonian government could freeze and seize the related assets. The NAFI could cooperate with counterpart agencies in other countries, although this cooperation would be limited by privacy legislation.

Cameroon is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Cameroon should work with the BEAC to establish a viable anti-money laundering and counter-terrorist financing regime. Cameroon should also criminalize terrorist financing and money laundering.

Canada. Canada remains vulnerable to money laundering and terrorist financing because of its advanced financial services sector and heavy cross-border flow of currency and monetary instruments. The United States and Canada comprise the world's largest trade partnership and share a border that sees over \$1 billion dollars in trade a day. Both the U.S. and Canadian governments are particularly concerned about the criminal abuse of cross-border movements of currency. Canada's financial institutions are vulnerable to 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 to assist in the detection and deterrence of money laundering and facilitate the investigation and prosecution of money laundering offenses and to expand the list of predicate money laundering to cover serious crimes. 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 Centre of Canada (FINTRAC), which reports to the Minister of Finance and receives and analyzes reports from financial institutions and other financial intermediaries.

With the passage of the Anti-Terrorism Act in December 2001, the Proceeds of Crime (Money Laundering) Act, which was re-named as the Proceeds of Crime (Money Laundering) and Terrorist

Financing Act, was amended to criminalize terrorist financing and require the reporting of suspicious transactions related to terrorist financing. Under the law, FINTRAC's mandate was expanded to include anti-terrorist financing and to allow disclosure of information to the Canadian Security Intelligence Service related to financial transactions that would be relevant to threats to the security of Canada. The Anti-Terrorism Act also enables Canadian authorities to deter, disable, identify, prosecute, convict and punish terrorist groups. No prosecutions took place in 2002. (Note: One financial institution reported that as of December, some \$200,000 were frozen in 29 separate accounts pending further investigation.)

In November 2001, FINTRAC became operational and regulations came into effect that require reporting entities 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 transaction reports (STRs). FINTRAC receives and analyzes the STRs and determines which suspicious transactions merit further investigation. A second set of regulations related to internal compliance regimes, the reporting of large cash transactions and large international electronic funds transfers, record keeping and client identification were published in May 2002 with certain requirements coming into effect in June 2002 and other requirements being phased in early 2003. A further set of regulations concerning the reporting of cross-border movements of currency and monetary instruments will come into effect in January 2003.

In June 2002, FINTRAC became a member of the Egmont Group. FINTRAC has the authority to negotiate information exchange agreements with foreign counterparts, and has completed discussions with several countries and is pursuing discussions with other countries, including the United States. However, Canada's privacy protection provisions can inhibit the timely and effective exchange of information on suspected criminals, including possible terrorists.

Canada is a member of the FATF and the OAS 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 OAS Inter-American Convention on Mutual Assistance in Criminal Matters. Canada has long-standing agreements with the United States on law enforcement cooperation including treaties on extradition and mutual legal assistance. Canada is a party to the 1988 UN Drug Convention, and in May 2002, ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Canada is a party to the UN International Convention for the Suppression of the Financing of Terrorism. It has signed all 12 UN terrorism conventions and protocols and has searched financial records for groups and individuals on the UNSCR 1267/1390 consolidated list.

Canada should continue to staff and develop FINTRAC and accelerate its efforts to sign MOUs that will allow for meaningful information exchange. The government of Canada should also continue its efforts to ensure that privacy protection does not inhibit the timely sharing of financial information that may be critical to international terrorist financing or major money laundering investigations.

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 approximately 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, and 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) placed the Cayman on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against 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.

In July 2000, the U.S. Treasury Department issued an advisory to U.S. financial institutions warning them to pay special attention and 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. 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 (approximately \$ 18,000), or who may be engaging in money laundering. 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. 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).

The Monetary Authority Law (2001 Revision), was enacted in December 2002. It grants CIMA independence with respect to the licensing and enforcement powers over financial institutions. Previously these were vested directly in the government. The law grants CIMA, consistent with its regulatory authority, the power to obtain information "as it may reasonably require" from a person covered by the PCCL and its money laundering regulations 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. 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 paving the way for the Cayman Islands Financial Reporting Unit to become a member of the Egmont Group of Financial Intelligence Units in June 2001 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 NCCT list. 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 United States. The Cayman Islands is subject to the 1988 UN Drug Convention and the Treaty concerning the Cayman Islands relating to Mutual Legal Assistance in Criminal Matters. Also, it is a member of the Caribbean Financial Action Task Force (CFATF) and the Offshore Group of Banking Supervisors.

The Cayman Islands has made significant progress toward addressing the serious systemic problems that characterized its counter-money laundering regime less than two years ago. The government should continue with its anti-money laundering implementation plans and international cooperation.

Chad. Chad is not an important financial center. Chad has a large informal sector that could be used to launder the proceeds of crime. The Bank of Central African States (BEAC), which supervises Chad's banking system, is a regional Central Bank that serves six countries of the Central African Economic and Monetary Community (CEMAC). The Chadian Central Bank is under the direction of the BEAC.

Money laundering is a criminal offense, and Chadian law holds individual bankers liable if their institutions launder money. Financial institutions are required to report suspicious transactions to the Chadian Central Bank. Banks must report monthly any domestic currency transactions over 500,000 CFA francs (about \$770) to the Central Bank. In addition, all currency transfers above 100,000 CFA francs (about \$154) from Chad to a non-CEMAC country or to Chad from a non-CEMAC country must be reported to both the Central Bank and the Ministry of Finance on a monthly basis. Banks are required to maintain records for two to 30 years, depending on the type of transaction. Banks must make customer information available to bank supervisors, the judiciary, the customs service, and tax authorities on request.

The Government of Chad (GOC) has the authority to freeze terrorist finance assets. In November 2001, the Ministry of Finance issued a directive to the Chadian Central Bank to freeze all accounts suspected of belonging to terrorist groups. The Central Bank has forwarded to Chadian banks the UN 1267/1390 consolidated list and the U.S. Government list of suspected terrorist individuals and organizations. As of the end of 2002, no suspect accounts had been identified.

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counter-terrorist financing regulations that would apply to banks, exchange houses, stock brokerages, casinos, insurance companies, and intermediaries such as lawyers and accountants in all six member countries. The BEAC intends to submit the draft regulations to the Ministerial Committee of the Central African Economic and Monetary Community (CEMAC) for approval in January 2003.

If approved, the BEAC regulations would treat money laundering and terrorist financing as criminal offenses. The regulations would also require banks to record and report the identity of customers engaging in large transactions. The threshold for reporting large transactions would be set at a later date by the CEMAC Ministerial Committee at levels appropriate to each country's economic situation. Financial institutions would have to maintain records of large transactions for five years.

The regulations would require financial institutions to report suspicious transactions. Under the regulations, each country would establish a National Agency for Financial Investigation (NAFI) responsible for collecting suspicious transaction reports. Bankers and other individuals responsible for submitting suspicious transaction reports would be protected by law with respect to their cooperation with law enforcement entities. If a NAFI investigation were to confirm suspicions of terrorist financing, the Chadian government could freeze the related assets. The NAFI could cooperate with counterpart agencies in other countries.

Chad is a party to the 1988 UN Drug Convention.

Chad should criminalize terrorist financing and money laundering. Chad should also work with the BEAC to strengthen the region's anti-money laundering and counter-terrorist financing regime.

Chile. Chile has a sound modern financial sector, but is not considered a major regional financial center. There are approximately 27 financial institutions, including 16 foreign banks, nine private domestic banks, one state-owned bank, and one financial corporation. 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, and strict privacy laws.

Although Chile does not appear to have a significant money laundering problem, Chilean law in this area is underdeveloped. Money laundering offenses in Chile are limited only to the direct proceeds of narcotics

offenses. Chilean law also does not require a suspected money launderer to establish the legitimate source of suspicious funds. The lack of a Financial Intelligence Unit (FIU) with a full scope of authorities, the lack of reporting requirements for suspicious transactions and strict bank secrecy laws compound the investigative problem for law enforcement authorities. In addition, Chile's ports are also vulnerable to money laundering as indicated by reports and arrests related to narcotics-trafficking in these areas.

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, this law offers no "safe harbor" provisions protecting banks from civil liability, and as a result the reporting of such transactions continues to be extremely low. Law 19.366 only gives the Council for the Defense of the State (CDE) authority to conduct narcotics-related money laundering investigations. The Department for the Control of Illicit Drugs (Departmento de Control de Trafico Ilicito de Estupefacientes) within the CDE carries out this investigative function. It presently functions as Chile's Financial Intelligence Unit, and is a member of the Egmont Group. However, as a result of an ongoing reform to the criminal judicial system, a Public Ministry was established that has been gradually absorbing from the CDE the authority to carry out money laundering investigations. The transition into the new system is being done by region.

To further enhance its ability to prevent and combat money laundering, in June 2002, the Government of Chile (GOC) introduced proposed modifications to the Penal Code that include (in addition to illicit narcotics-trafficking) terrorism, illegal arms trafficking, child prostitution and pornography, and adult prostitution, as predicate offenses for money laundering. This bill, currently under consideration by the Chilean Senate's Constitutional Reform Committee, proposes creation of a financial analysis unit within the Ministry of Finance that would ultimately replace the one currently functioning with limited legal abilities within the CDE. The bill proposes mandatory reporting of suspicious transactions by banks, currency exchange houses, issuers and operators of credit cards, chambers of commerce, securities brokers, insurance companies, mutual funds administrators, remitters and transporters of funds and other valuables, casinos and horse racetracks, notaries, the Foreign Investments Committee, and the Central Bank.

Further, the bill requires the reporting of cash transactions of more than \$10,000 and imposes record keeping requirements (five years), as well as provides "safe harbor" provisions from liability to those complying with the reporting requirements. The bill also requires defendants to provide proof of the source of income in cases of illicit enrichment. The new FIU would receive and analyze the reports of suspicious financial activities and forward those deemed appropriate for further investigation to the Public Ministry. A separate bill to strengthen the Counter-Narcotics Law, particularly in the area of asset freezing and sharing, continues under separate review.

GOC officials had predicted passage of the new law by the end of 2002, but it now appears that approval will be delayed at least until early 2003. Despite the improvements in the proposed legislation, the bill still provides no mechanism for the seizure or forfeiture of suspicious assets. The United States has offered assistance to Chile on these issues, including technical assistance on asset seizure and forfeiture.

Chile is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In November 2001, the GOC became a party to the UN International Convention for the Suppression of the Financing of Terrorism. Chile is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Chile is a member and currently holds the chair of the South American Financial Action Task Force on Money Laundering (GAFISUD) and has pledged to come into compliance with the organization's recommendations.

On August 2000, the GOC and U.S. Government (USG) signed a new letter of agreement, based under which the USG is providing counternarcotics and anticrime assistance to Chile. Although the GOC strongly supports the international coalition against terrorists, and acknowledged the USG request for assistance in identifying and freezing terrorist-related assets, it does not have the authority to issue a freeze

order. The Banking and Financial Institution Supervisory Agency provided the UNSCR 1267/1390 list and instructed them to check for accounts. However, the entities that regulate the financial system do not have legal authority to freeze bank accounts suspected of being associated with the financing of terrorists or terrorism, nor can the Executive Branch unilaterally freeze accounts. Essentially assets may be frozen only in narcotics cases. The GOC is aware of these limitations and has begun to address them.

The GOC should pass the proposed amendments to the Penal Code, criminalize the financing or terrorists and terrorism and promptly establish an effective FIU that meets the Egmont Group's standards. It should also continue efforts aimed at the passage of laws that would strengthen its ability to block, freeze and share seized assets. The GOC should also take steps to ensure that money launderers do not abuse its economically successful ports.

China, People's Republic of. Money laundering remains a major concern as the People's Republic of China (PRC) restructures its economy. Most money laundering cases now under investigation involve corruption and bribery. Narcotics-trafficking, smuggling, alien smuggling, counterfeiting, and fraud and other financial crimes remain major sources of laundered funds. Proceeds of tax evasion, recycled through offshore companies, return to the PRC disguised as foreign investment, and as such, receive tax benefits. Hong Kong-registered companies figure prominently in schemes to transfer corruption proceeds and in tax evasion recycling schemes.

After having studied how to strengthen the PRC's anti-money laundering regime over the past few years, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) have promulgated a series of anti-money laundering regulatory measures for financial institutions. These include: Regulations on Real Name System for Individual Savings Accounts, Rules on Bank Account Management, Rules on Management of Foreign Exchange Accounts, Circular on Management of Large Cash Payments, and Rules on Registration and Recording of Large Cash Payments.

Proposed regulations include: Rules on Management of Payment Transaction Reports and Interim Regulations on Reports of Financial Institutions Concerning Large and Suspicious Foreign Exchange Funds. Other regulatory agencies such as the China Securities Regulatory Commission and the China Regulatory Insurance Commission are preparing and implementing similar regulations for their respective financial sectors. Elements of these regulations require commercial banks to have systems, by January 2003, to monitor suspected money laundering transactions, develop anti-money laundering programs, and report large cash and suspicious transactions to the anti-money laundering department within the PBOC.

The existing and proposed measures complement the PRC's 1997 Criminal Code, which criminalizes money laundering under Article 191 for three predicate offenses—narcotics-trafficking, organized crime, and smuggling. Additionally, Article 312 criminalizes complicity in concealing the proceeds of criminal activity, and Article 174 criminalizes the establishment of an unauthorized financial institution.

The PRC is considering expanding the list of predicate offenses for money laundering, reflecting its experience in conducting investigations connected to fraud, embezzlement, and corruption. Widening the definition of money laundering will assist in international information sharing and heighten public awareness of the money laundering threat. PRC anti-money laundering efforts are hampered by the prevalence of counterfeit identity documents and cash transactions conducted by underground banks. Another structural impediment is the absence of a nationwide automated network to monitor banking transactions through the PBOC. Many inter-banking transactions from one region to another are conducted manually, which delays the PBOC's ability to prevent money laundering.

In July 2002, the PBOC set up an anti-money laundering team tasked with developing the legal and regulatory framework for countering money laundering in the banking sector. The team is chaired by the Vice Governor of the PBOC and composed of representatives of the PBOC's 15 functional departments. It also set up an office in the PBOC's Payment System and Technology Development Department to design a system for monitoring the movement of suspicious transactions through PBOC-licensed financial entities. In September 2002, SAFE adopted a new system to supervise foreign exchange accounts more

efficiently. The new system will allow for immediate electronic supervision of transactions, collection of statistical data, and reporting and analysis of transactions. The PRC has decided to establish or designate a Financial Intelligence Unit (FIU) in 2003 to enhance its anti-money laundering regime.

The United States and the PRC cooperate and discuss money laundering and other enforcement issues under the auspices of the US-PRC Joint Liaison Group's (JLG) subgroup on law enforcement cooperation. The JLG meetings are held periodically in either Washington, D.C., or Beijing.

The PRC supports international efforts to counter the financing of terrorism. Terrorist financing is now a criminal offense in the PRC and the government has the authority to identify, freeze, and seize terrorist financial assets. Subsequent to the September 11, 2001 terrorist attacks in the United States, the PRC authorities began to actively participate in United States and international efforts to identify, track, and intercept terrorist finances, specifically through implementation of United Nations Security Council anti-terrorist financing resolutions.

While the PRC authorities have attempted to identify any terrorist assets in the PRC based on the UN 1267 Sanctions Committee's consolidated list, it was initially less cooperative relative to those named on lists issued by the United States. However, in late 2002, the PRC authorities subsequently determined that PRC law enforcement entities would grant equal legal weight to the U.S. lists and the UN consolidated list. Even so, as of November 2002, the PRC's Customs Service had not received from central government authorities copies of either the UN consolidated list or the additional U.S. lists for its use in its inspection activities. The PRC government has not identified, frozen or seized any confirmed terrorist assets to date.

The PRC signed the UN International Convention for the Suppression of the Financing of Terrorism on November 13, 2001. The United States, PRC, Afghanistan, and Kyrgyzstan jointly referred the Eastern Turkistan Islamic Movement, an al-Qaida linked terrorist organization that carries out activities in the PRC and Central Asia, to the UN 1267 Sanctions Committee for inclusion on its consolidated list. The United States and PRC have established a Working Group on Counterterrorism that meets on a regular basis. The PRC has established similar working groups with other countries as well. A high-level FATF mission visited the PRC in May 2002 for discussions on FATF membership and PRC anti-money laundering efforts, including counter-terrorist financing. The PRC expressed its willingness to participate in the work of FATF on both a political and an operational basis.

The PRC has signed mutual legal assistance treaties with 24 countries. 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. The MLAA entered into force in March 2001 and can provide a basis for exchanging records in connection with narcotics and other criminal investigations and proceedings. The FBI-staffed legal attaché office opened at the U.S. Embassy in Beijing in October 2002. 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, which is not yet in force internationally.

The PRC should continue to build upon the substantive actions taken in 2002 to develop a viable antimoney laundering regime consonant with international standards. Important steps include expanding its list of predicate crimes to include all serious crimes, continuing to develop a regulatory and law enforcement environment designed to prevent and deter money laundering, and establishing an FIU capable of sharing information with foreign law enforcement and regulatory agencies.

Colombia. The Government of Colombia (GOC) is a regional leader in the fight against money laundering. It has enacted comprehensive anti-money laundering legislation and continues to take significant measures to refine and improve its ability to combat financial crimes and money laundering. Nevertheless, drug money laundering from Colombia's lucrative cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. Despite GOC efforts and funding and technical support from the United States, the magnitude of the money laundering threat combined with continued procedural difficulties in legal proceedings and limited resources continue to make Colombia a major money laundering concern.

In addition to pervasive narcotics-related money laundering, Colombia confronts a money laundering threat from corruption, commercial smuggling for tax and import duty avoidance, kidnapping for profit, arms-trafficking, and terrorism connected to violent paramilitary groups and guerrilla organizations. One of the prominent methods for money laundering in Colombia is 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. Other money laundering techniques include, bulk shipment and body smuggling of narcotics-related foreign currency, the use of debit cards drawn upon financial institutions outside of Colombia, the use of exchange houses to transfer funds into and out of Colombia by wire or for bulk cash deposit in Central America, and the use of shell companies.

Colombia has broadly criminalized money laundering. In 1995, Colombia established the "legalization and concealment" of criminal assets as a separate criminal offense and, in 1997, more generally criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, and narcotics-trafficking. Effective in 2001, Colombia's criminal code extends money laundering predicates to reach armstrafficking, crimes against the financial system or public administration and criminal conspiracy. Penalties under the criminal code range from two to six years with possibilities for aggravating enhancements of up to three-quarters of the sentence. Persons who serve as nominees for the acquisition of the proceeds of drug trafficking are subject to a potential sentence of six to fifteen years, while illicit enrichment convictions carry a sentence of six to ten years. Failure to report money-laundering offenses to authorities, among other offenses, is itself an offense punishable under the criminal code, with penalties increased in 2002 to imprisonment of two to five years.

Colombian law provides for both conviction-based and non-conviction-based in rem forfeiture, giving it some of the most expansive forfeiture legislation in Latin America. Colombia's penal law includes a general criminal forfeiture provision for intentional crimes since the 1930s, and more specific forfeiture provisions in other statutes, such as Law 30 of 1986, Colombia's principal anti-narcotics statute. Colombia added non-conviction-based forfeiture with the enactment of Law 333 of 1996, which established "extinction of domain" procedures to extinguish property rights for assets tainted by criminal activity. Despite this expansive legislative regime, procedural and other difficulties led to only limited forfeiture successes in the past, with substantial assets tied up in proceedings for years. However, in 2002 the Anti-Narcotics and Maritime Unit of the Prosecutor General's office used Law 333 to successfully forfeit \$35 million of U.S. currency seized with the assistance of DEA in 2001.

In 2002, the GOC took additional forceful measures to remove practical obstacles to the effective use of forfeiture to combat crime. In September, the GOC issued a decree to suspend application of Law 333 and implement more streamlined procedures in forfeiture cases. These reforms were refined and formally adopted in December through the enactment of Law 793 of 2002. Among other things, Law 793 repeals Law 333 and establishes new procedures that eliminate interlocutory appeals, which prolonged and impeded forfeiture proceedings in the past, imposes strict time limits on proceedings, and places obligations on claimants to demonstrate their legitimate interest in property. In addition, Law 793 requires expedited consideration of forfeiture actions by judicial authorities, and establishes a fund for the administration of seized and forfeited assets.

Also in December, the GOC strengthened its ability to administer seized and forfeited assets by enacting Law 785 of 2002. This new statute provides clear authority for the National Drug Directorate (DNE) to conduct interlocutory sales of seized assets and contract with entities for the management of assets. Notably, Law 785 also permits provisional use of seized assets prior to a final forfeiture order, including assets seized prior to the enactment of the new law. The Department of Administration of Property within the Prosecutor General's office has responsibility for the administration of approximately 1.5 million seized assets, while the DNE manages an additional 300,000 assets. The DNE, with assistance from the United States Marshals Service, is developing a modern asset management and electronic inventory system for seized assets.

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. In 2002, this unit initiated 297 money laundering investigations, an increase of 23 percent over 2001, and 180 asset forfeiture investigations, an increase of 42 percent. Nevertheless, final money laundering convictions and forfeitures remain limited in number. Recent development of a document organization and exploitation team and the streamlined procedures under Law 793 may increase the number of successful actions.

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. Wire remitters also are required to file suspicious transaction reports, and currency transactions and cross-border movements of currency in excess of \$10,000 must also be reported. Exchange houses must file currency reports for transactions involving \$750 or more. The GOC has also extended suspicious activity reporting obligations to additional institutions such as those regulated by the Superintendency of Securities, which oversees Colombia's stock exchanges, and the Superintendency of Notaries. 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.

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 a member of the Egmont Group of financial intelligence units and provides expertise in organizational design and operations to other Financial Intelligence Units in Central and South America. In 2002, the UIAF received 13,343 suspicious activity reports (SARs), and forwarded 2,427 of these to the Prosecutor General's office for further investigation or prosecution.

Colombia continued to play a role in multilateral efforts to combat money laundering in 2002. Colombia is a member of the South American Financial Action Task Force (GAFISUD), a regional anti-money laundering organization modeled after the G-8 Financial Action Task Force. In 2002, Colombia underwent a mutual evaluation by fellow GAFISUD members and has provided experts for the mutual legal evaluation of other GAFISUD countries. Colombia also participates 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. Colombia became a signatory to the UN International Convention for the Suppression of the Financing of Terrorism in October of 2001 but has not yet become a party to the Convention.

The United States and Colombia continue to enjoy successful bilateral cooperation in money laundering and forfeiture investigations. In 2002, 40 fugitives, mostly Colombian nationals, were extradited from Colombia to the United States, including 13 on money laundering charges. Coordination between Colombia's Tax and Customs Directorate (DIAN) and the United States Customs Service (USCS), resulted in the seizure of approximately \$10 million in undeclared U.S. currency entering Colombia in 2002 and the arrest of fifteen couriers on money laundering charges entering Colombia from Mexico and Central America with amounts varying from \$200,000 to nearly \$2 million. Cooperation between USCS and Colombian law enforcement authorities in two major undercover cases resulted in more than 35 arrests and the seizure of nearly \$17 million in 2002. Colombian Judicial Police (DIJIN) and USCS expect to expand joint financial investigations in money laundering, BMPE, and terrorist financing.

Colombia should take legislative action to strengthen forfeiture, procedural impediments and other aspects of money laundering enforcement. Colombia should also consider devoting additional resources to prosecutors and investigators.

Congo, Democratic Republic of. The Congo is not a regional financial center, although its porous borders, lack of a financially sound, well-regulated banking sector and functional judicial system, and inadequate enforcement resources make it susceptible to money laundering. Money laundering in the

Congo more than likely involves smuggling proceeds, as smuggling is a widespread crime in the Congo. The eastern two-thirds of the country is under the control of rebel groups and is unanswerable to the Government of the Democratic Republic of the Congo (GDRC). Most economic activity in the Congo takes place in the informal sector. In 2000, the informal sector was estimated to be at least four times the size of the formal sector. Most transactions, even those of legitimate businesses, are carried out in cash. Rebel-controlled Congo operates on a cash-only basis.

There is no law in the Congo criminalizing money laundering. In 1997, the Bank of Zaire (now the Central Bank of Congo) issued anti-money laundering guidance to banks. The guidance required that banks adhere to international anti-money laundering standards and report transactions greater than \$500 to the Central Bank. However, the Central Bank abolished these guidelines in 2000. There are no legal restrictions in the Congo prohibiting the sharing of financial account information with foreign authorities.

While there is no law criminalizing terrorist financing, both the President and the courts have the legal authority to freeze assets of terrorist organizations.

The Congo has signed, but not yet ratified, both the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention.

The GDRC should criminalize money laundering and terrorist financing and develop a viable anti-money laundering regime.

Congo, Republic of. Congo is not a regional financial center, and money laundering is not thought to be a problem. The Bank of Central African States (BEAC) supervises Congo's banking system, which is still recovering from the looting and neglect it received during Congo's civil unrest in the 1990s. BEAC is a regional Central Bank that serves six countries of Central Africa.

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counter-terrorist financing regulations that would apply to banks, exchange houses, stock brokerages, casinos, insurance companies, and intermediaries such as lawyers and accountants in all six member countries. The BEAC intends to submit the draft regulations to the Ministerial Committee of the Central African Economic and Monetary Community (CEMAC) for approval in January 2003.

If approved, the BEAC regulations would treat money laundering and terrorist financing as criminal offenses. The regulations would also require banks to record and report the identity of customers engaging in large transactions. The threshold for reporting large transactions would be set at a later date by the CEMAC Ministerial Committee at levels appropriate to each country's economic situation. Financial institutions would have to maintain records of large transactions for five years.

The regulations would require financial institutions to report suspicious transactions. Under the regulations, each country would establish a National Agency for Financial Investigation (NAFI) responsible for collecting suspicious transaction reports. Bankers and other individuals responsible for submitting suspicious transaction reports would be protected by law with respect to their cooperation with law enforcement entities. If a NAFI investigation were to confirm suspicions of terrorist financing, the Congolese government could freeze and seize the related assets. The NAFI could cooperate with counterpart agencies in other countries.

Congo has signed, but not yet ratified, both the UN Convention Against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism.

Congo should criminalize money laundering and terrorist financing, and should work with the BEAC to establish a viable anti-money laundering and counter-terrorist financing regime.

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.

The Cook Islands remain on the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. The FATF, in its June 2000 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 guarded against the disclosure of bank records and relevant information about the international companies. A U.S. Treasury Department 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 remains in force.

The GOCI's regulatory scheme is susceptible to money laundering. The International Companies Act of 1981, amended in 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 reports, 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, the GOCI passed the Money Laundering Prevention Act 2000 (MLPA), that expands the predicate offenses for 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 Cook Islands passed the Money Laundering Prevention Regulations in January 2002. The regulations specify the documentation required for customer identification, the retention of relevant business records, suspicious transaction reporting requirements, and time limits for the submission of such reports.

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 FIU. The GOCI is in the process of making this FIU fully operational, with the assistance of a technical advisor provided by the Government of New Zealand. 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 requirements for financial institutions. The MLA 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 related to the opening of accounts and to business transactions that exceed NZ \$30,000 (approximately \$12,900). The records must include sufficient documentary evidence to prove the identity of the customer. In addition, financial institutions are required to develop and apply internal policies,

procedures, and controls to combat money laundering, and to develop audit functions to evaluate such policies, procedures, and controls. Financial institutions must comply with any guidelines and training requirements issued by the MLA.

The MLPA also requires that individuals declare cross-border movements of currency or negotiable securities greater than the equivalent of NZ \$10,000 (approximately \$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 \$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. The Cook Islands has not signed the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The Cook Islands signed the UN International Convention for the Suppression of the Financing of Terrorism on December 24, 2001. The GOCI is also finalizing regulations to give effect to UN Security Council Resolution 1373.

The GOCI has taken a number of steps toward addressing the deficiencies identified by FATF. However, the GOCI should aggressively implement and enforce the provisions of the MLPA and the Money Laundering Prevention Regulations 2002. Moreover, the GOCI should eliminate confidentiality provisions relating to the incorporation, registration and transactions of companies and other entities, and expand oversight of the offshore sector. The Cook Islands should also staff the relevant bodies to supervise the offshore sector, and review its offshore legislation, in order to address the remaining deficiencies identified by the FATF. The GOCI should also criminalize the financing of terrorism and terrorists.

Costa Rica. Costa Rica remains vulnerable to money laundering and other financial crimes, due to the narcotics-trafficking in the region. Costa Rica is a haven for Internet gaming companies, especially sports betting, with over 100 companies active in this area. Despite a December 2001 law that expanded the scope of anti-money laundering regulations, the offshore sector continues to be largely unregulated by the government.

Low taxes and strong secrecy laws have created a growing offshore sector in Costa Rica that offers banking, corporate, and trust formation services. These foreign-domiciled "offshore" banks can only conduct transactions under a service contract with a domestic bank, and they do not engage directly in financial operations in Costa Rica. Instead, these banks receive or transfer funds in foreign currency, generally using correspondent accounts in other countries, thus avoiding most of the financial rules and laws of Costa Rica.

To date, the licensing procedure for foreign-domiciled banks remains inadequate. The Central Bank approves applications for foreign-domiciled banks to operate in Costa Rica by relying on a foreign jurisdiction's certificate of good standing, rather than conducting its own due diligence. While the jurisdiction submitting the certificate must be able to enter into supervision agreements with Costa Rica and be deemed as an "adequately regulated jurisdiction" by Costa Rican authorities, this process is extremely vulnerable to corruption and abuse.

Foreign-domiciled banks are required only to provide monthly balance statements and year-end audits to the General Superintendent of the Financial System (SUGEF). The SUGEF only has authority over the domestic activity of foreign-domiciled banks. All other activity of these offshore banks is beyond SUGEF supervision.

In December 2001, Costa Rica expanded the scope of Law 7786 to criminalize the laundering of proceeds from all serious crimes. The newly expanded law obligated domestic (not offshore) financial institutions

and other businesses (casinos, jewelry dealers, money exchangers, etc.) to identify their clients, report currency transactions over \$10,000, report suspicious transactions, keep financial records for at least five years, and identify the beneficial owners of accounts and transacted funds. However, Law 7786 does not grant SUGEF the authority to conduct on-site money laundering inspections or to incorporate money laundering compliance testing in other inspections, such as the prudential safety and soundness inspections that are carried out under Law 7558.

Law 7786 also created Costa Rica's Financial Intelligence Unit (FIU), the Centro de Inteligencia Conjunto Antidrogas/Unidad de Analisis Financiero (CICAD/UAF), which is a member of the Egmont Group of FIUs. However, reporting appears to be low and Costa Rica has not yet successfully prosecuted anyone under its current anti-money laundering law.

In addition, Costa Rican authorities lack the inability to block, seize or freeze property without prior judicial approval, and thus Costa Rica lacks the ability to expeditiously freeze assets connected to terrorists and terrorism. However, Costa Rica has given U.S. authorities significant forfeiture assistance in a pending fraud case out of the Northern District of Florida by seizing and freezing substantial assets which are alleged to be the proceeds of the fraud.

There appears to be a recent surge in illicit activity related to money laundering. Indeed, there is growing evidence of black market peso exchange through private banks in Costa Rica. These exchange schemes have allowed Colombian international credit card holders and currency exchange houses to carry large sums of declared currency (often between \$100,000 and \$300,000) to Costa Rican banks. The U.S. dollars are transferred to U.S. banks and then to Colombian banks, where account holders profit from arbitrage exchange rates. It is estimated that \$225 million has entered Costa Rica in this fashion since April 2001. No Costa Rican law is broken when the currency is declared at port of exit and entry. Costa Rican banks that apply "know your client" standards acknowledge that they are not certain of the source of the currency that they are allowing to be deposited. One private bank responded positively in November 2002 to inquiries from the U.S. Embassy and the Costa Rican Drug Institute and discontinued its business relationship with a Colombian currency exchange house that had been responsible for bringing approximately \$90 million into Costa Rica. However, the Costa Rican Private Bankers' Association reported in December 2002 that three other private banks had been solicited to do business with the same Colombian exchange house

Costa Rica ratified the 1988 UN Drug Convention in 1990. It ratified the UN International Convention for the Suppression of the Financing of Terrorism in October 2002. On March 16, 2001 Costa Rica signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In 2002, Costa Rica signed the OAS Inter-American Convention on Mutual Assistance in Criminal Matters, to which the United States is a party, but Costa Rica has not yet ratified. Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF). Additionally, Costa Rica has signed, but its parliament has not yet ratified, an agreement with the United States under which the International Law Enforcement Academy (ILEA) for the Latin American region would be located in Costa Rica. It is anticipated that the ILEA will provide anti-money laundering training to students from throughout the region.

Costa Rica should extend its anti-money laundering regime and strengthen its supervisory control over its offshore sector, including Internet gaming activities. It should strengthen its domestic inspection capability, criminalize the financing of terrorists and terrorism and enact measures to allow it to administratively block assets.

Côte d'Ivoire. Côte d'Ivoire is an important regional financial center in West Africa. Porous borders, an ongoing armed rebellion, and regional instability contribute to Côte d'Ivoire's vulnerability to money laundering from narcotics-trafficking, corruption, and arms-trafficking. Fraud is also a source of laundered funds. Criminal proceeds laundered in Côte d'Ivoire are reportedly derived mostly from regional criminal activity organized chiefly by nationals from Nigeria and the Democratic Republic of the Congo. Police recently have seen an increase in crimes related to credit card theft and foreign bank account fraud.

The Central Bank of West African States (BCEAO), based in Dakar, Senegal, is the Central Bank for the countries in the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. Cote d'Ivoire's economy accounts for 40 percent of the GDP of the WAEMU region. In September 2002, the WAEMU Council of Ministers, which oversees the BCEAO, approved an anti-money laundering regulation applicable to banks and other financial institutions, casinos, travel agencies, art dealers, gem dealers, accountants, attorneys, and real estate agents. The regulation is subject to review by member countries, which would be responsible for implementing many provisions of the regulation. The regulation is expected to go into effect in early 2003.

Under the WAEMU regulation, financial institutions would be required to verify and record the identity of their customers before establishing any business relationship. The regulation would require financial institutions to maintain customer identification and transaction records for ten years. The regulation would also impose certain customer identification and record maintenance requirements on casinos.

All financial institutions, businesses, and professionals under the scope of the WAEMU regulation would be required to report suspicious transactions. The regulation calls for each member country to establish a National Office for Financial Information Process (CENTIF), which would be responsible for collecting suspicious transactions and would have the authority to share information with other CENTIFs within the WAEMU as well as with the Financial Intelligence Units of non-WAEMU countries.

The WAEMU Council of Ministers issued another directive in September 2002 requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations designated by UN 1267 Sanctions Committee. The Government of Côte d'Ivoire (GOCI) is preparing a law that would provide for the freezing and seizing of terrorist finance assets.

Laundering of money related to any criminal activity is a criminal offense. Banks are required to maintain the records necessary to reconstruct significant transactions through financial institutions. Law enforcement authorities can access these records to investigate financial crimes upon the request of a public prosecutor. There are no mandatory time limits for keeping records. Côte d'Ivoire enacted a banking secrecy law in 1996 that prevents disclosure of client and ownership information, but it does allow the banks to provide information to the court in legal proceedings or criminal cases. Banks are required to adhere to "due diligence" standards.

In 2002, a national of Saudi Arabia was indicted for money laundering in Côte d'Ivoire in relation to an attempted purchase of a hotel. The case was dropped after high-level political intervention.

Law 97/1997 regulates cross-border transport of currency. When traveling from Côte d'Ivoire to another WAEMU country, Ivorians and expatriate residents must declare the amount of currency being carried out of the country. When traveling from Côte d'Ivoire to a destination other than another WAEMU country, Ivorians and expatriate residents are prohibited from carrying an amount of currency greater than the equivalent of 500,000 CFA francs (approximately \$795) for tourists, and two million CFA francs (approximately \$3,180) for business operators. Carrying currency greater than those thresholds is only permissible with approval from the Department of External Finance of the Ministry of Economy and Finance.

Côte d'Ivoire's asset seizure and forfeiture law applies to both real and personal property, including bank accounts and businesses used as conduits for money laundering. The GOCI 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 the sharing of assets with other governments.

The GOCI is considering legislative proposals regarding the regulation of alternative remittance systems.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Côte d'Ivoire. In July 2002 Côte d'Ivoire participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

Côte d'Ivoire became a party to the UN International Convention for the Suppression of the Financing of Terrorism on March 13, 2002. Côte d'Ivoire is a party to the 1988 UN Drug Convention. Côte d'Ivoire has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Côte d'Ivoire should criminalize terrorist financing and enact legislation allowing for the freezing and seizing of terrorist assets.

Croatia. With a population of less than five million and a tourism industry serving 6.5 million people each year—Croatia's most lucrative industry—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, although there has been a recent rise in money laundering cases with drug trafficking as the predicate crime. The proceeds of narcotics-trafficking tend to be converted into real estate and luxury goods rather than laundered for re-integration into the financial system.

In 1996, Croatia passed legislation that amended its penal code to criminalize money laundering related to serious crimes. In 1997, Croatia passed its Law on the Prevention of Money Laundering requiring banks and non-bank financial institutions to report transactions that exceed approximately \$17,500, as well as any cash transactions that seem suspicious. It also authorized establishment of a Financial Intelligence Unit (FIU), known as the Ured za Sprjecavanje Pranja Novca (Anti-Money Laundering Department) within the Ministry of Finance. Croatia's FIU is a member of the Egmont Group. 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.

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. However, to date the GOC has not yet been able to staff and equip this office to its capacity.

Croatia continued the development of its anti-money laundering regime throughout 2002. The Croatian Parliament enacted a variety of legislation related to the fight against money laundering, such as the Law on Penal Responsibility of Legal Persons, the Law on Suppression of Organized Crime and Corruption, and the Law on Banks, and amended the Law on Legal Proceedings. The Parliament is now drafting new money laundering laws as well, including the new Law on the Prevention of Money Laundering and the new Law on Foreign Exchange Transactions, which includes foreign investments. However, despite efforts, there was a small number of arrests and prosecutions for money laundering or terrorism financing during 2002. Weak interagency cooperation, the insufficient technical skills of the police and prosecutors, a general lack of knowledge of exactly what constitutes a money laundering offense, and a judicial backlog of over one million cases hinder Croatia's anti-money laundering efforts.

Croatia has criminalized terrorist financing. Authorities have the authority to identify and, with a court order, freeze and seize terrorist finance assets. Law enforcement has the authority to freeze the assets of those individuals or organizations named by the UN 1267 Sanctions Committee. Croatia has established an interministerial body to evaluate and improve the country's terrorist activity prevention and repression system, and it has been cooperative in checking all international lists of possible terrorists in the financial system. The AMLD has the authority to freeze assets in the short term very easily and with little basis, but

for the long term, the Prosecutor's Office requires either an international instrument or a formal legal request for an asset freeze. This may prove detrimental in the long term, because if Croatia identifies assets of entities that have not been cited by the UN, the Prosecutor's Office will have a difficult time implementing a long term legal freeze. To date, no terrorist-linked assets have been seized in Croatia.

Croatia does not have limitations on providing and exchanging information with international law enforcement on money laundering investigations. There is also no specific legislation regulating the sharing of seized assets with foreign governments. Croatian officials advise that under current law, judges can authorize asset sharing with another country.

Throughout 2002, Croatia has been actively involved with its Balkan neighbors on law enforcement cooperation, especially in cooperating to fight money laundering, and this included the establishment of a regional working group to address the issue. This working group meets twice yearly. In addition, Croatia is working in concert with Bosnia-Herzegovina to stem cross-border money laundering and smuggling. The joint efforts include the participation by authorities from both countries as well as the use of new technology and computer programs developed specifically for this purpose. Croatia also intensified its cooperation with Austria, Germany, Italy, and Slovenia regarding border control and crime. As a member of the Council of Europe's Select Committee of Experts (Moneyval, formerly PC-R-EV), Croatia has participated in mutual evaluations with the other members, both by being evaluated, and by sending experts to evaluate other states' progress. Regionally, within the Egmont Group, Croatia has assisted and supported the creation of anti-money laundering legislation and the establishment of FIUs in Albania, Macedonia, Bosnia and Herzegovina and Yugoslavia.

Croatia has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Croatia has signed the Council of Europe's European Convention on the Suppression of Terrorism. Croatia has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Croatia is a party to the 1988 UN Drug Convention.

The GOC should work to improve interagency cooperation on money laundering matters and should provide sufficient resources to law enforcement authorities and the judiciary to aid them against money laundering and terrorist financing.

Cuba. The Department of State has designated Cuba as a State Sponsor of Terrorism. Cuba is not an international financial center. The Government of Cuba (GOC) controls all financial institutions, and the Cuban peso is not a freely convertible currency.

The GOC is not known to have 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 both the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. Cuba has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Cuba should criminalize terrorist financing.

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. Fraud and, to some extent, narcotics-trafficking are the major sources of illicit proceeds laundered in Cyprus. Offshore casinos or Internet gaming sites are not permitted in the government-controlled area of Cyprus.

In 1996, the Government of Cyprus (GOC) passed the Prevention and Suppression of Money Laundering Activities Law. This law criminalizes non-drug related money laundering; provides for the confiscation of

proceeds from serious crimes; codifies actions that banks and non-bank financial institutions must take (including customer identification); and mandates the establishment of a Financial Intelligence Unit (FIU). The anti-money laundering law authorizes criminal (but not civil) seizure and forfeiture of assets. Previously enacted legislation criminalizes drug-related money laundering. A 1998 amendment to the 1996 legislation adds criminal offenses punishable by imprisonment exceeding one year to the list of predicate offenses. The amendment also addresses government corruption, and facilitates the exchange of financial information with other FIUs, as well as the sharing of assets with other governments.

A law passed in 1999 criminalizes 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 significant increase in the number of bank suspicious activity reports from 25 in 2000 to 72 in 2002.

The Unit for Combating Money Laundering (UCML), established in 1997, serves as the FIU and is comprised of representatives from the Attorney General's Office, Customs, law enforcement, and support staff. All banks and non-bank financial institutions—insurance companies, the stock exchange, cooperative banks, lawyers, accountants and other financial intermediaries—must report suspicious transactions to the UCML. The UCML evaluates 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. In July 2002, the Cypriot Parliament approved the creation of eleven new positions for UCML, which will bring its total strength to 28, including three accountants.

From January to November 2002, the UCML opened 222 cases and closed 101. During the same period, the UCML issued 22 Information Disclosure Orders and 22 freezing orders, resulting in the freezing of U.S. \$1,102,597 in bank accounts, 15 plots of land, four apartments and one vehicle. Government actions to seize and forfeit assets have not been politically or publicly controversial, nor have there been retaliatory actions related to money laundering investigations, cooperation with the United States, or seizure of assets. There have been six convictions recorded under the 1996 Anti-Money Laundering law, while twelve cases are pending.

The GOC places restrictions on foreign ownership of property and transportation of currency and bullion across the border. 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 of Cyprus. Cypriot law protects reporting individuals with respect to their cooperation with law enforcement. Bank employees currently are required to report all suspicious transactions to the bank's compliance officer, who determines whether to forward the report to the UCML for investigation. Banks retain reports not forwarded to the UCML, and these are audited by the Central Bank as part of its regular on-site examinations. Banks must file monthly reports with the Central Bank indicating the total number of suspicious activity reports submitted to the compliance officer, and the number forwarded by the compliance officer to the UCML. By law, bank officials may be held personally liable if their institutions launder money.

The Central Bank took several steps during 2001 to improve suspicious activity reporting and the 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 also enhances 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.

In 2000, the Financial Action Task Force (FATF), in a review of Cyprus' anti-money laundering regime, raised a concern regarding customer identification with 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 was extended to existing accounts in 2002. This requirement will be applied in stages. By the end of November 2002, banks had to report the number of accounts that lacked complete beneficial owner information and the value of the accounts. The Central Bank will use this information to establish deadlines for obtaining complete customer identification information on the beneficial owners of these accounts. Throughout this process, banks must also adhere to the Basel Committee on Banking Supervision's October 2001 paper titled, "Customer Due Diligence for Banks." This paper recommends that banks regularly review existing customer identification records, particularly when a transaction of significance takes place, when customer identification standards change substantially, or when there is a material change in the way the account is operated.

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. Cyprus's offshore sector includes 28 banks (May 2002 assets: U.S. \$9.6 billion), 15 licensed foreign insurance companies, 108 financial services companies, eight companies that manage collective investment schemes, and 12 offshore trustee companies.

Cyprus has put in place a comprehensive anti-money laundering legal framework that meets international standards. The GOC took several additional steps in 2002 to enhance its laws. Cyprus has implemented FATF's Special Recommendations on Terrorist Financing. As described above, the Central Bank took steps to extend to existing accounts its rules requiring identification of the beneficial owners of bank accounts. The Central Bank also required compliance officers to file an annual report outlining measures taken to prevent money laundering and to comply with its guidance notes and relevant laws. The Investment Services Law, adopted in July, will extend supervision to cover all investment services in Cyprus, including some domestic businesses not previously covered. In addition to the Central Bank's routine compliance reviews, the UCML is now authorized to conduct unannounced inspections of bank compliance records. The UCML also maintains an active outreach and education program targeted at compliance officers, lawyers and accountants. In July 2002, the Internal Revenue Service (IRS) officially approved Cyprus' "Know-Your-Customer" rules, which form the basic part of Cyprus' anti-money laundering system. As a result of the above approval, banks in Cyprus, that may be acquiring United States securities on behalf of their customers, are eligible to enter into a "withholding agreement" with the IRS and become qualified intermediaries.

The Central Bank has in place a 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 that 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. Following the liberalization of existing exchange controls, international banking units may now accept foreign currency deposits and extend medium- and long-term foreign currency loans to residents. Cyprus does not permit bearer shares.

At the end of 2002, there were approximately 57,600 international business companies (IBCs) registered in Cyprus. Registrations of new IBCs fell approximately 20 percent in 2002. Approximately 14,000 of these remain active and about 1,100 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. Reportedly, as of November 2002, the Central Bank had deleted approximately 21,000 companies from the registry. The names of beneficial owners of IBCs can be released to law enforcement by court order.

A 2001 International Monetary Fund (IMF) assessment of the offshore sector in Cyprus 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 room to improve the identification of beneficial owners and the reporting of suspicious transactions, particularly in the case of non-resident controlled companies.

Profits of Cypriot offshore companies had been taxed at a rate of only 4.25 percent. However, on July 15, 2002, the Cypriot Parliament enacted a new law that provides for a uniform corporation tax rate of 10 per cent for both IBCs and local companies, thus erasing a major advantage of IBCs. There is still no tax on dividends, and 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. The above major changes in the tax code in 2002, the repeal of most exchange controls, new rules governing disclosure of beneficial owners, and removal of restrictions on doing business with residents of Cyprus have effectively eliminated significant differences in the treatment of offshore and domestic companies.

On November 30, 2001, Cyprus ratified the UN International Convention for the Suppression of the Financing of Terrorism. The implementing legislation amended the anti-money laundering law to criminalize the financing of terrorism. The GOC created a sub-unit within the UCML to focus specifically on the financing of terrorism. The unit reinforces the UCML with additional staff. The UCML will coordinate with the new counter-terrorism task force under the authority of the Attorney General. The Central Bank also issued a series of orders requiring domestic and offshore banks to notify it of accounts held by any individuals or organizations associated with the financing of terrorist organizations, and to freeze assets held in those accounts. These orders are based on the identification of individuals and organizations named by the UN, the United States and the European Union. These requirements apply equally to domestic and offshore banks. No bank reported holding a matching account as of the end of 2002. At the request of the Central Bank, the lawyers' and accountants' associations asked their members to notify the associations of any work performed on behalf of certain terrorist organizations. Both associations are cooperating closely with the Central Bank. The GOC cooperates with the United States to investigate terrorist financing.

Reportedly, there is no evidence that alternative remittance systems such as hawala or black market exchanges are operating in Cyprus. The GOC believes that its existing legal structure is adequate to address money laundering through such alternative systems. The GOC licenses charitable organizations, which must file with the GOC copies of their organizing documents and annual statements of account. The majority of all charities registered in Cyprus are domestic organizations.

Cyprus is a party to the 1988 UN Drug Convention, and in December 2000 signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Cyprus is a member of the Council of Europe's Moneyval (formerly known as PC-R-EV), and is a member of the Offshore Group of Banking Supervisors. The UCML is a member of The Egmont Group and has signed MOUs with the FIUs of Belgium, France, the Czech Republic, Slovenia, and Israel. A Mutual Legal Assistance Treaty between Cyprus and the United States entered into force September 18, 2002. In 1997, the GOC entered into a bilateral agreement with Belgium for the exchange of information on money laundering.

Cyprus has been divided since the Turkish military intervention of 1974, following a coup d'etat 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 of significant money laundering activities. "TRNC" officials believe that the 21 essentially unregulated, and primarily Turkish-mainland owned, casinos are the primary vehicles through which money laundering occurs. Currency generated by these casinos is reportedly transported directly to Turkey without entering the "TRNC" banking system.

In 1999, a money laundering law for northern Cyprus went into effect with the stated aim of reducing the number of cash transactions in the "TRNC" as well as improving the tracking of any transactions above U.S. \$10,000. Banks are required to report to the "central bank" any electronic transfers of funds in excess of U.S. \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. Furthermore the 1999 law also prohibits individuals entering or leaving the "TRNC" from transporting more than U.S. \$10,000 in currency. 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.

There is an offshore sector, consisting of 32 banks and 54 IBCs. The offshore banks may not conduct business with "TRNC" residents and may not deal in cash. The offshore entities are not audited and their records are not publicly available. Reportedly, a new law will restrict the granting of new bank licensees to only those banks already having licensees 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 intents and purposes, unregulated, and therefore especially vulnerable to money laundering abuse.

Although Cyprus has criminalized money laundering for all serious crime, and passed additional legislation necessary to construct a viable anti-money laundering regime, the GOC should take steps to ensure its implementation of these laws. Additionally, Cyprus should improve the identification of beneficial owners and the reporting of suspicious transactions by non-resident controlled companies in its offshore sector. The GOC also should adequately regulate its charitable and nonprofit entities. Unless it does so, Cyprus' financial institutions will remain vulnerable to abuse by organized crime and misuse by terrorist organizations and their supporters.

Czech Republic. Both geographic and economic factors render the Czech Republic vulnerable to money laundering. Slovakia, which separated from the Czech Republic less than a decade ago, and Poland are 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.

Money laundering was technically criminalized in September 1995 through additions to the Czech Criminal Code. Although the Criminal Code does not explicitly mention money laundering, its provisions apply to financial transactions involving the proceeds of all serious crimes. A May 2001 revision of the Criminal Code facilitates the seizure and forfeiture of bank accounts. The Financial Action Task Force

(FATF) report of July 2001 on the Czech Republic noted that the country had some major weaknesses in its anti-money laundering regime. The Czech Government—partly in the context of conforming its legislation to EU requirements—has been working to draft new laws and regulations.

In July 2002, an amendment to the Criminal Code became effective. This amendment introduces a new, independent offense called "Legalization of Proceeds from Crime." This offense has a wider scope than previous provisions in that it enables prosecution for laundering one's own illegal proceeds.

Another amendment to the Anti-Money Laundering Act is currently in preparation. This will implement the Second EU Directive and streamline the legislation regarding the identification of beneficial owners. It will also extend the responsibilities of the Czech Republic's Financial Intelligence Unit, known as the Financial Analytical Unit (FAU), to combat terrorism financing as well as money laundering. Obligated institutions will be required to report all transactions that are suspected of being linked to terrorist financing. This amendment will become effective July 1, 2003.

The number of suspicious transaction reports transmitted to the FAU has increased significantly, as has the number evaluated and forwarded to law enforcement, indicating an active participation of the mandated entities in the anti-money laundering regime. After clarifications to the reporting requirements in 1996, reporting rose from 95 unusual transactions per annum (1996) to 1,750 suspicious transactions in 2001 and 1,179 as of November 26, 2002. The number of reports forwarded to the police increased from none the first year to 101 in 2001 and 93 as of October 31, 2002.

For years, the Czech Republic had been criticized for allowing anonymous passbook accounts to exist within the banking system. Legislation adopted in 2000 prohibited new anonymous passbook accounts. In 2002, the Act on Banks was amended to abolish all existing bearer passbooks by December 31, 2002.

The Czech Government approved the National Action Plan of the Fight Against Terrorism in April 2002. This document covers themes ranging from police work and cooperation to protection of security interests, enhancement of security standards, and customs issues. The performance of the factors identified in the Action Plan is presently under analysis. The FAU currently is distributing "terrorist lists" to relevant financial and governmental bodies. While the Czechs do not have specific laws criminalizing terrorist financing, they do have legislation permitting rapid implementation of UN and EU financial sanctions, including action against accounts held by suspected terrorist entities or individuals. Czech authorities have been cooperative in the global effort to identify suspect accounts, but none have yet been found in Czech financial institutions. A new government body called the Clearinghouse was instituted in October 2002, under the FAU; its function is to streamline input from institutions in order to enhance cooperation and response to a terrorist threat. The Czech Republic became a signatory to the UN International Convention for the Suppression of the Financing of Terrorism in 2000, but has not yet ratified it.

The Czech Republic participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV), and in 2001 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 on May 7, 2000. The Czech Republic is a party to the 1988 UN Drug Convention, and in December 2000 signed, but has not ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The Czech Republic has signed memoranda of understanding (MOUs) on information exchange with Belgium, France, Italy, Croatia, Cyprus, Estonia, Latvia, Lithuania, Poland, Slovenia, Slovakia and Bulgaria. Formalization of an agreement between the Czech Republic and Europol, the European police office, also took place in 2002. The agreement allows an exchange of information about specific crimes and investigating methods, the prevention of crime, and the training of police. Among the most important crimes cited in the cooperation agreement are terrorism, drug dealing, and

money laundering. The FAU is a member of the Egmont Group, and is authorized to cooperate with its foreign counterparts, including those not part of the Egmont Group.

The Czech Republic should continue to enhance its anti-money laundering regime by adopting the suggestions of the PC-R-EV mutual evaluation report. The Parliament should pass the new amendment to the anti-money laundering legislation to strengthen the requirements on identification of beneficial owners and to criminalize terrorism financing.

Denmark. Denmark is a regional financial center. 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. Denmark's Office of the Public Prosecutor for Serious Economic Crime handles economic crime cases. The Office consists of both public prosecutors and police officers specially trained in fighting economic crime.

Money laundering is a criminal offense in Denmark, regardless of the predicate offense. The 1993 Act on Measures to Prevent Money Laundering covers customer identification and mandatory suspicious transaction reporting. Denmark also has the Gambling Casino Act of 1993, which specifically addresses casino money laundering issues and customer registration information. Recently enacted legislation requires that importation of any money exceeding 15,000 euros (approximately \$14,500) be reported to customs upon entry into Denmark. 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 investigations. Denmark's Financial Intelligence Unit (FIU), the Money Laundering Secretariat, within the Public Prosecutor's office, provides a central point for collection of all intelligence related to money laundering. The FIU is also responsible for receiving reports on suspicions of money laundering and terrorist financing. Denmark has cooperated fully with U.S. authorities with regards to money laundering investigations.

Legislation adopted on May 5, 2002, by the Danish Parliament, extends the Money Laundering Act so that if a transaction is suspected of ties to terrorism financing it must have the prior consent of the Money Laundering Secretariat before it can be carried out. In addition, the extended Money Laundering Act now includes lawyers, accountants, tax advisors, real estate agents, money transmitters, money exchange offices and transporters of money among those required to file Suspicious Transaction Reports with the FIU. The blocking of assets either belonging to, or at the disposal of, a suspect is covered under the Danish Administration of Justice Act. Asset blocking may take place concurrent with an investigation or when charges have been filed. Seizures or forfeitures of proceeds from a criminal act performed by a person found guilty are provided for under the Danish Penal Code.

In an effort to prevent any terrorist financing or transnational crime, Denmark signed an agreement in 1999 with Australia to combat money laundering and break up illegal networks. Denmark and the United States signed a Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income in March 2000. The treaty has provisions to exchange information for investigative purposes. In December 2002, Denmark helped negotiate, on behalf of the EU, a U.S.-Europol agreement on the exchange of personal data and related information that will aid in tracing financial transactions and, thereby, help combat crime for which these transactions provide the economic means.

Denmark passed comprehensive anti-terrorism legislation on June 4, 2002, specifically addressing terrorist financing and implementing UNSCR 1373, and ratified the UN International Convention for the Suppression of the Financing of Terrorism in August 2002.

Denmark initiated the "Framework Decision on Combating Corruption in the Private Sector" at the European Union Council in August 2002, in order to take action to prevent and prosecute transnational

corruption and to provide for uniformity in the application of the law. Denmark is a party to the 1988 UN Drug Convention, and in 1999, ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. It participates in European Union anti-money laundering efforts, and its Financial Intelligence Unit belongs to the Egmont Group. Denmark has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision." Denmark is also a member of the Financial Action Task Force.

Dominica. While the Government of the Commonwealth of Dominica (GCOD) has recently enacted considerable legislation to address many of the deficiencies in its anti-money laundering program, there have been shortcomings in the implementation of these reforms and in its international cooperation on these matters. Such implementation and cooperation remain vital to the country's ability to combat financial crime, money laundering and the potential threat of terrorist financing, particularly in its offshore sector. Like many Caribbean jurisdictions, Dominica had initially 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 five domestic banks and two offshore banks (a reduction from nine in 2000), 17 credit unions, 1435 IBC's, four Internet gaming companies, 18 insurance agencies and one domestic insurance company. A rapid expansion of Dominica's offshore sector without proper supervision made Dominica attractive to international criminals, and therefore, vulnerable to official corruption prompting public criticism from FATF. An additional problem has been Dominica's ongoing economic citizenship program, under which individuals can purchase Dominican citizenship (and thus Dominican passports) as well as official name changes. Prior to July 2002, the price of economic citizenship was \$50,000 for a family of four and \$25,000 for an individual. In July, the price of participating in the program was increased to \$100,000 for an individual and \$150,000 for a family of up to four persons. This increase in fees proved unpopular, however, and no passports were issued at the new price levels. Dominica subsequently lowered the cost of purchasing citizenship to \$75,000 for an individual and \$100,000 for a family of up to four persons. The GCOD heavily advertised this reduction in fees (actually an increase from pre-July rates). Dominica's economic citizenship program does not appear to be adequately regulated. Individuals from the Middle East, the former Soviet Union, the Peoples' Republic of China and other foreign countries have become Dominican citizens and entered the United States via Canada without visas. Between 1996 and 2002, the GCOD granted 650 economic citizenships. Noting "growing concern over the practice of selling citizenship or passport-issuing irregularities", Canada instituted a visa requirement on holders of Dominican passports in December 2001.

In June 2000, the Financial Action Task Force (FATF) identified Dominica as a Non-Cooperative Country or Territory (NCCT) in its 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. Dominica was removed from the NCCT list in October 2002 on the strength of its legislative reforms, but only with a strongly worded list of ongoing conditions. The U.S. Treasury advisory remains in effect.

The GCOD has neither signed nor ratified the UN International Convention for the Suppression of the Financing of Terrorism. Dominica is the only Caribbean country which did not sign the Inter-American Convention Against Terrorism last June during the Summit in Barbados and has not yet done so. The GCOD plans to introduce anti-terrorist financing legislation to the Parliament that will provide the authority to identify, freeze and seize terrorist assets. No known evidence of terrorist financing has been discovered in Dominica to date. The GCOD has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and non-profit entities.

In response to pressure from the international community, the GCOD 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). The OFSC's mandate is to advise the GCOD on policy matters relating to the offshore sector offshore sector and to make recommendations with respect to applications by service providers for licenses.

Under common banking legislation enacted by its eight member jurisdictions, the Eastern Caribbean Central Bank (ECCB) acts as the primary supervisor and regulator of onshore banks in Dominica. An agreement between the OFSC and the ECCB in December 2000 placed Dominica's remaining offshore banks and trusts under the dual supervision of the ECCB and the GCOD's International Business Unit (IBU). In compliance with the agreement, the ECCB assesses applications for offshore banking licenses, conducts due diligence checks on applicants, and provides a recommendation to the Minister of Finance. During 2002, the ECCB conducted on-site inspections for anti-money laundering compliance of all onshore and offshore banks in Dominica. The inspections of the offshore banks were conducted by the ECCB in collaboration with the IBU.

The IBU supervises and regulates all offshore entities, domestic insurance companies, and registered agents, as well as visiting international business companies to ensure their compliance with the money laundering law. The manager of the IBU is also an integral part of the Money Laundering Supervisory Authority (MLSA).

Dominica enacted anti-money laundering legislation in 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 established the Money Laundering Supervisory Authority (MLSA), which consists of five members: a former bank manager; the IBU manager; the Deputy Commissioner of Police; a senior state attorney; and the Deputy Comptroller of Customs. The MLPA authorizes the 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 Dominica's Financial Intelligence Unit (FIU). The MLSA is also responsible for developing anti-money laundering policies, issuing guidance notes and conducting training.

The MLPA requires the reporting of cross-border movements of currency that exceed \$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 liaise with other jurisdictions on financial crime cases. The MLPA further authorizes the FIU to exchange information with foreign counterparts. A new Exchange of Information Act provides for information exchange between regulators. The FIU has five trained staff and has been operational since August 2001. As of December 2002, the FIU had received 64 suspicious transaction reports, of which 36 had been investigated.

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 International Business Companies (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 legal and 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. An IBC's books, records, accounts and minutes must be kept at its registered office and are subject to government inspection. The Act precludes IBC's from engaging in licensed financial business or licensed management services. It empowers the IBU to "perform regulatory, investigative and enforcement functions" relative to IBC's and facilitates cooperation by the Attorney General under mutual legal assistance treaties and other similar agreements entered into with other countries. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered.

In September 2001, Dominica amended its Money Laundering (Prevention) Regulations to require Dominican institutions, within one-year, to apply customer identification procedures for existing bank accounts. 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 a member of the Caribbean Financial Action Task Force (CFATF), although its attendance has been irregular Dominica is scheduled for its Second Round Mutual Evaluation in September 2003.

In May 2000, a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States entered into force. Dominica has not responded consistently in a comprehensive and rigorous manner to USG MLAT requests. Its record of cooperation with USG law enforcement officials on money laundering cases involving its offshore banks has been spotty. Dominica is a party to the 1988 UN Drug Convention. An amendment to its Mutual Assistance in Criminal Matters Act permits judicial cooperation between Dominica and any party to the 1988 UN Drug Convention.

The GCOD should fully implement and enforce the provisions of its recent legislation, provide additional resources for regulating offshore entities, continue to develop the FIU and enhance domestic regulatory and law enforcement cooperation. The GOCD should enact legislation to criminalize terrorist financing and become a party the UN International Convention for the Suppression of the Financing of Terrorism. The GCOD should also establish a consistent record of better quality cooperation with foreign authorities on anti-money laundering and international criminal issues. Such measures will help protect Dominica's financial system from further abuse by international criminals.

Dominican Republic. The Dominican Republic continues to be a key point for the transshipment of narcotics moving from South America into Puerto Rico and the United States. 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, currency exchange houses and money remittance companies facilitate the laundering of these illicit funds.

There have been notable legislative and regulatory efforts by the Government of the Dominican Republic (GODR) to combat drug trafficking, corruption, money laundering, and terrorism. Narcotics-related money laundering has been deemed a criminal offense since the enactment of Act 17 of December 1995 (the "1995 Narcotics Law"). The Act allows preventive seizures and criminal forfeiture of drug-related assets, and authorizes international cooperation in forfeiture cases. While numerous narcotics-related investigations were initiated under the 1995 Narcotics Law and substantial currency and other assets confiscated, there have been only three successful money laundering prosecutions under the 1995 Narcotics Law.

One notable event occurred on September 5, 2001 when the Dominican Republic's National Drug Control Directorate (DNCD) and the DEA brought to fruition a year long investigation, initiated by the DNCD, with the arrest of eight people in San Juan, Dominican Republic and Orlando, Florida. These eight individuals were part of an international organization engaged in the trafficking of multi-ton

quantities of cocaine and the laundering of millions of U.S. dollars in drug proceeds as well as the arrest of ten members of a Colombian-Lebanese money laundering organization operating in Colombia, New York, Miami, West Palm Beach, and San Juan, Puerto Rico. The operation netted 43 arrests, the seizure of 2,899 kilograms of cocaine and \$2,511,285.

Under Decree No. 288-1996, the Superintendency of Banks, banks, currency exchange houses, and stockbrokers are required to know and identify their customers, keep records of transactions (five years), record currency transactions greater than \$10,000, and report suspicious financial transactions (SARs) to the Superintendency of Banks.

In 1997, a Financial Analysis Unit (FAU) was created within the Superintendency of Banks to receive, analyze, and disseminate SAR information. The FAU also refers SARs to the Financial Investigative Unit of the DNCD for follow up investigation. 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 June 2002, the GODR augmented its measures to prevent and combat money laundering, drug trafficking, and related activities, with the passage of Law No. 72-02. This law expanded the predicate offenses for money laundering beyond illicit trafficking in drugs and controlled substances, to include other serious crimes such as any act related to terrorism, illicit trafficking in human beings or human organs, arms trafficking, kidnapping, extortion related to recordings and electronic film made by physical or moral entities, theft of vehicles, counterfeiting of currency, fraud against the State, embezzlement, and extortion and bribery related to drug trafficking. It broadened the requirements for customer identification, record keeping of transactions, and reporting of SARs, to numerous other financial sectors including: securities brokers; the Central Bank; cashers of checks or other types of negotiable instruments; issuers/sellers/cashers of travelers checks or money orders; credit/debit card companies; funds remittance companies; offshore financial service providers; casinos; real estate agents; automobile dealerships; insurance companies; and certain commercial entities such as those dealing in firearms, metals, archeological artifacts, jewelry, boats, and airplanes.

Law No. 72-02 also requires the reporting of cash transactions greater than \$10,000 to the FAU; until now these needed only to be recorded internally by the financial institutions. Moreover, the legislation requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of \$10,000 in domestic or foreign currency.

The GODR responded to U.S. Government efforts to identify and block terrorist-related funds. Although no assets were frozen, efforts continue through orders and circulars issued by the Ministry of Finance and the Superintendency of Banks, instructing all financial institutions to continually monitor accounts. On November 15, 2001, the GODR signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism. The Dominican Republic is the current president of the Caribbean Financial Action Task Force (CFATF), and is a member of the Organization of American States Inter-American Drug Abuse Control Commission (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), which is not yet in force internationally. Cooperation with USG law enforcement on fugitive and extradition matters remains strong.

Effective implementation of the newly expanded anti-money laundering law of June 2002 constitutes a priority for the Dominican Republic, as well as sustained anti-corruption efforts. The GODR should also remain vigilant concerning controls relating to its many free zones, which may represent vehicles to facilitate money laundering.

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 dollarized economy also increases the attractiveness of Ecuador as a money laundering site. Considering the country's

proximity to Colombia and Peru, some drug money laundering and investment may be taking place through the real estate market and sales of businesses or commercial contraband.

The Narcotics and Psychotropic Substance Act of 1990 (Law 108) provides for the following money laundering crimes: illegal enrichment, (Article 76), conversion or transfer of assets (Article 76, 77), and prosecution of front men (figureheads) (Article 78), but only in connection with illicit drug trafficking. A draft revision of Law 108 recently completed by the National Drug Council (CONSEP) would criminalize the laundering of money from any illicit source. However, there is broad agreement that Law 108 itself is an inappropriate vehicle for provisions that extend beyond drug offenses. An interagency group is nearing completion of a draft of a stand-alone law criminalizing the laundering of proceeds of any crime. Both draft laws will be introduced in the new congress inaugurated in January 2003.

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 \$5,000, as well as suspicious financial transactions. Mutual societies are required to report transactions of \$5,000 and above. Financial cooperatives must report transactions of \$2,000 and higher. Electronic reporting of this information was implemented in 1999. Banks operating in Ecuador are required to maintain financial transaction records for six years. There are no due diligence or banker negligence laws that hold individual bankers responsible if their institutions launder money. However, a bank's board of directors can be held legally responsible if money laundering occurs in their institution.

Some existing laws conflict with the goal to combat money laundering. For example, the Bank Secrecy Law severely limits the information that can be released by a financial institution directly to the police as part of any investigation, and the Banking Procedures Law reserves information on private bank accounts to the Superintendency of Banks (Banking Superintendency). In addition, the Criminal Defamation Law sanctions banks and other financial institutions that provide information about accounts to police or advise the police of suspicious transactions if no criminal activity is proven.

As a result of this contradictory legal framework, the National Police must seek and obtain a court order to be able to search for and obtain financial information from banks. However, private financial institutions and banks often refuse to honor such orders, claiming that banking regulations make them answerable only to the Superintendency of Banks. In turn, the Superintendency of Banks will not accept requests for information directly from the police, but instead requires that the request come via CONSEP and will only pass the information back to CONSEP, which may fail to share it with law enforcement agencies. The CONSEP has a financial monitoring unit, but it simply collects information and does not analyze or investigate the data received.

Cooperation between other Government of Ecuador (GOE) agencies and the police falls short of the level needed for effective enforcement of money laundering statutes. The Superintendency of Companies refuses to provide any information concerning private corporations to the police. The Ministry of Finance refuses to share with the police information on stock market transactions. Data on property and tax records held by individual municipalities are not generally shared with law enforcement agencies.

In addition the CONSEP has refused to share financial reporting such as suspicious financial transaction reports with the Central Bank or other financial regulatory agencies such as the Banking Superintendency. As a result, Superintendency auditors cannot verify if a bank is doing all of the mandatory reporting required under the money laundering statutes.

Other problems with Ecuador's anti-money laundering regime include the absence of regulations requiring financial institutions to exercise due, the lack of reporting requirements on large amounts of currency brought into or taken out of the country, and the weak regulation of currency exchange businesses (casas de cambio). (On Ecuador's border with Colombia, the U.S. dollar trades at less than the official rate, banks are open seven days a week, and some exchange houses never close.)

As a result of these problems, during the past five years there have been no serious investigations of drug money laundering in Ecuador. Without solid financial intelligence, it is impossible to estimate accurately the extent and nature of the money laundering problem in Ecuador. It is not known to what extent money laundering may be related to narcotics proceeds, or may be generated by other crimes such as contraband smuggling, illegal migration, corruption, bank fraud, or terrorism. Private Ecuadorian bank officials have recently expressed interest in increasing their cooperation with USG experts in order to detect and control money laundering.

The GOE has taken some steps to combat money laundering. For example, the Banking Superintendency recently created a Financial Intelligence Unit. The National Counternarcotics Police have a financial investigations unit that has received some USG-funded training. Planning has begun towards establishing an interagency financial investigations unit (FIU) including police and prosecutors. The U.S. Embassy is working with the Superintendency to provide equipment and technical assistance to these new units. The UN Office on Drugs and Crime also has offered assistance. The Superintendency has also requested technical assistance from the Organization of American States.

Several Ecuadorian banks maintain offshore offices. The Superintendency of Banks is responsible for oversight of both offshore and onshore financial institutions. Regulations are essentially the same for onshore and offshore banks, with the exception that offshore deposits no longer qualify for the government's deposit guarantee. Anonymous directors are not permitted. Licensing requirements are the same for offshore and onshore financial institutions. However, offshore banks are required to contract external auditors pre-qualified by the banking Superintendency. These private accounting firms perform the standard audits on offshore banks that would generally be undertaken by the Superintendency in Ecuador. Bearer shares are not permitted for banks or companies in Ecuador.

Terrorist financing has not been criminalized in Ecuador. The Banking Superintendency has cooperated with the USG in requesting financial institutions to report transactions involving known terrorists, as designated by the United States as Specially Designated Global Terrorists pursuant to E.O. 13224 (on terrorist financing) or by the UN 1267 Sanctions Committee. No terrorist finance assets have been identified to date in Ecuador. The Superintendency would have to obtain a court order to freeze or seize such assets in the event they were identified in Ecuador.

Ecuador has signed (September 6, 2000), but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. There is no domestic legislation in force aimed at preventing terrorist financing. No steps have been taken to prevent the use of gold and precious metals to launder terrorist assets. Currently, there are no measures in place to prevent the misuse of charitable or non-profitable entities to finance terrorist activities.

Ecuador is a party to the 1988 UN Drug Convention and has ratified (September 17, 2002) the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Ecuador is a member of the OAS 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). Ecuador and the United States have an Agreement for the Prevention and Control of Narcotic Related Money Laundering that entered into force in 1994 and an Agreement to Implement the United Nations Convention Against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances of December 1988, as it relates to the transfer of confiscated property, securities and instrumentalities. There is also a 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 and take the necessary steps to construct a viable anti-money laundering regime, criminalize the financing of terrorists and terrorism, , and create mechanisms to expeditiously block terrorist assets.

The Arab Republic of Egypt. Egypt is not a major regional financial center. Cumbersome financial regulations make it an unattractive place through which to move large amounts of money. The majority of

funds laundered in Egypt represent proceeds from drug trafficking, political corruption, bank loans and other frauds, and tax evasion. There have been cases where narcotics-related money laundering sometimes involves investment in real estate or business ventures. Because of widespread mistrust of banks and fear that banking records—despite Egypt's secrecy laws—could provide authorities with incriminating evidence, it is believed money launderers rarely use the banking system.

During the last year, Egypt has taken a number of steps to meet international anti-money laundering standards. These actions come on the heels of Egypt's being designated in June, 2001 by the Financial Action Task Force (FATF) as "non-cooperative" in international efforts to fight money laundering. Following the "non-cooperative" designation, the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) issued an Advisory which instructs all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Egypt. As a result, Egypt passed anti-money laundering legislation (Law No. 80-2002) in May 2002. The 2002 law criminalizes laundering the proceeds of a range of crimes, including narcotics offenses, hijacking, terrorism and terrorism financing, illegal arms trading, money stealing, fraud, debauchery, organized crime, and environmental crimes.

The 2002 law also requires the declaration of foreign currency imports of over \$20,000 or equivalent, but places no restriction on the export of cash currency. It provides for international exchange of information and judicial cooperation in money laundering, and allows for the freezing and seizing of assets involved in money laundering crimes. The law updated regulations issued in June 2001 by the Central Bank of Egypt (CBE), the Ministry of Economy and Foreign Trade, and the Ministry of Planning, which impose additional anti-money laundering obligations on banks, insurance companies, and companies operating in capital markets.

Among other provisions, the law calls for the creation of a competent authority (financial intelligence unit, FIU) within the CBE to combat money laundering, and mandates the reporting of suspicious transactions by all financial institutions. The law also requires all such institutions to know their customers and keep transaction records. The law provides for penalties of imprisonment of up to seven years for money laundering offenses, and imprisonment for failure to report suspicious transactions or keep necessary records.

The new law also gives Egypt a more efficient mechanism for responding to terrorist money flows. The CBE now has the legal authority to direct the Attorney General to freeze funds if he makes a determination that the funds are being used to support terrorist activity. Prior to the law, the governor was required to file a criminal case against non-UN-designated terrorists, and funds could be frozen only after the courts render a guilty verdict.

Notwithstanding the new legislation's positive attributes, there is a significant flaw in Article 17 which states that the perpetrator of a money laundering crime shall be exempted from the principal penalty (imprisonment) if the perpetrator reports the crime to competent authorities prior to their otherwise gaining knowledge of the crime. So long as this provision remains, the law will be materially deficient in relation to international standards and will prevent further progress for Egypt in the FATF's NCCT process.

Presidential Decree No. 164/2002, issued in June 2002, delineates the structure, functions, and procedures of the new Egyptian FIU. The head of the unit has recently been appointed. The unit will handle implementation of the new law, including publishing the executive directives. The unit will take direction from a five-member council, headed by the Assistant Minister of Justice for Legal Affairs. Other members include the chairman of the Capital Market Authority, Deputy Governor of the Central Bank of Egypt, and a representative from the Egyptian Banking Federation. The CBE is in the process of identifying other staff members and drafting an implementation work plan. Egypt plans to have the new money laundering regime up and running by early 2003.

The Egyptian Government has shown some willingness to cooperate with foreign authorities in criminal investigations. The Egyptian Government acted promptly on asset-freezing requests from the United

States. Also, Egypt is monitoring operations of domestic non-governmental organizations and charities to forestall funding of terrorist groups abroad.

The United States and Egypt signed a Mutual Legal Assistance Treaty in May 1998. Egypt is a party to the 1988 UN Drug Convention. It is a signatory to the 1999 UN International Convention for the Suppression of the Financing of Terrorism. 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.

As of January 2003, Egypt remains on the FATF's list of "Non-Cooperating Countries or Territories" (NCCT). 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. Pending amendment of the money laundering law with respect to Article 17 and pending the issuance of secondary regulations, and full implementation and enforcement of legal and regulatory reforms, the Egyptian financial system remains vulnerable to misuse for money laundering and other illicit purposes.

El Salvador. Located on the Pacific coast of the Central American isthmus, El Salvador has one of the largest and most developed banking systems in Central America, composed of 13 banks, 2 pension funds, 18 insurance companies, and 16 securities trading companies. The most significant financial contacts are with neighboring Central American countries, as well as the United States, Mexico, and the Dominican Republic. The January 2001 adoption of the U.S. dollar as legal tender together with the size and growth rate of the financial sector make the country a potentially fertile ground for money laundering.

Most money laundering is related to narcotics-trafficking, and, to a lesser degree, kidnapping, corruption, counterfeiting, fraud, and contraband. Criminal proceeds laundered in El Salvador are primarily from domestic criminal activity. There is no significant black market for smuggled goods. Most money laundering occurs through fund transfers between local banks and banks in the United States, the Dominican Republic, and Europe. There is no evidence money laundering proceeds are controlled by narcotics-traffickers, organized crime, or terrorist groups.

The 1998 "Law Against Laundering of Money and Assets" criminalizes money laundering related to narcotics-trafficking and any other criminal activity. The Unidad de Investigación Financiera (UIFa Financial Intelligence Unit (FIU), is located within the Attorney General's Office. Also the Policía Nacional Civil (PNC) and the Central Bank have their own anti-money laundering units.

By law, financial institutions and alternative remittance systems 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. Also, the aforementioned institutions must report suspicious transactions and transactions that exceed 500,000 colones (approximately \$57,000) to the UIF. In addition, the law includes a safe harbor provision to protect all persons who report transactions and cooperate with law enforcement authorities and "banker negligence" provisions making individual bankers responsible for money laundering at their institutions. Bank secrecy laws do not apply to money laundering investigations.

El Salvador has signed several agreements of cooperation and understanding with supervisors from other countries to facilitate the exchange of supervisory information including permitting on-site examinations of banks and trust companies operating in El Salvador.

The UIF has been operational since January 2000 and joined the Egmont Group in June 2001. The UIF presently has a staff of six. In 2001, the UIF investigated 137 financial crime cases, and 88 cases in 2002. During 2002, four persons were arrested on money laundering charges.

Salvadoran law does not require the FIU to sign agreements in order to share or provide information to other countries. The FIU is also legally authorized to access the databases of public or private entities. The Government of El Salvador (GOES) has cooperated with foreign governments in financial investigations

related to narcotics and money laundering. The FIU works closely with the U.S. Treasury's FinCEN and readily shares and provides information to the U.S. Government in investigations and proceedings relating to narcotics, terrorism, terrorism financing, and other serious crime investigations, including 16 investigations involving 429 persons or entities related to terrorist activities.

The UIF has proposed legal reforms to require all travelers entering and departing from El Salvador to report the value of goods or cash they are carrying in excess of 100,000 colones (approximately \$11,400). Currently, the law requires sworn declarations only from incoming travelers with more than 100,000 colones (approximately \$11,400), or its foreign equivalent in cash or securities.

The GOES has the authority to freeze and seize suspected assets associated with terrorists and terrorism. The GOES provided financial institutions with the names of the individuals and entities listed by the UNSCR 1267 Sanctions Committee, the U.S. Government, and the United Kingdom, as being linked to Usama Bin Ladin. These institutions have searched for but have not located any assets related to the individuals and entities on the above referenced lists, and therefore, have neither blocked nor seized any assets related to those on such lists.

The GOES has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes but has no legal mechanism to share seized assets with other countries. Salvadoran law provides only for the judicial forfeiture of assets upon conviction (criminal forfeiture). The current law does not provide for civil or administrative forfeiture, although a proposal to expand the law to include certain types of civil forfeiture is under consideration. The FIU and PNC have adequate police powers to trace and seize assets, but the PNC lacks the resources to do so.

Forfeited money laundering proceeds are deposited in a special fund used to support law enforcement, drug treatment and prevention, and other government programs. Funds forfeited as the result of other criminal activity are deposited into general government revenues. In 2002, \$3.85 million in assets was seized or forfeited; in 2001, \$508,712.14; in 2000, \$5,699.22; and in 1999, \$19,723.78.

El Salvador is also a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the OAS Inter-American Convention Against Terrorism. El Salvador hosted the third regular session of the OAS Inter-American Committee Against Terrorism in January 2003, and assumed leadership of the committee. The GOES has not signed the UN International Convention for the Suppression of the Financing of Terrorism. El Salvador is party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. El Salvador signed the OAS Inter-American Convention on Mutual Assistance in Criminal Matters, to which the United States is a party, in 2002, but has not yet ratified it. The United States and the GOES do not have a bilateral Mutual Legal Assistance Treaty (MLAT). El Salvador is also a signatory to the Central American Convention for the Prevention and Repression of Money Laundering Crimes Related to Illicit Drug Trafficking and Related Crimes.

The growth of El Salvador's financial sector, the increase in narcotics-trafficking, and the use of the U.S. dollar as legal tender make El Salvador vulnerable to money laundering. The GOES should continue its anti-money laundering policies and strengthen its ability to seize and share assets.

Eritrea. Eritrea is a small country that has a developing financial system with limited integration with international markets and financial institutions. Its economy remains largely cash-based. There is no indication that it is a significant haven for money laundering activities. However, due to its limited regulatory structure and its proximity to regions where terrorist and criminal organizations operate, Eritrea is vulnerable to money laundering related activities.

Currently, no foreign banks are authorized to operate in the country. Central bank regulations act as a disincentive for holders of foreign currency to exchange it into local currency through licensed and regulated exchange houses. As a result, unauthorized money changers are thought to process foreign

exchange transactions. Much of this foreign currency is transported as cash by members of Eritrea's farflung Diaspora who bring the money to support their relatives and invest in real estate.

Eritrea became a party to the 1988 UN Drug Convention on January 30, 2002.

As Eritrea's financial system becomes more integrated with international markets, the government should put a priority on implementing anti-money laundering legislation, criminalizing terrorist financing, signing the UN International Convention for the Suppression of the Financing of Terrorism, and becoming party to relevant international conventions.

Estonia. Estonia has one of the most developed banking systems of the former Soviet Union (FSU). Estonia permits credit institutions to participate in a variety of activities such as leasing, insurance, and securities. While Estonia ranks highest in "transparency" of all the FSU countries, suspicions persist that Estonian financial institutions are used for laundering illegal proceeds for organized crime.

In 1999, Estonia implemented anti-money laundering legislation, and established the Information Bureau (IB), Estonia's Financial Intelligence Unit, 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 \$11,000 for non-currency transactions, and the equivalent of approximately \$5,500 for currency transactions.

Beginning in January 2002, the Financial Supervisory Authority (FSA) was established and activated. The FSA is responsible for monitoring and directing credit and financial institutions. It monitors compliance with reporting requirements and can apply administrative remedies for non-compliance. Client confidentiality may not be invoked against a request for information from the IB.

In the 1999 Money Laundering Prevention Act (MLPA), money laundering is not tied to a particular predicate crime, nor does a conviction for a predicate offense seem to be required. The Government of Estonia (GOE), however, anticipates modifying the MLPA specifically to include terrorism financing according to FATF Special Recommendations on Terrorist Financing. In the meantime, in cooperation with the FSA and commercial banks, the Bank of Estonia has elaborated several procedures and recommendations for the prevention of money laundering and combating terrorism financing. In June 2002 the FSA approved a new guideline, "Additional Measures to Prevent Money Laundering in the Credit and Financial Institutions." This guideline conforms to FATF's "Guidance for Financial Institutions in Detecting Terrorist Financing Activities." The Estonian Banking Association (EBA) has also issued more detailed instructions regarding information and documentation when opening an account or performing a transaction; the documents and data required in relations with foreign legal persons, with special attention to those founded in offshore regions; and a listing of red flags useful when opening an account, performing transactions, and analyzing transactions. Reportedly, the GOE has initiated an amendment to the existing MLPA. This draft legislation harmonizes the second EU Directive with the MLPA and further criminalizes the financing of terrorism.

Estonia is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly known as PC-R-EV). The IB is a member of the Egmont Group and may exchange information with its counterparts, provided the information is used for investigative purposes only. Bank secrecy-protected information, that is to be used as evidence in court, may only be shared when a mutual assistance agreement is in place. A Mutual Legal Assistance Treaty is in force between the United States and Estonia. GOE is a party to the 1988 UN Drug Convention, and in August 2000, ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In October 2001, the GOE signed a cooperation agreement with Europol, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Estonia has signed, and in May 2002, ratified the UN International Convention for the Suppression of the Financing of Terrorism.

The GOE has been active in establishing agencies, amending current laws, and drafting new ones in its effort to strengthen its anti-money laundering regime. Estonia should criminalize terrorist financing. Every endeavor should be made to enforce best practices within its financial community.

Ethiopia. Ethiopia's location within the Horn of Africa region make it vulnerable to money laundering related activities perpetrated by transnational criminal organizations, terrorists, and narcotics-trafficking organizations. Sources of illegal proceeds include narcotics-trafficking, smuggling, trafficking in persons, arms trafficking, trafficking of animal products, and corruption. Reports indicate that alternative remittance systems are widely used by immigrant communities living within the country.

Money laundering is not a crime in Ethiopia. The country has an underdeveloped financial infrastructure, containing approximately six small private banks as well as three government banks. Currently, there are no foreign banks that operate within the country. The Central Bank has mandated that banks report suspicious transactions but the supervision capability is limited as most records and communications are not yet computerized. Foreign exchange controls limit possession of foreign currency, and the government controls the exchange of foreign currency into local currency. These restrictions encourage the use of alternative systems to remit funds and the hawala system is widespread.

As of February 2003, the Government of Ethiopia has proposed draft terrorist finance legislation, which is under preliminary review in Parliament.

Ethiopia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Ethiopia should pass anti-money laundering legislation, criminalize terrorist financing and sign the UN International Convention for the Suppression of the Financing of Terrorism.

Fiji. Money laundering does not appear to be a significant problem in Fiji, although Fiji may be used as a drug transshipment point.

Money laundering is criminalized under the Proceeds of Crime Act of 1997. In addition, the Reserve Bank of Fiji (RBF) has issued anti-money laundering guidelines for licensed financial institutions. These guidelines require licensed financial institutions to develop customer identification procedures, keep transaction and other account records for seven years, and report suspicious financial transactions to both the RBF and the anti-money laundering unit in the Fiji Police Force's Criminal Investigation Department. These guidelines went into effect in January 2001. In the first ten months of 2002, financial institutions filed approximately 130 suspicious transaction reports. In 2002, the Fiji Police, with input from the RBF and the Association of Banks in Fiji, issued a standardized suspicious transaction reporting form.

The Permanent Secretary for Justice, along with senior representatives from the Attorney General's Office, the Office of the Director of Public Prosecutions, the Office of the Commissioner of Police, the RBF, and the Fiji Revenue and Customs Authority compose the Anti-Money Laundering Officials Committee, which meets once a month to discuss the implementation of anti-money laundering measures in Fiji. The Anti-Money Laundering Officials Committee is considering the establishment of a Financial Intelligence Unit.

Fiji is a member of the Asia/Pacific Group on Money Laundering, a FATF-style regional body. In February 2002, the APG conducted a mutual evaluation of Fiji.

Fiji is a party to the 1988 UN Drug Convention.

Fiji should criminalize terrorist financing and continue to develop its anti-money laundering regime. Fiji should also sign the UN International Convention for the Suppression of the Financing of Terrorism. Fiji should also establish a Financial Intelligence Unit.

Finland. Finland is not a regional financial or money laundering center. A "Corruption Perceptions Index" survey taken in 2002, which compiles the perception of corruption rather than actual statistics, listed Finland in first place as the country perceived to be the least corrupt. 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 all serious crimes. Legislation enacted in 1998 compels credit and financial institutions, investment and fund management companies, insurance brokers and companies, real estate agents, pawn shops, betting services, casinos, and most non-bank financial institutions (excluding accountants and lawyers) to report suspicious transactions. Management companies and custodians of mutual funds were added in the Money Laundering Act in 1999.

Proposals submitted to the Parliament in October 2002 are under consideration for amendments concerning the Financial Action Task Force's (FATF) Eight Special Recommendations on Terrorist Financing, the obligations in the UN International Convention for the Suppression of the Financing of Terrorism; and the amendments to the EU Directive on Money Laundering. Under the proposals, terrorism and terrorist financing would be specifically included in the anti-money laundering regime. Another proposal submitted to Parliament was that the class of those obligated to report suspicious transactions be widened to include accountants, dealers and agents of valuable goods, auctioneers, and practitioners of legal professions (excluding those who act as counsel or attorneys in court trials).

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. The significant increase in STR filings may be attributed to attempts to launder funds as Finland transitioned from the markka in 1999 to the euro on January 1, 2002. The conversion rate was 1 euro = 5.9 Finnish markka, and approximately 225 million banknotes were printed by January 2002 for the Finnish transition. Trafficking in narcotics was the predicate offense for 40 percent of money laundering convictions in 2001. Money laundering represents about 10 percent of all financial crime in Finland, and approximately 75 percent of those cases have links to other countries.

In an effort to prevent avoidance and evasion of income taxes, Finland signed a tax treaty with the United States in September 1989, replacing the previous treaty signed in 1970. The current treaty has provisions to exchange information for investigative purposes.

In 1998, Finland established a Financial Intelligence Unit, the Money Laundering Clearing House (MLCH), to receive, record, and investigate suspicious transaction reports from obligated reporting institutions. The MLCH is a member of the Egmont Group.

Finland is a member of the FATF and the Council of Europe. Finland also co-operates with the European Union, the United Nations, the Baltic Sea Task Force, the Organization for Economic Co-operation and Development, and other international agencies designed to combat organized crime. Finland is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Finland is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of Proceeds from Crime. Finland became a party to the UN International Convention for the Suppression of the Financing of Terrorism on June 28, 2002.

Finland should criminalize terrorist financing.

France. France remains an attractive venue for money laundering because of its sizable economy, 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. A 2002 Parliamentary Report states that, increasingly, Russian and Italian organized crime networks are using the French Riviera to launder (or invest previously laundered assets) by buying up real estate, "a welcoming ground for foreign capital of criminal origin." The report estimates that between 7 and 60 billion Euros (about \$7-60 billion) of dirty money has already been channeled through the Riviera. 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 first criminalized money laundering related to narcotics-trafficking in 1987. In 1996 that criminalization was expanded to cover the proceeds of all crimes. Even though the 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.

Decree No. 2002-770 of May 3, 2002, addresses the functioning of France's Liaison Committee against the Laundering of the Proceeds of Crime. This committee will be co-chaired by the French Financial Intelligence Unit (FIU), TRACFIN (the unit for Treatment of Information and Action Against Clandestine Financial Circuits) and the Justice Ministry. It will comprise representatives from reporting professions and institutions, regulators, and law enforcement authorities.

TRACFIN is responsible for analyzing suspicious transaction reports that are filed by French financial institutions and non-financial professions. TRACFIN is a part of FINATER, a cell created within the French Ministry of the Economy, Finance, and Industry in September 2001, in order to gather information to fight terrorist financing.

TRACFIN is a member of the Egmont Group and represents the European Union FIUs at the Egmont Committee created on June 5, 2002. The French FIU may exchange information with foreign counterparts that observe similar rules regarding reciprocity and confidentiality of information.

As a member of the European Union, France is subject to the revised Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering (Directive 2001/97/EC) that will be enacted into domestic French legislation in 2003. 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 ratified, in January 2002, the UN International Convention for the Suppression of the Financing of Terrorism. In October 2002 France ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The United States and France have entered into a Mutual Legal Assistance Treaty (MLAT), which was ratified by the French Parliament and came into force in 2001. Through MLAT requests and by other means, the French have provided large amounts of data to the United States in connection with terrorist financing.

Since 1986, French anti-terrorist legislation has provided for the prosecution of those involved in the financing of terrorism under the more severe offense of complicity in the act of terrorism. However, in order to strengthen this provision, the Act of 15 November 2001 introduced several new characterizations of offenses, specifically including the financing of terrorism. The offense of financing terrorist activities (art. 41-2-2 of the Penal Code) is defined according to the UN International Convention for the Suppression of the Financing of Terrorism and is subject to 10 years' imprisonment and a fine of FF 1.5 million. The Act also includes as an offense money laundering in connection with terrorist activity (article 421-1-6 Penal Code), punishable by 10 years' imprisonment and a fine of FF 5 million. An additional penalty of confiscation of the total assets of the terrorist offender has also been introduced. Accounts and financial assets can be frozen through both administrative and judicial measures.

French authorities moved rapidly to freeze financial assets of organizations associated with al-Qaida and the Taliban, and took the initiative to put the two groups on the UN 1267 Sanctions Committee consolidated asset freeze list. France takes actions against non-Taliban and non-al-Qaida-related groups in the context of the EU-wide "clearinghouse" procedure. Within the G-8, France has sought to support and expand efforts targeting terrorist financing. Bilaterally, France has worked to improve the capabilities of its African partners in targeting terrorist financing. On the operational level, French law enforcement cooperation targeting terrorist financing continues to be excellent.

TRACFIN has information-sharing agreements with FIUs in Australia, Italy, the United States, Belgium, Monaco, Spain, the United Kingdom, Mexico, the Czech Republic, Portugal, Finland, Luxembourg, Cyprus, Brazil, Colombia, Greece, Guernsey, Panama, Argentina, and Andorra.

France has established a comprehensive anti-money laundering regime. The Government of France should build upon this regime by expanding suspicious transaction reporting requirements to auditors and attorneys, in line with the revised EU Directive on money laundering.

Gabon. Gabon is not a regional financial center. The Bank of Central African States (BEAC) supervises Gabon's banking system. BEAC is a regional Central Bank that serves six countries of Central Africa.

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counter-terrorist financing regulations that would apply to banks, exchange houses, stock brokerages, casinos, insurance companies, and intermediaries such as lawyers and accountants in all six member countries. The BEAC intends to submit the draft regulations to the Ministerial Committee of the Central African Economic and Monetary Community (CEMAC) for approval in January 2003.

If approved, the BEAC regulations would treat money laundering and terrorist financing as criminal offenses. The regulations would also require banks to record and report the identity of customers engaging in large transactions. The threshold for reporting large transactions would be set at a later date by the CEMAC Ministerial Committee at levels appropriate to each country's economic situation. Financial institutions would have to maintain records of large transactions for five years.

The regulations would require financial institutions to report suspicious transactions. Under the regulations, each country would establish a National Agency for Financial Investigation (NAFI) responsible for collecting suspicious transaction reports. Bankers and other individuals responsible for submitting suspicious transaction reports would be protected by law with respect to their cooperation with law enforcement entities. If a NAFI investigation were to confirm suspicions of terrorist financing, the Gabonese government could freeze and seize the related assets. The NAFI could cooperate with counterpart agencies in other countries.

Gabon has signed, but not yet ratified, both the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism.

Gabon should work with the BEAC to establish a viable anti-money laundering and counter-terrorist financing regime.

The Gambia. The Gambia is not a regional financial center, although it is a regional re-export center. Goods and capital are freely and legally traded in the Gambia, and, as is the case in other re-export centers, smuggling of goods occurs.

Banks in the Gambia are supervised by the Central Bank. The Central Bank receives weekly activity reports from all in-country financial institutions, and these reports must include information on any suspicious transactions. Banks and other financial institutions are required to know, record, and report the identities of customers engaging in transactions over the equivalent of \$10,000, and records of these transactions must be kept for two years. Central Bank officials perform on-site examinations of all banks and trust companies operating in the Gambia on a yearly basis. If necessary, Central Bank officials can examine a bank or trust company more than once a year. Money laundering is not a criminal offense, and the Government of the Gambia (GOG) lacks specific legal authority to freeze illicit funds.

In October 2002, the Finance Ministry and the Central Bank submitted a draft law—designed to modernize the banking and financial sector—to the IMF for review. While the text of the draft law has not been made public, the GOG has stated that the law contains provisions to combat money laundering and terrorist financing. The GOG expects to present the draft law to the National Assembly in early 2003.

The Central Bank has circulated the U.S. Government list of terrorists designated under E.O. 13224 among banks and other financial institutions in the Gambia. As of December 2002, no suspect accounts

had been identified. The GOG lacks specific legal authority to freeze accounts with suspected links to terrorists.

The Gambia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In July 2002, the Gambia participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

The Gambia should enact comprehensive anti-money laundering legislation including provisions that would criminalize terrorist financing, provide legal authority for the freezing of criminal proceeds and funds linked to terrorist financing, and establish a Financial Intelligence Unit. The Gambia should also examine its re-export sector to determine whether or not it is being used to launder criminal proceeds.

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. Contraband, which is a large part of the "shadow economy" in Georgia, generates substantial revenues. Estimates of the "shadow economy" are in the range of 60 percent of GDP. 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. Most financial transactions in Georgia are conducted in cash. Only between three to five percent of the population currently maintain a personal bank account, as following independence there was a mushrooming of banking institutions, the majority of which collapsed, causing bank customers serious losses. Corruption also remains an issue in Georgia. Overall, Georgia is very vulnerable to money laundering, as there are serious deficiencies in the anti-money laundering system in all areas—legal, financial and law enforcement.

Legislation to combat both terrorism financing and money laundering is minimal and those laws that do exist are not enforced. 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. There are no laws that allow for any of the Ministries or the National Bank of Georgia to monitor bank accounts and collect information on depositors and the source of investments. Georgia has strict banking secrecy regulations. 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.

Currently, the National Bank of Georgia (the Central Bank) has been charged with preparing relevant legislative changes. It has prepared a draft law on the prevention of money laundering. Reportedly, the draft meets the recommendations of the Financial Action Task Force on Money Laundering, with a clear commitment of the banking and financial authorities to fight money laundering. The draft is being circulated among the Ministries and to the National Bank of Georgia for comments and proposals, and is expected to be considered by the Georgian parliament during the first quarter of 2003. The draft legislation contains provisions on recording large currency transactions and the source, destination and ownership of funds.

The National Bank of Georgia plays a growing role in regulating the banking industry. Current banking legislation, including the "Law on the National Bank of Georgia," does not allow a banking institution to trace the routing of money through a bank account or multiple bank accounts.

The U.S. Government provides technical assistance and training to the Georgian tax inspectorate in support of improvements in tax policy and regulation, which could enable the tax inspectorate to identify underreporting of income, including questionable gains from illegal sources.

There are no laws that deal with prosecuting individuals who raise funds for terrorist activities, or who are involved in terrorist acts in other countries. There are no provisions that make it a crime to handle money,

but not be directly involved in a terrorist act. There are no laws concerning charitable organizations' funding sources.

The lead on complying with UN Security Council Resolutions 1267/1390/1373 has been taken by the Ministry of Finance and the National Bank of Georgia on an ad hoc basis in support of the Global War on Terror, but it is unclear how this fits into the Georgian legal system. The Supreme Court of Georgia has ruled that the freezing, confiscation and forfeiture of illegal proceeds is unconstitutional, which may present a barrier to the implementation of the draft legislation. The National Bank of Georgia and the Ministries of Finance and Foreign Affairs have been provided by the Embassy with relevant information concerning the UN 1267 Sanctions Committee's Consolidated List.

Georgia has passed 10 of the 12 UN conventions relating to terrorism. Georgia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. On July 7, 2002 Georgia ratified the UN International Convention for the Suppression of the Financing of Terrorism.

Georgia should adopt appropriate legislation to explicitly criminalize money laundering and the support and financing of terrorism. Provisions for suspicious activity reporting, record keeping and identification of account holders should be enacted and should be applied to banks and non-bank financial institutions. Georgia should adequately regulate alternative remittance systems and non-governmental organizations, including charities, to ensure they are not used for terrorist or other criminal ends. Georgia should establish government mechanisms to regulate and monitor currency movements and financial transactions and to enforce its laws. Until it does so, Georgia's financial institutions will remain vulnerable to abuse by organized crime and as well as to terrorist organizations and their supporters.

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 narcotics-trafficking groups launder money through German banks, currency exchange houses, business investments, and real estate.

The Money Laundering Act, which was amended by the Act on the Improvement of the Suppression of Money Laundering and Combating the Financing of Terrorism of August 8, 2002, criminalizes money laundering related to narcotics-trafficking, fraud, forgery, embezzlement, and membership in a terrorist organization, and imposes due diligence and reporting requirements on financial institutions. Under the current law, financial institutions are required to obtain customer identification for transactions exceeding 15,000 euros (approximately \$15,000) that are conducted in cash or precious metals. Germany has had this requirement for some time (in DM), but the information was only used for statistical purposes; only recently has the information been used in money laundering investigations.

In May 2002, the banking, securities, and insurance industry regulators were merged into a single financial sector regulator known as BaFIN. Also in 2002, Germany established a single, central, federal Financial Intelligence Unit (FIU) within the Bundeskriminalamt (National Police Office). The FIU functions as an administrative unit and will be staffed with financial market supervision, customs, and legal experts. Though not yet fully operational, the FIU will be responsible for developing money laundering cases before they go to prosecutors for formal investigation. It will also exchange information with its counterparts in other countries.

The amendments also brought German laws into line with the first and second European Union money laundering directives (Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering, as revised by Directive 2001/97/EC). These include the mandate that member states standardize and expand "suspicious activity" reporting requirements to include information from notaries, accountants, tax consultants, casinos, luxury item retailers, and attorneys. Since 1998, the Federal Banking Supervisory Office has licensed and supervised money transmitters, and has issued antimoney laundering guidelines to the industry. Germany also has a law, entered into force in 1998, that gives border officials the authority to compel individuals to declare imported currency above a certain threshold (formerly DM 30,000).

The new 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 legislation also calls for stiffer checks on the background of owners of financial institutions and tighter rules for credit card companies. Banks that have suspicions of money laundering must report their suspicions to the FIU as well as to the Staatsanwaltschaft (State Attorney), and then they may freeze the account.

Regulations for freezing assets are in place and the Ministry of Finance is considering amending the Banking Act further to increase the ability to freeze accounts. The Government of Germany (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 meet in such cases. German law requires a direct link to narcotics-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.

The GOG moved quickly after the September 11, 2001, terrorist attacks in the United States, to identify weaknesses in Germany's laws that permitted at least some of the terrorists to live and study in Germany, unobserved and unnoticed, prior to September 11. Germany's cabinet has submitted, and the Bundestag 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 capabilities 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. Germany's internal intelligence service is provided access to information from banks and financial institutions, postal service providers, airlines, telecommunication and Internet service providers.

The Wirtschaftsministerium (Ministry of Economics) receives the international lists of suspected terrorists and distributes the lists as separately issued regulations to the industries. Banks are directed to freeze the accounts of individuals and groups on the list and report them to the FIU independent of the standard regulations. In 2002, the Bundestag added terrorism and terrorism financing to the predicate offenses for money laundering as defined by Penal Code 161.

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 United States. The GOG responded quickly to freeze over 30 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. Although Germany signed the UN International Convention for the Suppression of the Financing of Terrorism in 2000, it has not yet ratified the Convention.

The GOG cooperates fully with the United States on anti-money laundering initiatives, though it does not have a Mutual Legal Assistance Treaty (MLAT) with the United States. The GOG exchanges information with the United States through bilateral law enforcement agreements and other informal mechanisms. Germany has MLATs with numerous countries, and German law enforcement authorities cooperate closely at the EU level, such as through Europol.

Germany is a member of the Financial Action Task Force (FATF), the European Union, and the Council of Europe. The head of BaFIN, Jochen Sanio, is the outgoing President of FATF. Germany is a party to the 1988 UN Drug Convention, and in December 2000 signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Recently, the GOG put forward a number of important proposals to further strengthen its anti-money laundering regime. 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 implementation of its Financial Intelligence Unit. The GOG should continue to enhance its anti-money laundering regime and its active participation in the international fora.

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. 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. 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. In December 2001, the Bank of Ghana began drafting money laundering legislation designed to 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 2002 made no arrests or prosecutions related to money laundering.

In August and September 2002, the Narcotics Control Board in collaboration with the Ghana Police Service, Ghana Immigration Service, Bureau of National Investigations, Aviation Security, and Customs, Excise and Preventive Service conducted an interdiction exercise at Ghanaian airports. Through this exercise, currency worth \$200,000 was seized on suspicion of 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. In July 2002, Ghana also hosted the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

Ghana is a party to the 1988 UN Drug Convention. Ghana ratified the UN International Convention for the Suppression of the Financing of Terrorism on September 6, 2002. Ghana has endorsed the Basel Committee's "Core Principles" for Effective Banking Supervision. Ghana has bilateral agreements for the exchange of money laundering-related information with the United Kingdom, Germany, Brazil, and Italy.

Ghana should criminalize terrorist financing and should take steps to develop an anti-money laundering regime in accordance with international standards.

Gibraltar. Gibraltar is a largely self-governing overseas territory of the United Kingdom, which assumes responsibility for Gibraltar's defense and international affairs. As part of the European Union, Gibraltar is required to transpose all relevant EU directives, including those relating to anti-money laundering.

The Financial Services Commission (FSC) is responsible for regulating and supervising Gibraltar's financial services industry. It is required by statute to match UK supervisory standards. Both onshore and offshore banks are subject to the same legal and supervisory requirements. Gibraltar has 19 banks, ten of which are incorporated in Gibraltar, and all except one are subsidiaries of major international financial institutions. The FSC also licenses and regulates the activities of trust and company management activities insurance companies, and collective investment schemes. There were 8620 international business companies (IBCs) registered in Gibraltar in 2002. Bearer shares are permitted. Internet gaming is permitted by the Government of Gibraltar (GOG) and is subject to a licensing regime.

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 any person whose suspicions of money laundering are aroused and includes such entities as 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 money laundering legislation that covered all crimes. The Gibraltar Criminal Justice Ordinance to combat money laundering, which related to all crimes, entered into effect in January 1996. Comprehensive anti-money laundering Guidance Notes (which have the force of law) 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) 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 incorporates 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 the 25 Criteria employed in the Non-Cooperative Countries and Territories (NCCT) exercise. While Gibraltar was not placed on the NCCT list, 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 antimoney 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 redrafted the anti-money laundering guidance notes (in July 2002) 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 they are in compliance with the new "know your customer" (KYC) procedures. The FSC also took this opportunity to introduce new guidelines related to correspondent banking, politically exposed persons, and bearer securities as well as clearer and more defined KYC procedures. Gibraltar has adopted and implemented the European Union (EU) Money Laundering Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering. 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 narcotics-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 FATF (under the aegis of the OGBS) conducted an on-site evaluation of Gibraltar in April 2001 against the FATF 40 Recommendations on Money Laundering. The report on Gibraltar found that "Gibraltar has in place a robust arsenal of legislation, regulations and administrative practices to counter money laundering," adding: "The authorities clearly demonstrate the political will to ensure that their financial institutions and associated professionals maximize their defenses against money laundering, and cooperate effectively in international investigations into criminal funds. Gibraltar is close to complete adherence with the FATF 40 Recommendations".

The Government of Gibraltar also invited the International Monetary Fund (IMF) to perform an assessment in May 2001 of the extent to which Gibraltar's 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 evaluation found that "…supervision is generally effective and thorough and that Gibraltar ranks as a well-developed supervisor." Gibraltar was found to be fully compliant or partially compliant with all but one of the 67 international standards of supervision in the areas of banking, insurance and securities. The standard that was found not to be met was in relation to on-site visits to insurance companies. This has been fully addressed by the FSC.

Gibraltar has also worked towards implementing the FATF Eight Special Recommendations on Terrorist Financing and giving effect to the relevant UN resolutions on the same issue. Arrangements are presently being made to introduce a licensing and supervisory regime in relation to money transmission services.

Gibraltar should take steps to ensure that Internet marketers of financial services offered by the GOG do not engage in false advertising that can harm Gibraltar's reputation as a well-regulated offshore financial center.

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 conducted predominantly by Russian and Albanian criminal organizations. Capital disclosure requirements for prospective foreign investors are weak. As a result, Greece's five private and two state-owned casinos are susceptible to money laundering. The cross-border movement of illicit currency and monetary instruments is a continuing problem. During 2002, the cross-border transport of foreign currency into Greece increased, with the money often being deposited temporarily in Greek banks and then transported abroad.

The Government of Greece (GOG) criminalized money laundering derived from all crimes in 1995. The law imposes a penalty for money laundering 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 (STRs). New legislation passed in March 2001 targeted organized crime by making money laundering a criminal offense when the property holdings being laundered are obtained through criminal activity or cooperation in criminal activity.

The 1995 law also established the Competent Committee (CC) to receive and analyze STRs 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 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 a description of the internal control and communications procedures they have implemented to prevent money laundering. In addition, banks must undergo internal audits. Bureaux de change 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 2,000 euros (\$2,017). Reportedly, however, cross border currency reporting requirements are not uniformly enforced at all border checkpoints.

Banks in Greece must demand customer identification information when opening an account or conducting transactions that exceed 15,000 euros (\$15,130). Greek citizens must provide a tax registration number if they conduct foreign currency exchanges of 1,000 euros (\$1,008) or more, and proof of compliance with tax laws in order to conduct exchanges of 10,000 euros (\$10,087) 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. Reporting individuals are protected by law.

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 former Yugoslav President Slobodan Milosevic, an alleged war criminal. There have been several arrests for money laundering since January 2002. These involve the Greek owners (and their spouses) of vessels transporting cocaine from Colombia and other Western Hemisphere countries. The guilty parties received five-year sentences. Legitimate businesses can be seized if used to launder drug money. The government recently seized a hotel that was used as a cutting mill and storage facility for drugs. As Greece is becoming a major gateway for illegal narcotics to the Balkans, Western Europe and the United States, the amount of assets seized has steadily increased.

Last year, the GOG seized an estimated \$20 million in assets for narcotics-related crimes. There have been no objections from banking and political groups to the GOG's policies and laws regarding money laundering.

The Ministry of Justice unveiled legislation on combating terrorism, organized crime, money laundering, and corruption in March 2001; Parliament passed the legislation in July 2002. Regarding the freezing of accounts and assets, Greece is committed to incorporating in its internal regulations the EU Council Framework Decision on money laundering, the identification, tracing, freezing, seizing and confiscation of instrumentalities and the proceeds of crime, and the EU Council regulation on combating financing of terrorism, and the freezing of funds or other financial assets. Within the first six months of 2003, Greece is expected to adopt internal legislation criminalizing terrorist financing by amending its 1995 anti-money laundering law to include terrorism financing as a predicate offense.

The Bank of Greece and the Ministry of Economy and Finance have the authority to identify, freeze, and seize terrorist assets. The Bank of Greece has circulated to all financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list. Suspect accounts (of small amounts) have been identified and frozen. On June 8, 2000, Greece signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

Illegal immigrants or individuals without valid residence permits are known to send remittances to Albania and other destinations in the form of gold and precious metals, which are often smuggled across the border in trucks and buses. As of December 2002, there were no legislative initiatives regarding the regulation of alternative remittance systems. Charitable and non-government organizations are closely monitored by the financial and economic crimes police as well as tax authorities; there is no evidence that such organizations are being used as conduits for the financing of terrorism.

Greece is a member of the Financial Action Task Force, the European Union, and the Council of Europe. The CC is a member of the Egmont Group. The GOG is a party to the 1988 UN Drug Convention, and in December 2000 became a signatory to the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Greece has signed bilateral police cooperation agreements with Egypt, Albania, Armenia, France, the United States, Iran, Israel, Italy, China, Croatia, Cyprus, Lithuania, Hungary, Former Yugoslav Republic of Macedonia, Poland, Romania, Russia, Tunisia, Turkey and Ukraine. It also has a trilateral police cooperation agreement with Bulgaria and Romania. Greece exchanges information on money laundering through its MLAT with the United States, which entered into force November 20, 2001.

The GOG should extend and implement suspicious transaction reporting requirements for gaming and stock market transactions, and should to adopt more rigorous standards for casino ownership or investments. Additionally, Greece should ensure uniform enforcement of its cross-border currency reporting requirements. If Greece has not already done so, it should criminalize the financing and support of terrorists and terrorism.

Grenada. There has been improvement in Grenada's anti-money laundering regime and its supervision of its financial sector. Grenada also has demonstrated consistently good cooperation with the U.S. Government (USG) by responding rapidly to requests for information involving money laundering cases. Like those of many other Caribbean jurisdictions, the Government of Grenada (GOG) raises revenue from the offshore sector by imposing licensing and annual fees upon offshore entities. As of December 2002, Grenada had 13 offshore bank and five trust companies; all are under some type of GOG regulatory or liquidator control. There was one international insurance company, two company managers and 2,775 IBCs. Grenada's domestic financial sector includes six commercial banks, 15 registered domestic insurance companies, 22 credit unions and two money remitters. In December 2002, the GOG began revoking legislation that had allowed foreigners to buy economic citizenship, and thus Grenadian passports. This economic citizenship program had been inadequately regulated and had been abused by international criminals.

The collapse of the First International Bank of Grenada (FIBG) in 2000 highlighted the serious deficiencies in Grenada's existing counter-money laundering regime, but it also prompted the GOG to accelerate legislative reforms concerning anti-money laundering and financial sector regulation and to begin revoking the licenses of suspicious offshore banks. A U.S. citizen founded the offshore bank FIBG by using a purchased Grenadian passport, assets from a Nauruan bank, and fictitious documents to document his purported financial worth. 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 liquidator found FIBG's deposit insurance program 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 September 2001, the Financial Action Task Force (FATF) placed Grenada on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. The FATF in its report cited several concerns: inadequate access by Grenadian supervisory authorities to customer account information; inadequate authority by Grenadian supervisory authorities to cooperate with foreign counterparts; and inadequate qualification requirements for owners of financial institutions.

In April 2002, the U.S. Department of Treasury's Financial Crimes Enforcement Network (FinCEN) issued an Advisory advising banks and other financial institutions operating in the United States to give enhanced scrutiny to all financial transactions originating in or routed to or through Grenada, or involving entities organized or domiciled, or persons maintaining accounts, in Grenada. FinCEN cited the legal, supervisory, and regulatory systems of Grenada as creating significant opportunities and tools for the laundering and protection of the proceeds of crime.

As a result of the international scandal caused by the FIBG collapse and the FATF/NCCT listing, the GOG embarked on a concerted effort to put its financial sector in order. Grenada's Money Laundering Prevention Act (MLPA) of 1999, which came into force in 2000, criminalized money laundering related to offenses under the Drug Abuse (Prevention and Control) Act whether occurring within or outside of Grenada, or other offense occurring within or outside of Grenada, punishable by death or at least five years imprisonment in Grenada.

The MLPA also established a Supervisory Authority (SA) to receive, review and forward to local authorities suspicious activity reports from obliged institutions and imposed customer identification requirements on banking and other financial institutions. The Supervisory Authority also issues antimoney 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. Financial institutions must report Suspicious Activity Reports (SARs) to the SA within 14 days of the date that the transaction was determined to be suspicious. A financial institution or an employee who willfully fails to file a SAR or makes a false report will be liable to criminal penalties that include imprisonment or fines up to EC\$250,000, and possibly revocation of the financial institution's license to operate.

Financial sector legislation was strengthened and the Grenada International Financial Services Authority (GIFSA), which monitors and regulates offshore banking, was brought under stricter management. An amendment to the GIFSA Act (No. 13 of 2001) eliminated the regulator's role in marketing the offshore sector. Currently GIFSA has a staff of 12. GIFSA makes written recommendations to the Minister of Finance in regards to the revocation of offshore entities' licenses and also issues certificates of incorporation to international business companies.

International business companies are regulated under the International Companies Act. The Act requires registered agents to maintain records of the names and addresses of directors and beneficial owners of all shares, as well as the date the person's name was entered or deleted on the share register. Currently, there are seven registered agents licensed by the GIFSA. There is a \$30,000 penalty and possible revocation of the registered agent's license for failure to maintain records. The International Companies Act also gives GIFSA the authority to conduct onsite inspections to ensure that the records are being maintained on IBCs and bearer shares. GIFSA began conducting inspections in August 2002. Under the MLPA, the SA also has power to conduct money laundering inspections.

The International Financial Services (Miscellaneous Amendments) Act 2002 required all offshore financial institutions to recall and cancel any issued bearer shares and to replace them with registered shares. The holders of bearer shares in non-financial institutions must lodge their bearer share certificates with a licensed registered agent. These agents are required by Grenada law to verify the identity of the beneficial owners of all shares and to maintain this information for seven years. GIFSA was given the authority to access the records and information maintained by the registered agents and can share this information with regulatory, supervisory and administrative agencies.

The Minister of Finance has signed a memorandum of understanding (MOU) with the Eastern Caribbean Central Bank (ECCB). The MOU grants the ECCB oversight of the offshore banking sector in Grenada. Currently, legislation is being drafted that would incorporate the ECCB's new role into the offshore banking legislation. The ECCB will have the authority to share bank and customer information with foreign authorities. The ECCB already provides similar regulation and supervision to Grenada's domestic banking sector.

In 2001 and 2002, the GOG passed further substantial legislation to improve its structure: the Offshore Banking (Amendment) Act No. 10 of 2001, the Company Management (Amendment) Act No. 11 of 2001, the International Companies (Amendment) Act of 2001, the Grenada International Financial Services Authority (Amendment) Act No. 13 of 2001, the Money Laundering (Prevention)(Amendment) Act No. 19 of 2001, the Proceeds of Crime (Amendment) Act No. 20 of 2001, the International Trusts (Amendment) Act No. 21 of 2001, and the International Financial Services (Miscellaneous Amendments) Act No. 02 of 2002.

Grenada's legal framework now effectively enables GIFSA to obtain customer account records from an offshore financial institution upon request and to share the customer account information with other regulatory, supervisory and administrative bodies. GIFSA also has the ability to access auditors' working papers, and can share this information as well as examination reports with relevant authorities.

Although Grenada remains on the NCCT list, Grenada's efforts to put into place the legislation and regulations necessary for adequate supervision of Grenada's offshore sector prompted the FATF to move Grenada to the implementation stage in the NCCT de-listing process and the FATF/NCCT Americas Review Group to conduct an on-site assessment visit to Grenada in December 2002. In June 2001, the GOG established a Financial Intelligence Unit (FIU) that is headed by a police inspector and staffed by five officers and two support personnel. The FIU, which operates within the police force but is assigned to the SA, is charged with receiving suspicious activity reports from the SA and with investigating alleged money laundering offenses. The United States contributed computers, furniture, and equipment for the FIU office, and the U.S. and the Caribbean Anti-Money Laundering Program, a program funded jointly by the United States, the United Kingdom and the European Union, are providing on-going mentoring in FIU management and asset seizure techniques.

The GOG should pass anti-terrorist financing legislation that will provide the authority to identify, freeze and seize terrorist assets. There has not yet been any known identified evidence of terrorist financing in Grenada. GOG has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and non-profit entities.

A Mutual Legal Assistance Treaty and an Extradition Treaty have been in force between Grenada and the United States since 1999. Grenada's cooperation under the MLAT recently has been excellent. Grenada is an active member of the Caribbean Financial Action Task Force (CFATF), underwent a CFATF mutual evaluation in November 1999 and will undergo a Second Round evaluation in March 2004. Grenada is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and is a party to the 1988 UN Drug Convention.

Although Grenada has significantly strengthened its regulation and oversight of its financial sector in 2001 and 2002, it must remain alert to potential abuses and steadfastly implement the laws and regulations it has adopted. The GOG should pass anti-terrorist legislation that criminalizes the financing of terrorists and terrorism and that will provide the authority to identify, freeze and seize terrorist assets. The GOG should continue to expose GIFSA, SA and FIU staff to available training opportunities. The GOG should also continue to enhance its information sharing, particularly with other Caribbean jurisdictions.

Guatemala. Guatemala's location on a major drug transit route and its historic lack of a broad-based antimoney laundering regime make the country vulnerable to money laundering. Officials of 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. Guatemala remains on the Financial Action Task Force's (FATF) list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering.

The Guatemalan financial services industry is comprised of 32 commercial banks, approximately 13 offshore banks, seven money exchangers, 18 insurance companies, 21 financial societies (bank institutions that act as financial intermediaries specializing in investment operations), 32 bonded warehouses, five wire remitters, and 160 cooperatives (similar to credit unions) and 13 fianzas (financial guarantors). The Superintendency of Banks (SIB), which operates under the general direction of the Monetary Board, has oversight and inspection authority over the Bank of Guatemala, as well as over 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.

In June 2001, the Financial Action Task Force (FATF) placed Guatemala on the NCCT list. In its report, the FATF noted: (1) Secrecy provisions in Guatemalan law constitute 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. 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 Superintendency of Banks. The RPDLA, effective May 1, 2001, requires all financial institutions under the oversight and inspection of the Superintendency 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. Also, obligated institutions must identify all customers opening new accounts, and must report customers conducting transactions (cash or other types) of \$5,000 or more a day (or national currency equivalent) 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 \$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 Superintendency of Banks within ten days of detection.

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 Superintendency 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 exchangers. The requirements also apply to off-shore entities that 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 of 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 \$10,000 (or national currency equivalent). For cash transactions in excess of \$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 \$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.

Bearer shares are permitted by non-banks and there is banking secrecy. However, since the passage of the 2001 money laundering legislation, confidentiality or banking secrecy cannot be used to prevent law enforcement officials from obtaining information related to bearer shares or any other financial instruments. It is unclear how the issuers of bear shares will meet the requirements for customer identification under the LAMAL.

The LAMAL obligates offshore or foreign domiciled entities operating in Guatemala to comply with the same anti-money laundering measures (reporting and record keeping requirements) as domestic institutions. In June 2002, Guatemala enacted the Banks and Financial Groups Law (No. 19-2002), which places offshore banks under the oversight of the Superintendent of Banks. However, the LAMAL will not take effect for the offshore entities until June 2003 at the earliest.

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 a memorandum of understanding.

The IVE is operational and has a staff of 24. From January 2002 to October 31, 2002, the IVE received 394 suspicious transactions reports. Financial institutions regularly file suspicious transaction report and, during 2002 the IVE received approximately 102,667 currency transaction reports that were entered into

the unit's database and some led to investigations. The IVE, however, has not been very cooperative with GOG law enforcement entities. In particular, there is reluctance on the part of the IVE and SIB to share information with prosecutors. This disconnect between regulators and prosecutors is probably the biggest impediment for successful money laundering investigations and prosecutions. In fact, over a year after passing the money laundering legislation, only four cases have been forwarded to the Public Ministry for further investigation and prosecution, and there have been no money laundering convictions.

The Public Ministry within the Public Prosecutor's Office against Corruption created the Anti-Money or Other Assets Laundering Unit. This Public Prosecutor's Office processes cases involving money laundering. As of December 9, 2002, ten money laundering cases initiated by the Special Prosecutor's Office had been filed for prosecution in local criminal courts.

The GOG passed reforms to the "narcoactivity" legislation in 1998 to allow the police to use narcotics traffickers' seized assets. The new money laundering legislation allows for 50 percent of the money to be used by the IVE and others involved in combating money laundering. However, the Supreme Court has resisted this, stating that constitutionally the court has the right to all seized assets. This position has never been legally challenged. An additional problem is that the courts do not allow for seized currency to be deposited into accounts. It must be preserved as evidence in its entirety, until the case is finished. In spite of this attitude, the court has made no real effort to use the assets either, with many cars, boats, and planes rusting away and large sums of money held in evidence lockers. There is no central tracking system for seized assets, and it is currently impossible for the GOG to provide an accurate listing of the seized assets in custody.

Guatemala has taken a number of initiatives with regards to terrorist financing. According to the GOG, Article 391 of the Penal Code already sanctions all preparatory acts leading up to a crime, and financing would likely be considered a preparatory act. Technically, both judges and prosecutors could issue a freeze order on terrorist assets, but no test case has validated these procedures. There is no known credible evidence of terrorist financing in Guatemala, and the GOG has been very cooperative in looking for such funds. The GOG is developing legislation against terrorist financing; the inter-agency committee has completed a draft comprehensive counter-terrorism law that includes provisions against terrorist financing. The President has requested that a Spanish legal expert review the proposed legislation before the President presents it to Congress. At the same time, Congress has begun drafting its own legislation specifically to address terrorism financing. This law is intended to function as a complement to the 2001 money laundering law.

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. The GOG signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Guatemala is a member of OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and the Caribbean Financial Action Task Force (CFATF). Guatemala became a party to the UN International Convention for the Suppression of the Financing of Terrorism on February 12, 2002.

The GOG should pass legislation on the financing of terrorists and terrorism and continue efforts to implement the reforms to its anti-money laundering regime. Guatemala should also focus its efforts on boosting its ability to successfully investigate and prosecute money launderers. The biggest hurdle facing Guatemala in the long term may very well be the increasing reach and power of the organized crime organizations that daily utilize corruption, intimidation, and impunity to carry out their illegal business.

Guernsey. The Bailiwick of Guernsey (BOG) covers a number of the Channel Islands (Guernsey, Alderney, Sark, and Herm in order of size and population). The Islands are known as Crown Dependencies because the United Kingdom is responsible for their defense and international relations. However, the BOG is not part of the United Kingdom. Guernsey's parliament legislates in the criminal law field for BOG. Alderney and Sark have their own separate parliaments and civil law systems.

The BOG is a sophisticated offshore financial center and, as such, it continues to be vulnerable to money laundering at the layering and integration stages. Since 1988, the Guernsey Financial Services Commission (the Commission or FSC) has regulated the BOG's financial services businesses. The BOG regulates banks, insurance companies, collective investment schemes, investment firms, fiduciaries, company administrators, and company directors. The BOG does not permit bank accounts to be opened unless there has been a "know your customer" inquiry and verification details are provided. Company incorporation is by act of the Royal Court, which maintains the registry. The court will not permit incorporation unless the Commission and Law Officers of the Crown have given approval.

Guernsey has 70 banks, all of which have offices, records, and a substantial presence on the island. The banks are licensed to conduct business with residents and non-residents alike. There are 579 international insurance companies, and 525 collective investment funds. There are also 19 bureaux de change, which file accounts with the tax authorities. Many are part of a licensed bank, and it is the bank that publishes and files accounts. The Commission conducts regular onsite inspections and analyzes the accounts of all regulated companies.

There are 15,910 companies registered in the BOG. The Commission does not regulate most international business companies (IBCs). Approximately half are owned by non-residents and have exempt tax status. The remainder of the companies are owned by local residents and are trading or private investment companies. Exempt companies do not fall within the standard definition of an IBC. Exempt companies are not prohibited from conducting business in the BOG, but must pay taxes on profits of any business conducted in those islands. Exempt companies must file beneficial ownership information with the Commission. Companies can be incorporated in Guernsey and Alderney, but not Sark, which has no companies legislation. The incorporation of shelf companies, that is using companies that are already in existence to speed incorporation, is not allowed.

In December 2000, the Commission 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 customer identity.

The Proceeds of Crime (Bailiwick of Guernsey) Law 1999 (as amended) is supplemented by the Criminal Justice (Proceeds of Crime) (Bailiwick of Guernsey) Regulations, 2002. These Regulations replaced Regulations enacted in 1999. The legislation criminalizes money laundering on an all crimes basis, except for drug trafficking, which, as noted, is covered by the Drug Trafficking Law 2000. The Proceeds of Crime Law and secondary legislation are supplemented by Guidance Notes on the Prevention of Money Laundering and Countering the Financing of Terrorism. There is no exemption for fiscal offenses. The 1999 Law created a system of suspicious transaction reporting (including tax evasion) to the Guernsey Financial Intelligence Service (FIS). BOG drug trafficking, anti-money laundering, and terrorism laws designate the same foreign countries as the UK to enforce foreign restraint and confiscation orders.

The Drug Trafficking (Bailiwick of Guernsey) Law 2000 consolidated and extended money laundering legislation related to narcotics-trafficking. It introduced the 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 check cashers.

The Criminal Justice (International Cooperation) (Bailiwick of Guernsey) Law, 2000, 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. In cases of serious or complex fraud, Guernsey's Attorney General can provide assistance under the Criminal Justice (Fraud Investigation) (Bailiwick of Guernsey) Law 1991. The Commission also cooperates with regulatory/supervisory and law enforcement bodies. Guernsey is a member of the Offshore Group of Bank Supervisors.

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 Commission created Codes of Practice for Corporate Service Providers, Trust Service Providers, and Company Directors. Under the law, all fiduciaries, corporate service providers, and persons acting as company directors of any business must be licensed by the Commission. In order to be licensed, these agencies must pass strict tests. These include possession of "know your customer" requirements and the identification of clients. These organizations are subject to regular inspection, and failure to comply could result in the fiduciary being prosecuted and/or its license being revoked.

On September 19, 2002, the United States and Guernsey signed a Tax Information Exchange Agreement. The agreement provides for the exchange of information on a variety of tax investigations, paving the way for audits that could uncover tax evasion or money laundering activities.

There has been anti-terrorism legislation covering the BOG since 1974. The Terrorism (Bailiwick of Guernsey) Law, 2002 replaced the 1990 anti-terrorism legislation. The 2002 Law replicates equivalent UK legislation. The provisions of UN Security Council Resolutions 1373 and 1390 were enacted in domestic law on the same days as enacted in the UK. The BOG has requested that the UK Government seek the extension of the BOG of UN International Conventions on the Suppression of the Financing of Terrorism and the UN International Convention for the Suppression of Terrorist Bombing.

The Crown Dependencies Anti-Money Laundering Group is a forum where the Attorney General from the Crown Dependencies, Director General of the regulatory bodies, police, Customs, and the FIUs meet to coordinate the anti-money laundering and anti-terrorism policies and strategy in the Dependencies.

Suspicious transaction reports are filed with the FIS, Guernsey's financial intelligence unit. The FIS is the central point within Guernsey for the gathering, collating, evaluating, and disseminating of all financial crime intelligence. The Guernsey FIS is a member of the Egmont Group.

After extension to the BOG, Guernsey enacted the necessary legislation to implement 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 Psychotropic Substances. The 1988 Agreement Concerning the Investigation of Drug Trafficking Offenses and the Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking, as amended in 1994 was extended to the BOG in 1996.

Guernsey has put in place a comprehensive anti-money laundering regime, and has demonstrated its ongoing commitment to fighting financial crime. BOG officials should continue to carefully monitor its anti-money laundering program to assure its effectiveness, and cooperate with international anti-money laundering authorities.

Guinea. Guinea has an unsophisticated banking system and is not a regional financial center. Banking leaders in Guinea estimate that 70 to 80 percent of business transactions take place in cash. Several expatriate communities in Guinea maintain strong ties to their countries of origin and are sources of international currency transfers. Both formal and informal money transfer services have expanded greatly in Guinea in recent years. Guinea has an active black market for foreign currency—especially euros, U.S. dollars, and CFA francs. Guinea's mining industry leads to an influx of foreign currency. In addition to large mining operations, Guinea has an industry of small-scale, traditional mining. This industry, which deals primarily with diamonds and gold, lends itself to money laundering, as few records are kept and sales are made in cash. In 2002, Guinean police seized over \$1.5 million high-quality counterfeit U.S. currency tied to gold and diamond trade. Some narcotics-trafficking occurs in Guinea.

Section 4 of the Guinean Penal Code criminalizes money laundering related to narcotics-trafficking. Violations are punishable by 10 to 20 years in prison and a fine of \$2,500 to \$50,000. While some commercial banks in Guinea are voluntarily using software or other methods to detect suspicious transactions, no anti-money laundering regime is in place. The Ministry of Finance has approached an

international accounting and consulting firm to assist the Government of Guinea in writing an anti-money laundering law.

No money laundering cases were prosecuted in 2002.

Guinea is a party to the 1988 UN Drug Convention and has signed, but is not yet a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Guinea should enact comprehensive anti-money laundering legislation that criminalizes money laundering and terrorist financing.

Guyana. Guyana is not an important regional financial center. The scale of money laundering, though, is thought to be large given the size of the informal economy, which is estimated to be 30 percent of the size of the formal sector. Money laundering has been linked to trafficking in drugs and firearms, as well as corruption and fraud.

Political instability and an internal security crisis have significantly impaired Guyana's efforts to bolster its anti-money laundering regime. Investigating and trying money laundering cases is not a priority for law enforcement as its attention has been diverted to the internal security crisis. The Government of Guyana (GOG) made no arrests or prosecutions for money laundering in 2001, nor were there any arrests or prosecutions for money laundering or terrorist financing in 2002.

The Money Laundering Prevention Act passed in 2000 is not yet in force, due to the lack of implementing legislation. Crimes covered by the Money Laundering Prevention Act include illicit narcotics-trafficking, illicit trafficking of firearms, extortion, corruption, bribery, fraud, counterfeiting, and forgery. The law also requires that incoming or outgoing funds over \$10,000 be reported. Licensed financial institutions are required to report suspicious transactions, although banks are left to determine thresholds individually according to banking best practices. Suspicious activity reports must be kept for six years. The legislation also includes provisions regarding confidentiality in the reporting process, good faith reporting, penalties for destroying records related to an investigation, asset forfeiture, international cooperation, and extradition for money laundering offenses.

The GOG has not yet established a financial intelligence unit. Currently, the fraud branch of the Guyana Police Force's Criminal Investigation Division is responsible for tracing and seizing assets.

The Ministry of Foreign Affairs and the Bank of Guyana, the country's Central Bank, continue to assist U.S. efforts to combat terrorist financing by working towards coming into compliance with UNSCRs 1333, 1368, and 1373. In December 2001, the bank, the sole financial regulator as designated by the Financial Institutions Act of March 1995, issued orders to all licensed financial institutions expressly instructing the freezing of all financial assets of terrorists, terrorist organizations, individuals and entities associated with terrorists and their organizations. Guyana has no domestic laws authorizing the freezing of terrorist assets, but the government created a special committee on the implementation of UNSCRs, cochaired by the Head of the Presidential Secretariat and the Director General of the Ministry of Foreign Affairs.

Guyana is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and participated in the 2002 round of evaluations of drug strategies. CICAD noted numerous deficiencies in implementation, resources, and political will. Guyana is now also a member of the Caribbean Financial Action Task Force (CFATF), but has not yet undergone a mutual evaluation by that organization. Guyana is a party to the 1988 UN Drug Convention. Guyana has not signed the UN Convention against Transnational Organized Crime, which is not yet in force internationally. It has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

Guyana should create a financial intelligence unit and adopt measures that would allow it to block terrorist assets. As the security situation stabilizes, it should devote more resources to the investigation and prosecution of money laundering.

Haiti. Haiti is not a major regional financial center, and—as investigative and enforcement units are yet to begin to operate—we do not know the extent of money laundering. Given Haiti's dire economic condition low level of financial sector development and unstable political situation, it is doubtful it is of major significance in the formal financial sector. Alleged money laundering activities appear to be related to narcotics (primarily cocaine) proceeds, although there is a significant amount of contraband passing through Haiti. Criminal proceeds are reportedly derived primarily from domestic activity.

While informal and parallel market activity in Haiti is significant and may be partly funded by narcotics proceeds, smuggling is historically prevalent in Haiti pre-dates narcotics-trafficking. Money laundering occurs in the banking system and in the non-bank financial system, including casinos. Further complicating the picture is the cash that is routinely transported to Haiti from Haitians in the United States in the form of remittances. Distinguishing between legal transfers and illegal flows is no easy task. To our knowledge, money laundering proceeds are controlled by local drug-trafficking organizations. There are allegations that senior government officials may profit from the proceeds from illegal drug transactions. There is no indication of terrorist financing. Haiti, however, is used as a stopover by illegal migrants from several countries.

In recent years, Haiti has taken steps to address its money laundering problems. Since August 2000, Haiti, through Central Bank Circular 95, has required banks, exchange brokers, and transfer bureaus to obtain declarations identifying the source of funds exceeding 200,000 gourdes (approximately \$5,200) or its 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 up to 100,000 gourdes (approximately \$2,600) or forfeiture of the license of the bank. Unfortunately, because of widespread official laxity and rampant corruption and the fact that nearly two thirds of Haiti's economy is informal, large amounts of money do not flow through the legitimate financial system that is governed by these regulations.

In April 2001, the Haitian government published the "Law on Money Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses." All financial institutions and natural persons are subject to the money laundering controls established in the new law. The law criminalizes money laundering which it defines as "the conversion or transfer of assets for the purpose of disguising or concealing the illicit origin of those assets or for aiding any person who is involved in the commission of the offense from which the assets are derived to avoid the legal consequences of his acts; the concealment or disguising of the true nature, origin, location, disposition, movement, or ownership of property; and the acquisition, possession or use of property by a person who knows or should know that this property constitutes proceeds of a crime under the terms of this law." The law provides for relatively long prison sentences and large fines totaling millions in gourdes, and applies to a wide range of financial institutions, including banks, money exchangers, casinos, and real estate agents. Insurance companies are not covered, but as yet represent only a nascent industry in Haiti. The money laundering law requires natural persons and legal entities to verify the identity of all clients, record all transactions, including their nature and amount, and submit the information to the Ministry of Economy and Finance.

In 2002, Haiti formed a National Committee to Fight Money Laundering, the Comite National de Lutte Contre le Blanchiment des Avoirs (CNLBA). The CNLBA is in charge of promoting, coordinating, and recommending policies to prevent, detect, and suppress the laundering of assets obtained from the illicit trafficking of drugs and other serious offenses. The CNLBA, through the Financial Intelligence Unit (FIU) or Unite Centrale de Renseignements Financiers (UCREF), is responsible for receiving and analyzing the reports. This information may be exchanged with foreign agencies. Entities or persons are required to report to the UCREF any transaction involving funds that appear to be derived from a crime. Failure to report is punishable by more than three years' imprisonment. Banks are required to maintain records for at least five years and are required to present this information to judicial authorities and financial information service officials upon request. Article 3.4.1 states that bank secrecy or professional secrecy may not be invoked as grounds for refusing to furnish the information required by article 2.27 or requested in the scope of a laundering investigation ordered by the senior judge of the court of first instance or conducted under the authority of an examining magistrate. Articles 4.2.4 and 4.2.5 have "due

diligence" provisions. The national drug control law addresses the issue of international transportation of illegal-source currency.

The law also requires financial institutions to establish money laundering prevention programs and to verify the identity of customers who open an account or conduct transactions that exceed 200,000 gourdes (approximately \$5,200). When stock or currency transactions exceed 200,000 gourdes and are of a suspicious nature, financial institutions are required to investigate the origin of those funds and prepare an internal report. These reports are available (upon request) to the UCREF. The UCREF was created through an August 2000 circular by the Ministries of Justice and Public Security and is mentioned in the 2001 money laundering law.

However, the money laundering commission is not yet fully functional, and no director general of the UCREF has been appointed. Furthermore, the UCREF does not meet the international standards established for FIUs, and the Egmont Group does not recognize the UCREF. Additionally, corruption and the large informal economy have prevented the 2001 anti-money laundering law from being fully implemented and enforced. There have been no arrests or prosecutions for money laundering or terrorism, as the system is not yet effectively operating.

At present, Haiti is considering modifications to the law to strengthen the judicial procedure and asset seizure and forfeit provisions. The senior judge of the court of first instance may order the freezing of funds or accounts for eight days. While assets and businesses can be seized, the government cannot declare them forfeited until there is a conviction, which does not happen often in Haiti. The judicial branch is the deciding organization, but seizures and use of seized assets is on an ad hoc basis.

The money laundering law has provisions for the exchange of records with other countries, but there is no specific agreement with the United States. Haiti cooperated with the United States following the September 11 attacks. The money laundering law provides for investigation and prosecution in all cases of illegally derived money. Under this law, terrorist finance assets may be frozen and seized. The commission printed and circulated to all banks the list of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list. The Central Bank chaired meetings with all bank presidents and requested their cooperation.

Beyond this, Haiti has made little progress in the area of terrorist financing. The government has not passed legislation criminalizing the financing of terrorists and terrorism, nor has it signed the UN International Convention for the Suppression of the Financing of Terrorism. Haiti has signed, but not yet ratified, the UN Convention on Transnational Crime, which is not yet in force internationally. Haiti is also a party to the 1988 UN Drug Convention. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering, and it recently became a member of the Caribbean Financial Action Task Force (CFATF).

The Government of Haiti should criminalize terrorist financing and take steps to implement the 2001 anti-money laundering law. In addition Haiti should take steps to ensure that the UCREF meets Egmont standards. Finally Haiti should take advantage, to the greatest extent possible of any training and technical assistance opportunities offered by the CFATF and/or the Caribbean Anti-Money Laundering Program (CALP).

Honduras. In 2002, there were major developments in the fight against money laundering in Honduras. Following two years of discussion, a new money laundering law was passed creating a Financial Intelligence Unit, expanding the definition of the crime of money laundering, and criminalizing the financing of terrorism.

Honduras is not an important regional financial center and is not considered to have a significant black market for smuggled goods. The vulnerabilities of Honduras to money laundering stem primarily from significant narcotics-trafficking throughout the region. In Honduras, money laundering takes place through the banking sector, and most likely in currency exchange houses, casinos, and front companies as well. Corruption remains a serious problem, particularly within the judiciary and law enforcement sectors.

On February 28, 2002, the National Congress passed long-awaited legislation to widen the definition of money laundering and strengthen enforcement. Prior to the new law, the Honduran anti-money laundering program was based on Law No. 27-98 of December 1997. Law No. 27-98 criminalizes the laundering of narcotics-related proceeds, and introduced customer identification (no anonymous bank accounts were permitted), record keeping (five years) and transaction reporting requirements for financial institutions, including banks, currency exchange houses, money transmitters, and check sellers/cashiers. Financial institutions falling under Law No. 27-98 are required to record currency transactions over \$10,000 into dollar denominated accounts or 500,000 lempiras (\$29,400) in local currency accounts, 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. Per a January 2002 National Banking and Insurance Commission Resolution (No. 012/08-01-2002), the operation of offshore financial institutions is prohibited, but casinos remain unregulated.

Under the new legislation, Decree No. 45-2002, the previous law was expanded to define the crime of money laundering to include any non-economically justified sale or movement of assets, as well as asset transfers connected with trafficking of drugs, arms, and people, auto theft, kidnapping, bank and other forms of financial fraud, and terrorism. The penalty for money laundering is a prison sentence of 15-20 years. Public prosecutors and investigators are permitted to use electronic surveillance techniques to investigate money laundering, and they now have the ability to subpoena data and information directly from banks.

Decree No. 45-2002 also created a financial information unit, the Unidad de Información Financiera (UIF), within the Honduras National Banking and Securities Commission. The Unidad de Información Financiera receives between 2,600 to 2,700 reports per month of transactions over the designated thresholds. As of November 2002, the UIF was also receiving suspicious activity reports. A public prosecutor is assigned full-time to the Unidad de Información Financiera and public prosecutors, under urgent conditions and with special authorization, may subpoena data and information directly from financial institutions. Since passage of the law, the Financial Information Unit has begun investigating approximately 70 cases of possible money laundering activity.

The arrest of the Jimenez drug trafficking cartel in May 2001, on the north coast of Honduras revealed an extensive money laundering operation of both domestic and foreign illicit proceeds. Their operation revealed a variety of criminal activities including narcotics-trafficking, auto theft, kidnappings, bank fraud, smuggling, prostitution and corruption. The Government of Honduras (GOH) cooperates with U.S. investigations and requests for information pursuant to the 1988 UN Drug Convention. Honduras has signed Memoranda of Understanding to exchange information on money laundering investigations with Panama, El Salvador, Guatemala and Colombia. The GOH also adheres to Basel Committee's "Core Principles for Effective Banking Supervision." At the regional level, Honduras is a member of the Central American Council of Bank Superintendents, which meets periodically to exchange information.

The National Congress enacted an asset seizure law in 1993 that subsequent Honduran Supreme Court rulings have substantially weakened. The new money laundering legislation strengthens the asset seizure provisions of Honduran law. According to the law, officials in the Public Ministry will operate a warehouse for seized assets. The implementing regulations governing the operations of the warehouse are still under discussion. Since passage of the law and during the course of investigating cases of suspected money laundering, Honduran officials have frozen two bank accounts worth approximately \$250,000.

The GOH has been supportive of counter-terrorism efforts. The new law states that an asset transfer related to terrorism is a crime. This law does not explicitly grant the GOH the authority to freeze or seize terrorist assets; on separate authority, however, the National Banking and Insurance Commission has issued freeze orders promptly for the organizations and individuals named by the UN 1267 Sanctions

Committee and those organizations and individuals on the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 (on terrorist financing). The Commission reported that, to date, no accounts linked to the entities or individuals on the lists have been found in the Honduran financial system. The Ministry of Foreign Affairs is responsible for instructing the Commission to issue freeze orders. The Commission directs Honduran financial institutions to search for, hold and report on terrorist-linked accounts and transactions, which, if found, are frozen.

Honduran officials are investigating the suspected use of Honduran passports by terrorist networks, as well as allegations of terrorist-related money laundering activity in Honduras. Although the GOH has been working closely with the U.S. Embassy on allegations of terrorist assets in Honduras, the GOH has not yet established a counter-terrorism coordinator.

Honduras is a party to the 1988 UN Drug Convention and has signed, but has not yet ratified, the UN International Convention Against Transnational Organized Crime, which is not yet in force internationally. Honduras is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In October 2002, Honduras became a member of the Caribbean Financial Action Task Force. The GOH has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism and the OAS Inter-American Convention on Terrorism.

The GOH's new legislation has brought significant progress in anti-money laundering efforts. The Unidad de Información Financiera appears to meet many of the expectations for a newly established Financial Intelligence Unit, and Decree 45-2002 has advanced and expanded the criminalization of money laundering and related illicit activities. In the future, the GOH should continue to support and strengthen the developing UIF, and increase efforts to combat terrorist financing.

Hong Kong. Hong Kong is a major international financial center. Its low taxes and simplified tax system, sophisticated banking system, the availability of secretarial services and shell company formation agents, 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 (particularly heroin, methamphetamine, and ecstasy), tax evasion, fraud, illegal gambling and bookmaking, and illegal alien smuggling. Laundering channels include Hong Kong's banking system, and its legitimate and underground remittance and money transfer networks. Hong Kong is substantially in compliance with the Financial Action Task Force's (FATF) Forty Recommendations on Money Laundering and has developed a strong anti-money laundering regime, though improvements should be made. It is a regional leader in anti-money laundering efforts. The Hong Kong government concentrated its 2002 anti-financial crimes efforts on the passage of anti-terrorist financing legislation to fulfill the requirements of United Nations Security Council Resolution (UNSCR) 1373, and FATF's Special Recommendations on Terrorist Financing. As FATF president in the first half of 2002, Hong Kong played an important leadership role and worked energetically to build international support for effective measures to impede terrorist financing.

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 extends to the proceeds of drug-related and other indictable crimes. Money laundering reporting requirements 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 of any amount to the Joint Financial Intelligence Unit (JFIU). Financial regulatory authorities issue anti-money laundering guidelines to institutions under their purview and monitor compliance through on-site inspections and other means. Hong Kong law enforcement agencies provide training and feedback on suspicious transaction reporting.

Financial institutions are required to know and 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. Remittance agents and moneychangers must register their businesses with the police and keep

customer identification and transaction records for cash transactions equal to or over \$2,564 (HKD 20,000). Hong Kong does not require reporting of the movement of currency above a threshold level across its borders or reporting of large currency transactions above a threshold level.

There is no distinction made in Hong Kong between onshore and offshore entities, including banks, and no differential treatment is provided for non-residents, including on taxes, exchange controls, or disclosure of information regarding the beneficial owner of accounts or other legal entities. Hong Kong's financial regulatory regimes are applicable to residents and non-residents alike. The Hong Kong Monetary Authority (HKMA) regulates banks. The Insurance Authority and the Securities and Futures Commission regulate insurance and securities firms, respectively. All three impose licensing requirements and screen 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, acting as company formation agents, to set up shell or nominee entities to conceal ownership of accounts and assets. Hong Kong is a global leader in registering international business companies (IBCs), with nearly 500,000 registered in 2002. Many of the IBCs created in Hong Kong are owned by other IBCs registered in the British Virgin Islands. Many of the IBCs are established with nominee directors. The concealment of the ownership of accounts and assets is ideal for the laundering of funds. Additionally, some banks permit the shell companies to open bank accounts based only on the vouching of the company formation agent. However, 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. 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 narcotics-trafficking may be seized, and a court may order its forfeiture. At the end of 2002, approximately \$153 million was under restraint, \$13.5 million ordered to be confiscated, and \$57 million recovered by the government under DTRoP and OSCO. Hong Kong has shared confiscated assets with the United States.

In July 2002, the legislature passed several amendments to the DTRoP and OSCO to strengthen restraint and confiscation provisions. These changes, which became effective on January 1, 2003, include: no longer requiring actual notice to an absconded offender; requiring the court to fix a period of time in which a defendant is required to pay a confiscation judgment; permitting the court to issue a restraining order against assets upon the arrest (rather than charging) of a person; requiring the holder of property to produce documents and otherwise assist the government in assessing the value of the property; and creating an assumption under the DTRoP, to be consistent with OSCO, that property held within six years of the period of the violation, by a person convicted of drug money laundering, is proceeds from that money laundering. The government was unsuccessful in persuading the Hong Kong legislature to enact provisions aimed at improving the chances of obtaining successful prosecutions by reducing the evidentiary threshold for money laundering offenses and suspicious transaction reporting. Opposition to such provisions remains strong among the accounting and legal sectors, and also among legislators concerned that the lowered evidentiary threshold might lead to conviction of innocent persons.

As of the end of October 2002, the banking, securities, and insurance industries filed 8723, 44, and 62 suspicious transaction reports, respectively. The total number of reports in this 10-month period far exceeds the number for all of 2001, and can be attributed to the heightened attention to money laundering and terrorist financing in the aftermath of the September 11, 2001 events. From January through December 2002, there were 22 prosecutions and 12 convictions for money laundering offenses. In a notable case involving cooperation with the FBI and Canadian police, two money launderers pleaded guilty in September 2002 to a charge of laundering \$22 million. The Hong Kong government reported no particular increase in financial crimes during 2002, nor has it found evidence to indicate that narcotics proceeds are being used to fund smuggling activities.

In July 2002, Hong Kong's legislature passed the United Nations (Anti-Terrorism Measures) Ordinance that criminalizes the supply of funds to terrorists. This legislation was designed to bring Hong Kong into

compliance with UNSCR 1373 and FATF's Special Recommendations on Terrorist Financing. Hong Kong must still pass some additional subsidiary legislation, to be considered during the 2002-2003 legislative session, to implement fully certain provisions of this law. Among these are provisions that will set out the specific methods by which the government will be able to freeze terrorist funds.

Hong Kong's financial regulatory authorities have directed the institutions they supervise to conduct record searches for terrorist assets using U.S. Executive Order 13224 and United Nations lists. No terrorist assets have been found. The Hong Kong government intends to submit during the 2002-2003 legislative session new legislation to implement the UN International Convention for the Suppression of the Financing of Terrorism, which the People's Republic of China (PRC) has signed, but not yet ratified. The Hong Kong government will implement the "best practices" adopted by FATF at its October 2002 Plenary to prevent the misuse of charities and non-profit entities for terrorist financing.

At the October 2002 meeting of the Asia/Pacific Group on Money Laundering (APG), the Hong Kong delegation noted that underground banking and remittance agents remain major mechanisms through which criminals transfer proceeds of crimes across borders. Another major area of concern is the laundering of criminal proceeds by non-financial services professionals.

Through the PRC, Hong Kong is subject to the 1988 UN Drug Convention. It is an active member of the FATF and Offshore Group of Banking Supervisors and also a founding member of the APG. Hong Kong's banking supervisory framework is in line with the requirements of the Basel Committee on Banking Supervision's "Core Principles for Effective Banking Supervision." Hong Kong's JFIU is a member of the Egmont Group and is able to share information with its international counterparts.

Hong Kong cooperates closely with foreign jurisdictions in combating money laundering. Hong Kong's mutual legal assistance agreements provide for the exchange of information for all serious crimes, including money laundering, and for asset tracing, seizure, and sharing. Hong Kong signed and ratified a mutual legal assistance agreement with the United States that came into force in January 2000. It also has in force mutual legal assistance agreements with seven other jurisdictions: Australia, France, the United Kingdom, New Zealand, the Republic of Korea, Switzerland, and Canada. It has signed mutual legal assistance agreements with 5 other jurisdictions: Italy, the Philippines, Portugal, Ireland and the Netherlands.

Hong Kong authorities exchange information on an informal basis with overseas counterparts, with Interpol, and with Hong Kong-based liaison officers of overseas law enforcement agencies. 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 HKMA has entered into memoranda of understanding with overseas supervisory authorities of banks for the exchange of supervisory information and cooperation, including on-site examinations of banks operating in the host country.

Hong Kong should strengthen its anti-money laundering regime by establishing threshold reporting requirements for currency transactions and putting into place "structuring" provisions to counter evasion efforts. Hong Kong should also 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. Hong Kong should also take steps to thwart the use of "shell" companies, IBCs, and other mechanisms that conceal the beneficial ownership of accounts by more closely regulating corporate formation agents.

Hungary. Hungary has a pivotal location in Central Europe, with a well-developed financial services industry. Criminal organizations from Russia and other countries are entrenched in Hungary. The economy is heavily cash-based.

Money laundering related to all serious crimes is a criminal offense in Hungary. The cross-border movement of cash greater than one million forints (approximately \$4,000) must be declared to the customs authority, which immediately forwards it to Hungary's Financial Intelligence Unit, the Anti-

Money Laundering Section (AMLS). Reporting and record keeping requirements, internal control procedures, and customer identification practices are required for a broad range of financial institutions. Banks, insurance companies, securities brokers and dealers, investment fund management companies, and currency exchange houses must file suspicious transaction reports (STRs). That requirement must now be met by other classes of professionals, including attorneys, antique dealers, casinos, tax consultants, real estate sales people, and accountants. Due diligence regarding the identification of beneficial owners must be exercised.

Hungary's financial regulatory body, the Hungarian Financial Supervisory Authority (PSzAF), oversees about 2,000 institutions. In 2002, PSzAF decided to increase oversight over the currency exchange sector by forcing money changers without an agreement with a commercial bank to cease operations on July 1, 2002. PSzAF supervises the financial sector, including compliance with anti-money laundering requirements. PSzAF has authority to conduct money laundering inspections and to impose sanctions upon noncompliant institutions. In the past two years, PSzAF has levied fines ranging from 100,000-3 million forints (\$400-13,000) on four occasions, and forced one bank to introduce compliance internal control systems. Most fines were due to deficiencies in customer identification and registration procedures, but in four cases criminal investigations were launched for failure to file STRs.

In June of 2001, the FATF placed Hungary on the list of Non-Cooperative Countries and Territories (NCCT) 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 as a deficiency the fact that Hungarian financial institutions failed to collect information concerning the beneficial owners of accounts. The U.S. Treasury issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all financial transactions involving Hungary. As a result of actions taken by Hungary in 2001 and 2002 to correct those deficiencies, FATF removed Hungary from the NCCT list and the U.S. advisory was lifted.

In November of 2001, the Hungarian Parliament approved Parliamentary Resolution 61/2001 (IX.24) on Hungary's contribution to Operation Infinite Justice, Parliamentary Resolution 62/2001 (IX.25) on foreign and security policy measures undertaken by Hungary following the terrorist attacks on the United States, and Bill No. T/5216 on counter-terrorism and money laundering. The latter was passed on November 27, 2001, and authorizes economic and other sanctions against countries, their commercial enterprises, and their citizens involved in terrorism. It also empowers the Government of Hungary (GOH) to immediately impose further restrictions on the basis of UN Security Council resolutions or positions held by the Council of Europe, and eliminates legal ambiguities concerning the search for and seizure of terrorist assets.

As of January 1, 2002, all anonymous passbook accounts were to be phased out. Now, savings deposits may only be placed or accepted on a registered basis by identifying both the depositor and the beneficiary. By September 2002, 80 percent of the funds that were deposited in passbook accounts were converted into identified deposits. The GOH concentrated on the accounts with the largest deposits during the first six months of 2002. After July 1, 2002, any conversion of anonymous passbooks holding more than 2 million forints (approximately \$8,800) was automatically forwarded to the AMLS. After December 31, 2004, conversion of any remaining accounts will need written permission from the AMLS.

Also, as of January 1, 2002, only credit institutions and their agents may be authorized by the PSzAF to offer currency exchange services, and as of January 2003, currency exchange activities will be licensed and supervised by the HFSA. Under new regulations, managers and employees of bureaux de change are subject to enhanced scrutiny, including a criminal background check. Some of this enhanced scrutiny will be conducted by the AMLS. In addition, the exchange services have to carry out a legally required identification procedure and to file an STR with AMLS for any currency exchange transaction meeting or exceeding 300,000 forints (approximately \$1,300). The bureaux also are required to have in operation video surveillance systems in their offices to record currency exchange activities.

In January 2002, the GOH created the Commission for Anti-Money Laundering Policy to better implement and coordinate efforts to improve Hungary's anti-money laundering regime. The Commission is particularly important with regard to combating terrorism, because of its ability to respond quickly and effectively to international requests to identify and freeze assets of terrorists.

In April 2002, Section 303 of the Penal Code on Money Laundering was amended to include the laundering of one's own proceeds, laundering through negligence, and conspiracy to commit money laundering, as punishable offenses. The GOH has also adopted a new Government Decree to further strengthen the AMLS and tighten anti-money laundering provisions.

A recent reorganization has placed the AMLS in the Directorate against Organized Crime—ORFK (SZBI). As a police unit, the AMLS also investigates cases. The AMLS has considerable authority to request and release information, nationally and internationally, related to money laundering investigations. Staffing at the AMLS has increased in the past year in order to be able to deal with the rapid increase in the number of STRs received by the expanded range of reporting institutions. AMLS staff members, along with PSzAF employees, are involved in training and raising awareness of employees within the obligated institutions, as well as of members of the general public.

The AMLS also carries out intelligence activity regarding terrorism financing, by way of receiving disclosures from institutions, information exchange with foreign counterparts, and examination and provision to relevant authorities of the lists of persons and organizations related to terrorism issued by the United States, the UN 1267 Sanctions Committee, and the EU Council. Thus far, no such accounts or transactions have been identified, but the GOH authorities state that they are prepared to freeze any such accounts in the future.

Hungary also established in 2000 a criminal investigation bureau within the Tax and Financial Inspection Service, to help spur tax and money laundering prosecutions. Based on information derived from STRs, the GOH has initiated five money laundering investigations in 2002, covering about five billion forints (approximately \$22 million). Two individuals were apprehended and arrested, and the GOH has issued warrants of arrest for others. Recent legislative changes, including one that clarifies that money laundering convictions can be obtained without conviction on the predicate offense, may well increase the number of money laundering prosecutions and convictions.

Hungary has an offshore market 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 18 percent.

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. The AMLS has been a member of the Egmont Group since 1998.

Hungary is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV) and underwent a mutual evaluation in 1998. Hungary is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Hungary became a party to the UN International Convention for the Suppression of the Financing of Terrorism in October 2002.

Hungary should criminalize terrorist financing. Hungary should also move forward to implement effectively its new legislation so that its anti-money laundering regime comports with 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. Banks record the name of every customer who seeks to buy or sell foreign currency. All records necessary to reconstruct significant transactions are maintained for at least seven years. Employees of financial institutions are protected from civil or criminal liability for reporting suspicious transactions.

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 party to several multilateral conventions on terrorism and rules of territorial jurisdiction, including the 1977 European Convention on the Suppression of Terrorism. In October 2001, Iceland ratified the UN International Convention for the Suppression of Terrorist Bombings, and on April 15, 2002, ratified the UN International Convention for the Suppression of the Financing of Terrorism. The government formally enacted financial freeze orders against individuals and entities on the UNSCR 1267/1390 consolidated list of terrorists. The Parliament of Iceland passed comprehensive domestic legislation that specifically criminalizes terrorism and terrorist acts and requires the reporting of suspected terrorist-linked assets and transactions involving possible terrorist operations or organizations.

Iceland 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. Iceland has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Iceland is a member of FATF, and its Financial Intelligence Unit is a member of the Egmont Group.

India. As a growing regional financial center, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics-trafficking, trade in illegal gems, smuggling (including alien smuggling), corruption, and terrorism. Large portions of these illegal proceeds are laundered through the alternative remittance system called "hawala" or "hundi" (estimated to account for up to 30 percent of India's GNP). Under this system, individuals transfer funds or other items of value from one country to another, often without the actual movement of currency. The system provides anonymity and security; permits individuals to convert currency into other currencies; and lets them convert heroin, gold, or trade items into currency. All of this activity can be accomplished with little or no documentation. Historically, gold has been one of the most important instruments involved in Indian hawala transactions. There is a widespread cultural demand for gold in the region. In recent years, the Indian diamond trade has also been increasingly important in providing counter-valuation or a method of "balancing the books" in external hawala transactions. Invoice manipulation, for example, inaccurately reflecting the value of a good sold on the invoice, is also pervasive and is used extensively to both avoid Customs duties and taxes and launder illicit proceeds through trade-based money laundering. Income tax evasion is widespread in all sectors of the economy and is a direct component of the widespread use of hawala.

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 (NDPS) of 1985, as amended in 2000, calls for the tracing and forfeiture of assets that have been acquired through narcotics-trafficking and prohibits attempts to transfer and conceal those assets. However, punishment under NDPS is minimal and no cases have been prosecuted to date.

The Foreign Exchange Regulation Act (FERA) is one of India's primary tools for fighting money laundering. Its objectives include the establishment of controls over foreign exchange, the prevention of capital flight, and the maintenance of external solvency. Perversely, efforts to prevent capital flight and the

imposition of foreign exchange controls encourage the widespread use of hawala the GOI is trying to prevent. 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 (RBI), India's Central Bank, still plays an active role in the regulation and supervision of foreign exchange transactions, and hawala transactions continue to be illegal. During 2002, RBI became more receptive to anti-money laundering initiatives, especially those related to terrorist financing, and set up a special unit to provide anti-money laundering guidance to the Ministry of Finance. RBI recently worked with the police in the state of Kashmir to provide financial information in relation to a fraud case. Also in 2002, the Government of India (GOI) formed a high-level inter-ministerial group to coordinate all anti-money laundering and terrorist financing issues. The group includes representatives from the regulatory, law enforcement, and intelligence communities.

On November 27, 2002, the lower house of Parliament finally passed the Prevention of Money Laundering Bill, which had first been introduced in 1998. The bill was amended in August 2002 by the upper house to include terrorist financing provisions. The law was signed by India's President in January, 2003. This legislation criminalizes money laundering, establishes fines and sentences for money laundering offenses, imposes reporting and record keeping requirements on financial institutions, provides for the seizure and confiscation of criminal proceeds, and creates a financial intelligence unit (FIU) that will be part of the Ministry of Finance.

There have been a number of informal actions taken by individual banking institutions to combat money laundering. Bank tellers and operators are encouraged to utilize the "know your customer" rule. The Indian Bankers Association established a working group to develop self-regulatory anti-money laundering procedures. 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 the equivalent of \$10,000. Finally, banks have the authority to freeze assets in accounts when there is suspicious activity.

Until the GOI establishes the FIU provided for in its new legislation, the Central Economic Intelligence Unit (CEIB) will continue to serve as the GOI'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 not have an offshore financial center but 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 percent by individuals of Indian nationality or origin resident outside India as also overseas trusts in which at least 60 percent 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 percent. 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 1988 UN 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 the U.S. Senate ratified in November 2002. 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 became a signatory to the UN International Convention for the Suppression of the Financing of Terrorism on September 8, 2000, but has not become a party to the Convention. The Government of India maintains tight controls over charities, which are required to register with the RBI. In April 2002, the Indian Parliament passed the Prevention of Terrorism Act, which criminalizes terrorist financing. However, terrorism financing in India, as well as the entire sub-continent, is directly linked to the use of hawala.

India should cooperate fully with international initiatives to provide increased transparency in hawala and, in particular, should increase law enforcement actions to counteract all forms of "black" hawala. Indian involvement in the underworld of the international diamond trade should be examined. India has indicated its interest in joining the FATF and the Egmont Group. Enactment of its anti-money laundering bill is a necessary first step in this direction. The task now is to implement the law effectively and to quickly set up the FIU in order to enhance information sharing with its counterparts around the world. Meaningful tax reform will also assist in negating the popularity of hawala and lessen money laundering. Increased enforcement action should also be taken to combat invoice manipulation and trade-based money laundering.

Indonesia. Indonesia. Although not a regional financial center, Indonesia has a financial system prone to money laundering: weak bank supervision, nascent anti-money laundering laws and regulations, lack of effective law enforcement, growing narcotics abuse and widespread corruption. Transparency International ranked Indonesia as the sixth most corrupt country of the 102 countries examined. Indonesia's banking sector has not yet recovered from the Asian financial crisis of 1997-99 that led to a massive outflow of capital and a cascade of bank failures.

Most laundered money derives from non-drug criminal activity such as gambling, prostitution, bank fraud or corruption. Indonesia also has a long history of smuggling facilitated by thousands of miles of unpatrolled coastline and a law enforcement system riddled with corruption. The proceeds of these activities are then parked offshore and only repatriated as required for commercial and personal needs.

The Financial Action Task Force (FATF) included Indonesia in the list of Non-Cooperating Countries and Territories (NCCT) at its June 2001 plenary. The designation was based on: Indonesia's lack of a basic set of anti-money laundering provisions; money laundering was not a criminal offense; there was no reporting of suspicious transactions to a Financial Intelligence Unit (FIU); and recently-introduced customer identification requirements only applied to banks. The U.S. Treasury Department issued an Advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Indonesia. FATF has set a deadline of February 2003 for Indonesia to make progress on identified areas or face the possibility of FATF recommending that its members impose countermeasures.

Until recently, banks and other financial institutions did not routinely question the source of funds or require identification of depositors or beneficial owners. Financial reporting requirements were put in place only in the wake of the financial crisis when the Government of Indonesia (GOI) was interested in controlling capital flight and recovering foreign assets of large-scale corporate debtors or alleged corrupt officials.

In April 2002, Indonesia passed Law No. 15 of 2002 on Criminal Acts of Money Laundering, which made money laundering a criminal offense. The law identifies 15 predicate offenses related to money laundering, including narcotics-trafficking and most major crimes. The law provides for the establishment of a FIU, the Center for Reporting and Analysis of Financial Transactions (PPATK), to develop policy and regulations to combat money laundering. The PPATK will also collect and analyze data and financial reports to assist police and prosecutors on cases. The PPATK was established in December 2002 and expects to be fully functional by mid-2003.

Bank Indonesia (BI), the Indonesian Central Bank, issued Regulation No. 3/10/PBI/2001, "The Application of Know Your Customer Principles" on June 18, 2001. This regulation requires banks to obtain information on prospective customers, including third party beneficial owners, and to verify the

identity of all owners, with personal interviews if necessary. The regulation also requires banks to establish special monitoring units and appoint compliance officers responsible for implementation of the new rules and to maintain adequate information systems to comply with the law. Finally the regulation requires banks to analyze and monitor customer transactions and report to BI within seven days any "suspicious transactions" in excess of Rp 100,000,000 (approximately \$11,000). The regulation defines suspicious transactions according to a 39-point matrix that includes key indicators such as unusual cash transactions, unusual ownership patterns, or unexplained changes in transactional behavior. BI specifically requires banks to treat as suspicious any transactions to or from countries "connected with the production, processing and/or market for drugs or terrorism."

Separately, banks must report all foreign exchange transactions and foreign obligations to BI. Individuals who import or export more than Rp. 5 million (\$550) in cash must report such transactions to Customs. The import or export of more than Rp 10,000,000 (\$1,100) in cash requires permission from BI. However, BI imposed these requirements for balance of payments purposes, not for anti-money laundering enforcement, and it is not certain that such reports would be available to money laundering investigators. The PPATK is currently drafting presidential decrees that would protect reporting individuals and witnesses who cooperate with law enforcement entities on money laundering cases.

Indonesia has strong bank secrecy laws that prohibit banks from releasing information concerning depositors or their accounts except in specific and limited cases related to tax or criminal investigations. At the request of the Minister of Finance, BI may order banks, in writing, to provide information to tax authorities. In criminal cases, BI may give permission to police, prosecutors, or judges to obtain information from banks on an individual who has been named as a suspect or indicted; banks must comply. The Capital Markets Act 8/1995 imposes somewhat less strict secrecy requirements on securities and investment companies and empowers the Chairman of the Capital Market Supervisory Board to order the release of information in criminal cases. Under the Anti-Money Laundering (AML) Law, in cases of suspected money laundering, bank secrecy laws do not apply to the data collection and analysis functions of the PPATK or to police and prosecutor investigations.

Indonesia's laws provide only limited authority to block or seize assets. Under BI regulations 2/19/PBI/2000, police, prosecutors or judges may order the seizure of assets of individuals or entities that have either been declared suspects, or indicted for a crime. This does not require the permission of BI, but, in practice, for law enforcement agencies to identify such assets held in Indonesian banks, BI's permission would be required. In the case of money laundering as the suspected crime, however, bank secrecy laws would not apply according to the anti-money laundering law.

The October 18, 2002 emergency anti-terrorism regulations, the Government Regulations in Lieu of Law of the Republic of Indonesia No. 1 of 2002 on Eradication of Terrorism (Perpu), criminalizes terrorism and provides the legal basis for the GOI to act against terrorists, including the tracking and freezing of assets. The Perpu provides a minimum of three years and a maximum of 15 years imprisonment for anyone who is convicted of intentionally providing or collecting funds, which are known to be used partly or wholly for acts of terrorism. The AML Law focuses on "proceeds" gained from a list of crimes including narcotics, trafficking in persons, illegal arms sales, smuggling of goods, and terrorism among others. The AML Law criminalizes the laundering of proceeds of crimes, but it is unclear to what extent terrorism generates proceeds. Policy makers are currently drafting clarifying amendments.

The GOI has the authority to trace and freeze assets of individuals or entities designated by the UN 1267 Sanctions Committee, and has circulated the UN 1267 Sanctions Committee's consolidated list to all banks operating in Indonesia, with instructions to freeze any such accounts. The interagency process to issue freeze orders, which includes the Foreign Ministry, Attorney General, and BI, takes several weeks from UN designation to bank notification. The GOI, to date, reports that it has not found any terrorist assets.

The GOI has not taken into account alternative remittance systems or charitable or non-profit entities in its strategy to combat terrorist finance and money laundering. The PPATK, however, is working on draft regulations under the AML Law to cover the securities and insurance markets.

Indonesia is a member of the Asia/Pacific Group on Money Laundering. Indonesia is seeking membership in the Bank for International Settlements, and has established a working group to prepare for membership. This implies endorsement of the Basel Committee's "Core Principles for Effective Banking Supervision," that BI claims it follows voluntarily. The GOI is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Indonesia has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Indonesia does not have any bilateral agreements allowing for on-site examinations of foreign banks by home country supervisors, nor does it have specific agreements for international exchange of information on money laundering. However, BI asserts that, in principle, it would not object to on-site supervision by host country authorities and would deal with requests for exchange of information on money laundering cases on an ad-hoc basis, in accordance with existing criminal law. Bank secrecy laws may, however, hinder effective information exchange. The AML Law contains a specific provision (Article 44) authorizing bilateral and multilateral cooperation "in the context of an inquiry, investigations, or prosecution before a court of law."

The Indonesia National Police has cooperated with Australian Federal Police and FBI on the October 12, 2002 Bali Bombing Investigation and has subsequently expressed interest in future cooperative efforts.

The GOI should move aggressively to remedy the deficiencies identified in the FATF review process. In particular, it should lower the \$53,000 threshold at which funds are considered to be proceeds from a criminal act; expand customer identification and reporting requirements to additional types of entities, including non-bank financial institutions; and provide legislative protection for individuals who report suspicious transactions. The GOI should also lower the existing threshold of \$55,000 for currency transaction reporting. Additionally, the GOI should issue regulations to bolster its new anti-money laundering legislation, and should implement and enforce those new laws that comport with international standards.

Iran. The Department of State has designated Iran as a State Sponsor of Terrorism. Iran is not a regional financial center. The Minister of Economic Affairs and Finance submitted a bill governing money laundering countermeasures to the Iranian parliament in October 2002. The bill provides for the seizure and forfeiture of properties related to money laundering. A special Council composed of applicable ministers and the Governor of the Central Bank has also been formed to consider necessary powers for the Government of Iran (GOI) to fight economic crimes. On December 26, 2001, Bank Karafarin received a license from the Central Bank and became the first private bank to operate in Iran in 23 years.

Iran has a robust underground economy and the use of alternative remittance systems to launder money is widespread. The draft money laundering legislation is designed—in part—to help prevent underground economic activities. For example, Iran's real estate market is used to launder money. Real estate transactions take place in Iran, but often no funds change hands there; rather, payment is made overseas. This is typically 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. Hawala is also used to transfer value to and from Iran. Factors contributing to the widespread use of hawala are currency exchange restrictions and the large number of Iranian expatriates. The smuggling of goods into Afghanistan from Iran is also involved with the barter trade for narcotics and trade-based money laundering. Goods purchased in Dubai are sent to the port of Bandar Abbas in Iran and then via land routes to other markets in Afghanistan and Pakistan. The goods imported into Iran and sent into Afghanistan are often part of the Afghan Transit Trade. However, many of these goods are eventually found on the regional black markets.

Iran is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. There is no law against terrorist financing.

Ireland. The primary sources of funds laundered in Ireland are derived from narcotics-trafficking, fraud and tax offenses. Money laundering occurs in financial institutions and the bureaux de change. Additionally, investigations in Ireland indicate that professionals continue to specialize in the creation of legal entities as a means of laundering money. Trusts are also established as a means of transferring funds from the country of origin to "offshore" locations. It is 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.

Money laundering relating to narcotics-trafficking and other offenses was criminalized in 1994. Financial institutions (banks, building societies, the Post Office, stockbrokers, credit unions, bureaux de change, life insurance companies, and insurance brokers) are required to report suspicious transactions and currency transactions exceeding approximately \$15,000, implement customer identification procedures, and retain records of financial transactions. Under certain circumstances, the High Court can order a freeze, and where appropriate, seize the proceeds of crimes. The exchange of information between police and the Revenue Commissioners, where criminal activity is suspected, is authorized.

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 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 (Company Act), 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 Company Act. The changes are directed at ensuring a greater measure of compliance, following the disclosure of major lapses in connection with a range of inquiries in recent years. Under the new law, the beneficial director of a company will have to be named. The Company Act will require all newly registered Irish companies to engage, in part, in business dealings within the State. It will also require that either the company's director be a resident of Ireland, or the company must post a bond 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.

The GOI introduced new legislation targeting fundraisers 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 the courts to freeze large sums of cash where certain evidentiary requirements are met. In 2002, Irish authorities identified and froze the terrorist-related assets in several accounts.

A money laundering investigation concerning a bureau de change operation uncovered evidence of the laundering of terrorist funds derived from international smuggling. Substantial cash payments into the bureau de change were not reflected in the principal books, records, and bank account. The bureau de change held a large cash reserve that was drawn upon when necessary by members of the terrorist organization. The bureau de change would remit payments from its legitimate bank account to entities in other jurisdictions, on behalf of the terrorist organization.

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. Ireland 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.

The Suspicious Transaction Reports filed by financial institutions have increased over the past four years from 1,421 reports filed in 1999 to 3,725 filed in 2002 (through October 31). Investigations of money laundering cases have increased from 1,520 in 1999 to 4,170 in 2002 (through October 31). Convictions for money laundering offenses under the Criminal Justice Act totaled 7 in 1999, 10 in 2000, 4 in 2001 and 2 in 2002 (through October 31). A conviction on charges of money laundering carries a maximum penalty of 14 years' imprisonment and an unlimited fine.

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.

In January of 2001, Ireland and the United States signed a Mutual Legal Assistance in Criminal Matters Treaty (MLAT); however, it is not yet in force. An extradition treaty between Ireland and the United States is already in force. Ireland is a member of the Council of Europe and FATF. Ireland is a signatory to the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Ireland has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Expeditious implementation of Ireland's new anti-money laundering laws, and stringent enforcement of all such initiatives, will ensure that Ireland maintains an effective anti-money laundering program. The GOI should require that the beneficial owners of all shell companies licensed prior to the passage of the 2001 Company Law Enforcement Act be identified or disbanded.

Isle of Man. The Isle of Man (IOM) is a Crown Dependency of the United Kingdom located in the Irish Sea. Its large and sophisticated financial center is potentially very vulnerable to money laundering at the layering and integration stages.

As of June 30, 2002, the IOM's financial industry consists of approximately 17 life insurance companies; 22 insurance managers; more than 160 captive insurance companies; more than 14.7 billion pounds (approximately, \$24.1 billion) in life insurance funds under management; 59 licensed banks and two licensed building societies; 80 investment business license holders; 27.2 billion pounds (approximately, \$44.6 billion in bank deposits); and 128 collective investment schemes with 5.2 billion pounds (approximately, \$8.5 billion) of funds under management. There are also 124 licensed corporate service providers, with approximately another 65 seeking licenses.

The Financial Supervision Commission (FSC) and the Insurance and Pension Authority (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 regulators hold regular seminars and additional workshop training sessions in partnership with the Financial Crime Unit (FCU) and the Isle of Man Customs and Excise.

Money laundering related to narcotics-trafficking was criminalized in 1987. The Prevention of Terrorism Act 1990 made it an offense to contribute to terrorist organizations, or to assist a terrorist organization in the retention or control of terrorist funds. In 1998 money laundering arising from all serious crimes was criminalized. Financial institutions such as banks, fund managers, stockbrokers, insurance companies, are required to report suspicious transactions. In addition, financial businesses such as lawyers, registered legal practitioners, accountants holding or handling clients' funds, corporate service providers, and trust service providers are obligated to know their customer.

In December 2000, the 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 coordinated approach on anti-money laundering. Among other issues, the consultation paper proposes that every institution would have to check its whole book of business to determine that it has sufficient information available to prove customer identity.

An update to this consultation paper was issued in February 2002. It will be necessary to amend regulatory guidance to give effect to the Overriding Principles, and the consultation process to achieve this will commence early in 2003.

The IPA, as regulator of the IOM's insurance and pensions business, also issues Anti-Money Laundering Standards for Insurance Businesses (the "Standards"), which are binding upon the industry and which include the Overriding Principles. The Overriding Principles have been revised in a manner suitable for their implementation by insurance companies. This includes, similarly, a requirement that all insurance businesses check their whole book of businesses to determine that they have sufficient information available to prove customer identity.

The current set of Standards became effective February 1, 2002, and was amended to include wire transfers in June 2002. The insurance industry is currently working towards the implementation of a revised set of Standards, which must be fully operational by March 31, 2003.

The Criminal Justice Act, which was adopted/amended, in 2001 extends the power to freeze and confiscate assets to a wider range of 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. The law also addresses the disclosure of a suspicion of money laundering. It is now an offense to fail to make a disclosure of suspicion of money laundering for all predicate crimes, whereas previously this just applied to drug and terrorism related crimes. The law also lowers the standard for seizing cash from "reasonable grounds" to believe that it was related to drug or terrorism crimes to a suspicion of any criminal conduct.

The IOM has also introduced the Customs and Excise (Amendment) Act 2001, which gives various law enforcement and statutory bodies within the Island the ability to exchange information, where such information would assist them in discharging their functions. The Act also permits Customs and Excise to release information it holds to any agency within or outside the Island for the purposes of any criminal investigation and proceeding. Such exchanges can be either spontaneous or by request.

As a result of the terrorist events in the United States on September 11, 2001, the Government of the IOM drafted the Anti-Terrorism and Crime Bill 2002. The purpose of the bill is to enhance reporting, by making it an offense not to report suspicious transactions relating to money intended to finance terrorism. The IOM statute will become effective during 2003.

The IOM has also adopted (United Nations Measures) Order 2001, with the purpose of implementing UNSCR 1373, by providing for the freezing of terrorist funds, as well as creating a criminal offense with respect to facilitators of terrorism or its financing. The FSC's anti-money laundering guidance notes have been revised to include information relevant to terrorist events. The Guidance Notes were issued in December 2001.

Additionally, the Island has introduced the Online Gambling Regulation Act 2001 and an accompanying AML (Online Gambling) Code 2002. The Act and the Code are supplemented by regulations issued by the Gambling Control Commission, which provides more detailed guidance on the prevention of money laundering through the use of online gambling.

Suspicious transactions reports are reported to the FCU, which also has the role of being the IOM's Financial Intelligence Unit (FIU).

In August 2002, new regulations were introduced that require money service businesses (MSBs), such as exchange bureaux and money transmitters, to register with Customs and Excise. The regulation has the

effect of implementing the 1991 EU Directive on Money Laundering (Directive 91/308/EEC on the prevention of the use of the financial system for the purpose of money laundering, as revised by Directive 2001/97/EC) in relation to MSB, and provides for supervision of them by Customs and Excise to ensure compliance with the AML Codes.

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 matters relating to customer identification and companies' issues. The IOM is also a member of the International Association of Insurance Supervisors and the Offshore Group of Insurance Supervisors. The FIU belongs to the Egmont Group.

The IOM has developed a relatively comprehensive anti-money laundering program, and should continue its commitment to combating financial crime. IOM officials should continue to closely monitor its anti-money laundering program to assure its effectiveness, and IOM authorities should work with international anti-money laundering authorities to deter financial crime and the financing of terrorism and terrorists.

Israel. The Government of Israel (GOI) has made substantial progress enacting anti-money laundering legislation to support its efforts to strengthen its anti-money laundering regime, which resulted in the 2002 removal of Israel from the Financial Action Task's list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering.

Israel enacted the "Prohibition on Money Laundering Law" (PMLL), on August 8, 2000. The PMLL established a legal framework for an anti-money laundering system, but required the passage of several implementing regulations before the law could fully take effect. In November 2000, Israel enacted an implementing regulation called for by the PMLL. The "Prohibition on Money Laundering (Reporting to Police)" regulation established mechanisms for reporting to the police transactions involving property that was used to commit a crime or that represents the proceeds of crime.

Israel continued its efforts to reform its anti-money laundering system, and 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 not declared, whichever is greater. Additional regulations passed in 2001 addressed financial sanctions for covered institutions that fail to comply with their obligations under the PMLL, including requirements for customer identification, record keeping, and reporting of irregular transactions upon their respective financial sectors.

The PMLL criminalizes money laundering and notes more than 18 serious crimes as predicate offenses for money laundering. These specified unlawful activities for money laundering are 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 Financial Intelligence Unit.

Under the PMLL, money laundering offenses are punishable by up to ten-years' imprisonment and heavy fines. In 2002, the Government of Israel reported that there were 18 money laundering cases that had reached various stages of investigation and/or adjudication. Five cases yielded indictments; one case is under consideration by the district prosecutor; one case is completed; one case ended with the deportation of the suspect; and ten cases are in various stages of investigation. In 2002, the government seized

approximately \$19.1 million in illicit assets, of which approximately \$15 million were seized within the framework of money laundering cases.

In February 2002, Israel's FIU, the Israeli Money-laundering Prohibition Authority (IMPA), began operations. The IMPA has received over 100,000 currency transaction reports (CTRs) and 407 suspicious transaction reports (STR) since becoming operational. Banks, portfolio managers, stock exchange members, currency service providers, customs, the postal bank, insurance providers, and provident fund mangers must file CTRs and STRs with the IMPA. IMPA develops intelligence cases that it passes on to the Israeli National Police, Customs, and the Israeli Security Agency for Criminal Investigation and Enforcement.

As noted above, FATF removed Israel from the NCCT list in June 2002. Israel's efforts to meet FATF's recommendations include establishing currency-reporting guidelines, creating an FIU, criminalizing money laundering associated with serious crimes, and improving Israel's ability to locate and freeze assets associated with terrorism. In June 2002, IMPA was admitted into the Egmont Group of Financial Intelligence Units. A U.S. advisory issued by the Department of Treasury's Financial Crimes Enforcement Network in June 2000 to U.S. financial institutions, emphasizing the need for enhanced scrutiny of certain transactions and banking relationships in Israel to ensure that appropriate measures are taken to minimize risk for money laundering, was withdrawn in 2002, acknowledging Israel's enactment and implementation of reforms in its counter-money laundering system.

Under the legal assistance law, Israeli courts are empowered to enforce forfeiture orders executed in foreign courts for crimes committed outside Israel. This ability has recently been enhanced by the new anti-money laundering law. Informally, the GOI has cooperated with requests from U.S. law enforcement in matters of financial crime, including those involving narcotics and terrorism. In 2002, Israeli and U.S. law enforcement cooperated as part of an "Operation Joint Venture," a long-term money laundering investigation focusing on an international Israeli network that launders cash proceeds from Colombian drug-trafficking organizations. The Israeli National Police have provided U.S. law enforcement with information on the network that has led to the arrest of six individuals, including two Colombian traffickers. The United States and Israel also have a Mutual Legal Assistance Treaty that entered into force in May of 1999. However, U.S. and foreign law enforcement continue to see Israeli subjects and involvement in a wide variety of money laundering operations.

Israel is a party to the 1988 UN Drug Convention, and has signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism. Israel has also signed, but has not yet ratified, the UN International Convention Against Transnational Organized Crime, which is not yet in force internationally.

The Central Bank of Israel should accelerate the process by which it examines industry compliance with its anti-money laundering law, and ensure that financial institutions are moving quickly to fully verify customer identity for accounts opened before the law was enacted. In addition, the government should reexamine the relationship between IMPA and the police to determine ways to maximize interaction between the two agencies. Israel should continue to enact all regulations pursuant to the PMLL to strengthen its anti-money laundering regime. Israel should also focus on the misuse of the international Israeli diamond trade to launder funds.

Italy's financial sector remains vulnerable to money laundering. Italy is also a drug consumption country and a transshipment point for moving illicit narcotics into Western Europe. In 2002, Italian organized criminal groups—particularly those in the southern part of the country—continued to engage in narcotics and alien smuggling, contraband cigarette smuggling, extortion, usury, and kidnapping. Organized crime launders 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.

During 2002, Italian authorities uncovered cases of suspected money laundering involving securities brokers, online offerings of foreign exchange derivatives, the use of futures contracts, and the smuggling of diamonds, gold, and other precious metals.

Italian law criminalizes money laundering in connection with felony offenses punishable by imprisonment for 3 or more years. A wide range of financial institutions—including stock brokerages, exchange houses, and insurance companies—must identify their customers, record and report transactions above 10,300 euros (approximately \$10,526), and report suspicious transactions. In addition, institutions and individuals must report cross-border movements of currency that exceed 10,300 euros. Using the cross-border reports, the Anti-Mafia Directorate is conducting a retrospective analysis of irregular and suspect money flows from groups—especially those suspect of links to terrorism and 19 countries of concern. In particular, the Directorate is looking at the transfer of funds, incoming and outgoing, and their origins and destinations.

The Government of Italy (GOI) has established reliable systems for identifying, tracing, freezing, seizing, and confiscating assets from narcotics-trafficking and other serious crimes. The law allows for forfeiture in both civil and criminal cases. While the GOI enforces its existing asset seizure and forfeiture laws, the aggressiveness in doing so is dependent on which local magistrate is working a particular case. Unofficial figures indicate that the Financial Police seized the equivalent of \$465 million in assets from criminal groups during 2002. Approximately \$50 million was ultimately forfeited. Funds from asset forfeitures are placed into the General State Accounts. 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), which is part of the Bank of Italy, 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, Carabinieri, Polizia di Stato, 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. To date, the UIC has memoranda of understanding with France, Spain, the Czech Republic, Croatia, Slovenia, and Australia. It is currently in negotiations with Japan and Switzerland.

Because of the banking controls, narcotics traffickers are using alternative way of laundering their drug proceeds. To prevent and deter the use of non-traditional entities for money laundering, GOI has enacted a decree which broadens the coverage of the anti-money laundering regulations. Those entities now covered include: debt collectors, exchange house, insurance companies, casinos, real estate agents, gold and valuables dealers and importers, and antiques dealers.

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, which is not yet in force internationally. Italian cooperation with the United States on money laundering investigations is exemplary. Italy and the United States have a Customs Assistance Agreement and a Mutual Legal Assistance Treaty and an extradition treaty in place, which ensure the sharing of records relevant to narcotics-trafficking, money laundering, terrorism, and terrorist financing investigations. An effort to remove a reservation to the MLAT that would allow the U.S. and Italy to give forfeiture assistance has not yet taken effect. Currently, the U.S. must avail itself of relevant international conventions to obtain GOI assistance in forfeiture cases. Removing the reservation would also allow for a bilateral agreement to share forfeited assets. 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. GOI is involved in multilateral negotiations with the EU to enhance asset tracing and seizure.

On January 13, 2000, Italy signed the UN International Convention for the Suppression of the Financing of Terrorism and the Italian Parliament ratified the Convention in December 2002. In October 2001, Italy passed a Decree that created the Inter Ministerial Financial Security Committee, which is charged with coordinating GOI efforts to track and interdict terrorist financing. The Committee has far reaching powers that include obtaining information from all government ministries in waiver of the Official Secrecy Act and the authority to order a freeze of terrorist-related assets. Another decree issued in October 2001 criminalized the financing of terrorist activity with a penalty of imprisonment of seven to fifteen years. Decree Law No. 12/2002 extends the suspicious transaction reporting requirement to cover terrorist financing. Entities subject to the reporting requirement must also inform UIC of any freezing measures they take with regard to accounts suspected of being linked to terrorist entities. They must also make available to UIC all financial information they possess relating to any person or organization on UN or other terrorist lists. During 2002, UIC, in conjunction with the Italian judiciary, initiated a number of proceedings and investigations into suspected terrorist activities. In most cases, prosecutors have authorized UIC to disclose to foreign FIUs information they have uncovered in the course of these investigations. In August 2002, the GOI acted jointly with the U.S. Government to block the financial assets of 25 individuals or groups allegedly associated with Usama Bin Ladin's network.

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 flowing from South America to the United States and other international destinations. Traffickers seek to legitimize the profits from these illegal drug flows, and Jamaica is therefore a prime candidate for money laundering activities, although it is difficult to estimate the extent of money laundering that occurs in the country. Jamaica's banking system, however, has been under intense scrutiny from regulators in the wake of several major banking scandals in the mid- to late-1990s, making Jamaican financial instruments an unattractive mechanism for laundering money. As a result, much of the proceeds from narcotics-trafficking and other criminal activity is used to acquire tangible assets such as real estate or luxury cars, while still more merely passes through Jamaica as cash shipments to South American countries.

The GOJ does not yet require declarations of cross-border movements of currency or monetary instruments. Criminals exploit this weakness and move large amounts of cash through Jamaica—often in shipments totaling hundreds of thousands of U.S. dollars. Even when cash couriers are caught, the absence of a currency declaration requirement hampers police efforts to bring criminal charges against the couriers. Further complicating the picture are the hundreds of millions of U.S. dollars in legitimate remittances sent home to Jamaica by the substantial Jamaican population overseas. Distinguishing between legal transfers and illegal flows is no easy task.

Jamaica's anti-money laundering regime is governed by the Money Laundering Act (MLA) approved by Parliament in December 1996 and implemented on January 5, 1998. The MLA criminalized narcotics-related money laundering and introduced record keeping and reporting requirements for financial institutions on all currency transactions over \$10,000. Exchange bureaus and "cambios" have a reporting threshold of \$8,000. The MLA was amended in March 1999 to raise the threshold to \$50,000, in response to complaints from financial sector institutions that had difficulties with the amount of paperwork resulting from the \$10,000 threshold. At that time, a requirement was also added for banks to report

suspicious transactions of any amount to the Director of Public Prosecutions (DPP). In February 2000, the MLA was amended to add fraud, firearms trafficking, and corruption as predicate offenses for money laundering. The most recent legislative update, in February 2002, imposed a requirement for money transfer and remittance agencies to report transactions over \$50,000.

The Government of Jamaica (GOJ) established a Financial Crimes Division under the DPP to assist in the implementation of its anti-money laundering program. This unit is responsible for receiving and analyzing information contained in suspicious activity reports filed by financial institutions. The unit officially began operations in June 2001. No major cases of money laundering arrests or prosecutions were reported in 2002, although the Financial Crimes Division investigated a number of reports.

Further action is required in the area of asset forfeiture to permit the GOJ to take full advantage of this mechanism in its anti-money laundering efforts. Law enforcement authorities are hampered by the fact that Jamaica has no civil forfeiture law, and under the 1994 Drug Offenses (Forfeiture of Proceeds) Act, a criminal drug-trafficking conviction is required as a prerequisite to forfeiture. This often means that even when police discover illicit funds, the money cannot be seized or frozen and must be returned to the criminals. In at least one case in 2002, however, the GOJ creatively used income tax regulations to levy fines and penalties that resulted in the de facto forfeiture of a large amount of cash being smuggled out of the country.

With regard to anti-terrorism financing, Jamaica has not yet developed its final legislative response, although a comprehensive Anti-Terrorism Act is currently under consideration, with passage expected in 2003. As an interim measure, the Bank of Jamaica requires the banking industry to adopt the "Guidance Notes for Financial Institutions in Detecting Terrorist Financing" issued by the Financial Action Task Force (FATF) in April 2002.

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 the Organization of American States (OAS) Inter-American Convention Against Corruption. Jamaica has signed, but not yet ratified the UN Convention Against Transnational Organized Crime which is not yet in force internationally. Jamaica is also 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 GOJ has made progress in fighting money laundering, but further work is necessary to bring its regime into line with international standards. The GOJ should institute measures implementing the FATF's Eight Special Recommendations on Terrorist Financing. Jamaica should enact legislation requiring declarations of large cross-border movements of currency in order to address the problem of cash couriers, as well as accompanying legislation allowing for asset seizure. The scope of predicate offenses for money laundering should be extended to encompass all serious crimes (legislation doing so has been proposed but not yet enacted) and serious thought should be given to returning the reporting threshold to \$10,000 as originally mandated. The GOJ should also ensure that the Financial Crimes Division has sufficient resources to identify and investigate money laundering activity adequately.

Japan. Japan is an important world financial center, and as such is at major risk for money laundering. The principal sources of laundered funds are narcotics-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 National Policy Agency of Japan estimates the aggregate annual income from the Boryokudan's illegal activities is estimated to be approximately \$10 billion, \$3.38 billion of which is derived from income from the trafficking of methamphetamines. U.S. law enforcement reports that drug-related money laundering investigations initiated in the United States periodically show a link between drug-related money laundering activities in the United States and bank accounts in Japan. The number of Internet-related money laundering cases is increasing. In some cases, criminal proceeds were concealed in bank accounts obtained through the Internet market.

Prior to 1999, Japanese law only criminalized narcotics-related money laundering. The Anti-Drug Special Law, which took effect in July 1992, criminalizes drug-related money laundering, mandates suspicious transaction reports for the illicit proceeds of drug offenses, and authorizes controlled drug deliveries. This legislation also creates 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 limits the law's effectiveness. As a result, Japanese police and prosecutors have undertaken few investigations and prosecutions of suspected money laundering. Many Japanese officials in the law enforcement community, including Japanese Customs, believe that the Boryokudan have been exploiting Japan's financial institutions.

Pursuant to the 1999 Anti-Organized Crime Law, which came into effect in February 2000, Japan expanded its money laundering law beyond narcotics-trafficking to include money laundering predicates such as murder, aggravated assault, extortion, theft, fraud, and kidnapping. The new law also extends the confiscation laws to include the additional money laundering predicate offenses and value-based forfeitures. It also authorizes electronic surveillance of organized crime members and enhances the suspicious transaction reporting system.

To facilitate exchange of information related to suspected money laundering activity, the Anti-Organized Crime Law established the Japan Financial Intelligence Office (JAFIO) on February 1, 2000, as Japan's Financial Intelligence Unit. Financial institutions in Japan report suspicious transactions to the JAFIO, which analyzes them and disseminates them as appropriate. JAFIO also issued "Examples of Typical Suspicious Transactions" as a guideline for financial institutions. The guideline was revised in March 2002 to add more specific suspicious transaction cases, such as transactions done by Boryokudan and their associates. Additionally, JAFIO held meetings with financial institutions in various regions in March and April 2002 to introduce current money laundering methods and trends, with the intent of improving the quality of suspicious transaction reports.

The Financial Services Agency (FSA) supervises public-sector financial institutions and securities transactions. The FSA classifies and analyzes information on suspicious transactions reported by financial institutions, and provides law enforcement authorities with information relevant to their investigation. Japanese banks and financial institutions are required by law 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 had to report transfers abroad of five million yen (approximately \$44,579) or more. In April 2002, Parliament enacted the Law on Customer Identification and Retention of Records on Transactions with Customers by Financial Institutions, and revised the Foreign Exchange and Foreign Trade Law, so that financial institutions, as of January 2003, are required to make positive customer identification for both domestic transactions and transfers abroad in amounts of more than two million yen (approximately \$17,828.) Banks and financial institutions are also required to maintain records for an adequate period of time should they be needed to reconstruct significant transactions.

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 requires travelers entering and departing Japan to report physically transported currency and monetary instruments (including securities, and gold weighing over one kilogram) exceeding one million yen (approximately \$8,916), or its equivalent in foreign

currency, to customs authorities. Failure to submit a report, or submitting a false or fraudulent one, can result in a fine of up to 200,000 yen (approximately \$1,782) or six months imprisonment. However, the reporting requirement is enforced only sporadically.

In response to the events of September 11, 2001, the FSA used the anti-money laundering framework provided in the Anti-Organized Crime Law to require financial institutions to report transactions where funds appeared to both stem from criminal proceeds, and to be linked to individuals and/or entities designated by FSA Notices as suspected to have relations with terrorist activities. In June 2002, the Act on Punishment of Financing of Offenses of Public Intimidation, which adds terrorist financing to the list of predicate offenses for money laundering and provides for the freezing of terrorism-related assets, was enacted. Japan signed the UN International Convention on the Suppression of the Financing of Terrorism on October 30, 2001, and accepted it on June 11, 2002. After September 11, 2001, Japan froze accounts related to the Taliban. Since then, Japan has regularly frozen assets and accounts linked to terrorists listed by the UN and others. There are indications that Japan is considering new legislation to upgrade its antiterrorism law to enhance the government's ability to freeze and confiscate assets of terrorist organizations.

Underground banking systems operate widely, especially in immigrant communities. Such systems violate the Banking Law and the Foreign Exchange Law. The police have investigated 35 underground banking cases in which foreign groups transferred illicit proceeds to foreign countries. The aggregate value of such transfers has amounted to 420 billion yen (approximately \$3.5 billion) since the beginning of 1992. About 120 billion yen (\$1 billion) have been illegally transferred to China and Korea, and about 90 billion yen (\$750 million) to Peru.

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 United States 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.

Japan is a party to the 1988 UN Drug Convention. In December 2000, Japan signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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 on Money Laundering. Efforts are now underway to conclude a Mutual Legal Assistance Treaty between Japan and the United States. In 2002, Japan's FSA and the U.S. Securities and Exchange Commission and Commodity Futures Trading Commission signed a non-binding Statement of Intent ("SOI") concerning cooperation and the exchange of information related to securities law violations. The SOI assists in the investigation and prosecution of securities and futures fraud, predicate offenses to money laundering.

Japan has many legal tools and agencies in place to successfully detect, investigate, and combat money laundering. In order to strengthen its anti-money laundering regime, the Government of Japan should stringently enforce the Anti-Organized Crime Law. Japan should enact penalties for non-compliance with the Foreign Exchange and Foreign Trade Law, adopt measures to share seized assets with foreign governments, and enact banker "due diligence" provisions.

Jersey. The Bailiwick of Jersey (BOJ), one of the Channel Islands, is a Crown Dependency of the United Kingdom. The Islands are known as Crown Dependencies because the United Kingdom is responsible for their defense and international relations. Jersey's sophisticated offshore services industry is similar to international financial services centers worldwide. A number of reports and surveys have shown its antimoney laundering and regulatory regimes to be close to international standards.

The financial services industry, regulated by the Jersey Financial Services Commission (FSC), consists largely of bank deposits of \$170 billion; mutual funds of \$150 billion, insurance companies (which are largely captive insurance companies), investment advice, dealing, and management companies (\$50 billion under management), and trust and company administration companies. In addition, the above offer

corporate services, such as special purpose vehicles for debt restructuring and employee share ownership schemes. For high net worth individuals, it offers wealth management services.

Jersey's main anti-money laundering laws are: the Drug Trafficking Offenses (Jersey) Law of 1988, which criminalizes money laundering related to narcotics-trafficking; the Prevention of Terrorism (Jersey) Law, 1996, which criminalizes money laundering related to terrorist activity; and the Proceeds of Crime (Jersey) Law, 1999, which extended the predicate offenses for money laundering to all offenses punishable by at least one year in prison. A new law, the Terrorism (Jersey) Law 2002, is a response to the events of September 11, 2001, and enhances the powers of the insular authorities to investigate terrorist offenses, to cooperate with law enforcement agencies in other jurisdictions, and to seize assets. The Law was adopted by the Island Parliament and awaits Royal Assent.

The FSC has issued anti-money laundering Guidance Notes that the courts take into account when considering whether or not an offense has been committed under the Money Laundering Order. The reporting of suspicious transactions is mandatory under the narcotics-trafficking, terrorism and anti-money laundering laws.

After consultation with the financial services industry, the FSC issued a position 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 position paper states the FSC's intention to insist, inter alia, on affirming the primary responsibility of all financial institutions to verify the identity of their customers, regardless of the action of intermediaries. The paper also states an intention to require a progressive program to obtain verification documentation for customer relationships established before the Proceeds of Crime (Jersey) Law came into force in 1999. New Anti-Money Laundering Guidance Notes are currently being drafted that will incorporate these principles and replace those described above. These Notes are likely to come into force in 2003.

Approximately 30,000 Jersey companies are registered with the Registrar of Companies, who is the Director General of the FSC. In addition to public filing requirements relating to shareholders, the FSC 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, known as "exempt companies," 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.

Jersey has extensive powers to cooperate with other law enforcement and regulatory agencies and regularly does so. The FSC is also able to cooperate with regulatory authorities, for example, to ensure that financial institutions meet anti-money laundering obligations. Recently, the FSC has reached agreements on information exchange with securities regulators in Germany (July 2001), France (November 2001), and the United States (May 2002). The 1988 Agreement Concerning the Investigation of Drug Trafficking Offenses and the Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking, as amended in 1994, was extended to Jersey in 1996. Jersey authorities have also put in place sanction orders freezing accounts of individuals connected with terrorist activity.

Jersey has established a financial investigation unit known as the Joint Financial Crime Unit (JFCU). This unit is responsible for receiving, investigating, and disseminating suspicious transaction reports (STRs). The unit includes Jersey Police and Customs officers, as well as a financial crime analyst. The JFCU is a member of the Egmont Group.

Jersey plans to put in place the necessary legislation to be in compliance with the UN International Convention for the Suppression of the Financing of Terrorism as soon as the Terrorism (Jersey) Law 2002 receives approval by the Privy Council. This will enable Jersey to try individuals for terrorist crimes,

notably, including the financing of terrorism committed outside Jersey. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997.

Jersey has established an anti-money laundering program, and should continue to demonstrate its commitment to fighting financial crime. In some instances, Jersey's requirements, such as the regulation of trust company businesses and the requirement for companies to file beneficial ownership with the FSC, go beyond what international standards require, in order to directly address Jersey's particular vulnerabilities to money laundering.

Jordan. Jordan is not a regional financial center. The Central Bank of Jordan, which regulates foreign exchange transactions, issued anti-money laundering regulations designed to meet the FATF 40 Recommendations on Money Laundering in August 2001. Under Jordanian law, money laundering is considered an "unlawful activity" subject to criminal prosecution.

Revisions to the penal code subsequent to the September 11, 2001 attacks on the United States have also criminalized financing of terrorist organizations. Jordan has signed, but not yet ratified, the International Convention for the Suppression of Financing of Terrorism. Jordan has complied with its obligations under UNSCR 1267/1390 by reviewing assets of terrorists and terrorist groups identified at the United Nations 1267 Sanctions Committee, although no such assets have been identified in Jordan to date.

Jordanian officials report that financial institutions file suspicious transactions reports and cooperate with prosecutors' requests for information related to narcotics-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 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 in constructing an anti-money laundering program, but much remains to be done. Jordan should consider establishing a Financial Intelligence Unit (FIU) that can analyze and disseminate suspicious transaction reports to law enforcement agencies. Additional training of Jordanian customs and police services may be required to identify money laundering methodologies and initiate investigations.

Kazakhstan. Kazakhstan has a somewhat advanced financial infrastructure in comparison to other countries in the region. When combined with a significant organized crime presence, entrenched smuggling networks, and corruption involving the oil industry, the country is at risk for money laundering. Smuggling of cash is an ongoing problem in Kazakhstan. Although travelers are required to report the amount of cash they are carrying as they enter or exit the country, porous borders and corrupt officials allow a large amount of cash to pass undetected. Most of the smuggled cash is probably related to illegal capital flight, but there are reports that Kazakhstan has become a transport route for cash and trade items moving into Afghanistan to finance terrorist organizations.

Money laundering was criminalized in Kazakhstan by Article 30 of the 1998 anti-drug law, which makes it illegal to launder money in connection with the sale of illegal drugs. However, the definition of money laundering used in the act is narrow. A further limit to the effectiveness of the law is that bank records may not be examined until after a criminal case has been initiated. The Government of Kazakhstan (GOK) is reportedly aware of the problems with the policing of financial crimes, including money laundering, and is taking corrective measures. In January 2002, the Tax Committee was replaced by the Financial Police Agency, which has authority to investigate money laundering and other financial crimes. In March 2002, the Financial Police reported that in the previous year they had presented for prosecution 31 cases of money laundering, none of which were associated with narcotics-trafficking.

The National Bank has established a "know your customer" program and has asked local banks to report suspicious financial activities. Perhaps as a result, there are reports that large amounts of money seem to be moving into less regulated parts of the economy. As of January 2003, both the Financial Police and the National Bank are sponsoring different drafts of anti-money laundering legislation with the goal of passing an effective anti-money laundering law in 2003.

Kazakhstan should pass comprehensive anti-money laundering and counter-terrorist financing laws.

Kenya. Kenya is a regional financial and trade center for East, Central, and Southern Africa. Kenya's capital, Nairobi, has approximately 50 banks. Kenya's economy has a large informal sector and a thriving network of cash-based, unrecorded transfers, primarily used by expatriates to send and receive remittances internationally.

Section 49 of the Narcotic Drugs and Psychotropic Substance Control Act of 1994 criminalizes money laundering related to narcotics-trafficking. Narcotics-related money laundering is punishable by a maximum prison sentence of 14 years. Central Bank regulations require banks to verify the identity of customers wishing to open an account or conduct a transaction. Under the regulations, banks must maintain records of large transactions. Banks and other financial institutions are required to report large transactions to the Central Bank.

In 2002, the Kenya Bankers Association issued guidelines requiring banks to report suspicious transactions to the Central Bank. These guidelines do not have the force of law.

The Government of Kenya (GOK) has drafted, but not yet passed, legislation that would criminalize terrorist financing. The GOK has also drafted legislation that would criminalize money laundering beyond the scope of narcotics-trafficking, establish a Financial Intelligence Unit, and allow for the seizure of assets belonging to terrorist financiers and members of organized criminal groups. Currently, only the proceeds of narcotics-trafficking are subject to seizure.

Kenya is a party to the 1988 UN Drug Convention and a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. Kenya is an active member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body.

Kenya should enact a comprehensive anti-money laundering regime that criminalizes terrorist financing and money laundering related to all serious crimes, as Kenya has committed to doing as a member of ESAAMLG.

Korea (Democratic Peoples Republic of Korea). The Department of State has designated North Korea as a State Sponsor of Terrorism. Information about the money laundering situation in North Korea is generally unavailable. North Korea's self-imposed isolationism and secrecy as well as its refusal to participate in international organizations make knowledge of the role of North Korea's financial system and drug trafficking situation 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 used Macau to launder counterfeit \$100 bills and Macau's banks as a repository for the proceeds of North Korea's growing trade in illegal drugs.

North Korea has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

North Korea should enact a comprehensive anti-money laundering regime and take steps to stop financial crimes originating in North Korea.

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 Public 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 Act also requires that persons engaged in financial institutions, apart from judicial requests for information, not provide or reveal to others any information or data on the contents of financial transactions without receiving a written request or consent from the parties involved. However, secrecy laws do not apply when such information must be provided for submission to a court or as a result of a warrant issued by the judiciary.

In a move designed to broaden its anti-money laundering regime, the Republic of Korea (ROK) also criminalized the laundering of the proceeds from 38 additional offenses, including economic crimes, bribery, organized crime, and illegal capital flight, through the Proceeds of Crime Act (POCA), enacted in September 2001. The POCA provides for imprisonment and/or a fine for anyone receiving, disguising or disposing of criminal funds. The legislation also provides for confiscation and forfeiture of illegal proceeds.

The Financial Transactions Reports Act (FTRA), passed in September 2001, requires financial institutions to report suspicious transactions to a Financial Intelligence Unit (FIU) within the Ministry of Finance and Economy. In November 2001 the Korean Cabinet issued regulations implementing the newly enacted FTRA, and officially launched the Korea Financial Intelligence Unit (KoFIU). KoFIU is composed of 60 experts from various agencies, including the Ministry of Finance and Economy, the Justice Ministry, the Financial Supervisory Commission, the Bank of Korea, the National Tax Service, the National Police Agency, and the Korea Customs Service. KoFIU analyzes suspicious transaction reports (STRs) and forwards information deemed to require further investigation to domestic law enforcement and the Public Prosecutor's office. Financial institutions must report transactions of over 50 million won (\$10,000) that are suspected of being tied to criminal proceeds or to tax evasion. They may report transactions in lesser amounts if there are "reasonable" grounds for doing so. 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 addition, KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions.

As of December 31, 2002, KoFIU received a total of 275 STRs from financial institutions. KoFIU completed its analysis of 206 cases, amounting to KRW 96 billion, that were then disseminated to law enforcement agencies, including the public prosecutor's office, the National Police Agency, the National Tax Service, the Korea Customs Service and the Financial Supervisory Service. FIU is still investigating another 69 STRs. Last November, one businessman was prosecuted for laundering a total of 24 billion Korean won (approximately \$22 million) through 634 checks.

Money laundering controls are applied to non-banking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings, finance companies, credit unions, credit cooperatives, trust companies, securities companies, insurance companies, credit insurance corporations and exchange houses. Intermediaries such as lawyers, accountants, or broker/dealers are not covered. Any traveler carrying more than \$10,000 or the equivalent in other foreign currency is required to report the currency to the Korea Customs Service.

The Anti-Public Corruption Forfeiture Act of 1994 provides for the forfeiture of the proceeds of assets derived from corruption. In November 2001, the ROK established a system for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and/or other assets of serious crimes. Under the system, KOFIU is responsible for analyzing and providing information on STRs that require further investigation. The Bank Account Tracing Team under the Narcotics Investigation department of the Seoul District Prosecutor's Office (established in April 2002) is responsible for tracing and seizing drug-related assets. The Seoul District Prosecutor's office seized \$109,000 worth of assets related to illegal foreign exchange transactions in the one case it prosecuted. Drug trafficking-related assets worth \$53,000 of assets were forfeited during 2002. The ROK actively cooperates with the United States and other countries to trace or seize assets.

As of today South Korea does not have any specific laws regarding terrorist financing per se. An Anti-Terrorism Act is pending before the National Assembly. Should this Act be passed, it will include articles that specifically criminalize terrorist financing. The Supreme Prosecutors' Offices look at black market exchanges and the Korea Customs Service monitors trade-based money laundering in an effort to prevent and/or curb such activities. As of this date, no additional legislative initiatives are pending. Reportedly, at this time are no known charitable or non-profit entities operating in Korea that are used as conduits for

the financing of terrorism, although the Korean government's own efforts to monitor and prevent illegal financial transfers overseas would also inhibit these entities from operating freely.

Through its Korean Financial Investigative Unit (authorized by the Ministry of Finance and Economy) the ROK circulated to its financial institutions the list of individuals and entities that have been included in the UN 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, members of the al-Qaida organization or the Taliban, or that the USG or the EU have designated under relevant authorities. Due in part to Korea's remaining restrictive foreign exchange laws, no listed terrorists are known to be operating in Korea at this time or to be maintaining financial accounts. Consequently, Korean banks have not identified any terrorist assets.

The ROK is a party to the 1988 UN Drug Convention and, in December 2000, signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In October 2001, the ROK signed the UN International Convention for Suppression of the Financing of Terrorism. The ROK is an active member of the Asia/Pacific Group on Money Laundering. The ROK became a member of the Egmont Group in 2002 and applied for membership in the Financial Action Task Force. An extradition treaty between the United States and the ROK entered into force in December 1999. The United States and the ROK cooperate in judicial matters under a Mutual Legal Assistance Treaty, which entered into force in 1997. In 2002, the ROK signed information-sharing memorandums of understanding with the Belgian, Polish and U.K. FIUs. Also in 2002, the ROK proposed signing an MOU with the U.S. Financial Crime Enforcement Network, the U.S. FIU, for the exchange of money laundering-related information. The ROK is awaiting a response.

The passage of the new measures provides the ROK with important legal tools to combat money laundering. Korea should criminalize the financing and support of terrorism and should continue to move forward to adopt and implement its pending legislation. The ROK should extend its anti-money laundering regime to financial intermediaries. The ROK should continue its policy of active participation in international anti-money laundering efforts, both bilaterally and in multilateral fora.

Kuwait. Kuwait is not a major regional financial sector; it has seven commercial banks and one Islamic bank, all of which provide traditional banking services comparable to those of Western-style commercial banks. Kuwait also has three specialized government banks that provide medium and long-term financing.

On March 10, 2002, the Emir signed Law No. 35, which criminalizes money laundering. The law stipulates that banks and financial institutions may not keep or open any anonymous accounts or accounts in fictitious or symbolic names; banks must require proper identification of regular and occasional clients according to official documents issued by competent state authorities. The law also requires banks to keep all records of transactions and customer identification information for a minimum of five years, perform training and establish internal control systems, and report any suspicious transactions.

Law 35 designates the Public Prosecution Department as the sole authority to receive reports on money laundering operations, and to take the necessary actions. The law provides for a penalty of up to seven years imprisonment in addition to fines and asset confiscation. The penalty is doubled if an organized group commits the crime, or if the offender took advantage of his influence or his professional position. The law includes articles on international cooperation, and monitoring cash and precious metals transactions. Provisions of Article 4 of Law No. 35 state that every person shall, upon entering the country, inform the custom authorities of any national or foreign currency, gold bullion, or any other precious materials in his/her possession valued in excess of Kuwait Dinars 3,000 (about \$ 10,000).

The law authorizes the Minister of Finance to set forth the resolutions necessary to ensure its implementation. The Minister of Finance can issue resolutions to enhance combating money laundering operations without the need to amend the legislation. Moreover, banks and financial institutions may face a steep fine (approximately \$3.3 million) if found in violation of the legislation.

In addition to those imposed by Law 35, Kuwait's anti-money laundering reporting requirements are contained within the Central Bank of Kuwait's Instructions No. (2/SB/50/97). Instructions contain

provisions for: customer identification and the prohibition against opening or keeping anonymous accounts or accounts in obviously fictitious names (Articles 1 and 2), record keeping requirements and the seizing of suspected funds (Articles 3 and 4), and a prohibition against bank staff members' divulging to customers about the reporting of their suspicious transactions (Article 6).

Further provisions call for paying special attention to complex, large, or unusual transactions, and the reporting of crimes and suspicious transactions (STRs) to the Central Bank of Kuwait, which then notifies the Ministry of Interior (Article 7); coordination among banks on STR trends and patterns (Article 8); reporting of Currency Transaction Reports (CTRs) above 10,000 Kuwaiti dinars (KD) (approximately \$33,000) (Article 9); internal bank controls for detecting money laundering and bank staff training programs (Article 10); anti-money laundering guidelines for financial institutions in the form of "Guidelines for the Identification of Suspicious Transaction Patterns" (Article 11); and compliance requirements for branches and subsidiaries of Kuwaiti banks located abroad (Article 12).

Implementing legislation must still be developed to delineate the functions of the Financial Intelligence Unit (FIU) and to set up the requisite financial institution reporting system. Kuwait has still not formally established its FIU.

In September 2002, insurance companies, exchange bureaus, gold and precious metals shops, brokers in the Kuwait Stock Exchange, and all other financial brokers, were placed under strict supervision of the Ministry of Commerce and Industry. Such sectors have to abide by all regulations concerning customer identification, record keeping of all transactions for five years, internal control systems, and the reporting of suspicious transactions.

Although Kuwait has criminalized all forms of money laundering activities, substantial areas of the Kuwaiti financial sector are either under-regulated or not regulated or supervised at all. Islamic banks are not under the supervision of the Central Bank. Kuwait's one Islamic bank, Kuwait Finance House (KFH), is a charitable organization licensed and supervised out of the Ministry of Commerce and Industry, which apparently does not perform any type of examination of the KFH books. Another significant loophole is that so-called "VIP" transactions are not subject to the reporting requirements.

Following the September 11, 2001 attacks against the United States, certain Islamic charity organizations such as the Revival of Islamic Heritage Society (RIHS) and its subsidiary, the Afghan Support Committee (ASC), which operate from Kuwait and have branches in Pakistan and Afghanistan, were suspected of providing funds to al-Qaida. U.S. authorities have designated the branches in Pakistan and Afghanistan as being used to funnel funds to terrorist organizations. There is no indication that such activities occurred with the knowledge of the Kuwaiti head office.

In August, 2002, the Kuwaiti Ministry of Social Affairs and Labor issued a ministerial decree to create a Department of Charitable Organizations. The primary responsibilities of the new department are to receive applications of registration from charitable organizations, monitor their operations, and establish a new accounting system to insure that such organizations comply with the law both at home and abroad. The Department will establish guidelines explaining how charities must collect donations and finance their activities. The new Department will also be charged with conducting periodic inspections to insure that they maintain administrative, accounting, and organizational standards according to Kuwaiti law.

The 2002 law on money laundering does not cite terrorist financing as a crime; however, the definition of criminal activity is broad. Kuwait established a national committee to follow up on all issues concerning terrorism. Reportedly there have been no money laundering or terrorist financing arrests or prosecutions in 2002. However, two terrorist suspects were charged in late 2002 with "gathering funds for, and financing the establishment of, military training camps abroad."

The Gulf Cooperation Council represents Kuwait on the Financial Action Task Force (FATF). Kuwait is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism, but is a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Kuwait should move to implement and enforce Law 35 and the anti-money laundering regulations. A specific counter-terrorism finance law should be enacted. Kuwait should establish a FIU and provide the FIU the ability to share information with foreign regulators and law enforcement authorities.

Kyrgyzstan. Kyrgyzstan (the Kyrgyz Republic) is not a regional financial center. Money laundering is not a crime in the Kyrgyz Republic. Moreover, it has a comparatively underdeveloped banking system. Like other countries in the region, the Kyrgyz Republic is susceptible to alternative remittance systems to launder money or transfer value such as hawala and trade fraud. The major sources of illegal proceeds include narcotics-trafficking, smuggling of consumer goods, tax and tariff evasion, and official corruption.

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 reportedly ignored by the commercial banks. Oversight of the banking sector remains weak and Kyrgyzstan's law enforcement agencies lack the resources and expertise to conduct effective financial investigations.

Recognizing that the first step in constructing an effective anti-money laundering program is to criminalize money laundering, in 2002 the Government of Kyrgyzstan (GOK) drafted a law "On Opposition to Legalization (Laundering) of Incomes Obtained in Illegal Way in the Kyrgyz Republic." The draft law defines predicate offenses or criminal conduct as income "obtained as a result of committed crime." Mandatory suspicious transaction reporting by Kyrgyzstan financial institutions is included in the draft law. The law does not address money laundering methodologies that by-pass financial institutions. Details and possible revisions of the draft legislation are as yet unclear.

The Kyrgyz Republic is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The Kyrgyz Republic has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Kyrgyz Republic should approve comprehensive anti-money laundering and anti-terrorism finance legislation that adheres to international standards, and become a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GOK should also be aware that money laundering can easily by-pass financial institutions and take enforcement measures to address these vulnerabilities.

Laos. Laos is not a regional financial center and has no anti-money laundering legislation. Banking laws and regulations governing money laundering also do 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 through alternative remittance systems.

In late 2001, the Government of Laos (GOL) agreed to freeze terrorist financial assets. However, the Lao banking system is underdeveloped and there has been little progress to date.

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. GOL sends its officials to relevant Association of Southeast Asian Nations (ASEAN) regional conferences on money laundering.

Laos should pass anti-money laundering and anti-terrorism financing legislation. Laos should also sign the UN International Convention for the Suppression of Financing of Terrorism.

Latvia. The problems associated with money laundering continue to be a concern in Latvia in spite of compliance with legislative norms, regulations and "best practices" within the financial sector. Sources of laundered money include counterfeiting, corruption, white-collar crime, extortion, financial-banking crimes, stolen cars, and prostitution. Organized crime is thought to account for two-thirds of laundered proceeds. Latvia's mainly cash economy has been moving toward the use of electronic, credit, and other non-cash payments. At the same time, there are no restrictions in Latvia for cross-border currency movement (cash or non-cash, domestic or foreign) or the physical movement of other financial

instruments. In August 2002 there were 222 operational bureaux de change, 21 casinos, 251 gaming halls, and 9,500 gambling machines.

The Government of Latvia (GOL) criminalized money laundering 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 \$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. Additional allocations for financing the Control Service for the year 2003 were made for the purpose of increasing the staff, purchasing technical resources and enhancing software development.

The number of suspicious disclosures reported to the Control Service increased from 17 percent of all reported transactions in 2000 to 32 percent in 2001. By September 2002, 50 criminal cases had been initiated by the Prosecutor's Office, three of which are pending. General trends in possible money laundering activity include the increasing use of bogus (fictitious) businesses or offshore companies. Another trend is the so-called "one-day-transaction" that actually entails a number of successive transactions in a short space of time.

Since July 2001, the Finance and Capital Market Commission (FCMC) has served as the public regulator, overseeing the Central Bank, the Securities and Exchange Commission, and insurance companies. The FCMC has approved guidelines for identifying customers and unusual and suspicious transactions, including guidance on the internal control mechanisms that financial institutions should have in place. It has advised financial institutions to pay much closer attention to transactions involving FATF-designated list of Non-Cooperative Countries and Territories or NCCT countries. The FCMC has also posted on its web page a list of persons suspected of having links to terrorism and the FATF guidelines for financial institutions for detection of cases of terrorism financing. Latvia continues to address the issue of offshore investments. Information on offshore company owners had been confidential. A commercial law, effective January 2002, now requires more information on the branches of offshore companies in Latvia. The law 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, in order to facilitate checking suspicious transactions.

The European Union 2001 Report on Latvia's Progress towards Accession to the EU characterized the perceived level of corruption in Latvia as relatively high. This was echoed by the Transparency International Corruption Perceptions Index 2002, which assigns Latvia a score of 3.7. ("Highly clean" rates a "10.") In January 2002 the Crime and Corruption Prevention Council was established; in April the Parliament adopted the Law on Prevention of Conflict of Interest of Public Officials; and, in May the Law on Corruption Prevention and Enforcement Bureau was adopted. The law established and funded one bureau whose sole task is to address and combat public corruption.

Reportedly, 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. The investigative and gathering of evidence processes need streamlining. Two teams were created to work only on money laundering investigations. One was formed at the Financial Police, the other at the Economic Police. The latter has been operational since March 2002. To date, there have been no criminal convictions and no forfeitures of illicit proceeds based on money laundering.

Latvia participates in the Council of Europe's Select Committee of Experts on the Evaluation of Antimoney Laundering Measures (Moneyval, formerly PC-R-EV), and as a member underwent a mutual evaluation in March 2000 that resulted in many of the aforementioned changes. It is currently in the process of the second round of evaluations. 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 2001. A Mutual Legal Assistance Treaty has been in force between the United States and Latvia since 1999. Latvia is a party to the UN Drug Convention, and in December 2001 ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The Control Service has been a member of the Egmont Group since 1999 and has cooperation agreements on information exchange with FIUs in Belgium, Bulgaria, the Czech Republic, Estonia, Finland, Italy, Lithuania, and Slovenia.

The GOL has initiated a number of measures toward combating the financing of terrorism, and became a party to the UN International Convention for the Suppression of the Financing of Terrorism (November 14, 2002), as well as five other international conventions on combating terrorism. Regulations have been adopted regarding the implementation of sanctions imposed by UNSCR 1267 and 1333. Regulations of the Cabinet of Ministers No. 437 "On the Sanction Regime of the United Nations Security Council against the Afghan Islam Emirates in the Republic of Latvia" guides the implementation of the sanctions imposed by the above-referenced UNSCRs. Latvia already had a mechanism for freezing financial resources or other property.

Amendments to the law "On Prevention of the Laundering of the Proceeds from Crime" have been in force since February 2002, which, among other things, provide for: 1) recognizing terrorism as a predicate offense for money laundering, 2) classifying financial resources or other property as proceeds derived from crime if they are directly or indirectly controlled or owned by a physical or juridical person included in the terrorist watch list, 3) making the Latvian FIU the authority that disseminates information on the watch list to credit and financial institutions, 4) giving the FIU authority to demand that credit and financial institutions suspend debit operations in the accounts of such persons or suspend movement of other property of such persons for up to six months, and 5) giving the FIU the authority to cooperate with foreign or international anti-terrorism agencies concerning issues of control over the movement of financial resources or other property linked to terrorism.

Since September 11, 2001, Latvian authorities have taken concrete steps to implement the above regulations. They have given considerable effort to tracing transactions executed by terrorists or their accomplices. Other practical measures include organizing relevant training courses for personnel in financial institutions, creating a special anti-terrorism information network within the financial system, nominating a person to deal with anti-terrorism issues at the FIU, and establishing an FIU reporting system and procedures concerning terrorist finances.

The GOL should continue to research ways to improve cooperation between Latvian law enforcement agencies at the working level. Latvia's success in combating money laundering will depend on its perseverance and political will to combat corruption and organized crime. The GOL should adopt and implement cross-border currency controls, should regulate its bureaux de change and its gaming industry as well as the offshore companies that it licenses.

Lebanon. Lebanon has one of the more sophisticated and well-capitalized banking sectors in the region. Combined with the tradition of bank secrecy, the extensive use of foreign currency (particularly dollars), the influx of remittances from expatriate workers, and a general lack of accountability and enforcement, this allowed for an environment conducive to laundering money from sources that include narcotics, counterfeiting, smuggling, evasion of international sanctions as well as of domestic tax and currency regulations, and other organized criminal activity. Expatriate Lebanese citizens have established themselves in the underworld of the gold trade in Panama and other locations in Latin America and the diamond trade in Africa. Lebanese buyers in Liberia, Sierra Leone, and other African countries purchase raw diamonds from un-staked or illicit mines in exchange for cash. The diamonds are then passed through customs and shipped abroad to international markets in Israel, Belgium, and India for cutting, polishing, and selling.

Lebanon made significant progress in institutionalizing its anti-money laundering efforts in 2002, which culminated in the Financial Action Task Force's (FATF's) removal of Lebanon from the list of non-cooperative countries in June 2002. With its removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) Advisory which had instructed all U.S. financial institutions to

"give enhanced scrutiny" to all transactions involving Lebanon was also lifted. Lebanon's efforts to meet FATF's recommendations include criminalizing money laundering, establishing currency reporting guidelines, and creating a financial intelligence unit (FIU). In October 2002, the Cabinet approved legislation to criminalize the financing of terrorism. The draft law is currently awaiting parliamentary action.

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 expand the type of financial institutions subject to the provisions of the Banking Secrecy Law of 1956, to include 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. In addition, companies engaged in high-value items (precious metals, antiquities) and real estate are obligated to report suspicious transactions in accordance with Law 318. Charitable and non-profit organizations must be registered with the Ministry of Interior, are required to have proper "corporate governance" including audited financial statements and are subject to the same "suspicious" reporting requirements.

All financial institutions and money exchange houses are regulated by the Central Bank (Banque du Liban). In May 2001, Law 318 was further delineated by Banque du Liban to require financial institutions to identify all clients including transient clients, maintain records of customer identification information, request information about the beneficial owners of accounts, conduct internal audits, and exercise due diligence in conducting transactions for clients.

Law No. 318 also established a financial intelligence unit (FIU), the "Special Investigation Commission" (SIC), which is 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. SIC serves as the centerpiece of Lebanon's anti-money laundering regime and has been the critical driving force behind the implementation process.

The SIC is responsible for receiving and investigating reports of suspicious transactions. SIC is the only entity with the authority to lift bank secrecy for administrative and judicial agencies and it is the administrative body through which foreign requests for assistance are processed.

Since its inception, SIC has been active in providing support to international case referrals. Through the first nine months of its operation, it received 37 case referrals relating to money laundering and terrorist financing activities. All were investigated and bank secrecy regulations were lifted in 22 instances. The cases included 14 requests from the United States. From January 1 through mid-November 2002, SIC investigated 113 cases involving allegations of money laundering. Twenty of the cases were related to terrorist financing. SIC has circulated to all financial institutions the list of individuals and entities included on the UN 1267 sanctions committee's consolidated list as being linked to al-Qaida or Taliban.

Offshore banking is not permitted in Lebanon. Current legislation stipulates that assets proven by a final court ruling to be related to or proceeding from money laundering will be confiscated. In addition, conveyances used to transport narcotics will be seized. Legitimate businesses established from illegal proceeds after passage of Law 381 are also subject to seizure.

The SIC has signed a number of memoranda of understanding with some FIUs concerning anti-money laundering and combating terrorist financing. 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 expressed reservations to several sections of the Convention relating to bank secrecy), and in December 2001 it signed the UN Convention against Transnational Organized Crime, which is not in force internationally.

The Government of Lebanon made significant progress in its efforts to develop an effective anti-money

laundering system. Passage of the amendments to Law 318 will be the best indicators that Lebanon remains on the right track in the fight against money laundering. The SIC is urged to work with financial institutions to increase the level and quality of suspicious transaction reporting. More efficient cooperation between SIC and other concerned parties, such as police and customs, could yield significant improvements in investigations or initiating investigations. Lebanon should sign the International Convention for the Suppression of Financing of Terrorism, and move swiftly to approve the draft law criminalizing terrorist financing.

Lesotho. Lesotho does not have a significant money laundering problem. There is currently no legislation criminalizing money laundering or terrorist financing. In 2001, the Government of Lesotho (GOL) began drafting an anti-money laundering statute based on the South African Development Community model. However, the GOL has not yet introduced the bill in Parliament.

Lesotho requires banks to know the identity of their customers and to report suspicious transactions to the Central Bank. The GOL also requires banks to report all transactions exceeding 100,000 maloti (approximately \$11,000) to the Central Bank.

Lesotho is a party to both the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. Lesotho has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Lesotho should criminalize money laundering and terrorist financing and should develop a viable anti-money laundering regime. Lesotho should also join the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body.

Liberia. Liberia is vulnerable to money laundering because it is a major transshipment point for illegal diamond smuggling, especially rough diamonds from Sierra Leone, and illegal arms trading. Liberia is also a growing transit country for narcotics on their way to Europe from Nigeria. As a significant diamond producing country, Liberia has attracted international attention because of its failure to effectively regulate its diamond industry under a certificate of origin regime, as called for by the UN. Money laundering involving diamonds and other precious metals and gems remains a concern. In May 2001, the UN Security Council adopted a resolution, since extended into 2003, prohibiting any trade in rough diamonds with Liberia. The Security Council took this step as a means of controlling the illicit trade in "conflict" diamonds from, or moving through, Liberia. Despite the fact that UN sanctions remained in place throughout 2002, Liberians continued to mine and smuggle 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 illicitly moving Liberian rough diamonds into Sierra Leone, where they fetch a better return, and can more easily be represented as of non-Liberian origin. Diamonds have also be used on a broad scale to purchase arms and otherwise fund conflict in the region, as detailed in the reports of UN experts. A typical money laundering scheme might include a businessman entering Liberia with a large amount of cash. The investor might purchase or otherwise obtain rough diamonds from illicit miners (without stakes) or other illicit sources in exchange for cash. These diamonds would then be passed through customs and shipped abroad to international markets in Israel, Belgium, and India for cutting, polishing, and resale.

Foreign diamond traders, including Eastern Europeans and Lebanese, often come to Monrovia to purchase diamonds on the black market and then export them out of Liberia through Monrovia's Roberts International Airport. Local security commanders and government officials are often paid to allow diamonds to pass through customs unchecked.

In 2001, the Liberian Government developed a prototype certificate of origin for diamonds based on the Kimberley process. However, the UN has not yet approved this certification regime as sufficiently effective to justify the removal of sanctions.

Money Laundering and Financial Crimes

Under anti-money laundering regulations enacted in 2001, monies that are carried out of the country over the sum of 7,000 Liberian dollars (approximately \$150) must be in the form of travelers' checks, money orders, or bank drafts. When entering the country, amounts of money that exceed 10,000 Liberian dollars (approximately \$215) must be declared to the Central Bank of Liberia. However, this regulation is not regularly enforced, and widespread corruption exists in Liberia's customs authorities.

Liberia's offshore activity is concentrated in the ship registry business, which is managed by the Liberian International Ship and Corporate Registry (LISCR), based in Virginia. The LISCR also manages Liberia's corporate registry. Offshore companies are permitted to issue bearer shares.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar. Liberia is a member of GIABA, although no Liberian representatives attended the GIABA anti-money laundering seminar in November 2002. In July 2002 Liberia participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

Liberia is not a party to the 1988 UN Drug Convention, nor has it signed the UN International Convention for the Suppression of the Financing of Terrorism.

Liberia should enact a comprehensive anti-money laundering regime that criminalizes money laundering and terrorist financing. Liberia should also enforce its cross-border reporting requirements and take steps to properly regulate its diamond industry.

Liechtenstein. The Principality of Liechtenstein's (Liechtenstein) well-developed offshore financial services sector, relatively low tax rates, loose incorporation and corporate governance rules, and a tradition of strict bank secrecy have contributed significantly to the ability of financial intermediaries in Liechtenstein to attract funds from abroad. These same factors have historically made the country attractive to money launderers. Rumors and accusations of misuse of Liechtenstein's banking system persist in spite of the progress this principality has made in its efforts against money laundering.

Liechtenstein's financial services sector includes 17 banks, three 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 (mostly 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.

Narcotics-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 at that time suffered from serious systemic problems and deficiencies.

Liechtenstein's Financial Intelligence Unit (FIU), the Einheit fuer Finanzinformationen (EFFI) became operational in March 2001, and a member of the Egmont Group in June 2001. The EFFI works closely with the prosecutor's office and law enforcement authorities, as well as with a new unit of the National Police that deals with economic and organized crime. The FIU began operations on the basis of an executive order, but Liechtenstein formally adopted a law in May 2002 providing a statutory basis for the FIU's authority.

The EFFI has developed a system for suspicious transaction reporting (STR) analysis that involves internal analysis, consultation with police and a ten-day period to decide whether to forward 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 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.

Following the Financial Action Task Force's (FATF) identification in 2000 of Liechtenstein as non-cooperative in international efforts to fight money laundering (NCCT), the U.S. Treasury Department issued an Advisory instructing U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Liechtenstein. The Government of Liechtenstein (GOL) took 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 or involve some risk of "tipping off."

The reforms to Liechtenstein's anti-money laundering regime have had positive results. In 2001, the EFFI reported 158 suspicions of money laundering, as opposed to 67 in the previous year, an increase of 136 percent. The EFFI recognizes the numerically low participation level among Liechtenstein's financial institutions. Only six banks out of 17 reported to the EFFI, seven out of 87 lawyers, and 20 out of 645 fiduciaries. Most of the customers involved in money laundering activities were from Germany (21 percent), Italy (10 percent), and Russia (9.5 percent). While U.S. customers only account for five percent of the money laundering reports, most of the assets under investigation in 2001 originated from the United States, (\$667 million), followed by France (\$533 million) and Russia (\$146 million).

The relatively small number of STRs filed by financial institutions in Liechtenstein has generated several money laundering investigations. For example, on July 19, 2001, the GOL formally charged two previously indicted managers of trusts with conspiring to launder millions of dollars for the Colombian Cali drug cartel, and related criminal organizations, through Liechtenstein bank accounts. On March 21, 2002, the Liechtenstein Ministry of Justice filed a complaint against Gabriel Marxer, a former parliamentarian, on the grounds he participated in the laundering of \$6.5 million originating from United States businessman James C. Sexton. United States authorities initiated the investigation as part of a large anti-fraud operation. Police authorities arrested eight people and blocked two bank accounts. The amount frozen has not yet been disclosed.

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 all financial institutions (banks and non-bank intermediaries) to obtain full identification of accounts' beneficial owners. To comply with new legislation that froze unidentified accounts on January 1, 2002, 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, 2001. To remedy problems with the implementation of the laws, a Due Diligence Unit (SSP) was established to supervise compliance with anti-money laundering regulations. Its chief reports directly to the Prime Minister. Under the direction of the SSP, audits were conducted of a number of trustees supervised under the Due Diligence Act, and deficiencies were reviewed. The SSP works effectively and closely with the EFFI, the Office of the Prosecutor, and with the Police. Liechtenstein judges have worked hard to fully reduce the backlog of judicial assistance requests.

The FATF recognized in June 2001 that Liechtenstein had remedied the serious deficiencies in its antimoney laundering regime and removed Liechtenstein from the FATF NCCT list. Similarly, the U.S. Treasury Department withdrew its Advisory against Liechtenstein. On July 24, 2002, the FATF informed the GOL that it would end the monitoring of the country, thus recognizing the measures taken against money laundering. "Liechtenstein has addressed all previously identified deficiencies and therefore, will no longer require monitoring by the FATF," the FATF's annual report stated.

Liechtenstein has in place legislation to seize, freeze, and share forfeited assets with cooperating countries. Liechtenstein has issued ordinances to implement United Nations Security Council Resolution (UNSCR) 1267, which requires all states to freeze funds and other financial resources of the Taliban, including funds derived by an undertaking owned or controlled by the Taliban, and UNSCR 1333, which requires all states to freeze funds and other financial assets of Usama Bin Ladin and his associates, including those in the al-Qaida organization. Amendments to the ordinances in October and November 2001, allowed the GOL to freeze the accounts of individuals and entities who were designated 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. Liechtenstein froze five Al Taqwa accounts and investigated five companies. In connection with these actions, 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 (Moneyval, PC-R-EV), and is a party to the Council of Europe Convention on Laundering, Search and Confiscation of Proceeds from Crime. On October 3, 2001, the GOL signed the UN International Convention for the Suppression of the Financing of Terrorism. Liechtenstein has also signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Liechtenstein has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision." Liechtenstein and the United States are concluding negotiations on a Mutual Legal Assistance Treaty (MLAT).

A FATF review in June 2002 found that the numbers of submitted STRs has increased, and Liechtenstein has made progress in addressing the previous shortcomings in its anti-money laundering regime. The GOL should continue to build upon the foundation of its evolving anti-money laundering regime. The GOL should insist that trustees and other fiduciaries comply fully with all aspects of the new anti-money laundering legislation and attendant regulations. The GOL should also criminalize the financing and support of terrorism.

Lithuania. Lithuania is not a regional financial center. However, its geographic location and limited experience in regulating financial institutions and transactions makes it attractive for some money launderers. Although some money laundering is related to narcotics proceeds, most is tied to tax evasion, smuggling, illegal production and sale of alcohol, capital flight, and profit concealment. It is estimated the shadow economy accounts for some 20 percent of the economy. Large-scale laundering via commercial banks carries significant risk, but money laundering outside the banking system is widespread due to loopholes in the tax system, corruption, and the prevalence of alternative remittance systems.

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 provides for suspicious transaction reporting and the identification of customers whose transactions exceed litas (LTL) 50,000 (approximately \$15,000) 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 ten 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 Financial Crimes Investigation Service is Lithuania's Financial Intelligence Unit. The MLPD is a member of the Egmont Group. Lithuania has signed memoranda on exchange of laundering-related financial and intelligence information with financial intelligence agencies of Belgium, Croatia, the Czech Republic, Estonia, Finland, Latvia, and Poland. The Lithuanian Tax Police Department, in charge of investigations of financial crimes, also has cooperation agreements with law enforcement agencies of Belarus, Georgia, Kazakhstan, Russia and Ukraine. In May 2002, the Lithuanian parliament ratified a governmental agreement with Germany on cooperation in work against organized crime, terrorism and other serious crimes.

Lithuania is a party to the 1988 UN Drug Convention, and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally, in 2002. 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 (Moneyval, formerly PC-R-EV), and the MLPD is a member of the Egmont Group.

Lithuania should sign the UN International Convention for the Suppression of the Financing of Terrorism and criminalize terrorist financing.

Luxembourg. Luxembourg is the seventh-largest financial center in the world, with more than 200 international financial institutions that benefit from the country's strict bank secrecy laws, and operate a wide range of services and activities. Luxembourg is currently the third largest domicile for investment funds (behind the United States and France), with over \$950 billion in net assets managed by the investment fund industry. Luxembourg is considered an offshore financial center. Foreign-owned banks account for around 94 percent of total bank assets, the majority of which are subsidiaries of German, French and Belgian banks. For this reason, and given their proximity to Luxembourg, a large number of suspicious transaction reports (STRs) in Luxembourg are generated from transactions involving clients in these countries. Luxembourg currently has no cross-border currency reporting requirements. As of December 2002, 177 banks were operating as "universal banks," with the ability to provide a wide range of services. As of October 2002, Luxembourg had 1,960 "undertakings for collective investment" (UCIs), or mutual fund companies, which included but were not limited to investment funds, 93 insurance companies (estimate), and 265 reinsurance companies. 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.

Luxembourg has a well-developed legal and regulatory system to combat money laundering, and financial sector laws are modeled to a large extent by EU directives. The Law of 7 July 1989, updated in 1998, serves as Luxembourg's primary anti-money laundering law, criminalizing the laundering of proceeds for an extensive list of predicate offenses. The Law of 5 April 1993 implements the 1991 EU anti-money laundering directive (91/308/EEC), and includes customer identification, record keeping, and suspicious transaction reporting requirements. The Act of 11 August 1998 extends anti-money laundering provisions to notaries, casinos, and external auditors, and adds corruption, weapons offenses, and organized crime to the list of predicate offenses for money laundering. Among other things, the Act of 10 June 1999 extends anti-money laundering provisions to accountants. Luxembourg is presently in the domestic implementation phase of the EU directive on the Prevention of the use of the Financial System for the Purpose of Money Laundering (2001/97/EC). The new legislation, expected to be enacted in 2003, will extend reporting requirements to lawyers, certain real estate professionals, and dealers in high-value goods.

The Parquet Economique et Financier Luxembourg/Service Anti-Blanchiment (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) is an independent government body that serves as the oversight authority for banks and the securities market, and supervises professionals covered by the country's anti-money laundering laws. The Commissariat aux Assurances (CAA) has oversight authority over the insurance sector, and the Luxembourg Central Bank oversees the payment and securities settlement system. The identities of the beneficial owners of accounts are available to all entities involved in oversight functions, including registered independent auditors, inhouse bank auditors, and the CSSF. No distinctions are made in Luxembourg laws and regulations between onshore and offshore activities. Foreign institutions seeking establishment in Luxembourg must demonstrate prior establishment in a foreign country, and meet stringent minimum capital requirements. Companies must maintain a registered office in Luxembourg and background checks are performed on all applicants. A government registry publicly lists company directors, and nominee (anonymous) directors are not permitted. Bearer shares are permitted. Banks must undergo annual audits under the supervision of the CSSF (CSSF reg. No. 27). Independent auditors have established a "peer review" procedure in compliance with an EU recommendation on quality control for external audit work to assure the adherence to international standards on auditing.

The Government of Luxembourg (GOL) is actively engaged in efforts to combat money laundering, and to further develop its effectiveness in this area. Under the direction of the Ministry of the Treasury, the CSSF has established a public-private committee comprising supervisory authorities, law enforcement authorities, the FIU, and representatives of financial professions and other professions under the scope of EU and Luxembourg anti-money laundering rules. The committee, the Comite de Pilotage anti-Blanchiment (COPILAB) meets monthly to develop a common approach to strengthen Luxembourg's anti-money laundering regime.

Suspicious transaction reporting requirements apply not only to banks, but also to auditors, accountants, notaries, and life insurance providers. Financial institutions are required to retain records for a period of five years. Individuals aiding government officials in money laundering investigations are protected by law. Since 2000, the number of STRs filed by obligated institutions have more than tripled; the number of STRs received by authorities for 2002 is expected to have reached 600. Nonetheless, there have been no arrests or prosecutions for money laundering since January 2001. Luxembourg authorities regularly exchange information with counterparts in other countries, and attribute the lack of arrests for money laundering to the fact that suspected perpetrators are usually not physically present in Luxembourg.

Since September 11, 2001, Luxembourg has committed itself to fighting the financing of terrorism. Luxembourg authorities have been actively involved in bilateral and international fora and training in order to become more effective at fighting the financing of terrorism. Dialogue and other bilateral proceedings between the GOL and the United States have been particularly extensive. The GOL also has actively disseminated information concerning suspected terrorists throughout its institutions in an effort to identify and freeze the assets of these individuals.

Upon request from the United States, Luxembourg froze the bank accounts of individuals suspected of involvement in terrorism. Luxembourg also froze eighteen accounts on its own. Five court challenges have been filed thus far by the account holders. During 2002, over \$200 million in suspect accounts were frozen by Luxembourg authorities pending further investigation (most of which were not fruitful, and the assets were then released). Currently, terrorism financing is addressed under Luxembourg's money laundering statutes. However, the GOL has draft legislation, expected to be enacted during the first half of 2003, that will criminalize terrorism financing separately from money laundering as well as codify it as a predicate offense of money laundering. Luxembourg authorities have not found evidence of the widespread use in Luxembourg of alternative remittance systems such as hawala, black market exchanges, or trade-based money laundering. Officials comment that existing anti-money laundering rules would apply to such systems, and no separate legislative initiatives are currently being considered to address them.

Luxembourg is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Luxembourg laws facilitating international cooperation in money laundering include the Act of 8 August 2000, which enhanced and simplified procedures on international judicial cooperation in criminal matters, and the Law of 14 June 2001, which ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Luxembourg has a definitive system not only for the seizure and forfeiture of criminal assets, but also for the sharing of those assets with other governments. Luxembourg is a member of the European Union, the Financial Action Task Force (FATF), and the Organization for Economic Cooperation and Development (OECD). The Luxembourg FIU is a member of the Egmont Group and has negotiated memoranda of understanding (MOU) with several countries, including Belgium, Finland, France, Korea, Monaco, and Russia. Luxembourg and the United States have had a Mutual Legal Assistance Treaty (MLAT) since February 2001. In September 2001, Luxembourg signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. A proposed law for the ratification of the Convention is currently before the Luxembourg parliament.

Luxembourg has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws. The GOL should continue to strengthen enforcement to prevent international criminals from abusing Luxembourg's financial sector and should give serious consideration to legislative amendments to address the continued use of bearer shares and the lack of cross-border currency reporting requirements.

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, and significant gambling industry create an environment that can be exploited for money laundering purposes. 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. Macau has a small economy and is not a financial center. The offshore financial sector is not fully developed.

The IMF conducted a financial sector assessment of Macau, and the results published in August 2002 stated that Macau was "materially non-compliant" with the money laundering principles of the Basel Committee's "Core Principles for Effective Banking Supervision." The assessment concluded that an antimoney laundering legal framework was in place in Macau, but recommended improvements in implementation and enforcement.

Macau's 1993 Financial System Act lays out regulations to prevent the use of the banking system for money laundering. It imposes requirements for the mandatory identification and registration of financial institution shareholders, customer identification, and external audits that include reviews of compliance with anti-money laundering statutes. The 1997 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 1998 Ordinance on Money Laundering sets 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 regulatory agencies of the Macau Special Administrative Region Government (MSARG), including pawnbrokers, antique dealers, art dealers, jewelers, and real estate agents. There is no significant difference in the regulation and supervision of onshore versus offshore financial activities.

The gaming sector and related tourism are critical parts of Macau's economy. Direct taxes from gaming comprised 60 percent of government revenue in 2001 and about 30 percent of GDP in 2000. The MSARG ended a long-standing gaming monopoly early in 2002 when it awarded concessions to two additional operators. These two firms have yet to begin gaming operations. Under the old monopoly framework, organized crime groups were, and continue to be, associated with the gaming industry through their control of VIP gaming rooms, and activities such as racketeering, loan sharking, and prostitution.

Money Laundering and Financial Crimes

The VIP rooms cater to clients seeking anonymity within Macau's gambling establishments and are particularly removed from official scrutiny. As a result, the gaming industry, in particular, provides an avenue for the laundering of illicit funds.

The Macau 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. The MSARG is drafting regulations designed to prevent money laundering in the gambling industry as part of the restructuring of that sector.

Terrorist financing is criminalized under the Macau criminal code (Decree Law 58/95/M of November 14, 1995, Articles 22, 26, 27, and 286). The MSARG has the authority to freeze terrorist assets, although a judicial order is required. Macau financial authorities directed the institutions they supervise to conduct record searches for terrorist assets, using U.S. Executive Order 13224 and United Nations lists. No assets have been found to date.

The Macau legislature passed an anti-terrorism law in April 2002 that increases Macau's compliance with UNSCR 1373. The legislation criminalizes violations of UN Security Council resolutions, including anti-terrorist resolutions, and strengthens anti-terrorist financing provisions. The UN International Convention for the Suppression of the Financing of Terrorism will apply to Macau when the People's Republic of China accedes to it.

The increased attention paid to financial crimes in Macau after the events of September 11 led to an increase in the number of suspicious transaction reports. Fifty-five reports were filed from January to November 2002. In previous years, only a handful of reports were filed each year.

In May 2002, the Macau Monetary Authority revised its anti-money laundering regulations for banks to bring them into greater conformity with international practices. Guidance also was issued for banks, moneychangers, and remittance agents addressing record keeping and suspicious transaction reporting for cash transactions over \$2,500. MSARG officials attended anti-money laundering training sessions offered by the Asia/Pacific Group on Money Laundering (APG). The police boosted hiring in 2002, which will provide more resources for anti-money laundering efforts.

The United States has no law enforcement cooperation agreements with Macau, though international cooperation can be requested on the basis of international conventions in force in Macau. The MSARG is preparing legislation to enable it to negotiate mutual legal assistance agreements with other jurisdictions.

Macau is a member of APG and the Offshore Group of Banking Supervisors. The People's Republic of China is a party to the 1988 UN Drug Convention, and through it the Convention is applicable to Macau.

Macau has taken a number of steps in the past two years to create an effective anti-money laundering regime. Macau is urged to implement and enforce existing laws and regulations. Macau should ensure that regulations, structures, and training are put in place to prevent money laundering in the gaming industry, including implementing, as quickly as possible, the regulations it has drafted on the prevention of money laundering in casinos. Macau should establish a Financial Intelligence Unit as soon as possible. The MSARG should also consider measures that provide for cross-border bulk currency and threshold reporting. Macau should increase public awareness of the money laundering problem, improve interagency coordination, and boost cooperation between the MSARG and the private sector in combating money laundering.

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 is most likely connected to financial crimes such as tax evasion, smuggling, financial and privatization fraud, bribery, and corruption. A small portion of money laundering is believed to be connected to narcotics-trafficking.

Article 273 of the FYROM's criminal code, which came into force in 1996, criminalizes 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 went into effect in March 2002, requires financial institutions to know, record, and report the identity of clients that perform cash transactions exceeding 10,000 euros, to prepare programs to protect themselves against money laundering, and to report suspicious transactions. The Customs administration is required to register and report the cross-border transport of currency or monetary instruments exceeding 10,000 euros.

Furthermore, the LMLP establishes the Directorate for Money Laundering Prevention within the Ministry of Finance. The Directorate collects, processes, analyzes, and stores data received from financial institutions and other government agencies. Reporting entities are legally protected in their cooperation with law enforcement entities. The Directorate has the authority to submit collected information to the police and the judiciary.

In June 2002, parliament passed a Law establishing a Financial Police Unit. The unit is yet to be created, but the implementation program is already in place. The unit will be within the Ministry of Finance, and it will investigate suspicious transactions reported to the Directorate and other potential financial crimes.

Macedonian authorities require court orders before they can freeze assets with suspected links to money laundering or terrorist financing. The FYROM has proposed amendments to the LMLP that will allow financial institutions to temporarily freeze assets of suspected money launderers and terrorist financiers.

Macedonia has concluded a number of Police Cooperation Agreements with almost all of the countries from the Region (Albania, Bulgaria, Croatia, Romania, Slovenia, Austria, Turkey, Greece, Russian Federation, Ukraine, Egypt) and has a number of mutual legal assistance agreements with many countries. Exchange of police information is regularly provided through Interpol channels. The FYROM also provides law enforcement information in connection with requests from other countries with which it lacks a formal information exchange mechanism, including the United States.

The FYROM is a member of the Council of Europe (COE) Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly 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, which is not yet in force internationally.

The FYROM should criminalize terrorist financing and take further steps to develop a viable anti-money laundering regime.

Madagascar. Madagascar is not a regional financial center. Criminal activity in Madagascar reportedly includes 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.

Madagascar's 1997 anti-money laundering law criminalizes money laundering related to narcotics-trafficking. The Central Bank and the Ministry of Finance can request a court order to freeze a bank account or another financial asset. The National Assembly is considering an updated anti-money laundering law that reportedly would criminalize money laundering for all crimes, criminalize terrorist financing, and require banks and other financial institutions to report suspicious transactions.

Madagascar is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Madagascar has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Madagascar should enact a comprehensive anti-money laundering regime that criminalizes terrorist financing and money laundering for all serious crimes.

Malawi. Malawi is not a regional financial center. The Reserve Bank of Malawi (RBM), Malawi's Central Bank, supervises the country's six commercial banks. Some money laundering is tied to smuggling. Under

Malawi's existing exchange control regime, foreign exchange remittances not backed by a "genuine transaction" are illegal; traders therefore launder funds in their efforts to remit savings abroad.

Financial institutions are required to record and report the identity of customers making large transactions, and banks must maintain those records for seven years. Banks are allowed, but not required, to submit suspicious transaction reports to the RBM. The RBM inspects banks' records every quarter and has access to those records on an "as needed" basis for specific investigations.

Malawi's current laws do not specifically criminalize money laundering, but can be used to prosecute money laundering cases. The Government of Malawi (GOM) has drafted a "Money Laundering and Proceeds of Serious Crime" bill, which is part of Parliament's pending business for 2003. The draft law would specifically criminalize money laundering related to all serious crimes. The draft law would also establish a legal framework for identifying, freezing, and seizing assets related to money laundering.

While the GOM has not specifically criminalized terrorist financing, the RBM has the legal authority to identify and freeze assets suspected of involvement in terrorist financing. The RBM has circulated to the financial community all names included on the UN 1267 Sanctions Committee consolidated list and all other names suggested by the United States Government as connected to terrorist financing. The RBM continues to monitor the financial system for money laundering activity.

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, which is not yet in force internationally.

Malawi should take steps to strengthen its anti-money laundering and counter-terrorist financing regimes as it has agreed to do as a member of ESAAMLG. Malawi should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Malaysia. Malaysia is not a major regional financial center, although it does offer a wide range of financial services in its formal financial sector, its offshore financial center, and 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.

Malaysia's Anti-Money Laundering Act (AMLA) became effective in January 2002. The AMLA criminalizes money laundering and lifts bank secrecy provisions for criminal investigations involving approximately 150 predicate offenses. The law imposes obligations on financial institutions regarding customer identification, record keeping, and suspicious transaction reporting by both bank and non-bank financial institutions. Banks include commercial and merchant banks, Islamic banks, and Labuan offshore banks. Non-banking financial institutions (NBFIs) include finance companies, discount houses, money brokers, insurers, Takaful (i.e., Islamic insurance) companies, securities dealers, moneychangers, futures brokers, development banks and casinos. Reporting individuals and their institutions are protected by law with respect to their cooperation with law enforcement.

Suspicious transaction reports are required under Section 14 of the AMLA. However, thresholds, requirements, and forms are industry or code-of-conduct based; thus, there is no consistency. Banks, insurers, insurance brokers, and moneychangers in the conventional, Islamic, and offshore sectors are required to file suspicious transaction reports. Money laundering controls have not yet been extended to many non-banking financial institutions, including exchange houses, stock brokerages, and casinos or to intermediaries such as lawyers, accountants, and brokers. Development banks and casinos are scheduled to come under reporting requirements in 2003. The AMLA allows for the development of regulations to standardize these requirements. However, as of yet no regulations have been implemented. Approximately 800 suspicious transaction reports were filed since the law's implementation in January 2002.

The January 2002 law also created a Financial Intelligence Unit (FIU) located in the Central Bank, Bank Negara Malaysia (BNM). The FIU, now operational, is tasked with receiving and analyzing information,

and forwarding its findings to the appropriate legal and regulatory authorities for prosecution, as required. Malaysia's longstanding National Coordination Committee to Counter Money Laundering (NCC) is composed of members from 13 government agencies. The NCC oversaw the drafting of the anti-money laundering law and coordinates government-wide anti-money laundering efforts.

The Government of Malaysia (GOM) has a well-developed regulatory framework, including licensing and background checks, to oversee onshore financial institutions. BNM guidelines require customer identification and verification, financial record keeping, and suspicious activity reporting. These guidelines are intended 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. The actual examination coverage of anti-money laundering efforts is still in development for all segments. Currently seventeen examiners are responsible for money laundering inspections for both onshore and offshore banks. Examination procedures are being developed, and additional examiner training is forthcoming.

In 1998 Malaysia imposed foreign exchange controls that restrict the flow of the local currency, the ringgit, from Malaysia. Some currency smugglers have since been arrested. Under these exchange control laws, onshore banks must note cross-border transfers over 10,000 ringgit (approximately \$2,630).

The potential for money laundering activities at the offshore banking facility in the Labuan Offshore Financial Center (often referred to simply as "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) regulates the wide range of financial services, such as offshore banking and trust partnerships, provided by the offshore sector. Labuan hosts 53 offshore banks (46 foreign-owned), approximately 50 insurance companies, four mutual funds, 15 fund managers, 29 leasing operations, and 18 active trust companies. 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 the 2,070 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.

Malaysia has not criminalized terrorist financing per se, although terrorist financing is included as a predicate offense in the country's anti-money laundering law. Additionally, the GOM has the authority to identify, freeze, and seize terrorist- or terrorism-related assets. Malaysia has issued orders to all licensed financial institutions, both onshore and offshore, to freeze the assets of individuals and entities listed by the UN Security Council Resolution (UNSCR) 1267. As of December 31, 2002, Malaysia had located no terrorist-related assets.

Malaysia forbids illegal deposit taking, unlawful compensation deals, illegal remittance or transfer, and money laundering, which provides the legal groundwork to deal with alternative remittance systems, such as hawala, black market exchanges and trade-based money laundering. However, Malaysia faces a challenge in regulating alternative remittance systems that are, by their nature, unofficial and unrecorded. Though the government has rules regulating charities and other non-profit entities, authorities have generally taken a hands-off approach to both groups.

The Malaysian FIU and its Australian counterpart, AUSTRAC, signed a memorandum of understanding to facilitate the sharing of financial intelligence for the purposes of combating money laundering. The GOM has offered to conclude a similar memorandum of understanding between Malaysia's FIU and FinCEN, the U.S. FIU, for the purpose of facilitating the exchange of financial intelligence. Malaysia allows foreign countries to check the operations of their banks' branches. Malaysia has cooperated closely with U.S. law enforcement in investigating terrorist, counternarcotics, and other cases. In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Bill 2002. Malaysia has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The GOM has not signed the UN International Convention for the Suppression of the Financing of Terrorism. Malaysia is a party to the 1988 UN Drug Convention. Malaysia has endorsed the

Basel Committee's "Core Principles for Effective Banking Supervision" and is a member of the Offshore Group of Banking Supervisors and the Asia/Pacific Group on Money Laundering. Malaysia is seeking membership in the Egmont Group.

The GOM should continue to enhance the viability of its evolving anti-money laundering regime by amending its anti-money laundering legislation to include as predicate offenses all serious crimes and should expand coverage of the Anti-Money Laundering Act to all financial institutions, onshore and offshore, not presently covered. Malaysia should adequately regulate non-governmental organizations, including charities, to ensure they are not used for terrorist or other criminal ends. The GOM should issue and implement all regulations, as required in the AMLA, and issue standardized requirements that are applied consistently for all financial institutions, bank and non-bank, supervised by Bank Negara Malaysia. Bank Negara will also need to increase its staff of examiners. For all entities such as trust companies and IBCs, Malaysia should insist on "fit and proper tests" for all management, and identification of all beneficial owners. The GOM should also insist on the registration of trusts, and stringent auditing and examination requirements in its offshore financial center, to prevent the misuse of the offshore financial center by organized crime and terrorist organizations, and their supporters. Additionally, the GOM should accede to the UN International Convention for the Suppression of the Financing of Terrorism, and, to further implement UN Security Council Resolutions 1373 and 1390, should enact legislation that explicitly criminalizes terrorist financing.

The Maldives. The Maldives is not considered an important regional financial center. The financial sector of the Maldives is very narrowly based with five commercial banks (one international bank, three branches of public banks from neighboring countries and the state owned bank), two insurance companies, and a government provident fund. There are no offshore banks.

The Maldives Monetary Authority (MMA) is the regulatory agency for the financial sector. MMA has authority to supervise the banking system through the Maldives Monetary Authority Act. These laws and regulations provide the MMA access to records of financial institutions and allow it to take actions against suspected criminal activities. Banks are required to report any unusual movement of funds through the banking system on a daily basis. However, there is no specific legislation dealing with money laundering. Currently, separate laws address the narcotics trade, terrorism, and corruption: Law No. 17/77 on Narcotic Drugs and Psychotropic Substances prohibits consumption and trafficking of narcotics. The law also prohibits laundering of proceeds from narcotics trade. Law No 2/2000 on Prevention and Prohibition of Corruption prohibits corrupt activities by both public and private sector officials. It also provides for the forfeiture of proceeds and also empowers judicial authorities to freeze accounts pending a court decision.

Reportedly, the Government of Maldives (GOM) has approved the development of an Anti-Money Laundering Law and establishment of a Financial Intelligence Unit.

Law No. 10/90 on Prevention of Terrorism in the Maldives deals with some aspects of money laundering and terrorist financing. Provision of funds or any form of assistance towards the commissioning or planning any such terrorist activity is unlawful. The MMA has issued "know your customer" directives and other instructions to banks enforcing freeze order requests, which are binding on banks and other financial institutions. The MMA monitors unusual financial transactions through banks, financial institutions, and money transfer companies through its bank supervision activities. The four foreign banks operating in the country also follow instructions issued with regard to terrorist financing by their parent organizations. To date, there have been no known cases of terrorist financing activities through banks in the Maldives.

The Maldives is a party to the 1988 UN Drug Convention.

The Maldives should enact comprehensive anti-money laundering and anti-terrorist financing legislation that adheres to world standards. The GOM should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Mali. Mali is not a regional financial center nor is money laundering considered to be a problem.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, the GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Mali. In July 2002, Mali participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

Mali became a party to the UN International Convention for the Suppression of the Financing of Terrorism on March 28, 2002. On April 12, 2002, Mali ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Mali is a party to the 1988 UN Drug Convention.

Mali should enact comprehensive anti-money laundering legislation that criminalizes terrorist financing and money laundering for all serious crimes.

Malta. Malta has spent the last decade preparing itself for accession to the European Union (EU). As a result, it has toughened up its regulations to accommodate European investors and introduced several laws designed to shed its image as an offshore tax haven. Malta has made significant headway, introducing EU-compliant legislation for the prevention of money laundering, and strong financial services legislation. Malta does not appear to have a serious money laundering problem.

The Government of Malta (GOM) criminalized money laundering in 1994. Maltese law imposes a maximum fine of approximately \$2 million and/or 14 years in prison for those convicted. Also in 1994, the GOM 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 banking unit at the Maltese Financial Services Authority (MFSA) updated the Guidance Notes issued by the Central Bank of Malta. The MFSA is the regulatory agency responsible for licensing new banks and financial institutions; additionally the MFSA has historically monitored financial transactions going through Malta. It has recently widened its regulatory scope to encompass banking, insurance, investment services, company compliance, and the stock exchange. MFSA also took over the role of supervisory authority of the banking sector. Presently there is an initiative to consolidate all guidance notes for all of the covered financial services.

In December 2001, Malta's parliament established the Financial Intelligence Analysis Unit (FIAU) through an amendment to the Prevention of Money Laundering Act. The unit became fully functional in the summer of 2002. Its board consists of members of the Central Bank of Malta, the MFSA, the Ministry of Finance, the Police, Malta's Custom and Security Service, and the Attorney General. The FIAU coordinates the fight against money laundering, collects information from financial institutions, and liaises with parallel international institutions as well as local investigative authorities (the MFSA & the GOM Police). The FIAU is charged with investigating suspicious financial transactions and other questionable money-related activity, and has organized training sessions and conferences for Maltese financial practitioners to make them aware of the implications of the 2001 Money Laundering Act.

Malta has also moved to bolster the prosecutorial opportunities in financial crime investigations. The GOM has recently designated one of the country's five prosecutors to deal solely with money laundering cases. Bank secrecy laws are completely lifted by law in cases of money laundering (or other criminal) investigations. The Attorney General is currently pursuing an investigation into an alleged money laundering case involving two lawyers. Neither has yet been charged, but they are being investigated for their alleged role in a smuggling operation involving Northern Ireland. The marked increase in the number of suspicious transaction reports (STRs), up from nine in 1998 to 43 in 2002, also indicates Malta's determination to crack down. Enforcement should continue to strengthen as the new FIAU begins its work analyzing STRs for referral for police investigation.

Malta remains an offshore jurisdiction and is a member of the Offshore Group of Banking Supervisors. Over 200 companies retain offshore status against some 30,000 that do not, and legislation dealing with offshore business will remain in force until 2004. Offshore registration of banks and international business corporations (IBCs) was halted in January 1997, and the GOM has publicly announced that offshore business will completely cease by 2004. Companies and trusts are now fairly well regulated, and international entities are subject to 35 per cent tax. Bearer shares or anonymous accounts are no longer permitted in Malta.

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 a 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 417 in 2001, to 285 in 2002, and the number of offshore banks has declined from 3 to 1 (Erste Bank).

Malta has criminalized terrorist financing. In 2002, the criminal code was amended in such a way that terrorist financing would meet the standard for categorization as a "serious crime" under Malta's Prevention of Money Laundering Act. To date, the Act itself does not specifically mention or define terrorist financing.

The MFSA circulates to its financial institutions the names of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list. To ensure compliance, the list is posted on the MFSA website and the MFSA contacts every financial institution directly to confirm whether or not the institution has done business with any person or entity appearing on the consolidated list. To date no assets have been identified, frozen, and/or seized as a result of this process.

Alternative remittance systems such as hawala, black market exchanges, and trade-based money laundering, are not a problem in Malta. Such activities are against the law in Malta, and if discovered, those participating would be prosecuted. Anyone wishing to raise money for charitable reasons must receive a government license. The overwhelming majority of all charitable fund raising in Malta is done by the Catholic Church and related institutions.

Malta is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly 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, which is not yet in force internationally. Malta ratified the UN International Convention for the Suppression of the Financing of Terrorism in November 2001. Malta has also ratified the Council of Europe European Convention on the Suppression of Terrorism and has amended its criminal code to be in alignment with these conventions.

Malta's recent acceptance by the Organization of Economic Cooperation and Development (OECD) is perhaps the best indicator that Malta is no longer considered a tax haven. Malta should continue to enhance its anti-money laundering regime. If Malta's Prevention of Money Laundering Act only references the proceeds of a terrorist act as a predicate offense and does not specifically criminalize the support or financing of terrorism, the legislation should be amended to include this activity or a new legislation should be enacted.

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. The population of RMI is approximately 65,000. The financial system in RMI has total banking system assets of \$87.2 million and total deposits of \$77.4 million, with domestic deposits exceeding 50% of Gross Domestic Product. The RMI financial sector consists of three banks, two of which are insured by the Federal Deposit Insurance Corporation, and a government-owned development bank whose primary function is to perform development lending in government-prioritized sectors; and several low-volume insurance agencies that primarily sell policies on behalf of foreign insurance companies. In realization of the country's

vulnerability to systemic shock in the financial sector, the government introduced a reform program geared toward enhancing transparency, accountability and good governance.

In June 2000, the Financial Action Task Force (FATF) placed the Marshall Islands on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. The designation was based on RMI's lack of basic anti-money laundering regulations (including the criminalization of money laundering), customer identification requirements and a suspicious transaction reporting system. Additionally, the RMI had registered about 4,000 international business corporations. The relevant information regarding the beneficial owners of these IBCs was guarded by secrecy provisions in its law, and consequently, this information was not accessible to financial institutions, international regulatory bodies or law enforcement agencies.

Over the past two years, the Marshall Islands enacted significant legislative reforms to address the major deficiencies identified by the FATF. Money laundering was criminalized and customer identification and suspicious transaction reporting mandated. The Marshall Islands also issued guidance to its financial institutions for the reporting of suspicious transactions. In addition, the RMI drafted anti-money laundering regulations.

In November 2000, the Government of the Marshall Islands (GRMI) approved the establishment of a Financial Intelligence Unit that may exchange information with international law enforcement and regulatory agencies. The Domestic Financial Intelligence Unit (DFIU) is located within the Banking Commission. The DFIU receives, analyzes, and disseminates currency and suspicious transaction reports.

In May 2002, the RMI passed and enacted its Anti-Money Laundering Regulations, 2002. The 2002 Regulations provide the standards for reporting and compliance within the financial sector. Components of this legislation include reporting of beneficial ownership, internal training requirements regarding the detection and prevention of money laundering by financial institutions, record keeping, and suspicious and currency transaction reporting. Additionally, the Banking Commission and the Attorney General's office worked with the U. S. Government to develop a set of examination policies and an examination procedures manual. Both sets of documents are being used by examiners from the Banking Commission as guides in the on-site reviews of banks' and financial institutions' compliance with the anti-money laundering regulations. Since the establishment of the statutory and regulatory framework, the banking commission has conducted on-site examinations of financial institutions and cash dealers.

The Banking Commission has issued two sets of advisories on suspicious transaction reporting and currency transaction reporting. The advisories are accompanied by reporting forms and instructions that are similar to those used in the United States. Guidelines on customer due diligence and record keeping have also been issued to the industry, as a supplement to the advisories.

In September 2002, amendments were made to the anti-money laundering legislation. The first amendment was to remove the \$10,000 threshold for transaction record keeping. The original legislation stated that banks only had to keep the records of transactions that were over \$10,000.

Marshall Islands non-resident corporations (NRCs), the equivalent of international business companies, are of concern with respect to money laundering. By December 2000, there were reportedly 4,000 NRCs registered, half of which were companies formed for registering ships. Currently, there are 5,500 registered NRCs. 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. Although NRCs must maintain registered offices 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 a favored jurisdiction for establishing NRCs. In addition to NRCs, the Marshall Islands offer 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.

The substantial and comprehensive effort to align the Marshall Island's anti-money laundering regime with international standards, including the adoption of new laws, a new regulatory scheme, and the establishment of an FIU, resulted in its 2002 removal from FATF's NCCT list.

The Marshall Islands is not a signatory to the 1988 UN Drug Convention. As of September 2002, RMI has enacted a Proceeds of Crime Act, Counter-Terrorism Act, and Foreign Evidence Act but is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism nor of the Convention against Transnational Organized Crime, which is not yet in force internationally.

The Marshall Islands became a member of the Egmont Group of FIUs, as well as a member of the Asia/Pacific Group on Money Laundering in June 2002. RMI is also a founding member of the recently established Pacific Islands Financial Supervisors, a group of regulators from the Pacific Islands Forum countries that will be representing the region in the Basel group.

The GRMI should continue to enhance and implement its money laundering legislation and increase supervision of the offshore sector. In particular, the GRMI must effectively implement the laws and procedures it has put in place. If the Counter-Terrorism Act does not criminalize the financing of terrorists and terrorism, it should be amended to do so. The RMI should sign and ratify the UN International Convention for the Suppression of the Financing of Terrorism. Additionally, the GRMI should expand the record keeping, reporting and licensing requirements for all non-bank financial institutions.

Mauritius. Mauritius is a developing financial hub and a major route for foreign investments into the Asian sub-continent. Officials in Mauritius indicate that the majority of money laundering in Mauritius takes the form of schemes to purchase goods in other countries with illegal funds and selling the goods in Mauritius.

Money laundering is a criminal offense in Mauritius. On June 8, 2002, Mauritius approved the Financial Intelligence and Anti-Money Laundering Act, which replaced the Economic Crime and Anti-Money Laundering Act of 2000. The Financial Intelligence and Anti-Money Laundering Act provides for the establishment of a Financial Intelligence Unit (FIU) located within the Ministry of Economic Development, Financial Services, and Corporate Affairs. The FIU became operational on August 9, 2002. The Financial Intelligence and Anti-Money Laundering Act also imposes penalties on persons committing money laundering offenses; establishes suspicious activity reporting obligations for banks, financial institutions, cash dealers, and relevant professions; and provides for cooperation with the FIUs of other countries.

The FIU has the responsibility of collecting and analyzing suspicious activity reports (SARs), and forwards those reports to the Independent Commission Against Corruption (ICAC). The ICAC, set up in June 2002, has the power to investigate money laundering offenses. The ICAC also has the authority to freeze and seize the assets related to money laundering. The FIU is also working to develop the information technology structure to properly store the SARs.

In 2000, the Financial Action Task Force (FATF) conducted a review of Mauritius's anti-money laundering regime against the 25 specified criteria for evaluating non-cooperative countries and territories. After conducting the review, FATF did not designate Mauritius as a non-cooperative country.

Mauritius has an active offshore financial sector. In 2001, the Financial Services Development Act was passed. This Act established the Financial Service Commission (FSC), which performs the functions that were formerly carried out by the Mauritius Offshore Business Activities Authority (MOBAA). The FSC is responsible for licensing and regulating 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.

The Prevention of Terrorism Act of 2002 was promulgated in Mauritius on February 19, 2002. This legislation criminalizes terrorist financing. Finally the legislation gives the Government of Mauritius

powers to track and investigate terrorist-related funds, property, and assets, and cooperate with international bodies.

Mauritius is a party to the 1988 UN Drug Convention. Mauritius has signed, but not yet ratified, both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Mauritius is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. In August 2002, representatives from Mauritius attended the ESAAMLG plenary and Ministerial Council Meeting in Swaziland, and volunteered for the first round of ESAAMLG mutual evaluations, scheduled to take place in 2003. Mauritius is a member of the Offshore Group of Banking Supervisors.

Mauritius should continue to work with ESAAMLG to strengthen the region's anti-money laundering regimes.

Mexico. The illicit drug trade continues to be the principal source of funds laundered through the Mexican financial system. Other crimes, including corruption, kidnapping, firearms trafficking, and immigrant trafficking, are also major sources of illegal proceeds. The smuggling of bulk shipments of U.S. currency into Mexico and the movement of the cash back into the United States via couriers, armored vehicles, and wire transfers, remain favored methods for laundering drug proceeds. Mexico's financial institutions are vulnerable to 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.

According to U.S. law enforcement officials Mexico remains one of the most challenging money laundering jurisdictions for the United States. While Mexico has taken a number of steps to improve its anti-money laundering system, significant amounts of narcotics related proceed are still smuggled across the border. In addition, such proceeds can still be deposited into the financial system through Mexican banks or casas de cambio, or repatriated across the border without record of the true owner of the funds. Furthermore, despite advances in international cooperation and information sharing it still remains difficult for U.S. law enforcement to obtain key financial records from Mexico and to extradite money laundering defendants. These problems have hampered a number of recent U.S. law enforcement initiatives.

The Government of Mexico (GOM) continues efforts at implementing an anti-money laundering program according to international standards such as those of the Financial Action Task Force (FATF), which Mexico joined in June 2000. Money laundering related to all serious crimes was criminalized in 1996 under article 400 bis of the Federal Penal Code, and is punishable by imprisonment of five to fifteen years and a fine. Penalties are increased when a government official in charge of the prevention, investigation, or prosecution of money laundering commits the offense.

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. These entities must report transactions over \$10,000, transactions involving employees of financial institutions who engage in unusual activity, and "unusual transactions" to the Secretariat of Finance and Public Credit's (Hacienda) General Directorate for Investigations of Transactions (DGAIO), Mexico's financial intelligence unit (FIU).

Since 1998, the DGAIO has received over 30 million reports of "relevant transactions" averaging 500,000 per month, and since 1997, over 20,000 Suspicious Activity Reports (SARs), averaging 500 per month. Regulations effective in February 2001 extended reporting, record keeping, and customer identification requirements to non-bank financial institutions. Also in 2001, Mexico established suspicious transaction reporting requirements for the smaller foreign exchange houses that process most of the remittances from Mexican workers in the United States.

The Special Unit to Combat Money Laundering (UECLD) of the Attorney General's Office was formally established on July 17, 2000, with authority to initiate, coordinate, and determine the appropriate preliminary inquiries in order to consign them to the judicial authorities and follow up the processes, as well as to seize the illicit proceeds. During 2001-2002, the UECLD initiated 131 preliminary inquiries, of which 69 have been consigned to the judiciary. It issued 130 arrests warrants and 24 condemnatory sentences involving 33 individuals, and seized 250,913,665 Mexican pesos, \$11,622,521, 1,000 Italian lira, and 1,000 Spanish pesetas. However, there continues to be a substantial lack of cooperation between the PGR and the Hacienda in money laundering investigations.

In August, investigators and prosecutors from the PGR and the Finance Ministry received training in investigative techniques and investigative task forces. It is anticipated that the use of the task force approach taught during this course will promote greater inter-agency cooperation.

In addition, FIU personnel have initiated working level relationships with federal law enforcement entities, including the PGR's Special Unit on Organized Crime (UEDO) and the Federal Investigative Agency (AFI), to support criminal investigations with ties to money laundering. Improved exchange of information among the FIU, financial institutions, and other government entities charged with money laundering investigations should facilitate successful prosecutions of criminals involved in money laundering.

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.

During 2001-2002, the GOP conducted operations in several ports of entry and departure, particularly at Mexico City International Airport where the following seizures were made: 833,027 Mexican pesos, \$8,854,545, 1,981,000 Colombian pesos, 10 pounds sterling, 110 guilders, 8,500 Taiwanese dollars, and 2,000 colons.

In addition, in December 2002, a Mexican court sentenced Jose Ocampo Verdugo to 17 years and six months in prison for money laundering. Authorities had arrested Ocampo, the owner of Caja Popular Puerto Vallarta, in November 1999, because he had laundered drug proceeds on behalf of the Amezcua drug trafficking organization. Also in December 2002, Mexican authorities charged Ivonne Sota Vega ("La Pantera") with money laundering for the Arrellano Felix Organization through the administration, purchase, and sale of real property.

Mexico has expanded its anti-money laundering legislation and developed a broad network of bilateral agreements with the United States, and regularly meets in bilateral law enforcement working groups with the United States. Nevertheless, United States requests to Mexico for the seizure, forfeiture, and repatriation of criminal assets have not met with success. Most recently, after a four-year delay, Mexico informed the United States that it would not be able to repatriate assets in an armored car robbery case in which the convicted criminal in the United States admitted that all the funds he deposited into an account in Mexico were funds he stole from the victim financial institution. United States efforts to obtain financial records have been unsuccessful, despite the existence of new agreements and mechanisms.

The GOM and the United States Government (USG) continue to implement other bilateral treaties and agreements for cooperation in law enforcement issues, including the Financial Information Exchange Agreement (FIEA) and the Memorandum of Understanding (MOU) for the exchange of information on the Cross-border Movement of Currency and Monetary Instruments. 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.

In addition to its membership in the FATF, Mexico participates in the Caribbean FATF as a cooperating and supporting nation. Mexico is an observer member of the South American Financial Action Task Force (GAFISUD). Through membership and participation in the FATF and its regional subgroups, 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. As current President of the OAS/CICAD Group of Experts to Control Money Laundering (2002-2003), in July 2002, Mexico hosted the XV meeting of the Group. The key accomplishment during this meeting was the subsequent approval by CICAD of the incorporation of the FATF Eight Special Recommendations on Terrorist Financing into the OAS Model Regulations on Money Laundering. The GOM is a party to the 1988 UN Drug Convention, and the 2000 United Nations Convention against Transnational Organized Crime, which is not yet in force internationally. In September 2000, the GOM signed the UN International Convention for the Suppression of the Financing of Terrorism. The GOM responded to USG efforts to identify and block terrorist-related funds. Although no assets were frozen, it continues to monitor suspicious financial transactions.

The GOM should improve the mechanisms and implementation for asset forfeiture and money laundering cooperation with the United States. The GOM should consider upgrades for computer hardware and of analytical software to enhance processing and analysis of suspicious transactions and reports of large value. The GOM should also criminalize terrorist financing. Furthermore despite the preventive mechanisms that have been put in place, improved cooperation among law enforcement authorities, and a strong public campaign against corruption, the GOM continues to face challenges in prosecuting and convicting money launderers and should continue to focus its efforts on improving its ability to investigate and prosecute money launderers.

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 have 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 may be limited financial crimes outside the formal banking sector by cash dealers involved in remittances to the home countries of some foreign workers.

There are three financial institutions in the country: Bank of Guam, Bank of the FSM, and the FSM Development Bank. The Bank of Hawaii closed its FSM branches in November 2002. 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). The Bank of Guam is also FDIC insured. The FSM Banking Board performs "spot audits" on all the banks.

In December 2000, FSM enacted the Money Laundering and Proceeds of Crime Act (the Act). The Act went into effect July 1, 2001, and is codified as FSM Code, Title 11, Chapter 9. The Act criminalizes money laundering and provides for the freezing and seizure of assets. Predicate crimes include all serious offenses punishable by imprisonment of more than one year. The Act also provides for collection of financial information and intelligence, and international cooperation in money laundering matters. Micronesia began drafting implementing regulations for the Act in 2001. Legislation aimed at enhancing law enforcement cooperation with the United States and other countries in investigating serious crimes was enacted as the Mutual Assistance in Criminal Matters Act of 2000 (FSM Code, Title 12, Chapter 17). The law sets forth procedures for requesting assistance and responding to requests from other countries. Legislation to explicitly criminalize terrorist financing is pending.

FSM became a party to the UN International Convention for the Suppression of the Financing of Terrorism on September 23, 2002. The FSM Department of Justice has established a protocol for regular notification to the Banking Board of the names of suspected terrorist individuals and organizations. No assets of individuals or entities so designated have been seized or frozen.

FSM should continue to cooperate with the United States and regional groupings on money laundering and financial crimes. FSM should also continue to enhance its anti-money laundering regime by criminalizing terrorist financing and adopting and implementing the pending laws and regulations.

Moldova. Moldova is not considered an important regional financial center. Moldova's banking system is relatively new and is vulnerable to money laundering. There does not appear to be significant narcotics-related money laundering. However, there are reports that Russian crime groups purchase businesses in Moldova through which they launder illegal proceeds. The Moldovan economy is predominantly cash-based.

Moldova passed an anti-money laundering law in November 2001 and amended it on June 21, 2002. The law criminalizes money laundering for "all crimes" and requires banks and non-bank financial institutions to report suspicious transactions. Suspicious transactions are determined to be any transaction over \$7,200 for individual transactions, \$14,400 for wire transfers, and \$21,600 for transfers by a business. Travelers entering Moldova are required to complete a currency reporting form. Banks must maintain account and transaction records for five years. The law protects financial institutions against criminal, civil, and administrative liability arising from the reporting of suspicious transactions. Commercial banks can be held responsible for negligence if money laundering occurs in their institution.

The Office of the Prosecutor General has established a financial intelligence unit to initiate investigations based on suspicious transaction reports. There have been no arrests for money laundering.

In November 2001 Moldova passed the Law on Combating Terrorism, which criminalizes terrorist financing. Article 106 of the Moldovan criminal code, scheduled for enactment in January 2003, would give law enforcement authorities the ability to freeze and seize illicit funds.

Moldova became a party to the UN International Convention for the Suppression of the Financing of Terrorism on October 10, 2002. Moldova is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Moldova is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV), a FATF-style regional body.

Monaco. The Principality of Monaco is considered vulnerable to money laundering, because of its strict bank secrecy laws, extensive network of casinos and its unregulated offshore sector. 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 Monegasque 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. Casino operators must alert the government of suspicious gambling payments possibly derived from drug trafficking or organized crime. Another law imposes a five-to-ten-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, Monaco and France have reached an agreement on initiatives to counter money laundering in the principality. The French

Finance Ministry 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 March 2002, Monaco and France signed a memorandum of understanding regarding the sharing of information between the securities regulatory commissions of the two countries, in connection with money laundering.

In January 2002, Monaco and Switzerland 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. Later in the year Monaco signed similar agreements with Liechtenstein and Panama. In previous years Monaco had reached similar agreements with Luxembourg, France, Spain, Belgium, Portugal and the United Kingdom.

Monaco is a party to the 1988 UN Drug Convention. In June 2001 it submitted a notification indicating that it had ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. SICCFIN is a member of the Egmont Group of FIUs. Monaco became a party to the UN International Convention for the Suppression of the Financing of Terrorism in November 2001. In April and August 2002, Monaco promulgated Sovereign Orders to import into domestic law the international obligations it accepted when it ratified that Convention. In May 2002, Monaco acceded to the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In July and August 2002, Monaco passed Act 1.253 and promulgated two Sovereign Orders, intended to implement UNSCR 1373 to criminalize terrorism and its financing.

Monaco's actions to increase the resources of SICCFIN should increase the efficacy of Monaco's antimoney 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 financial center. Mongolia's vulnerability to transnational crimes such as money laundering 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. Mongolia does not have anti-money laundering legislation. It also has been slow in establishing interagency coordination mechanisms to help monitor international financial transactions. Moreover, growing corruption, a weak legal system, an inability to effectively patrol its borders to detect smuggling, and lack of capacity to conduct transnational criminal investigations all hamper Mongolia's ability to fight all forms of transnational crime.

Mongolia is not party to the 1988 UN Drug Convention. However, in recent years Mongolia has increased its participation in fora that focus on transnational criminal activities. For example, Mongolia has observer status in the Asia/Pacific Group on Money Laundering. Mongolia has signed, but not yet ratified, the UN International Convention for Suppression of the Financing of Terrorism.

Mongolia should pass anti-money laundering and terrorist financing legislation.

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 because of a lack of regulatory resources. 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.

Indeed the report highlighted the need to devote additional resources in order to properly supervise its offshore financial institutions. The government plans to use licensing revenues to help provide funding for additional supervisory resources but acknowledged that if it cannot dedicate the resources necessary to resolve the deficiencies noted in its report "it will recognize that there will be no option but to review its involvement in offshore finance."

Montserrat's offshore sector consists of approximately 15 offshore banks and approximately 22 international business companies (IBCs) and 30 Companies Act companies the majority of which engage

only in conducting local business. The Financial Services Centre (FSC) regulates offshore banks, whereas the Eastern Caribbean Central Bank (ECCB) 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. The government is planning to introduce captive insurance legislation that will require licensing and regulation, and until such legislation is enacted, there will be no offshore captive insurance industry. The government may also ask that the ECCB take over responsibility for supervising Montserrat's offshore banking sector as the ECCB has done in several other Caribbean jurisdictions.

U.S. law enforcement cooperation with Montserrat is facilitated by a treaty with the United Kingdom concerning the Cayman Islands relating to mutual legal assistance in criminal matters that was extended to Montserrat in 1991. Montserrat's current legislation, however, makes information exchange difficult between regulators and foreign authorities. Montserrat is a member of the Caribbean Financial Action Task Force (CFATF), and 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 that can share information with foreign authorities with appropriate safeguards. It should enact measures to identify and record the beneficial owners of IBCs and immobilize bearer shares. It should also increase resources to financial supervision, particularly in the area of on-site supervision, especially as it looks to expand its offshore sector, to help ensure that money launderers do not abuse Montserrat's financial services.

Morocco is not a regional financial center and the extent of the money laundering problem in Morocco is not known. There have been reports of money laundering activities within the country related to international arms smuggling. Morocco remains an important producer and exporter of cannabis, with estimated revenues of \$3 billion. Some of these proceeds may be laundered in Morocco and abroad. Large numbers of Moroccans have a strong economic dependence on the narcotics trade. There is no indication that international or domestic terrorist networks have engaged in wide-spread use of the narcotics trade to finance terrorist organizations and operations in Morocco. There are reports that money may be laundered through bulk cash smuggling 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 offshore banks.

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 specified transaction records.

As of January 2003, Morocco is moving towards the enactment of a single unified law to combat terrorism financing and money laundering. The legislation mandates specific reporting requirements by banks. It also designates the Central Bank as the country's lead financial enforcement entity and specifies investigative procedures. Morocco should enact legislation that adheres to world standards. Morocco is a party to the UN International Convention for the Suppression of Financing of Terrorism.

Mozambique: Mozambique is not a regional financial center. Most money laundering in Mozambique is related to bank fraud and corruption. However, lax oversight and weak banking regulations suggest that Mozambique's financial institutions are vulnerable to money laundering. In particular, there is growing 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 non-bank financial sector, primarily comprised of exchange houses, may be susceptible to money laundering. In August 2002, an Indian national with connections to a Maputo exchange house was detained at an airport in Mozambique attempting to board a flight to Johannesburg with approximately \$1 million. He subsequently escaped from jail.

Mozambique's National Assembly passed an anti-money laundering law in December 2001, which was ratified by the Council of Ministers on February 5, 2002. As of the end of 2002, however, implementing regulations had not been drafted. The law extends the crime of money laundering to encompass predicate offenses beyond narcotics-trafficking to most other serious crimes. The law also allows for asset seizure and forfeiture and requires financial institutions to verify the identity of their customers, keep transaction records for at least 15 years, and report suspicious transactions. The law protects employees of financial institutions who cooperate with money laundering investigations and exempts such cooperation from bank and professional secrecy rules. The law also contains "banker negligence" provisions, which 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 authorize the tapping of phone conversations as part of financial investigations.

Customs regulations require those entering or leaving the country with foreign currency or negotiable instruments in amounts greater than \$5,000 to file a report with Customs. Taking local currency out of the country is prohibited. In December 2002, South African authorities apprehended a Pakistani national attempting to cross the South Africa-Swaziland border with \$40,000 hidden under his clothing. He had traveled numerous times between South Africa and Mozambique.

The Government of Mozambique (GOM) has the authority to freeze and seize assets related to terrorist financing. The GOM has circulated the list of terrorist individuals and entities designated by the UN 1267 Sanctions Committee, as well as the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224.

Mozambique is a member of the Eastern and Southern Africa Anti-Money Laundering Group, a FATF-style regional body. Mozambique has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Mozambique is a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Mozambique should implement its anti-money laundering law, establish a Financial Intelligence Unit, and criminalize terrorist financing.

Namibia. Namibia is not a regional financial center. Namibia has 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 be laundered through Namibian banking institutions.

Namibia has not criminalized money laundering. Banks are required to report suspicious transactions and to record and report the identity of customers engaging in large transactions. Bankers and other individuals making suspicious transaction reports are protected by law with respect to their cooperation with law enforcement authorities. Banks and other financial institutions are required to maintain records related to large transactions and make those records available to government authorities for use in narcotics-related and other criminal investigations.

Namibia is in the process of drafting an anti-money laundering law that would apply to bank and non-bank financial institutions. The law would criminalize money laundering and terrorist financing. It would also address cross-border currency reporting requirements and information sharing with foreign law enforcement authorities. Other aspects of the bill are still being considered.

In August 2001, Namibia hosted the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) Task Force and Ministerial Council Meeting. Namibia served as the Chair of ESAAMLG from August 2001 until August 2002.

Namibia is not a party to the 1988 UN Drug Convention. On August 16, 2002, Namibia ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Namibia has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

Namibia should pass a law that criminalizes money laundering and terrorist financing as part of a viable anti-money laundering regime, as it has committed to doing through its membership in ESAAMLG.

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.

In June 2000, the Financial Action Task Force (FATF) placed Nauru on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against 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 toward 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 Money Laundering and Proceeds Crime Act of 2001 (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 accountholders, 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 AMLA 2001. The FISA will also be the recipient of reports of suspicious transactions filed by financial institutions. Thus far, FISA has not been formed and no suspicious transaction reports have been filed.

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.

In January 2002, the U.S. Treasury Department supplemented its previously issued advisory by reminding U.S. banks and other financial institutions of their obligations under the newly enacted Section 313 of USA PATRIOT Act of 2001 concerning correspondent accounts with foreign shell banks. Under this new law, U.S. financial institutions, as well as other financial institutions operating in the United States, are required to terminate any U.S. correspondent accounts provided to foreign shell banks, and they must take reasonable steps to ensure that correspondent accounts held by foreign banks are not being used to provide U.S. banking services indirectly to foreign shell banks.

On Friday, December 20, 2002, the Secretary of Treasury, after consultation with the Departments of Justice and State, as well as other concerned U.S. government agencies, designated Nauru as a jurisdiction of "primary money laundering concern" under section 311 of the USA PATRIOT Act (the Act). In the announcement, the U.S. Treasury published a list of 161 banks licensed by the Republic of Nauru, the majority of which are believed to be shell banks. Under the Act, once a jurisdiction has been designated as a "primary money laundering concern" there are five special measures that can be imposed, either individually or jointly in any combination. In the announcement, U.S. Treasury proposed invocation of special measure five, requiring U.S. financial institutions to close payable-through or correspondent accounts involving the designated country.

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 has observer status within the Asia/Pacific Group on Money Laundering. Nauru has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Nauru has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Nauru continues to remain on the FATF NCCT list, having failed to address the vulnerabilities to its offshore sector. Nauru's government should act immediately to abolish its offshore banking sector, which, because it consists primarily of shell banks, cannot be adequately supervised to ensure that it is not exploited by transnational criminal elements. Nauru must pass and enact banking regulations to bolster its AMLA 2001. Nauru must set up its Financial Institutions Supervisory Authority and begin accepting suspicious transaction reports, as set out in the AMLA 2001. Nauru should criminalize the financing and support of terrorists and terrorism.

Nepal. Nepal is not a regional financial center and 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 legislation on money laundering, mutual legal assistance and witness protection, developed as part of the GON's Master Plan for Drug Abuse Control, remained stalled in 2002. Banks are not required to record the identity of customers engaging in significant transactions. However, any Nepalese citizen who wishes to open a foreign currency account must obtain a license to do so from the National Bank (NRB), and Nepalese citizens wishing to take currency overseas must obtain a letter of credit from a bank recognized by the NRB. The NRB has the authority to seize any assets that it determines to be the proceeds of illegal activity. Nepal has explored the development of an offshore sector.

The hawala system (hundi in Nepal), in which illegal proceeds are laundered through alternative informal remittance systems, is widespread. There have been no significant initiatives to regulate the system in Nepal. In Nepal, hundi is linked to the issues of capital flight, tax avoidance, and corruption. Reportedly, efforts to provide transparency in hawala transactions in foreign jurisdictions have resulted in the increased use of regulated financial institutions in Nepal.

Money Laundering and Financial Crimes

Nepal is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. No suspect assets belonging to entities on UN list 1267 have been identified in Nepal. Nepal is a party to the 1988 UN Drug Convention.

Nepal should enact anti-money laundering and counter-terrorist finance legislation and develop a comprehensive anti-money laundering regime that would require the mandatory filing of suspicious transaction reports, and establish a financial intelligence unit. The GON should also initiate training for law enforcement and customs agencies to enable them to recognize and investigate money laundering.

Netherlands Antilles. The Aruba, which has autonomous control over its internal affairs, is a part of the Kingdom of the Netherlands. The Netherlands Antilles is comprised of Curacao, Bonaire, 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, 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 launderers.

The Netherlands Antilles has a significant offshore financial sector with 39 international banks and approximately 50 trust companies providing financial and administrative services to their international clientele, including 18,750 international companies, mutual funds, and international finance companies. The law and regulations on bank supervision state that international banks must have a physical presence on the island and hold records there. The Central Bank supervises the international banks. Authorities in other countries supervise some mutual funds. International corporations may be registered using bearer shares. It is the practice of the financial sector in the Netherlands Antilles to maintain copies of bearer share certificates for international corporations, which include information on the beneficial owner, either with the bank or the company service providers. There is a proposal to require that the name of the ultimate beneficial owner of the bearer share be recorded in a registry and made accessible to law enforcement officials upon a treaty-based request for the information.

Onshore banks are increasingly using their discretionary authority to protect themselves against money laundering. The largest commercial bank has lowered its limits on moneygrams from \$10,000 to \$2,000. Banks are reluctant to do business with the Internet gaming providers, provoking complaints from that sector.

Money laundering is a crime. Legislation in 1993 and subsequent interpretations regarding the "underlying crime" establish that prosecutors do not need to prove that a suspected money launderer also committed an underlying crime in order to obtain a money laundering conviction. It is sufficient to establish that the money launderer knew, or should have known, of the money's illegal origin. In 2000, the National Ordinance on Freezing, Seizing, and Forfeiture of Assets derived from crime went into effect. The law allows the prosecutor to seize the proceeds of any crime once the crime is proven in court.

Over the past couple of years, the GONA has taken steps to strengthen its anti-money laundering regime by expanding suspicious activity reporting requirements to gem and real estate dealers; enhancing the possibilities of freezing, seizing, or the forfeiture of criminal assets; introducing indicators for the reporting of unusual transactions for the gaming industry; issuing guidelines to the banking sector on detecting and deterring money laundering; and modifying existing money laundering legislation that penalized currency and securities transaction, by including the use of valuable goods. In 2002, the largest money laundering case took place in Aruba and is still pending before the courts.

In 2002 a new ordinance, called the "National Ordinance on the Supervision of Fiduciary Business," instituted a Supervisory Board that oversees the international financial sector. The GONA plans to bring the supervision of this sector under the Central Bank's supervisory authority. At the same time, GONA subjected the members of this sector to "know-your-customer" rules. Also in May 2002 cross-border currency reporting legislation came into force. The law specifies reporting procedures for an individual bringing in or taking out more than NAF 20,000 (approximately \$11,000) in cash or bearer instruments. In

July, an individual traveling from Puerto Rico and carrying \$193,000 in a suitcase, destined for the free trade zones, was arrested for failing to declare the cash under this new law.

A legislative proposal giving the Central Bank authority to supervise the mutual fund sector is expected to go into effect as early as January 2003. The free trade zones are minimally regulated; however, administrators and businesses in the zones have indicated an interest in receiving guidance on detecting unusual transactions. This guidance is expected to be prepared in early 2003.

Unusual transactions are by law reported to the Financial Intelligence Unit called the Netherlands Antilles Reporting Center, Meldpunt Ongebruikelijke Transacties (MOT NA). As of November 21, 2002, the MOT NA had received 25,323 unusual transaction reports, and the unit analyzed and disseminated 781 unusual transaction reports to authorities. The number of reports received is a sharp increase over the 7,700 reported in 2001 and reflects additional indicators, an expansion in reporting institutions and a backlog in processing.

The current staff of the MOT NA continues to work diligently to enhance the effectiveness and efficiency of its reporting system. In 2002, the MOT NA had a staff of five, an increase from a fluctuating two-four in 2001; in 2003 the staff is expected to increase by another five members. Significant progress has been made in automating suspicious activity reporting; in 2002 reporting institutions sent 99.2 percent of their reports to the MOT NA electronically. One hundred percent of the dissemination is now done on-line, and soon most of the matches with external databases will be done electronically. The MOT NA has issued a manual for casinos on how to file reports and has started to install the software in the casinos, which will allow the reports to be submitted electronically.

On October 18, 2002, the GONA published new indicators for the reporting of unusual transactions with regard to terrorism financing. The new indicators require that unusual transactions reported to the police or judicial authorities in connection with money laundering or the financing of terrorism must also be reported to the MOT NA. This requirement also extends to unusual transactions relating to credit cards and money transfers, as well as to unusual transactions with regard to game of chance transactions.

The MOT NA is an active member of the Egmont Group. Netherlands Antilles law allows the exchange of information between the MOT NA and foreign Financial Intelligence Units by means of memoranda of understanding (MOUs) and by treaty. In 2002 the MOT NA received 32 requests for information on 782 subjects. The MOT NA issued eight requests for information on 25 subjects. The MOT NA's policy is to answer requests within 48 hours after receipt. However, the large lists of terrorist inquiries have presently forced the MOT NA to an average answering time of eight days.

In January 2002, the GONA enacted legislation allowing a judge or prosecutor to freeze assets related to the Taliban cum suis and Usama Bin Ladin cum suis (cum suis means that all companies and persons connected with Usama Bin Ladin are included.). The legislation contains a list of individuals and organizations suspected of terrorism. The Central Bank instructed financial institutions to query their databases for information on the suspects and to immediately freeze any assets that were found. In October 2002, the Central Bank instructed the financial institutions under its supervision to continue these efforts and to consult the UN website for updates to the list.

As part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the Financial Action Task Force (FATF). It is a member of the Caribbean Financial Action Task Force (CFATF). In 1999, the Netherlands extended application of the 1988 UN Drug Convention to the Netherlands Antilles. The Kingdom of the Netherlands, of which the Netherlands Antilles is a part, signed the International Convention for the Suppression of the Financing of Terrorism on January 10, 2000. In accordance with Netherlands Antilles law, which stipulates that all the legislation must be in place prior to ratification, the Government of the Netherlands Antilles is preparing legislation which will enable the Netherlands Antilles to ratify the Convention. The Netherlands's Mutual Legal Assistance Treaty with the United States also applies to the Netherlands Antilles. With regard to requests for assistance relating to fiscal offenses addressed to the Netherlands Antilles, an agreement was signed in April 2002 between the

Netherlands, and the United States, which is also applicable to the Netherlands Antilles, for the exchange of information with respect to taxes. This agreement is scheduled to come into force on January 1, 2004.

The Government of the Netherlands Antilles has shown a commitment to combating money laundering by establishing a solid anti-money laundering program. An increase to the MOT staff is particularly notable. The GONA should criminalize the financing of terrorists and terrorism, and its focus should continue on increasing regulation and supervision of the offshore sector and free trade zones and pursuing money laundering investigations and prosecutions.

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 most likely controlled by major drug cartels and other international criminal organizations. The Netherlands' Security Service investigates terrorist financing, and is cooperating with law enforcement entities that are experienced in this area.

In 1994, the Netherlands criminalized money laundering related to all crimes, although prosecutors first had to prove the predicate offense before prosecuting for money laundering. In 2002, legislation was enacted making money laundering a separate offense, easing somewhat the government's burden of proof regarding the criminal origins of proceeds. Under the new law, the government needs only to prove that the proceeds "apparently" originated from a crime.

All financial institutions in the Netherlands, including banks, bureaux de change, and credit card companies, are required to report cash transactions over 2,000 euros (approximately \$2,000), as well as any less substantial transaction that appears unusual, to the Office for Disclosure of Unusual Transactions (MOT), the Netherlands' Financial Intelligence Unit (FIU). In December 2001, the reporting requirements were expanded to include commercial dealers of high-value goods. The reporting requirements are expected to be expanded in mid-2003 to include trust and service company providers, notaries, lawyers, real estate agents, accountants, tax advisors. Under the Identification of Services Act (WID), all those that are subject to reporting obligations must identify their clients, either at the time of the transaction or at some point prior to the transaction, before providing financial services.

Financial institutions are also required by law to maintain records necessary to reconstruct 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 Central Bank of the Netherlands (to the extent that 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, law enforcement officials, or tax authorities. Financial institutions and all other institutions under the reporting and identification acts and their employees are specifically protected by law from criminal or civil liability related to cooperation with law enforcement or bank supervisory authorities.

Since 1996, entities providing commercial services, such as accountants, lawyers, and notaries, have applied money laundering reporting procedures within their professions. The competent authorities have established unusual activity and transaction indicators in preparation for the implementation of the 2001 amendment to the EU Directive on Money Laundering, which will enable trust and service company providers, notaries, lawyers, real estate agents, accountants, tax advisors to report unusual transactions.

The Money Transfer and Exchange Offices Act, which was enacted in June 2002, requires money transfer offices, as well as exchange offices, to obtain a permit to operate, and subjects them to supervision by the Central Bank. Every money transfer client has to be identified.

The MOT reviews and analyzes the unusual transactions and cash transactions filed by banks and financial institutions. It forwards suspicious transaction reports with preliminary investigative information to operational law enforcement agencies and to the office for operational support of the National Public Prosecutor for MOT cases (BLOM). In 2001, the last year for which complete figures are available, the MOT recorded 76,085 unusual transactions in its database, of which it forwarded 20,233 as suspicious. In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM created an electronic

network called Intranet Suspicious Transactions. Also, a website for the actual reporting of unusual transactions by financial institutions was developed, thus completing the electronic infrastructure. Furthermore, the MOT receives data from the Public Prosecution Service/Criminal Asset Deprivation Bureau and cross checks it in the MOT database. Suspicious transaction reports with matching data from the Criminal Asset Deprivation Bureau are disseminated to the BLOM.

In 2002, the "Sanction Provision for the Duty to Report on Terrorism" became effective. This new ministerial decree requires financial institutions to report all transactions (actually carried out or intended) that involve persons, groups, and entities that have been linked, both domestically and internationally, with terrorism, to the MOT. Terrorist financing is a crime in the Netherlands.

The MOT is a member of the Egmont Group of FIUs. It is also involved in efforts to expand cooperation between disclosure offices, particularly within the EU. The Netherlands 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. The Dutch participate in the Basel Committee, and have endorsed the Committee's "Core Principles for Effective Banking Supervision". In February 2002, the Netherlands became a party to the UN International Convention for the Suppression of the Financing of Terrorism. The Netherlands has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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 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, as well as an Agreement regarding Mutual Cooperation in the Tracing, Freezing, Seizure and Forfeiture of proceeds and Instrumentalities of Crime and the Sharing of Forfeited Assets.

In the past two years, a group of European FIUs (the United Kingdom, France, Italy, Luxembourg, and the Netherlands) developed a network system called FIU NET for international information exchange. The task force that manages this process is chaired by the head of the MOT.

Since March 2002, the MOT has been the main contractor for the European Commission in a Anti-Money Laundering Project for the PHARE (Economic Reconstruction Assistance to Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria, Cyprus, and Malta) program. The purpose of the project is to provide support to Central and Eastern European countries in the development and/or improvement of anti-money laundering regulations. For this purpose, the MOT has established a project team of six persons. In addition to the team, there is a consortium of international experts. The PHARE Anti-Money Laundering Project will continue until December 25, 2003.

The Netherlands has a comprehensive anti-money laundering regime.

New Zealand. New Zealand is not a major regional or offshore financial center. It has a small number of banks and financial institutions whose operations can be effectively monitored by government authorities. There is evidence that some money laundering does take place, although not to a significant extent. Narcotics proceeds and commercial crime are the primary sources of illicit funds. International organized criminal elements do operate 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 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. The Act also contains a "safe harbor" provision and requires the reporting of large cross-border currency movements.

The Terrorism Suppression Act, enacted in October 2002, criminalized terrorist financing. This Act also made the necessary changes to the existing law to enable New Zealand to ratify the UN International

Convention for the Suppression of the Financing of Terrorism on November 4, 2002. The Act gives the government wider authority to designate entities as terrorist organizations and freeze their assets. The Prime Minister is responsible for making the designation upon a recommendation prepared by the New Zealand Police. Once the designation is made, the New Zealand Police informs banks and other appropriate parties. A public notice is also published. The Police are currently developing additional procedures to implement the provisions of the Terrorism Suppression Act.

New Zealand has consistently implemented financial controls against entities included on the UN 1267 Sanctions Committee consolidated list. It has not yet identified in New Zealand any assets from these entities.

New Zealand and the United States do not have a Mutual Legal Assistance Treaty. However, New Zealand legislation applies certain provisions of the Mutual Assistance in Criminal Matters Act 1992 unilaterally to the United States. In practice, New Zealand and U.S. authorities have had a good record of cooperation and information sharing in this area.

New Zealand is a party to the 1988 UN Drug Convention, and in July 2002, ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. New Zealand is a member of the Financial Action Task Force, the Asia/Pacific Group on Money Laundering (APG), and the Pacific Islands Forum. Its Financial Intelligence Unit is a member of the Egmont Group. The New Zealand government has played a leadership role in promoting efforts to combat money laundering in the South Pacific region, providing substantial amounts of technical assistance and training.

New Zealand has established a comprehensive anti-money laundering regime. It should build upon this base by continuing its implementation of its Terrorism Suppression Act. Additionally, New Zealand should continue its recognized leadership in the international arena.

Nicaragua. While Nicaragua is not a regional financial center, Nicaragua's status as a drug transit zone and its highly vulnerable banking system make the country an attractive target for narcotics-related money laundering.

The Government of Nicaragua (GON) has pledged to fight terrorism, money laundering, and narcotics-trafficking. However, resource constraints and corruption complicate efforts to counter these threats. Between August 2000 and 2001, four of Nicaragua's eleven banks failed 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 narcotics-trafficking and other illicit activities. Law 285 of 1999 reformed Law 177 and requires banks to report cash deposits that exceed \$10,000 to the Bank Superintendency, which forwards these reports for analysis to the Commission of Financial Analysis (CFA) within the National Anti-Drug Council. Though not a Financial Intelligence Unit, the CFA is assigned responsibility for detecting money laundering trends, coordinating with other investigative agencies, and reporting its findings to the National Anti-Drug Council. On paper, the CFA is composed of representatives from various elements of law enforcement and banking regulators, but in practice the CFA is not operational.

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 \$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.

Currently, there is a new law that has been put before the Nicaraguan National Assembly establishes money laundering as an autonomous crime (the previous law was ambiguous in a way that allowed some to argue that only money laundering connected to illicit drug activity was illegal) and requires more stringent reporting of large or suspicious bank deposits. The new legislation also sets up a Commission of

Financial Analysis that will conduct both analysis and investigations. The law is expected to be enacted in 2003.

During the past year, the GON has pushed a strong anti-corruption campaign. Several prominent figures from the previous administration have been arrested and provisionally convicted for corruption and money laundering. Other major figures are now using parliamentary immunity to avoid facing money laundering charges in local courts.

Nicaragua is a party to the 1988 UN Drug Convention, and has ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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 also became a party to the UN International Convention for the Suppression of the Financing of Terrorism on November 14, 2002. Nicaragua ratified the OAS Mutual Legal Assistance Convention in 2002. Nicaragua was reinstated to the Caribbean Financial Action Task Force (CFATF) in 2002 after having been suspended due to a lack of participation.

The GON should begin allocating resources and developing technical expertise for complete operation of the CFA in order to strengthen its financial systems against money laundering and terrorist financing and ensure compliance with relevant anti-money laundering controls. The GON also should take a more active stance vis-à-vis the international community, which could provide useful support and anti-money laundering training.

Niger. Niger is not a regional financial 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. Black market currency exchanges operate freely and currency easily flows unregulated through Niger's porous borders. Most economic activity takes place in the informal sector.

The Central Bank of West African States (BCEAO), based in Dakar, Senegal, is the Central Bank for the countries in the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. In September 2002, the WAEMU Council of Ministers, which oversees the BCEAO, issued a directive requesting that each member country set up a national committee under their Minister of Finance to deal with financial information as it relates to money laundering. The BCEAO would be in charge of coordinating such committees. Each member country is now responsible for putting legislation in place to implement this directive, and the legislation is expected to be harmonized regionally.

Although currently there are no legal requirements to do so, banks in Niger report suspicious activity to the BCEAO and to local law enforcement. In 2002, one bank account in Niger was frozen due to its relationship to illegal financial activity.

The WAEMU Council of Ministers issued another directive in September 2002 requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations targeted by the UNSCR 1267/1390 consolidated list.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Niger. In July 2002, Niger participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and money laundering.

Niger is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Niger is a member of the West African Economic and Monetary Union (WAEMU).

Niger should criminalize money laundering and terrorist financing. Niger should also make suspicious transaction reporting mandatory.

Nigeria. The Federal Republic of Nigeria is the most populous country in Africa and is West Africa's largest economy. Nigeria is a hub of trafficking in persons, narcotics-trafficking, and criminal financial activity for the entire continent. Nigerian trafficking and money laundering organizations have proven adept at devising new ways of subverting international and domestic law enforcement efforts and evading detection. This success in avoiding detection and prosecution has led to an increase in financial crimes of all types, including bank fraud, real estate fraud, identity theft, and advance fee fraud. Despite the efforts of the government to counter years of rampant corruption, crime continues to plague Nigerians.

Advance fee fraud is a lucrative financial crime that generates for criminals hundreds of millions of dollars in illicit profits annually. Initially Nigerian criminals made advance fee fraud infamous; recently nationals of many African countries and from a variety of countries around the world have begun to perpetrate it. This type of fraud is referred to internationally as "Four-One-Nine" fraud (419 is a reference to fraud section in Nigeria's criminal code). While there are many variations, the main goal of 419 fraud is to trick victims into payment of an advance fee by persuading them that they will receive a very large benefit in return. These "get rich quick" schemes have ended for some victims in monetary losses, kidnapping, or murder. Businesses and individuals around the world have been and continue to be targeted by perpetrators of 419 fraud, often via the Internet.

In the past, attempts to prosecute narcotics and money laundering cases have been hampered by an ineffective judicial system and widespread government corruption. Nigeria was ranked 101st out of 102 on Transparency International's 2002 Corruption Perceptions Index.

In June 2001, the Financial Action Task Force (FATF) placed Nigeria on the list of Non-Cooperative Countries and Territories (NCCT) in combating money laundering. Among the deficiencies cited by FATF were the failure to criminalize money laundering for offenses other than those related to narcotics, the lack of customer identification requirements for over-the-counter transactions under a threshold of \$100,000, inadequate suspicious transaction reporting requirements, the absence of anti-money laundering measures applied to stock brokerage firms and other financial institutions, and the high level of government corruption. In April 2002, FinCEN, the U.S. Financial Intelligence Unit, issued an Advisory to inform banks and other financial institutions operating in the United States of serious deficiencies in the anti-money laundering regime of Nigeria.

In June 2002, FATF stated that it would consider recommending countermeasures against Nigeria at its October 2002 plenary if Nigeria did not engage with the FATF Africa Middle East Review Group and move quickly to enact legislative reforms that addressed FATF concerns. In October, noting that the Government of Nigeria (GON) had begun to take legislative action, FATF recommended countermeasures against Nigeria if the GON did not enact sufficient legislative reforms by December 15, 2002.

On December 14, 2002, the National Assembly of Nigeria passed three pieces of anti-money laundering legislation. President Obasanjo signed the legislation into law the same day. The first piece of legislation— "An Act to Amend the Money Laundering Act 1995 and for Matters Connected Therewith"—requires customer identification for over-the-counter transactions over \$5,000, and specifies penalties for failure to comply. Under the law, financial institutions must report cash transactions that exceed one million naira (approximately \$8,800) for individuals and five million naira (approximately \$45,000) for corporate bodies. The amendment also criminalizes money laundering for all crimes. The second piece of legislation—an amendment to the Banking and Other Financial Institutions Act (BOFI)—expands anti-money laundering measures to cover stock brokerage firms and foreign currency exchange facilities. The BOFI amendment

also gives the Central Bank greater authority to freeze suspicious accounts and to deny bank licenses. Finally, "An Act to Provide for the Establishment of a Commission for Economic and Financial Crimes and for Matters Connected Therewith" (Financial Crimes Commission Act) establishes the Financial Crimes Commission (FCC)—a Financial Intelligence Unit that will coordinate anti-money laundering investigations and information sharing. The FCC will have the authority to share information with the Financial Intelligence Units of other countries. The Financial Crimes Commission Act criminalizes terrorist financing.

Nigeria is a party to both the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Nigeria has signed, but is not yet a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

The United States and Nigeria signed a Mutual Legal Assistance Treaty (MLAT) in 1989, which entered into force in January 2003. Nigeria has signed memoranda of understanding with Russia, Iran, India, Pakistan, and Uganda to facilitate cooperation in the fight against narcotics-trafficking and money laundering.

The GON should create the FCC and ensure that it is adequately staffed and funded. Nigeria should enact legislation that requires financial institutions to report suspicious transactions regardless of whether the financial institution decides to carry out the transaction. The GON should continue to engage with FATF to ensure that Nigeria's remaining anti-money laundering deficiencies are corrected so that Nigeria has a viable anti-money laundering regime that comports with all international standards and is capable of sharing information with foreign regulatory and law enforcement agencies globally.

Niue. Niue is a self-governing parliamentary democracy in the South Pacific that maintains a free association with New Zealand. Niueans are citizens of New Zealand and are part of the British Commonwealth.

Concerns were raised in the past about Niue's vulnerability to money laundering. Legislation from the mid-1990s created an offshore financial center heavily dependent upon international business companies (IBCs). In addition, a small number of offshore banks were licensed. 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 International Business Companies Act of 1994 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. Niue does not require the disclosure of beneficial ownership of IBCs, permits bearer shares, allows the marketing of shelf companies, and does not require IBCs to keep a register of directors. Internet marketers also offer shelf companies complete with associated offshore bank accounts and mail-drop forwarding services. Regardless of how the IBCs are marketed, all are legally formed and registered by a Panamanian law firm on behalf of Niue.

In June 2000, the Financial Action Task Force (FATF) placed Niue on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering because of numerous deficiencies in Niue's anti-money laundering regime. In particular, the report cited deficiencies in customer identification requirements, and concerns that the structure and effectiveness of the regulatory regime for offshore financial institutions and IBCs were inadequate. Following the FATF exercise, the U.S. Treasury Department issued an advisory to United States financial institutions advising them to give enhanced scrutiny to all financial transactions involving Niue.

The Proceeds of Crime Act 1998 criminalizes the laundering of proceeds from any offense punishable by at least one year in prison. 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.

Niue enacted the Financial Transactions Reporting Act (FTRA) in November 2000. The FTRA 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. Specifically, 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. For example, section 11 of the FTRA requires that financial institutions verify the identity of customers who wish to conduct a transaction. Subsection 11(2) provides a loophole in that a financial institution dealing with an intermediary need establish the identity of the underlying customer only if the transaction exceeds \$10,000.

The FTRA also calls for the establishment of a Financial Intelligence Unit (FIU) within the office of the Attorney General. The FIU has still 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.

In June 2002, Niue brought into force the International Banking Repeal Act. This Act eliminated Niue's offshore banks. As a result, all offshore banking licenses have been terminated. In addition, Niue now maintains in country a mirror of the IBC registry kept in Panama. All company registration information is kept on island by a registered agent and is accessible to appropriate officials.

Due to these reforms, the FATF decided in October 2002 that Niue has in place an anti-money laundering system that generally meets international standards. Niue was therefore removed from the NCCT list. The U.S. Treasury Department subsequently withdrew its June 2000 advisory to U.S. financial institutions Niue.

Niue is not a member of the United Nations. In November 2001, the government amended the United Nations Act 1946 so as to enable the Cabinet to promulgate regulations giving effect to UN Security Council resolutions. The government of Niue is reviewing its legislation to comply with UN Security Council Resolution 1373. This will include making terrorist financing a criminal offense and authorizing the freezing of assets or accounts. Niue is a member of the Asia/Pacific Group on 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 involved with 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 should continue to enhance its anti-money laundering legislation. Recent reforms address some of the deficiencies in Niue's anti-money laundering regime; however, the government must finalize and promulgate the necessary regulations to bring the legislation into full force, including the establishment of a FIU. Niue must ensure that the recently enacted reforms are fully and effectively implemented. Additionally, Niue should criminalize terrorist financing.

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 and takes place outside its financial system. However, structuring of deposits still appears to be a problem within the financial system. According to Oekokrim, 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.

The Norwegian Penal Code includes many criminal offenses as predicates to money laundering. Current money laundering statutes require financial institutions to report large and suspicious transactions to Oekokrim, to verify the identity of their customers, and to keep records of transactions for at least five

years. Large cross-border cash transactions by banks are routinely reported to the Central Bank and kept on file. Individual bankers may be held responsible if their institutions are used to launder money. Norway's anti-money laundering legislation has been strengthened in recent years to conform to the FATF Forty Recommendations.

The Banking, Insurance, and Securities Commission of Norway monitors the financial markets and financial institutions, issues warnings, forwards the consolidated UNSCR 1267/1390 list of terrorist entities and individuals to financial institutions, and issues orders to freeze assets and funds. The Commission conducts on-site inspections to monitor the finance sector and to ensure that the regulations are complied with correctly. The Commission has also taken steps to strengthen reporting requirements of charitable entities.

There were approximately 30 major arrests and/or prosecutions for money laundering in Norway in 2001 and 25 in 2002. Law enforcement officials have the authority to freeze and confiscate assets during money laundering investigations. Suspicious or unusual transaction reports filed by financial institutions have steadily increased over the past four years from 788 reports in 1999 to 992 reports in 2001. There have been 745 suspicious transaction reports filed as of June 30, 2002.

On June 28, 2002, a new bill entered into force, permanently establishing legislative measures against acts of terrorism and the financing of terrorism, and fulfilling the requirements of the UN International Convention for the Suppression of the Financing of Terrorism. Norway ratified this Convention on July 15, 2002. Norway has now ratified all 12 of the International Conventions and Protocols relating to terrorism.

Norway has the authority to identify, freeze, and seize terrorist financial assets. On October 11, 2002, Norway adopted the EU's Common Position on the Application of Specific Measures to Combat Terrorism. No investigations have yet been conducted involving violations of terrorist financing provisions. However, one money laundering and banking case has been associated with the use the Dahabshiil and Al-Barakaat hawala systems.

Norway is a member of the Financial Action Task Force (FATF). Oekokrim is a member of the Egmont Group. Norway 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. Norway has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Oman. Oman is not a regional or offshore financial center and 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 and 10 foreign branches. There are also nine foreign incorporated banks with 27 branches in the country. Smuggling trade goods across Oman's long borders and coastline is becoming an increasing concern. Oman may also be vulnerable to forms of trade-based money laundering and customs fraud.

In March 2002, Royal Decree No. 34/2002 was issued promulgating "The Law of Money Laundering." This new law strengthened the existing money laundering regulations by detailing bank responsibilities, widening the definition of money laundering to include funds obtained through any criminal means, and providing for the seizure of assets and other penalties. The new law applies to other types of non-bank financial institutions as well. As of the end of 2002, there had been no arrests under the new law.

The Royal Oman Police (ROP), in coordination with the CBO, is responsible for investigating money laundering activities. Banks are required to know their customers and report all suspicious transactions. Oman has plans to establish a Financial Intelligence Unit (FIU) that will receive suspicious transactions and help coordinate resulting investigations. Oman regulates charitable organizations.

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. Oman has responded to terrorist asset freeze lists by distributing the lists to all

banks and other financial institutions in the country for checking against their accounts. Thus far, the Government of Oman has reported negative results.

Oman should continue to implement its anti-money laundering program, specifically creating a FIU and training criminal investigators to initiate money laundering investigations from the field. Oman also should become more aware of the dangers of alternative remittance systems to launder money and transfer value such as hawala and trade-based money laundering. Oman should also criminalize terrorist financing.

Pakistan. Financial crimes related to narcotics-trafficking, terrorism, smuggling, tax evasion, and corruption remain a significant problem in Pakistan. Production of narcotics in Pakistan is negligible, but Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. The proceeds of narcotics-trafficking and funding for terrorist activities are often laundered by means of the alternative remittance system called hawala. This system is also widely used by the Pakistani people for legitimate purposes. A nexus of private, unregulated charities has also emerged as a major source of illicit funds for international terrorist networks.

The Control of Narcotics Substances Act of 1996 criminalizes 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. Pakistan's Ministry of Finance in 2002 drafted anti-money laundering and anti-terrorist financing legislation to bring Pakistan into compliance with international norms. As of late December 2002, this legislation was awaiting consideration by the newly elected National Assembly.

Pakistan's cooperation in Operation Enduring Freedom has brought renewed focus on the role of informal financial networks in financing terrorist activity. In July 2002, the Government of Pakistan (GOP) passed an ordinance regulating hawala moneychangers and facilitating cross-verification of financial transactions between Pakistan and the Gulf States. These measures have led to the registration and formalization of many hawala businesses, but a significant number continue to operate outside the legal framework. A large percentage of hawala transfers to Pakistan consists of the repatriation of wages from the roughly five million Pakistani expatriates residing abroad. There have also been reports of money laundering using gold and gems. Trade-based money laundering is also prevalent. Goods such as foodstuffs, electronics, vegetable oils, and other products that are primarily exported from Dubai to Karachi are then forwarded, at least on paper, to Afghanistan via the Afghan Transit Trade. Through smuggling, corruption, avoidance of customs duties and taxes, and barter deals for narcotics, many of the goods destined for Afghanistan find their way into the burgeoning Pakistani black market. The trading in these goods and commodities is also believed to be used to provide counter-valuation in hawala transactions.

Currently, Pakistan does not have a financial intelligence unit (FIU). Pakistan's National Accountability Bureau, Anti-Narcotics Force, Federal Investigative Agency (FIA), and Customs oversee Pakistan's antimoney laundering efforts. The National Accountability Bureau has been successful in investigating and prosecuting corruption. Pakistan is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. As of January 2003, Pakistan had not signed the UN International Convention for the Suppression of the Financing of Terrorism, but has identified and blocked terrorist assets. Pakistan became a member of the FATF-style regional body, the Asia/Pacific Group on Money Laundering in 2000.

Pakistan should move quickly to enact anti-money laundering and anti-terrorist financing legislation that conforms to international standards. It also should issue financial regulations that mandate the reporting of all suspicious transactions and establish an FIU. In addition, in light of the role that private charities have played in terrorist financing, the GOP should develop a system to regulate charitable organizations and to shut down those charitable organizations that finance violence and terrorism. More emphasis should be put on the misuse of trade to launder money. The misuse of the Afghan Transit Trade should be examined. Customs needs assistance in automation, efforts to control smuggling, and training in how

to recognize money laundering. Law enforcement also needs training in investigating financial crimes. The judicial sector needs to be strengthened and should develop more familiarity with money laundering. Tax reform will also be an essential component in helping to counteract the appeal of hawala.

Palau. An archipelago in the Western Pacific with a population of about 19,000, 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 to address financial security through banking regulation and supervision, and the establishment of 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 transaction 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 \$10,000, or its equivalent in foreign cash or bearer securities. This threshold reporting also covers domestic or international transfers of currency or securities involving a sum greater than \$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. This Act also contains provisions allowing the freezing and forfeiture of assets that are the proceeds of a crime.

The Financial Institutions Act of 2001 established the Financial Institutions Commission, an independent regulatory agency that 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.

Palau has enacted several legislative mechanisms to foster international cooperation. The Mutual Assistance in Criminal Matters Act (MACA), also 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 acceded to the UN International Convention for the Suppression of the Financing of Terrorism on November 14, 2001. Palau forwarded to its financial institutions the names of suspected terrorists and terrorist organizations and asked that any assets or accounts belonging to those individuals or entities be immediately reported to the Government and seized. No such assets have been found. Anti-terrorism legislation has been drafted and is expected to be introduced to the National Congress shortly. Additionally, the Task Force on Anti-Terrorism and Homeland Security has been created and is reviewing Palau's efforts to detect and prevent terrorism in the Republic.

Palau is a member of the Asia/Pacific Group on 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 on Money Laundering.

Palau has taken several steps toward enacting a legal framework with which to combat money laundering. Palau should continue its efforts to implement the broad-based legal reforms already put in place. If the draft of the pending anti-terrorism legislation does not specifically criminalize the support and financing of terrorists, Palau should insert such a provision.

Panama. Despite significant progress to strengthen Panama's anti-money laundering regime since October 2000, money laundering remains a serious problem in Panama and is a potential threat to the stability of the country's legitimate financial institutions. Panama's proximity to major drug-producing countries, its sophisticated international banking sector, its 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 particularly 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 financial sector includes 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. The high volume of trade occurring through Panama's Colon Free Trade Zone (there are approximately 2,040 businesses established in the Zone) presents opportunities for trade-based money laundering to occur.

In June 2000, the Financial Action Task Force (FATF) identified Panama as a non-cooperative country or territory (NCCT) in international efforts to fight money laundering. 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 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, amended 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 established 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 the Financial Analysis Unit (UAF)—Panama's Financial Intelligence Unit—currency transactions in excess of \$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 \$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 amended 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 U.S. 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. In 2002 the Panamanian UAF signed memoranda of understanding with seven countries—Mexico, Italy, Guatemala, the Dominican Republic, Croatia, Honduras, and the Principality of Monaco—bringing the total to nineteen. In addition MOUs with Spain, France, Bulgaria, Colombia, Brazil, and El Salvador are awaiting signatures by those respective governments.

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, amending Executive Order 16 of 1984 relative to trust operations, provides 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 reporting transactions.

In light of these significant legislative and regulatory reforms and GOP efforts to implement these reforms, the FATF recognized in June 2001 that Panama had remedied the serious deficiencies in its antimoney laundering regime and removed Panama from FATF's list of non-cooperative countries and territories. Similarly, the U.S. Treasury Department withdrew its advisory against Panama in June 2001.

In 2002, the Ministry of Commerce and Industry issued a circular to all finance companies reminding them of the transaction-reporting requirement of Law 42. It also increased the number of inspections on finance companies, and began drafting a law to regulate the operations of pawnshops and exchange houses. The Autonomous Panamanian Cooperative Institute (IPACOOP) established a specialized unit for the supervision of loans and credit cooperatives regarding compliance with the requirements of Law 42. The National Securities Commission carried out numerous training sessions and workshops for its personnel and regulated entities. The Colon Free Zone Administration prepared and issued a procedures manual for the users of the Free Zone, outlining their responsibilities regarding prevention of money laundering and requirements under Law 42.

In December 2002, the Panamanian Legislative Assembly approved the Financial Crimes Bill (Law No. 6 of December 6, 2002), which establishes criminal penalties of up to ten years in prison and fines of up to one million dollars for financial crimes that undermine public trust in the banking system, the financial services sector, or the stock market. The penalties criminalize a wide range of activities related to financial intermediation, including the following: illicit transfers of moneys, accounting fraud, insider trading, and the submission of fraudulent data to supervisory authorities.

With support from the Inter-American Development Bank, the GOP is implementing a Program for the Improvement of the Transparency and Integrity of the Financial System. This Transparency Program is targeted at, through enhanced communication and information flow, training programs, and technology, strengthening the ability of those government institutions responsible for preventing and combating financial crimes and terrorist-financed activities.

Panama has brought cases for domestic prosecution, and the UAF routinely transfers cases to the UIF for investigation. To increase GOP interagency coordination, the UAF and Panamanian Customs are developing an office at the 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 2002, Panamanian Customs continued an anti-money laundering program at Tocumen International Airport, begun in 2001, to deter currency smuggling by seizing and forfeiting all undeclared funds in excess of \$10,000 from arriving passengers. During 2002, Panamanian customs officers at Tocumen International Airport seized \$3,745,000 in undeclared currency.

GOP cooperation in the investigation of the Hemisphere's largest Black Market Peso Exchange money laundering scheme was instrumental in the U.S. conviction in 2002 of Yardena Hebroni, owner of Speed Joyeros, a CFZ enterprise. The GOP also revoked the Panamanian residency of Hebroni, an Israeli national, after she was ordered deported from the United States. Also notable in 2002 was GOP cooperation in the investigation of large-scale political corruption, theft, and embezzlement of Government of Nicaragua funds, and money laundering by former Nicaraguan president Arnoldo Aleman and members of his government and family. The Panamanian portion of the investigation resulted in the

freezing of \$7 million of the Nicaraguan funds in Panamanian banks and in the freezing of considerable real estate holdings in Panama.

The GOP identified the combating of money laundering as one of five goals in its five-year National Drug Control Strategy issued in 2002. The Strategy commits the GOP to devote \$2.3 million to anti-money laundering projects, the largest being institutional development of the UAF. Also in 2002, the Institute of Autonomous Panamanian Cooperatives, UAF, and the Embassy Narcotics Assistance Section cosponsored a roundtable on money laundering that offered practical training to financial institutions in meeting the reporting requirements under Law No. 42.

In October the UAF, Bank Superintendency and Public Ministry inaugurated a public campaign for the prevention of money laundering that articulated the link between money laundering and terrorist financing and included television commercials co-funded by the Embassy NAS. Also in 2002, the Panamanian Gaming Commission received training on compliance and security issues from the Las Vegas Gaming Commission Seminar earlier in the year.

Panama and the United States have a Mutual Legal Assistance Treaty that entered into force in 1995. The GOP has also assisted numerous countries needing assistance in strengthening their anti-money laundering programs, including Guatemala, Costa Rica, Russia, Honduras, and Nicaragua. Panama also hosted the Sixth Hemispheric Congress on the Prevention of Money Laundering in August 2002. Panama is active in the multilateral Black Market Peso Exchange Group (BMPEG) Directive. In March 2002, the GOP signed the cooperation agreement issued by the Working Group as part of a regional effort against the black market system. Panama is a member of the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (CICAD), the Caribbean Financial Action Task Force (CFATF), and the Offshore Group of Banking Supervisors (OGBS), and the UAF is a member of the Egmont Group. Panama is a party to the 1988 UN Drug Convention.

In response to USG efforts to identify and block terrorist-related funds, the GOP continues to monitor suspicious financial transactions. Panama is a signatory to over eleven United Nations conventions and protocols addressing actions against terrorism, some dating back to 1963. During 2002, the GOP became a party to the UN International Convention for the Suppression of the Financing of Terrorism, and in 2000 signed, but has not ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Panama should criminalize terrorist financing, continue its regional assistance efforts, and continue implementing the significant reforms it has undertaken to its anti-money laundering regime, in order to reduce the vulnerability of Panama's financial sector and to enhance Panama's ability to investigate and prosecute financial crime, money laundering and potential terrorist financing.

Papua New Guinea. Papua New Guinea is not a regional financial center. Its banking sector is relatively small and fairly well-regulated. However, there are no laws against money laundering.

Papua New Guinea is an observer to the Asia/Pacific Group on Money Laundering. Papua New Guinea is not a party to the 1988 UN Drug Convention.

Papua New Guinea should enact a comprehensive anti-money laundering regime that criminalizes terrorist financing and money laundering for all serious crimes. Papua New Guinea should sign the UN International Convention for the Suppression of the Financing of Terrorism.

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. Money laundering occurs in both the banking and non-banking financial systems.

Money laundering is established as a criminal offense under Paraguay's two anti-money laundering statutes, Law 1015 of 1996, and Article 196 of Paraguay's Criminal Code, adopted in 1997. The existence of the two laws has led to substantial confusion due to overlapping provisions. Under Article 196, the

scope of predicate offenses includes only offenses that carry a maximum penalty of five years or more; Law 1015 includes additional offenses. Article 196 also establishes a maximum penalty of five years for money laundering offenses, while Law 1015 carries a prison term of two to ten years. This is particularly significant because under the new Criminal Code and Criminal Procedure Code, defendants who accept charges that carry a maximum penalty of five years or less are automatically entitled to a suspended sentence and a fine instead of jail time, at least for the first offense. There have been three convictions for money laundering so far in Paraguay, all under Article 196. All three defendants admitted their guilt and accepted the fine and suspended sentence.

Bank secrecy laws do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Additionally, bankers and others are protected under the antimoney laundering law with respect to their cooperation with law enforcement agencies. Law 1015 also contains "due diligence" and "banker negligence" provisions and applies money laundering controls to non-banking financial institutions, such as exchange houses.

Law 1015 of 1996 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 the Financial Intelligence Unit. However the extent to which these requirements are implemented in practice remain in question. The Unidad de Análisis Financiera (UAF) located at the time in the Secretaria de Prevención de Lavado de Dinero o Bienes (SEPRELAD). The UAF is the government entity responsible for receiving and analyzing suspicious activity reports (SARs). The Government, however, lacks a standardized form for SAR reporting, which inhibits the reporting and analysis process. Analysis is also limited because SAR reporting is manual, and the UAF analysts must input the information from the SAR forms into the UAF database. No reporting requirements exist for large currency transactions. As of mid-August 2002, the UAF had received 300 SARs for that year and had referred only ten cases for investigation.

For many years, investigations and prosecution of money laundering cases were also hampered by SEPRELAD's burdensome bureaucratic structure, budget woes, and the loss of trained personnel. SEPRELAD's weakness was reflected in the small number of cases presented to the Attorney General's (AG) office for prosecution. Before 2001, only one went to trial and it was dismissed by the judge on procedural grounds. In the last two years, the USG worked with the SEPRELAD's UAF to find the means to augment the number of ready-to-prosecute money laundering cases, and to forge more cooperative working relationships between the UAF, the SENAD, the AG, and the Central Bank's new money laundering unit as well. There were some initial successes such as the FAU's post 9/11 cases, which showed millions of dollars in wire transfers from Ciudad del Este to Lebanon. Although charges of money laundering were not presented against any individual, part of the information prepared by the UAF helped buttress the criminal case against one suspected fund-raiser for terrorist organizations. He was sentenced to six-and-a-half years in prison for tax evasion. In an effort bring new vitality to the battle against money laundering, the Financial Analysis Unit (FAU) was removed from SEPRELAD's supervision and commissioned to the AG's office in July 2002, and a new director assumed charge in December 2002. Taking the FAU out of the ineffective SEPRELAD and putting it under the AG's authority should enhance cooperation at the working level and improve the AG's ability to investigate money laundering and terrorist financing. Changing its ineffective director is also expected to infuse new vitality into the unit.

Paraguay continued to experience banking failures, including the closing of the National Worker's Bank (BNT), and the collapse of Banco Aleman in June 2002. The most spectacular case involved \$16 million diverted from the Central Bank to private accounts apparently 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 and return them to the Central Bank. The GOP is also suing the U.S. lawyer who handled the funds in the U.S., in an attempt to recover the funds.

The anti-money laundering law of 1996 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. Businesses can also be fined or subjected to administrative sanctions if merely used to launder money. The laws only provide for criminal forfeiture.

Paraguay currently has limited resources to investigate and prosecute money laundering cases. Investigations are carried out by a small financial crimes investigative unit, the Unidad de Investigación de Datos Financieros (UIDF). The UAF and the Superintendency of Banks refer analyzed cases to the UIDF for investigation. The UIDF is housed within Paraguay's SENAD, which has adequate police but limited resources to trace and seize assets. Because there are only about 200 prosecutors nationwide for a population of 5.5 million, money laundering investigations in Paraguay are assigned to a single prosecutor. Government corruption is an ongoing problem related to money laundering and money laundering investigations.

Little in the way of personal background information is required to open a bank account or to make financial transactions in Paraguay; therefore there is a high incidence of money laundering activities. Paraguay is an attractive offshore financial center for neighboring countries, particularly Brazil. 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 GOP's regulatory scope.

The multi-billion dollar contraband re-export trade is centered in Ciudad del Este—the heart of Paraguay's informal economy, and is outside the government's regulatory scope, which also facilitates money laundering in Paraguay. The area is well known for arms and drug trafficking, and international property rights crimes. 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 area is also suspected by government officials in Paraguay and the U.S. to be a source of terrorist financing. Recent raids in CDE have led to the seizure of arms catalogs, bomb-making materials, extremist Islamic materials, and receipts of wire transfers from Paraguay to the Middle East and the United States. Paraguay has taken some measures to tackle this "gray" economy and to move to a more formal, diversified economy. Paraguay is looking to a "maquila" industry and tourism as alternatives for Ciudad del Este (CDE) and the entire triborder area.

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. La Unidad de Análisis sobre Prevención de Lavado de Dinero o Bienes, or the Analysis Unit for the Prevention of the Laundering of Money or Goods, was originally developed to coordinate the review of the Paraguayan financial institutions' databases for information regarding suspected terrorists. However, the Analysis Unit only has purview over financial institutions, while SEPRELAD has a much broader mandate, to include gambling houses, real estate companies, and many other institutions handling cash and financial transactions. The U.S. Government and the Egmont Group recognize only SEPRELAD's UAF as a financial intelligence unit.

In addition to establishing the Analysis Unit, the GOP has carried out limited efforts to combat terrorist financing. Although there is draft anti-terrorism legislation that was introduced in the Chamber of Deputies in 2002, the GOP currently has no specific laws criminalizing terrorism or terrorist financing. Paraguay has adopted provisions to cover conduct that would be considered terrorist acts, but most of these acts do not carry a sentence of more than five years, nor are they considered predicate offenses for money laundering. The GOP has also signed, but not yet ratified, the OAS Inter-American Convention on Terrorism, which is not in force internationally, and the UN International Convention for the Suppression of the Financing of Terrorism. Paraguay is a member the South American Financial Action Task Force (GAFISUD) and is scheduled to undergo a mutual evaluation on anti-money laundering practices in 2003. Paraguay is also a member of the Egmont Group of Financial Intelligence Units. The GOP has signed the

OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Hemispheric Drug Strategy. Paraguay is party to the 1988 UN Drug Convention, and participates in Summit of the Americas and CICAD-related meetings on money laundering. The GOP has signed, but not ratified, the OAS Inter-American Convention on Mutual Assistance in Criminal Matters and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. It also endorsed the Basel Committee's "Core Principles for Effective Banking Supervision." In 1994, the United States and Paraguay entered into an Agreement to Cooperate in the Prevention and Control of Money Laundering Arising from Illegal Trafficking in Narcotics and Psychotropic Substances, and the GOP also entered into a bilateral agreement with Brazil in 2000 to permit the exchange of money laundering information.

While the GOP took some positive steps in 2002, and provided excellent cooperation in the fight against terrorism, there are other initiatives that should be pursued to increase the effectiveness of Paraguay's anti-money laundering regime. Existing money laundering legislation should be modified to resolve the conflicting aspects of the two laws. The GOP should clearly identify either the UAF or the Analysis Unit as the national financial intelligence unit, or combine the two existing agencies into a single unit to receive, analyze and disseminate information on money laundering. Measures should be taken to expedite the SAR reporting process, such as the development of a standard form that could be sent electronically to the FIU, as well as conducting outreach activities to sensitize financial institutions about reporting requirements. In addition, procedures to file large currency transaction reports should be initiated to further combat illegal financial activity. Paraguay should also adopt legislation that criminalizes and penalizes terrorism and terrorist financing, and establishes terrorist acts and financing as predicate offenses for money laundering.

Peru. Peru is not a major regional financial or offshore money laundering haven. Narcotics-related and other money laundering does occur, but existing laws do not provide reliable or adequate mechanisms to estimate its scale in Peru. Such money laundering may be connected with narcotics-related activity originating in Peru, Colombia or elsewhere in the region, and may involve proceeds of narcotics sales in the United States. Peru's economy is 70-80 percent dollarized, so money laundering is probably conducted primarily in U.S. currency.

A number of former government officials, most from the prior Fujimori Administration, are under investigation for corruption-related crimes, including money laundering. These officials have been accused of transferring tens of millions of dollars in proceeds from illicit activities (e.g. bribes, kickbacks, or protection money) into offshore accounts in the Cayman Islands, the United States, and/or Switzerland. The Peruvian Attorney General, a Special Prosecutor, the office of the Superintendent of Banks (SBS) and the Peruvian Congress have conducted numerous investigations, some of which are ongoing, involving dozens of former GOP officials. In 2002, the Government of Peru (GOP) continued to make 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.

In 2002, the GOP strengthened its anti-money laundering regime. Prior to 2002, Peru had a limited anti-money laundering legislative and regulatory framework. The previous system criminalized only the laundering of proceeds directly associated with narcotics-trafficking and "narcoterrorism." The new law builds on the 1991 banking law, the 1996 General Law of the Financial and Insurance System and Organic Law of the Superintendency of Banking and Insurance (No. 26702) and 1998 implementing regulations. The new law is very brief, however, and lacks implementing regulations. Furthermore, only certain financial institutions are regulated under the money laundering law, and no regulatory control is exercised over most non-banking enterprises (exchange houses, stock brokerages, etc.). The U.S. Treasury and other outside observers believe that the GOP will need to add detail to the law and develop implementing regulations to make the law effective and applicable in practice. Peru has separate regulations that prohibit laundering money through casinos, but the GOP lacks sufficient resources to adequately supervise this industry.

On April 12, 2002, President Toledo signed into law Bill 27693, which among other things provided for the creation of Peru's first Financial Intelligence Unit, the Unidad de Inteligencia Financiera (UIF). The UIF is an autonomous body responsible for receiving, analyzing, and disseminating suspicious transaction reports. Implementing regulations for the UIF law were issued on October 31, 2002. Prior to the April 2002 law, all unusual or suspicious financial transactions were reported directly to the Office of the Attorney General, and the information was then shared with the Financial Investigative Office of the Peruvian National Police Directorate of Counternarcotics (DINANDRO). Under the new law, the FIU will report information on possible crimes to the Attorney General's office. Also, only banks and financial institutions were required to file suspicious transaction reports under the old legislation. Under the new law, exchange houses, casinos, auto dealers, construction or real estate firms, and other sectors are all required to report suspicious transactions to the UIF. The UIF is also empowered to request financial transaction information from exchange houses, metal and antiques traders, travel agencies and a variety of Peruvian government agencies.

The new legislation also reinstated reporting requirements for large cash transactions. An amendment to the previous anti-money laundering law had required the reporting of currency transactions over 30,000 soles (about \$10,000), but this requirement was suspended in August 1998, one month after the amendment went into effect. This amendment did not apply to institutions other than banks or financial companies. The new money laundering law requires the reporting of individual cash transactions exceeding \$10,000 or transactions totaling \$50,000 in one month. Non-financial institutions, such as exchange houses, casinos, lotteries or others, must report individual transactions over \$2,500 or monthly transactions over \$10,000. Private businesses, banks, and financial companies must report these transactions to the UIF, and major institutions are required to appoint supervisory-level compliance officials to ensure that reporting requirements are met. The 2002 legislation does not address the issue of the transportation of cash or monetary instruments into or out of Peru.

Although the UIF was not yet operational at the end of 2002, the GOP projects that it will be established by early 2003. In October 2002, implementing regulations were issued and the Ministry of Economy and Finance appropriated funds for the initial staffing of the UIF. In early December, the GOP designated a director for the Financial Intelligence Unit.

On June 20, 2002, a new law was passed that expands the predicate offenses from money laundering to include the laundering of assets related to any crime. The penalties for money laundering were also altered. Instead of a life sentence for the crime of laundering money, the new law sets prison terms of eight to fifteen years for convicted launderers, with a minimum sentence of twenty-five years for cases linked to narcotics-trafficking, terrorism, or laundering through banks or financial institutions. In addition, the revised Penal Code criminalizes "willful blindness," the failure to report money laundering conducted through one's financial institution when one has knowledge of the money's illegal source, and imposes a three to six year sentence for failure to file suspicious transaction reports. However, to date, this law lacks implementing regulations, which are necessary to make the law effective and applicable in practice. To date, there have been only two prosecutions and no convictions for money laundering.

Peru currently lacks comprehensive and effective asset forfeiture legislation. The financial investigative office of the Peruvian National Police's Directorate of Counter-narcotics has seized numerous properties over the last several years, but few were turned over to the police to support counternarcotics efforts, and no clear mechanism exists to distribute seized assets among government agencies.

The Office of the Superintendent of Banks routinely circulates to all financial institutions in Peru updated lists of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, the Taliban, and al-Qaida, as well as those on the list of Specially Designated Global Terrorist Entities designated by the United States pursuant to E.O. 13224 (on terrorist financing). To date, no assets connected to designated individuals or entities have been identified, frozen or seized.

The new legislation, however, fails to provide the GOP with the authority to successfully fight money laundering as a means of terrorist financing. Terrorism is considered a problem in Peru, which is home to the terrorist organization Shining Path. Although the Shining Path has been designated by the United States both as a foreign terrorist organization pursuant to section 219 of the Immigration and Nationality Act and pursuant to E.O. 13224, and the United States and 100 other countries have issued freezing orders against its assets, the GOP has no legal authority to quickly and administratively seize or freeze terrorist assets. In the event that such assets are identified, the Superintendent for Banks must petition a judge to seize or freeze them. A final judicial decision is then needed to dispose of or use such assets. Draft legislation that would enable the GOP to do so is currently stalled in the Foreign Affairs Ministry.

Peru ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001 and has signed, but not yet ratified, the OAS Inter-American Convention on Terrorism, which is not in force internationally. 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 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) Peru and the U.S. Government signed a new extradition treaty in July 2001. The GOP ratified the treaty in October 2002 and the United States completed its ratification on January 23, 2003. Entry into force is pending the exchange of instruments of ratification. 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).

By establishing a Financial Intelligence Unit and improving existing money laundering legislation in 2002, the GOP made serious advancements in strengthening its anti-money laundering regime. However, much progress is still required. The GOP should proceed with efforts to make the new Financial Intelligence Unit operational, so that the UIF can begin receiving and processing suspicious transaction reports. The Superintendent of Banks and Insurance Companies should appoint a director to the UIF as soon as possible. Training is needed for prosecutors, judges, police, auditors, bankers, and banking supervision officials in identifying suspicious transactions and in carrying out money laundering investigations and prosecutions. Anti-corruption efforts in Peru should be a priority, and the need for strong confidentiality protocols for the UIF should be stressed. The GOP should strengthen procedures to fight money laundering related to non-banking sectors, and should increase efforts to pass legislation criminalizing the financing of terrorists and terrorism and allowing for administrative blocking of terrorist assets. The U.S. Treasury Department is developing an assistance program to strengthen Peru's capabilities in the above areas.

Philippines. The Philippines 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 government officials is also a source of laundered funds.

In June 2000, the Financial Action Task Force (FATF) placed the Philippines on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. The major deficiencies cited by FATF were excessive bank secrecy provisions and lack of a basic set of anti-money laundering regulations, including customer identification and record keeping requirements. Following its placement on the NCCT list, FinCEN, the U.S. financial intelligence unit, issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to transactions involving the Philippines.

In June 2001, the FATF determined that the Philippines had made insufficient progress toward remedying the noted deficiencies, 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 FATF's concerns. FATF withdrew its call for countermeasures against the Philippines in September 2001; however, the Philippines remains on the NCCT due to the continued deficiencies relevant to bank secrecy restrictions, provisions in the law that would disallow prosecution for money laundering as a result of crimes committed prior to enactment of the law, and for inhibiting the Central Bank from conducting examinations of specific deposits without obtaining a court order.

The Anti-Money Laundering Act of 2001 (AMLA) criminalizes money laundering, an offense defined to include the conduct of activity involving the proceeds of any unlawful activity, and imposes penalties that include a term of imprisonment of up to seven years. The Implementing Rules and Regulations (IRR) for the Anti-Money Laundering Act were enacted in April 2002.

The AMLA establishes the Anti-Money Laundering Council (AMLC). The AMLC is 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 serves as the Philippines' Financial Intelligence Unit (FIU). Since its establishment, the Government of the Philippines (GOP) reports the AMLC has provided training to other government agencies, financial institutions and private sector organizations. It also participated in a joint initiative to establish anti-money laundering task forces/desks in the Department of Justice, the National Bureau of Investigation (NBI) and the Philippine Center on Transnational Crime (PCTC).

The AMLC is authorized, among other things, to receive suspicious activity reports from covered institutions and to freeze assets alleged to be connected to money laundering. However, the AMLC is unable to instantly freeze bank accounts. By law, the AMLC must wait for Suspicious Transaction Reports (STRs) to be filed, and then establish probable cause. Once probable cause is established, the AMLC is able to freeze an account for a period of 15 days. The AMLC is required to obtain a court order to be able to examine an account. A drawback to this system, especially in connection with terrorist financing, is that terrorism has not yet been defined as a crime. According to the GOP, in its first year of operations, the AMLC received 33 STRs and 32 Covered Transaction Reports (CTRs) and nine Letter-Advices. Additionally, the AMLC issued 27 freeze orders and froze 133 accounts or investments with a total value of \$298,600.

The AMLA builds upon the customer identification and suspicious activity reporting requirements contained in the earlier bank circulars, requiring "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. The AMLA further requires covered institutions to report "covered transactions," which are set at a threshold of PHP 4 million (approximately \$80,000) or an equivalent in foreign currency based on the prevailing exchange rate within five consecutive banking days. Currently, Rule 5(3) in the IRR requires all suspicious transactions with covered institutions, irrespective of the amounts involved, to be reported to the AMLC. This new rule goes beyond what is stated in the AMLA, where there is no obligation to report suspicious transactions outside the definition of "covered transactions," thereby creating possible conflict between the scope of the AMLA and the implementing rules and regulations.

In addition the AMLA relaxes the strict bank secrecy laws of the Philippines. In cases of violation of the AMLA, and upon order of any competent court, the AMLC is able to examine any particular deposit or investment, with any banking institution or non-bank financial institution, when it has been established that there is probable cause that the deposits or investments are in any way related to a money laundering offense. Deposits made before the effective date of the AMLA are not subject to this disclosure.

Currently the Philippine Congress is considering amendments to the AMLA. One proposed amendment would reduce the "covered transaction" threshold amount from P 4,000,000 (approximately \$80,000) to P 500,000 (approximately \$10,000) and provide for mandatory suspicious transaction reporting, regardless of amount. There is a separate provision for suspicious transaction reporting that has no threshold

requirement. The proposed amendments of Section 9(c) would require banks to file reports for both covered and suspicious transactions within five working days from the date of their discovery. The proposed amendment of Section 11 is to give the AMLC the authority to examine deposits and investments without a court order.

The Philippines is a member of the Asia/Pacific Group on Money Laundering and is a party to the 1988 UN Drug Convention. The Philippines and the United States have a Mutual Legal Assistance Treaty that entered into force in 1996. On November 16, 2001, the Philippines signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism. The GOP has signed and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

The Philippines confronts a number of problems in its efforts to counter money laundering. The current threshold for reporting suspicious transactions should be lowered to be effective. The AMLC must be given the authority to retrieve account information relating to deposits or investments made prior to the date of AMLA's enactment and to respond to requests from foreign authorities regarding deposits and investments. Secrecy provisions must be relaxed to allow the Bangko Sentral to supervise and conduct periodic or special investigations without obtaining permission from any other authority and it must be allowed to inquire about and examine any deposit or investment with any banking or non-banking financial institution in the country. The Philippines must address these deficiencies in its current regime, and finalize and implement the necessary regulations. Otherwise, the FATF will recommend that its 29 member states levy countermeasures against the GOP. The Philippines must also criminalize the financing and support of terrorism.

Poland. As a gateway between the former Soviet Union republics and countries of the European Union and lucrative markets beyond, Poland lies directly in the path of narcotics-traffickers and organized crime groups. The burgeoning economy of Europe, and open borders with former socialist countries, have 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 \$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. The unregistered or gray economy is estimated at approximately 16 percent of GDP. Prosecutors have investigated more than 75 cases involving money laundering since Poland criminalized money laundering in 1997. To date, only one of the cases forwarded to the courts has resulted in a successful prosecution.

In June 2001, the November 2000 Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources, often referred to as "the Act of 16 November," came into force. This Law broadened the offense of money laundering to encompass all serious crimes, and increased 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. GIIF is housed within the Ministry of Finance and became operational in July 2001. In its first year of existence, GIIF received over 350 suspicious transaction reports. More than 38 went to the Prosecutor's Office, and of these, no fewer than 37 prosecutions based on the information from GIIF were initiated. Currently, the Ministry of Justice is preparing between 60 and 70 money laundering cases for trial. GIIF is authorized 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 was 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, and 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. In addition, financial institutions are now required to put internal anti-money laundering procedures into effect—a process that is overseen by GIIF. The GIIF is also working with the private sector to develop a better risk profile in Poland, including taking measures to prevent the misuse of charities.

Additional amendments to the money laundering law are expected to come into force in early 2003. These amendments broaden the scope of institutions obligated to report, bring Poland's anti-money laundering legislation up to EU standards regarding the 15,000 euro (approximately \$15,000) reporting threshold, authorize the Ministry of Finance to freeze assets, and give the Polish government authorization to act against terrorism financing. The law authorizes the Ministry of Finance to block suspicious transactions for up to 48 hours. If the Ministry of Finance wants to freeze a transaction for a longer period of time, the case must be referred to a prosecutor, who has the authority to freeze a transaction for an additional three months while an investigation is undertaken. Poland is still working on amendments to the criminal code, which would further improve the government's ability to seize assets. Poland also recently created an office of anti-terrorist operations within the National Police to coordinate and supervise regional anti-terrorism units as well as train local police in anti-terrorism measures.

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. In November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In 2002, Poland signed the UN Convention for the Suppression of the Financing of Terrorism, which is expected to be ratified in the first quarter of 2003. Poland also signed and expects to ratify shortly the UN International Convention for the Suppression of Terrorist Bombings.

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 (Moneyval, formerly PC-R-EV) and has undergone a mutual evaluation by that group.

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, Ukraine, Lithuania, Latvia, Estonia, Germany, Greece and Hungary.

Poland has taken a number of steps to put in place a comprehensive anti-money laundering regime to meet international standards, and became one of the newest members of the Egmont Group in June 2002. Poland should pass specific anti-terrorist financing legislation and work to better coordinate investigations between relevant investigating agencies and prosecutors so as to obtain an improved record of prosecutions and convictions.

Portugal. Portugal is an entry point for narcotics transiting into Europe, and officials of the Government of Portugal (GOP) indicate that most of the money laundered in Portugal is narcotics-related. GOP officials also report that bureaux de change, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has put in place a comprehensive anti-money laundering regime. Money laundering related to narcotics-trafficking and other serious offenses has been criminalized. The cross-border movements of currency that exceed 12,000 euros, approximately \$12,000, must be declared. 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 12,000 euros. 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.

On February 11, 2002, Act 10/2002 was brought into force. This Act extended the list of entities obliged to report, to include account officers, external auditors, notaries, registrars, and money carriers. It also includes any other entities involved with the purchase and sale of real estate or commercial entities;

operations connected with funds, securities, or other assets belonging to clients; opening or management of savings bank accounts or securities accounts; creation, exploitation, or management of companies, trust funds, or similar structures; and the execution of any financial operation. In addition, according to this Act, the obligated entities have the duty to report any operation which, due to its scope, seems suspicious, independent of the transaction amount.

Act 10/2002 also expands money laundering to include as predicate crimes, trafficking in nuclear materials, trafficking in persons, trafficking in human organs or tissues, child pornography, trafficking in listed species, and tax fraud.

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. The Public Prosecutor then forwards STRs for analysis to the Central Unit for Money Laundering Investigation (SCIB), which acts as the Financial Intelligence Unit (FIU) for Portugal. Often, reporting entities, usually banks, file their formal report with the Prosecutor's Office while informally reporting the case directly to the SCIB. If money laundering is indicated, the Portuguese Judicial Police (PJP) will conduct an investigation. The SCIB consists of ten criminal investigation officers. The SCIB reported receiving 251 STRs in 2001 and 256 STRs in 2002 (January-October 31)—mainly from banks and other financial entities. A total of 1,013 STRs have been filed since 1998. The SCIB is a member of the Egmont Group.

From January 2002 to November 2002, the PJP conducted 30 investigations of money laundering in connection with narcotics-trafficking. Portuguese laws also call for the confiscation of property and assets connected to money laundering, and authorize the 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 that 2.5 million euros (\$2.5 million) were seized in 2002 (up to October 31).

More recent legislation to combat organized crime, which came into force in 2002, authorizes police 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.

Public and private sector regulators and organizations play important roles in Portugal's anti-money laundering program. In addition to monitoring compliance, educating the regulated industry, and training officials, a number also alert judicial authorities to evidence of money laundering.

The GOP has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

The Portuguese Madeira Islands 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, of which there are approximately 4,000 registered in Madeira, are similar to international business corporations (IBCs). 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, in the case of EU institutions, or authorization, 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 it 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

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Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Portugal is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime, and became a party to the UN International Convention for the Suppression of the Financing of Terrorism on October 18, 2002.

Portugal has put into place comprehensive and effective measures to combat money laundering. The GOP's passage of new laws in 2002 will strengthen its ability to investigate and prosecute. The GOP should continue to exercise due diligence over its offshore sector, and closely monitor domestic non-bank financial institutions.

Qatar. Qatar has a relatively small population (approximately 600,000 residents), with an extremely low rate of general and financial crime. The financial sector, though modern, is limited in size, and subject to strict regulation by the Qatar Central Bank (QCB). There are fifteen licensed financial institutions, including two Islamic banks; sixteen exchange houses; and three investment companies. Although Qatar is a cash-intensive economy, cash placement by money launderers is believed by authorities to be a negligible risk due to the close-knit nature of the society in Qatar and the rigorous "know your customer" procedures required.

On September 11, 2002, the Emir of the State of Qatar signed the Anti-Money Laundering Law. According to Article 28 of the law, money laundering offenses involve the acquisition, holding, disposing of, managing, keeping, exchanging, depositing, investing, transferring, or converting of funds from illegal proceeds. The law imposes penalties of imprisonment of five to seven years, in addition to fines. The law expanded the powers of confiscation of proceeds gained from the commission of a crime and instrumentalities used to commit a crime, to include the identification and freezing of assets as well as the ultimate confiscation of the illegal proceeds upon conviction of the defendant for money laundering.

The law requires all financial institutions to report suspicious transactions to the QCB and retain records for up to fifteen years. The law also gives the QCB greater powers to inspect suspicious bank accounts and grants the authorities the right to confiscate money in illegal transactions. Article 17 permits Qatar to extradite convicted criminals in accordance with international or bilateral treaties.

In addition to reporting suspicious transactions, financial institutions (including businesses conducting hawala transactions) must report all cash transactions of 30,000 Qatari rials (approximately \$11,000) or above to the QCB. The threshold was recently raised to QR 100,000 (approximately \$37,000). All financial institutions also must identify the person entering into a business relationship or conducting a transaction.

All accounts must be opened in person. (Only Qatari citizens, foreign residents, and citizens of other Gulf Cooperation Council [GCC] states are permitted to open bank accounts.) In January 2002, QCB issued Circular Number 9 regarding the Combat of Money Laundering and Financing of Terrorism. This circular was designed to increase the awareness of all banks operating in Qatar with respect to anti-money laundering efforts by explaining money laundering schemes and monitoring suspicious activities.

Qatar's charities are under direct supervision of the Ministry of Civil Service Affairs and Housing, as detailed in Law No. 8 of 1998 regarding private associations and institutions. Among the requirements of this law are: 1. registration; 2. regular government audits; 3. government approval for all disbursals; and 4. government inspection of facilities, documents and records.

Article 37 of Law Number 8 of 1998, concerning the establishment and governance of private associations and institutions, stipulates that the Ministry of Awqaf (Endowments) and Islamic Affairs shall oversee and monitor all the activities of private institutions within the boundaries that are regulated by executive provisions. The Ministry may examine the institution's books, records, and documents that are related to its activities, and it may amend its bylaws. The institution shall provide the Ministry with any information, documents, or other data it requests.

According to Article 1 of Law 15 of 1993, banks practicing in offshore business shall be formed either as joint stock companies having their head offices in the State of Qatar or as branches of Qatari or foreign banks.

The QCB, Public Prosecutor and the Criminal Investigation Division (CID) of the Ministry of Interior are the principal entities that have the responsibility for investigating and prosecuting money laundering cases. The QCB receives all suspicious transaction reports and conducts an initial analysis. The QCB obtains additional information from the banks and other government ministries before determining whether to forward the suspicious report to the Ministry of Interior. The Public Prosecutor and CID work closely on all criminal cases, although in financial cases they often seek the assistance of the QCB. There are no specialized units within the Public Prosecutor or CID's offices that initiate or investigate financial crimes. Qatar does not have a Financial Intelligence Unit (FIU). There is little financial crimes investigative experience. There have been no arrests or prosecutions related to money laundering or terrorist financing in 2002. The Government of Qatar (GOQ) is working to increase the ability of local authorities to investigate financial crimes, particularly as outlined in the new money laundering law. Qatar does not yet have any cross-border reporting requirements for financial transactions. Immigration and customs authorities are reviewing this policy and are increasingly interested in expanding their ability to detect trade based money laundering. A recent seizure of approximately \$400,000 of suspect gold entering the country is one example of the government's increased efforts.

The GOQ is currently revising its criminal law to include the crime of terrorism and the financing of terrorism. The current penal code includes a minor punishment for association with "illegal societies" but does not specifically address terrorism. Despite the absence of this law, Qatar has taken steps to combat the financing of terrorism, including requiring banks to freeze the assets of the individuals and entities listed on the UNSCR 1267/1390 consolidated list.

Qatar is a party to the 1988 UN Drug Convention. Qatar is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism nor the UN Convention against Transnational Organized Crime. Qatar actively participates in the Financial Action Task Force (FATF) as a member of the GCC.

The passage of Qatar's new money laundering law and the drafting of a criminal law to address terrorism finance crimes are indications of Qatar's commitment to combating money laundering and terrorism financing. Implementation and enforcement of the new law and regulations are essential to the success of Qatar's efforts. Training for law enforcement and customs authorities in recognizing and investigating money laundering is also essential. Qatar should sign the UN Convention for the Suppression of Terrorist Financing.

Romania. Romania continues to develop its 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. The proceeds of financial crimes and the smuggling of cigarettes, alcohol, coffee, and other dutiable commodities are also believed to be laundered in Romania.

Romania criminalized money laundering with the adoption in January 1999 of Law No. 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, reporting transactions of a suspicious or unusual nature, currency transaction reporting for transactions over 10,000 euros (approximately equivalent to \$10,000), 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. There exists some natural discomfort on the part of the banking industry regarding requirements to assist law enforcement, but this has not stopped the Government of Romania (GOR) from establishing further measures, such as Norm No. 3, "Know Your Client." These norms, issued in February 2002 by

the National Bank of Romania, bring Romania's norms into line with the Basel Committee's "Customer Due Diligence for Banks."

Romania's parliament has a new draft law on money laundering. This law revises certain provisions in the former law. First, the new law defines money laundering using the "all crimes" approach, which means that any crime may be a predicate offense rather than the former list of specific crimes. In addition, the new law expands the number and types of entities required to report to the National Office for the Prevention and Control of Money Laundering. Some of these new entities include art dealers, travel agents, privatization agents, postal officials, money transferors, and real estate agents. The new law also provides for both STR and CTR reporting, with the CTR amounts conforming to EU standards. The "Know Your Customer" identification requirements have also been honed so that identification of the client becomes necessary upon both the beginning of a relationship and upon single or multiple transactions meeting or approaching a 10,000 euro standard. This brings Romania into line with Recommendation No. 10 of the FATF 40 Recommendations on Money Laundering.

The National Office for the Prevention and Control of Money Laundering (NOPCML) is Romania's Financial Intelligence Unit (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. The law also provides for feedback to be given, upon request, to NOPCML from the General Prosecutor's Office, and for NOPCML to participate in inspections and controls in conjunction with supervisory authorities. Lastly, it provides for training and for future conferences in conjunction with international partner FIUs, specifically Italy and Austria. The Directorate of Economic and Financial Crimes of the national police also has a mandate to pursue money laundering. There have been 226 money laundering cases investigated since 2001 but none have resulted in arrests.

After the events of September 11, 2001, Romania passed a number of legislative measures designed to sanction acts contributing to terrorism. Emergency Ordinance 141, passed in October 2001, legislates that taking of measures, or the production of or acquisition of means or instruments with an intention to commit terrorist acts, are offenses exactly the same as terrorist acts themselves. The ordinance also discusses the character and composition of a terrorist act. These offenses are punishable with imprisonment ranging from five to twenty years. Emergency Ordinance 159, also passed in 2001, sets measures for preventing the use of the financial and banking system to finance terrorist attacks, and sets forth the parameters for the government to combat such use. The National Bank of Romania, which oversees all banking operations in the country, also issued Norm No. 5 in support of Emergency Ordinance 159. Emergency Ordinances 153 was passed to strengthen the government's ability to carry out the obligations under UNSCR 1373.

In April 2002, the GOR's Supreme Defense Council of the Country adopted a National Security Strategy, which included a General Protocol on the Organization and Functioning of the National System on Preventing and Combating of Terrorist Acts. This system, effective July 2002 and coordinated through the Intelligence Service, brings together and coordinates a multitude of agencies, including 14 ministries, the General Prosecutor Office, the National Bank, and the National Office for the Prevention and Control of 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 (Moneyval, formerly PC-R-EV). A mutual evaluation in April 1999 by the PC-R-EV uncovered a number of areas of concern, including the high evidence standard required for reporting suspicious transactions, a potential conflict with the 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 2001 between the United States 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 and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. With Law No. 263/2002, passed in 2002, Romania ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. During 2002, Romania also ratified the Council of Europe's Criminal Law Convention on Corruption. Romania has signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Romania should continue addressing the concerns of the Council of Europe evaluators as to further improvements in its anti-money laundering regime and should 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 is crucial to its efforts to combat laundering of criminal proceeds domestically and internationally. The magnitude of money laundering is considered to be large, given the number and scale of contributing factors. 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 it vulnerable to money laundering. For example, the Russian exclave of Kaliningrad, situated between Poland and Lithuania, has a history of smuggling goods and an active black market economy. As those two countries are expected to join the European Union (EU) in 2004, control of the movement of goods and people has been a thorny issue, only recently resolved between the Russian Federation and the EU.

Capital flight, and the trade fraud often associated with it, use many of the same techniques used in money laundering. Consequently, such irregular and illegal transactions, designed to avoid Russian taxes, and the instability of the Russian economy have obscured the detection of money laundering per se. Central Bank of Russia estimates of the Russian funds that have moved through the banks chartered in Nauru alone (approximately \$70 billion in 1998) give some idea of the enormous size of the problem.

Russia's law on "Combating the Legalization (Laundering) of Income Obtained by Illegal Means" became effective on February 1, 2002. The law requires obligated financial institutions to monitor and report transactions to an authorized agency, keep records, and 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 (approximately \$20,000). Financial institutions must also report transactions that contain certain high-risk features or when money laundering is suspected. Earlier reforms (1999) by the Central Bank of Russia (CBR) 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. More recently the CBR has been issuing strong guidelines regarding anti-money laundering practices within credit institutions.

The law also calls for an executive agency to be established as a Financial Intelligence Unit (FIU). That agency is the Financial Monitoring Committee (FMC), which is accountable to the Ministry of Finance and is staffed primarily by employees of the Ministry of Finance Currency Control Department, although the FMC is technically independent. The FMC serves as an administrative FIU, having no law enforcement investigative powers. Recent amendments to the anti-money laundering law have increased the FMC's information gathering authority to include activities of investment foundations, non-state pension funds, gambling businesses, and sales of precious metals and jewelry. Moreover, the amendments allow the FMC, in concert with banks, to freeze possible terrorist financial transactions up to one week. (Banks may freeze transactions for two days and the FMC may follow up with an additional five days.) Using encrypted software provided by the FMC, virtually all reporting from credit, securities, and insurance institutions is submitted via electronic means. The FMC anticipates opening seven regional

departments in 2003. A cooperation agreement with Italy's FIU was signed on December 10, 2002. A similar agreement with the French is planned for January 2003. The FMC is a member of the Egmont Group of FIUs.

In light of the reforms to Russia's anti-money laundering regime, FATF withdrew its call for countermeasures against Russia in September 2001 and removed Russia from its list of non-cooperative jurisdictions in October 2002. The U.S Treasury Department Advisory, which had instructed U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Russia was also lifted. FATF also granted Russia observer status for the FATF plenary in February 2003. A FATF mutual evaluation is planned for 2003.

Russia holds membership in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV), and underwent a mutual evaluation in June 2000, which was discussed at the January 2001 meeting of the group. Russia ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime in January 2001. Russia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. In November 2002, Russia ratified the UN International Convention for the Suppression of the Financing of Terrorism.

The Russian Federation has enacted new legislation and executive orders to strengthen its ability to fight terrorism. On January 11, 2002, President Putin signed a decree entitled "On Measures to Implement the UN Security Council Resolution (UNSCR) No. 1373 of September 28, 2001." Noteworthy among this decree's provisions are the introduction of criminal liability for intentionally providing or collecting assets for terrorist use, and the decree's instructions to relevant agencies to seize assets of terrorist groups. This latter clause, however, conflicted with existing domestic legislation. Accordingly, on September 24, 2002, the Duma approved an amendment to the anti-money laundering law, resolving the conflict, and allowing banks to freeze assets immediately, pursuant to UNSCR 1373. This law came into force on January 2, 2003. The procedures for how this new authority will be implemented in practice are still being discussed within the GOR. Reportedly, no terrorist assets have yet been identified and seized in Russia. Following the Moscow hostage crisis, the Russian legislature took additional steps. On October 31, 2002, the Federation Council (Russia's upper house) approved a supplemental article to the 2003 federal budget, allocating from surplus government revenues an additional 3 billion rubles (\$100,000,000) in support of federal anti-terrorism programs and improvement of national security.

The enactment of comprehensive anti-money laundering legislation in 2001 marked a milestone in Russia's anti-money laundering regime. Russia's commitment to strengthen that regime has been demonstrated by its aggressive progress this past year. Russia should continue to build on this momentum in analysis and detection of money laundering offenses and should demonstrate its ability and political will to achieve prosecutions and convictions.

Samoa. Samoa does not have major organized crime, fraud, or drug problems. 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. The Government of Samoa (GOS) enacted the Money Laundering Prevention Act (the Act) in June 2000. This law criminalizes money laundering associated with numerous crimes, sets measures for the prevention of money laundering and related financial supervision. Newly adopted regulations and guidelines fully implementing this legislation came into force in December 2002. Under the Act, a conviction for a money laundering offense is punishable by a fine not to exceed WST \$1 million, a term of imprisonment not to exceed seven years, or both.

The Act requires financial institutions to report transactions considered suspicious to a Money Laundering Prevention Authority (MLPA), to be appointed by the Minister of Finance but currently working under

the auspices of the Governor of the Central Bank. The MLPA 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 Act requires financial institutions to record new business transactions exceeding WST \$30,000 (approximately \$10,000), to retain records for a minimum of seven years, and to identify all parties to the transactions. 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 single transactions where the amount is under WST \$30,000, so numerous small transactions could avoid detection. Nevertheless, Section 4.3(a) of the Money Laundering Prevention Regulations 2002 requires financial institutions to identify their customers when "there are reasonable grounds for believing that the one-off transaction is linked to one or more other one-off transactions and the total amount to be paid by or to the applicant for business in respect to all of the linked transactions is Samoan Tala \$30,000, or the equivalent in another currency." Section 12 of the Act 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." The new Regulations and Guidelines also remedy the lack of specificity in the Act about the obligation of financial institutions to establish the identity of the beneficial owner of an account managed by an intermediary. Specifically, Section 12.06 of the new Money Laundering Prevention Guidelines for the Financial Sector provides that "...If funds to be deposited or invested are being supplied by or on behalf of a third party, the identity of the third party (i.e., the underlying beneficiary) should also be established and verified." The law requires individuals to report to the MLPA if they are carrying with them WST \$10,000 (approximately \$3,300) or more, in cash or negotiable instruments, upon entering or leaving Samoa.

The Act removes secrecy protections and prohibitions on the disclosure of relevant information. Moreover, it provides protection from both civil and criminal liability for disclosures related to potential money laundering offenses to the competent authority.

The Central Bank of Samoa, the Office of the Registrar of International and Foreign Companies, and the MLPA regulate the financial system. There are three locally incorporated commercial banks, supervised by the Central Bank. 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.

Samoa is an offshore financial center, 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. In addition to the eight offshore banks, Samoa currently has 7,553 international business corporations (IBCs), five international insurance companies, six trustee companies, and 157 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, 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. 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 Samoan authorities have not yet addressed them.

International cooperation can only be provided when Samoa has entered into a mutual cooperation agreement with the requesting nation. Under the Act, the MLPA has no powers to exchange information with overseas counterparts. The inability of the MLPA simply to exchange information on an administrative level is a material weakness of the current system. The GOS is, however, drafting legislation

to remedy this weakness and seeks to adopt a Mutual Assistance Bill, based on the Commonwealth Secretariat model, that will be request-, not treaty-driven.

Samoa signed the UN International Convention for the Suppression of the Financing of Terrorism in November 2001, and ratified it on September 27, 2002. Consonant with this action, and with Samoa's strong and vocal support for anti-terrorism efforts, was the passage in April 2002 of the Prevention and Suppression of Terrorism Act. This legislation defines and provides for terrorist offenses, including offenses dealing specifically with the financing of terrorist activities. The combined effect of the Money Laundering Prevention Act of 2000 and the Prevention and Suppression of Terrorism Act of 2002 is to make it an offense for any person to provide assistance to a criminal to obtain, conceal, retain or invest funds or to finance or facilitate the financing of terrorism.

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 Money Laundering Prevention Act in June 2000, Samoa has continued to strengthen its anti-money laundering regime and has issued regulations and guidelines to financial institutions so that they have a clear understanding of their obligations under the Act. The GOS should work to ensure that this legislation becomes fully operational. Particular emphasis should be directed toward regulation of the offshore financial sector, principally the establishment of due diligence procedures for owners and directors of banks and the elimination of 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. Samoa should adopt its pending legislation to allow for international cooperation and information sharing.

Sao Tome and Principe. Sao Tome, which has a small economy and only one commercial bank, is not a regional financial center.

Sao Tome is a party to the 1988 UN Drug Convention.

Sao Tome should criminalize money laundering and terrorist financing. Sao Tome should also enact legislation allowing the GOSTP to freeze assets related to money laundering and terrorist financing.

Saudi Arabia. Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little money laundering in Saudi Arabia related to narcotics-trafficking and other traditional predicate offenses. There is believed to be some money laundering related to terrorist financing. However, Saudi Arabia has increased its attention on money laundering activity following the September 11 terrorist attacks and has made contributions in the war on terrorist financing. Nevertheless, there are a number of vulnerabilities that need to be addressed.

In Saudi Arabia, money laundering is a crime based on a Quranic passage stating, "Assets arising from illegal acts shall be forbidden and confiscated." It is subject to prosecution based on Sharia (Islamic) law, the Banking Control Law, and Saudi Arabian labor law. Jurisdiction over money laundering offenses lies in the Sharia courts. Saudi Arabia has had a small number of prosecutions for money laundering that originated from the filing of suspicious transaction reports. There is currently a proposal to draft a specific law dealing with money laundering offenses.

Saudi law prohibits non-resident individuals or corporations from opening bank accounts in Saudi Arabia without the specific authorization of the Saudi Arabian Monetary Authority (SAMA). SAMA guidelines correspond to Financial Action Task Force (FATF)'s 40 Recommendations, and specifically require banks to enforce "know your customer rules," maintain records of suspicious transactions, and inform SAMA of suspicious transactions. Saudi Arabia carries out regular inspection of banks to ensure compliance of laws and regulations. SAMA has been active in providing anti-money laundering training to Saudi financial institutions. The GOSA has established an anti-money laundering unit in SAMA and has required Saudi banks to have specialized anti-money laundering units and staff to work with SAMA and law enforcement authorities. The GOSA has also recently created a Financial Intelligence Unit (FIU) in the Security and

Drug Control Department of the Ministry of the Interior. The new FIU is tasked with handling money laundering cases and coordinating its activities with SAMA and appropriate law enforcement agencies.

Saudi Arabia has signed the International Convention for Suppression and Financing of Terrorism based on UNSCR 1373. Saudi Arabia has frozen accounts of individuals and organizations in response to information provided by the U.S. Government. The GOSA signed a multilateral agreement under the auspices of the Arab League to fight terrorism. Saudi Arabia has also invited the FATF to carry out a mutual evaluation in early 2003 against the FATF 40 Recommendations and the Special Eight Recommendations on Terrorist Financing.

Hawala transactions outside banks and licensed moneychangers are illegal in Saudi Arabia. Reportedly, many money laundering cases that SAMA has investigated in the past decade involved the hawala system. In order to help counteract the appeal of hawala, particularly to many of the approximately six million expatriates living in Saudi Arabia, Saudi banks have taken the initiative and created fast, efficient, high quality, and cost-effective fund transfer systems. An important advantage for the authorities is that the senders and users of fund transfers are clearly identified.

Saudi Arabia has established a High Commission for oversight of all charities. Charities in Saudi Arabia are supposed to be licensed, registered, audited, and supervised. Contributions to charities are usually Zakat, which is an Islamic religious duty with specified humanitarian purposes. However, hundreds of millions of dollars in charitable donations leave Saudi Arabia every year and, wittingly or unwittingly, some of these funds have been channeled to terrorist organizations. New guidelines, regulations, and financial control mechanisms have been proposed to help counteract the misuse of charitable donations.

Saudi Arabia should pass specific anti-money laundering and anti-terrorist financing laws. Progress is being made in establishing one centralized FIU. However, as in many countries in the region there is an over-reliance on suspicious transaction reporting to generate money laundering investigations. Law enforcement agencies should take the initiative and proactively generate investigations. More emphasis should be put on the misuse of trade and commodities to launder funds. Saudi Arabia should move rapidly to enforce the new regulations and guidelines established to counteract the misuse of charitable donations.

Senegal. Senegal's banking system and formal and informal money-exchange systems are vulnerable to the laundering of proceeds from corruption, narcotics-trafficking, illegal gems and arms-trafficking, and trafficking in persons, all of which are prevalent in West Africa. Numerous foreign banks, including several French and African banks, have branches in Senegal.

Article 102 of Senegal's 1997 drug code criminalizes narcotics-related money laundering as a misdemeanor punishable by up to 10 years in prison. The last money laundering prosecution under this law was in 1999. The drug code requires banks to report suspicious transactions believed to be linked to narcotics-trafficking. Banks are required to keep records between one and ten years, depending on the type of record. The drug law authorizes the seizure of assets related to narcotics-trafficking. Banking secrecy provisions can only be waived by a judge's order as part of case involving narcotics. There is no requirement to report cross-border currency transactions.

The Government of Senegal (GOS) is considering an anti-money laundering law that would apply to banks, non-bank financial institutions, and intermediaries. The proposed law would criminalize money laundering for many serious crimes. Under the law, banking information could be shared with law enforcement authorities, and individuals could be held legally responsible if they do not report suspicious activity. The law would also expand current asset seizure provisions so that authorities could seize assets related to the laundering of proceeds from many serious crimes. The law would also establish a Financial Intelligence Unit.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, the

GIABA hosted an anti-money laundering seminar for representatives of 14 of the 15 ECOWAS members, including Senegal. A Senegalese magistrate is the acting head of GIABA.

The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the countries in the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information.

In September 2002, the WAEMU Council of Ministers, which oversees the BCEAO, approved an antimoney laundering regulation applicable to banks and other financial institutions, casinos, travel agencies, art dealers, gem dealers, accountants, attorneys, and real estate agents. The regulation is subject to review by member countries, which would be responsible for implementing many provisions of the regulation. The regulation is expected to go into effect in early 2003.

Under the WAEMU regulation, financial institutions would be required to verify and record the identity of their customers before establishing any business relationship. The regulation would require financial institutions to maintain customer identification and transaction records for ten years. The regulation would also impose certain customer identification and record maintenance requirements on casinos.

All financial institutions, businesses, and professionals under the scope of the WAEMU regulation would be required to report suspicious transactions. The regulation calls for each member country to establish a National Office for Financial Information Process (CENTIF), which would be responsible for collecting suspicious transactions and would have the authority to share information with other CENTIFs within the WAEMU as well as with the Financial Intelligence Units of non-WAEMU countries.

The WAEMU Council of Ministers issued another directive in September 2002 requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations designated by the UN 1267 Sanctions Committee.

In 2001 the BCEAO hosted a conference on money laundering. In July 2002 Senegal participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against drug trafficking, terrorism, and 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, which is not yet in force internationally.

Senegal should criminalize terrorist financing and money laundering for all serious crimes. The GOS should work with its partners in WAEMU to establish a comprehensive anti-money laundering regime in the region.

Seychelles. Seychelles is a not a major financial center, but it does have a developed offshore financial sector, which makes the country vulnerable to money laundering.

The Government of Seychelles (GOS), in efforts to diversify its economy beyond tourism, has taken steps to develop an offshore financial sector to increase foreign exchange earnings. The GOS actively markets Seychelles as an offshore financial and business center that allows the registration of non-resident companies. There are currently over 4,800 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, promotes the fact that IBCs need not file annual reports. The 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 the 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.

In 1996, the GOS enacted the Anti-Money Laundering Act (AMLA), which 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, knowing or having reasonable grounds to know that the money or property is derived from an illegal activity, 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.

In 1998, the Central Bank of Seychelles 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.

In 2000, the GOS repealed the 1995 Economic Development Act (EDA). The EDA provided concessions (protection from asset seizure and immunity from prosecution for crimes committed abroad and most crimes, other than violent crimes and narcotics-trafficking, committed in the Seychelles) to individuals investing more than \$10 million in the Seychelles.

The Seychelles is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The Seychelles is a party to the 1988 UN Drug Convention. The Seychelles has signed, but not yet become a party to, both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

The GOS should criminalize terrorist financing. The GOS should expand its anti-money laundering efforts by moving to immobilize 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, in order to effectively combat money laundering and other financial crimes. Seychelles should also actively participate in ESAAMLG.

Sierra Leone. Sierra Leone, which has a small commercial banking sector, is not a regional financial center. Loose oversight of financial institutions, weak regulations, rampant corruption, and a prevalent informal money-exchange system create an atmosphere conducive to money laundering. Given the importance of the large diamond sector to the economy, the prevalence of money laundering in the diamond sectors of neighboring countries and the loose oversight of the financial sector, Sierra Leone's diamond sector is particularly vulnerable to money laundering.

There is no specific legislation concerning money laundering. However, the Ministry of Justice is in the process of developing such laws. Banks are required to record the identity of customers engaging in large currency transactions and to maintain adequate records necessary to reconstruct significant transactions in order to respond to government information requests. Banks are also required to report suspicious transactions, although they do not usually adhere to this requirement. Bank secrecy laws prevent the disclosure of client and ownership information except under court order.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Sierra Leone.

Sierra Leone is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Sierra Leone has signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Sierra Leone should criminalize money laundering and terrorist financing, enforce existing financial laws and regulations, and provide legal authority for the seizure of criminal and terrorist assets.

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 an attractive destination to foreign drug traffickers, other foreign criminals and terrorist organizations and their supporters seeking to launder their money, and for flight capital. Money laundering occurs mainly in the offshore sector, but may also occur in the non-bank financial system, including extensive moneychangers and remittance agencies. As of December 7, 2002, there were 59 offshore banks, down significantly from 83 in December 2000; all are branches of foreign banks. Singapore does not permit shell banks, either in the domestic or offshore sectors. 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. A company incorporated in Singapore has the same status and powers as a natural person. Bearer shares are not permitted. Casinos or Internet gaming sites are illegal in Singapore.

The Corruption, Drug Trafficking, and other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalizes 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. Financial institutions 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), a semi-autonomous entity under the Ministry of Finance, serves as Singapore's Central Bank and financial sector regulator. MAS performs extensive prudential and regulatory checks on all applicants for banking licenses, including a check to see if the bank is under adequate home country banking supervision. Banks must have clearly identified directors. It is illegal to perform banking transactions without a license. 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 financial institutions obtain evidence of the identity of the beneficial owners of offshore 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. MAS issued similar guidelines for securities dealers and investment advisors, and futures brokers and advisors.

The Suspicious Transaction Reporting Office (STRO), part of the Singapore Police Force's Commercial Affairs Department, began operating on January 10, 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.

The Terrorism (Suppression of Financing) Act, passed in 2002, criminalizes terrorist financing, although the provisions of the Act are actually much broader. In addition to making it a criminal offense to deal with terrorist property (including financial assets), the Act criminalizes the provision or collection of any property (including financial assets) with the intention that the property be used, or having reasonable grounds to believe that the property will be used, to commit any terrorist act or for various terrorist purposes. The Act also provides that any person in Singapore, and every citizen of Singapore outside Singapore, who has information about any transaction or proposed transaction in respect of terrorist property, or who has information that he/she believes might be of material assistance in preventing a terrorism financing offense, must immediately inform the Police. The Act gives the authorities the power to freeze and seize terrorist assets. The Act, which supplements and extends interim legislation enacted in November 2001, took effect January 29, 2003.

Separate legislative authority, Section 27A(1)(b) of the Monetary Authority of Singapore Act, as amended in 2002, provides MAS with broad powers to direct financial institutions to comply with international obligations, including UN Security Council Resolutions 1267, 1333, 1373, 1390 and other similar resolutions. Regulations issued by the MAS to implement this authority took effect September 30, 2002. The regulations—S 515/2002, the MAS (Anti-Terrorism Measures) Regulations 2002—bar banks and financial institutions from providing resources and services of any kind which will benefit terrorists and from doing "anything that...assists or promotes" terrorist financing. Financial institutions must notify the MAS immediately if they have in their possession, custody or control any property belonging to terrorists or any information on transactions involving terrorists' funds. The regulations apply to all branches and offices of any financial institution incorporated in Singapore, or incorporated outside of Singapore but which are located in Singapore.

The MAS, on October 9, 2001, issued Circular FSG 48/2001, instructing financial institutions in Singapore to comply with a series of circulars intended to implement UNSCR 1373, including a freeze on assets possessed or controlled by any person known to have committed or attempted to commit acts of terrorism. MAS previously issued Circular FSG 5/2001 to implement UNSCR 1267, and FSG 6/2001 to implement UNSCR 1333. MAS issued revised circulars updating the freeze order after new names were added to the UNSCR 1267 consolidated list, although the process was not immediate. Singapore officials say they have not identified any assets in Singapore of persons included in the UNSCR 1267 consolidated list.

Alternative remittance systems exist, and are used mainly by the approximately 600,000 foreign workers in Singapore. All remittance agents, formal or informal, must be licensed and are subject to the same laws and regulations, including requirements for record keeping and the filing of suspicious transaction reports. Informal networks that are not licensed are considered illegal.

Charities in Singapore are subject to extensive government regulation, including close oversight and reporting requirements, and restrictions that limit the amount of funding which can be transferred out of Singapore. With a few exceptions, all charities must register with the Government, and must, as part of the registration process, submit governing documents outlining the charity's objectives and particulars on all trustees. The Commissioner of Charities has the power to investigate charities, including authority to search and seize records, and to restrict the transactions the charity can enter into, suspend charity staff or trustees, and/or establish a scheme for the administration of the charity. Charities must keep detailed accounting records, and retain them for at least seven years.

Under the "Charities (Fund-raising Appeals for Foreign Charitable Purposes) Regulations 1994," any charity or person who wishes to conduct or participate in any fund raising for any foreign charitable purpose must apply for a permit. The applicant has to show that at least 80 percent of the funds raised will be used in Singapore, although the Commissioner of Charities has discretion to allow a lower percentage to be applied within Singapore. Permit holders are subject to additional record keeping and reporting requirements, including details on every item of expenditure disbursed, amounts transmitted to persons

outside Singapore, and to whom the money was transmitted. There do not appear to be any restrictions or reporting requirements on foreign donations to charities in Singapore.

Singapore is party to the 1988 UN Drug Convention, and in December 2000 signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Singapore signed and ratified the UN International Convention for the Suppression of the Financing of Terrorism. Singapore is a member of the Financial Action Task Force, the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. To bolster law enforcement cooperation and facilitate information exchange, Singapore enacted the Mutual Assistance in Criminal Matters Act (MACM) in March 2000. The MACM provides for cooperation on any serious criminal offense. The provisions of the MACM apply to countries that have concluded treaties, memoranda of understanding, or other agreements with Singapore. Singapore and the United States signed the Agreement Concerning the Investigation of Drug Trafficking Offenses and Seizure and Forfeiture of Proceeds and Instrumentalities of Drug Trafficking in November 2000, the first agreement concluded pursuant to the MACM. This agreement facilitates the exchange of banking and corporate information on drug money laundering suspects and targets, to include access to bank records. The Terrorism (Suppression of Financing) Act provides for mutual legal assistance in cases where there is no treaty, MOU or other agreement in force between Singapore and another country that is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Singapore's FIU has concluded MOUs concerning cooperation in the exchange of financial intelligence with counterparts in Australia and Belgium.

The GOS should continue close monitoring of its domestic and offshore financial sectors. As a major financial center, it should also take measures to regulate and monitor large currency movements into and out of the country to ensure that international criminals, terrorists, terrorist organizations or their supporters do not misuse 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 makes 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 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, which have been particularly susceptible to laundering, were brought under the transaction reporting requirements in January 2001.

With the law "On Protection Against the Legalization of Proceeds from Criminal Activities", also known as Act No. 367/2000, Slovakia criminalizes money laundering for all serious crimes and imposes customer identification, record keeping, and suspicious transaction reporting requirements on banks. As noted above, in January 2001, non-bank financial institutions (casinos, post offices, brokers, stock exchanges, commodity exchanges, asset management companies, insurance companies, real estate companies, tax advisors, auditors, and credit unions) became subject to suspicious transaction reporting requirements. New anonymous passbook savings accounts are banned as of October 2000. In 2002, legislative amendments abolished all existing bearer passbooks and extended reporting requirements to art and gem dealers, legal advisors, consultants, and accounting services.

Slovakia's Financial Intelligence Unit (FIU), the OFiS of the Bureau of Financial Police (UFP), has jurisdictional responsibilities over money laundering violations. Established in 1996, the OFiS-UFP receives and evaluates 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. Since its establishment in 1996, through 2001, the UFP has received 1,628 reports alleging suspicious transactions totaling SKK 89.7 billion (\$2.2 billion). Approximately seven

percent of those reports led to criminal prosecutions. Recently, the FIU was divided into three departments. A receptor branch receives and disseminates reports from the obligated entities. A supervisory branch ensures the cooperation of the reporting entities as well as international cooperation. The analytical branch does the actual analysis. OFiS-UFP analysts participate regularly in international and domestic for related to combating money laundering.

Slovakia ratified the UN International Convention on the Suppression of the Financing of Terrorism on September 13, 2002. The Convention has been incorporated into amendments of the Bank Act, Penal Code and Act No. 367/2000. However, Slovakia elected to pursue several optional terms of the convention that will be fully incorporated no later than March 31, 2003. All competent authorities in the Slovak Republic have full legislative power to freeze or confiscate terrorist assets in accordance with UN Resolution 1373. No terrorist finance related accounts have been frozen or seized in Slovakia.

Slovakia is a 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, which is not yet in force internationally. Slovakia became a member of the Organization for Economic Cooperation and Development (OECD) in December 2000, thereby expanding its opportunities for multilateral engagement. 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 (Moneyval, formerly known as PC-R-EV). Slovakia sends experts to conduct mutual evaluations on fellow member countries; it also underwent mutual evaluations by this group in 1998 and 2001. As a result, Slovakia has been implementing changes to its money laundering regime based on the recommendations put forth in the reports.

The OFiS-UFP is a member of the Egmont Group. Slovakia has an MOU with the financial intelligence units of Slovenia, Belgium, Poland and the Czech Republic, and a letter of exchange with the FIU of Slovenia. 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.

Slovakia should continue to improve its anti-money laundering legislation. Continued implementation of the provisions of Slovakia's new anti-money laundering legislation will give the Slovak financial system greater protection by helping it prevent and detect money laundering in all financial sectors. Slovakia should also criminalize terrorist financing.

Slovenia. Slovenia's economic stability and location on the Balkan drug route offer attractive opportunities for money laundering. Narcotics-trafficking, which is a growing problem, is the main source of illegal proceeds. Other significant sources of illegal proceeds are fraud, trafficking in weapons, illegal immigration, and currency and securities counterfeiting, as well as extraterritorial offenses such as tax evasion, tax and VAT fraud, and corruption. Organized crime is believed to be involved in both predicate crimes and laundering operations. Money laundering often tends to be undertaken by citizens of the other former state socialist countries, using non-resident accounts. Slovenia's Financial Intelligence Unit, the Office for Money Laundering Prevention (OMLP), is a member of the Egmont Group.

Slovenia's Law on the Prevention of Money Laundering was enacted in 1994 and amended in 2001. The law criminalized money laundering and requires all financial institutions, casinos, and legal persons to report suspicious transactions and currency transactions above 5 million Slovenian Tolars (approximately \$23,000.) Records must be retained for a minimum of five years.

In October 2001, the Slovenian Parliament passed an anti-money laundering law that updated the original 1994 law by, among other provisions, expanding the OMLP's sources of available financial information, extending OMLP's authority to temporarily halt suspect transactions, and requiring mandatory client identification for transactions exceeding 3 million Slovenian Tolars (approximately \$13,699). December 2001 saw the passage of a new law that would increase the power of supervisory authorities to prohibit the

establishment of new bearer passbook accounts, as well as phase out already-existing bearer passbook accounts. Further amendments to the law, which extended reporting obligations to lawyers, law firms, notaries, auctioneers, art dealers, gaming houses, and lottery concessions, were passed and entered into force in July 2002. A special Financial Crime Division was established within the General Police Directorate in 2000 and is in charge of conducting preliminary investigations into money laundering cases, as well as into other economic crimes. Other active financial supervisory bodies include the Bank of Slovenia, the Securities Market Agency, the Insurance Supervisory Agency, and the Office for Gaming Supervision.

Slovenia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval, formerly PC-R-EV) and has undergone a mutual evaluation by the Committee, as well as lending its own experts to evaluate other member countries. Slovenia is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Slovenia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Slovenia has signed, but not yet become a party to, the UN International Convention for the Suppression of Financing of Terrorism. Slovenia should pass specific anti-terrorist financing legislation.

Solomon Islands. The Solomon Islands is not a regional financial center. 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.

The Solomon Islands should criminalize terrorist financing and money laundering for all serious crimes. The Solomon Islands should sign the UN International Convention for the Suppression of the Financing of Terrorism.

South Africa. South Africa's position as the major financial center in the region and its relatively sophisticated banking and financial sector make that nation a very attractive target for transnational criminal syndicates. South African officials report that over 150 criminal groups operate within the country. Reports indicate that many of these criminal organizations are of West African and South African origin, along with the Russian Mafia and Chinese Triads. Kidnapping, fraud, stolen vehicles, human trafficking, narcotics, diamond and weapons smuggling, and money laundering are major criminal activities challenging local law enforcement. Reportedly, between \$2 and \$8 billion are laundered through South African institutions every year.

The Proceeds of Crime Act, No. 76 of 1996, criminalizes money laundering for all serious crimes. In 1998, the Prevention of Organized Crime Act, No. 121 (POCA), was promulgated, which supersedes the previous Act. The POCA also criminalizes money laundering, mandates the reporting of suspicious transactions, and provides a "safe harbor" for good faith compliance. Subsequent regulations direct 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, the Government of South Africa (GOSA) has been unsuccessful in its efforts to implement the law. The POCA was amended several times, and several challenges to arrests and seizures are pending.

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 will coordinate policy and efforts to counter money laundering activities. The FIC will similarly act as a centralized repository of information. The FICB creates new legal categories of accountable and reporting institutions. These include companies and businesses considered particularly vulnerable to money laundering activities, such as banks, life insurance companies, foreign exchange dealers, casinos, and real 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 the FIC 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 have received final approval by Parliament and the Minister of Finance. As a result, accountable institutions will begin reporting to the FIC in February. Officials in South Africa report that the FIC will be operational in early March of 2003.

The GOSA became a signatory to the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001. Officials indicate plans to draft anti-terrorism legislation, which are expected to be promulgated by the summer of 2003. In part, this proposed legislation will give the FIC the responsibility to track terrorist funding.

South Africa is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The United States 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 is an active member of the Eastern and Southern African Anti-Money Laundering Group.

Although the GOSA has criminalized money laundering for all serious crime, and passed additional legislation necessary to construct a viable anti-money laundering regime, the GOSA should take steps to ensure its implementation of these laws. Additionally, the GOSA should enact legislation criminalizing terrorist financing. Unless it does so, South Africa's financial institutions will remain vulnerable to abuse by organized crime and misuse by terrorist organizations and their supporters.

Spain. Money laundering in Spain results primarily from the proceeds of the cocaine trade. There is also a significant black market for smuggled goods. The laundering occurs primarily in the financial system, although there are indications that money is also laundered through the real estate sector and the informal financial centers sometimes used by the immigrant community as an informal remittance system. 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 combating narcotics-trafficking, terrorism, and financial crimes. Its 1993 Anti-Money Laundering Law (No. 19) and corresponding 1995 regulations cover money laundering linked to illicit drugs, terrorism, and organized crime. The financial sector is required to identify customers, keep records of transactions, and report suspicious financial transactions. The Commission for the Prevention of Money Laundering and Monetary Offenses coordinates the GOS's anti-money laundering efforts and carries 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.

Crimes of terrorism are defined in Article 571 of the Penal Code and penalties are set forth in Articles 572 and 574. Sanctions range from ten to thirty years imprisonment with longer terms if the terrorist actions were directed against government officials. Currently, the GOS can freeze terrorist financial assets only if such action has been approved by an international organization such as the United Nations or European Union, or if a judge orders the freezing. The UNSCR 1267 consolidated list of individuals and entities has been distributed to the Spanish financial community. A bill is pending before the Spanish Parliament that would facilitate the administrative freezing of bank accounts of terrorist groups and individuals. Passage is expected in the first quarter of 2003.

The Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC) serves as Spain's Financial Intelligence Unit. SEPBLAC receives and analyzes suspicious activity reports and forwards those that may indicate money laundering to law enforcement agencies.

Businesses and financial service suppliers operating in Spain or targeting Spanish markets are subject to a new law, Ley de Servicios de la Sociedad de Informacion y de Comercio Electronico (LSSICE), that came

into force on October 12, 2002, for Internet marketing and distribution. The new law requires businesses to register their domain names, company registry, physical address, and other company details. Financial sector businesses such as online banks must still send written contracts to new customers for signature and obtain physical proof of their identity, in order to comply with existing banking regulations.

Spain is a member of the FATF, a participating and cooperating nation to the South American Financial Action Task Force (GAFISUD), and a cooperating and supporting nation to the Caribbean Financial Action Task Force (CFATF). It ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally, on March 2, 2002, and the UN International Convention for the Suppression of the Financing of Terrorism on April 9, 2002. Spain is also a party to the 1988 UN Drug Convention. SEPBLAC is a member of the Egmont Group.

Spain has signed criminal mutual 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 United States has been in effect since 1993. Spain also has entered into bilateral agreements for cooperation and information exchange on money laundering issues with Bolivia, Chile, El Salvador, France, Israel, Italy, Malta, Mexico, Panama, Portugal, Russia, Turkey, Venezuela, Uruguay, and the United States. Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups.

Spain should continue the strong enforcement of its anti-money laundering program and its leadership in the international arena. It should consider whether 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 neither an important regional financial center nor a preferred center for money laundering. Hawala is practiced as an alternative remittance system. While Sri Lanka recently experienced a failure of a small savings bank due to fraud by senior bank officials, there has been no evidence linking their activities to money laundering or terrorist financing.

As of January 2003, a draft law to deal with money laundering has been approved by the Central Bank and sent to the Ministry of Justice for review and presentation to cabinet and parliament. Currently, financial transactions relating to terrorism and narcotics are illegal under Central Bank regulations and Bank Secrecy laws. In December 2001, the Central Bank introduced regulations on customer due diligence. However, the Central Bank continues to allow the operation of bearer certificates of deposits. Terrorist financing is an offense punishable by imprisonment for a period of five to ten years. The Central Bank of Sri Lanka has circulated the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list with instructions to identify, freeze and seize terrorist assets. To date no such assets have been identified. Sri Lanka is a party to the UN International Convention for the Suppression of the Financing of Terrorism and to the 1988 UN Drug Convention.

Regulations under the Sri Lankan legislation provide for freezing and forfeiture of assets of individuals and entities involved with the financing of terrorism. There is no specific provision in the law to freeze and forfeit narcotics related assets; however, trafficking, possessing, importing or exporting of narcotics is punishable by death or life imprisonment under the Poisons, Opium and Dangerous Drugs Ordinance (OPDDO).

Draft amendments to OPDDO and a separate draft money laundering bill are expected to include asset forfeiture and seizure provisions for narcotics-related crimes and money laundering. Sri Lanka should pass the draft money laundering legislation, criminalize the financing of terrorism and begin steps to implement an anti-money laundering program, which would include training of law enforcement and customs on how to recognize and investigate money laundering.

St. Kitts and Nevis. The Government of St. Kitts and Nevis (GOSKN) is a federation composed of two islands in the Eastern Caribbean, but each island has the authority to organize its own financial structure. The federation is at major risk for corruption and money laundering due to the high volume of narcotics-trafficking activity through and around the islands and the presence of known traffickers on the islands,

two of whom are the subjects of an important and long-standing U.S. extradition request. An inadequately regulated economic citizenship program adds to the problem.

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. The Nevis offshore sector has one offshore bank (a wholly owned subsidiary of a domestic bank) approximately 17,000 international business companies and 3,000 trusts. The Nevis domestic structure consists of five domestic banks, four domestic insurance companies (all of which are subsidiaries of St. Kitts companies), one money remitter and 65 trust and company service providers. In St. Kitts, there are four domestic banks, 2 credit unions, four domestic insurance companies, two money remitters and 15 company service providers. There are also 13 trusts and 450 exempt companies. A regional stock exchange, common to the members of the Organization of Eastern Caribbean states (OECS) and supervised by a regional regulator, is located in St. Kitts. There is one casino in St. Kitts and the government is expected to issue two other casino licenses.

Legislation for Internet gaming is in place, but no licenses have yet been issued. The Eastern Caribbean Central Bank has direct responsibility for regulating and supervising the offshore bank in Nevis, as it does for the domestic sector in the entire GOSKN, and for making recommendations regarding approval of offshore bank licenses.

No evidence of terrorist financing has yet been known to be developed in St. Kitts and Nevis. Subsequently, St. Kitts and Nevis enacted the Anti-Terrorism Act #21, effective November 27, 2002. Sections 12 and 15 of the Act criminalize terrorist financing. The Act implements various UN Conventions against terrorism. The GOSKN has some existing controls that apply to alternative remittance systems but has undertaken no initiatives that apply directly to the potential terrorist misuse of charitable and non-profit entities.

In June 2000, FATF placed St. Kitts and Nevis on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against 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 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, emphasizing the need for enhanced scrutiny of certain transactions and banking relationships in St. Kitts and Nevis to ensure that appropriate measures are taken to minimize risk for money laundering. As a result of the legislative changes addressed below as well as the responsiveness of the GOSKN to requests for mutual legal assistance and other financial sector regulatory inquiries; however, the FATF, with certain on-going follow-up conditions, removed the GOSKN from the NCCT list in June 2002. The U.S. Treasury Department removed its Financial Advisory in August 2002.

In response to the initial FATF 2000 listing of St. Kitts and Nevis, the GOSKN began to take significant steps to address the deficiencies in its anti-money laundering regime as well as to build up its oversight infrastructure. The Proceeds of Crime Act No. 16 of 2000 criminalized money laundering from serious offenses (defined to include more than drug offenses) and imposed penalties ranging from imprisonment to monetary fines. The Act also overrides secrecy provisions that may have constituted obstacles to the access of information with respect to account holders or beneficial owners on the part of administrative and judicial authorities.

In addition, the Financial Intelligence Unit Act No. 15 of 2000 authorized the creation of a Financial Intelligence Unit (FIU). The FIU began operations in 2001 and has a director, deputy director, two legal representatives and five police officers. The FIU is to receive, collect and investigate suspicious activity reports (SARs); it is also charged with liaising with foreign jurisdictions. The FIU continues to receive computers and other assistance from the USG as well as management and asset forfeiture mentoring from the USG and the Caribbean Anti-Money Laundering Program a program jointly funded by the United States, the United Kingdom and the European Union.

Other measures designed to remedy shortcomings in St. Kitts and Nevis' anti-money laundering regime have included the Financial Services Commission Act No. 17 of 2000, Nevis Offshore Banking (Amendment) Ordinance No. 3 of 2000, the Anti-Money Laundering Regulations No. 15 of 2001, the Companies (Amendment) Act No. 14 of 2001, the Anti-Money Laundering (Amendment) Regulations No. 36 of 2001, the Nevis Business Corporation (Amendment) Ordinance No. 3 of 2001 and the Nevis Offshore Banking (Amendment) Ordinance No. 4 of 2001. The GOSKN also issued regulations requiring financial institutions to identify their customers, to maintain a record of transactions, to report suspicious transactions to the FIU and to establish anti-money laundering training programs. The Financial Services Commission has issued guidance notes on the prevention of money laundering pursuant to the Anti-Money Laundering Regulations. The Commission's Regulator is authorized to carry out anti-money laundering examinations. The GOSKN has separated the offshore marketing and regulatory functions. In particular, an offshore Marketing and Development Department, separate from the Financial Services Commission, was established in April 2001. Legislation requires certain identifying information to 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.

Financial Services (Exchange of Information) Regulations were promulgated in 2002. These regulations define the parameters for the exchange of information between domestic regulatory agencies and foreign regulatory agencies. Financial services officials in St. Kitts and Nevis have been seeking to educate relevant stakeholders as to their responsibilities related to anti-money laundering, e.g., using radio, television, newspapers and seminars. The GOSKN encouraged the founding of an association of compliance officers within relevant financial institutions and provided training in anti-money laundering to government financial services personnel.

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, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The GOSKN became a party to the UN International Convention for the Suppression of the Financing of Terrorism on November 16, 2001.

Notwithstanding its recent progress, St. Kitts and Nevis remains vulnerable to money laundering and other financial. St. Kitts and Nevis should continue to devote sufficient resources to effectively implement its anti-money laundering regime.

St. Lucia. St. Lucia is not a major financial center; however, it has developed an offshore financial service center that could potentially make the island more vulnerable to money laundering and other financial crimes. Currently, St. Lucia has one offshore bank, 733 international business companies (IBCs), ten international trusts, ten international insurance companies, seventeen Registered Agents and Trustee (Service Providers), two money remitters, one Mutual Fund Administrator and five domestic banks. Four other parties have applied for offshore bank licenses; two are pending and the other two have been refused.

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 Financial Intelligence Authority Act No. 17 of 2002 authorized the establishment of a Financial Intelligence Unit for St. Lucia, which the GOSL expects will become operational early in 2003. The FIU will receive suspicious activity reports and will be able to compel the production of information necessary

to investigate possible offenses under the 1993 Proceeds of Crime Act and the 1999 Money Laundering (Prevention) Act. Failure to provide information to the FIU is a crime, punishable by a fine or up to ten years imprisonment. The Financial Intelligence Authority Act permits the sharing of information obtained by the FIU with foreign FIUs. The Caribbean Anti-Money Laundering Program (CALP), which is funded jointly by the United States, the United Kingdom and the European Union, has trained St. Lucia's FIU personnel and the necessary computer equipment is being provided by the Department of State.

The 1993 Proceeds of Crime Act criminalized money laundering with respect to narcotics. (The GOSL also is drafting legislation to enact a new Criminal Code and Evidence Act.) The Proceeds of Crime 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 Proceeds of Crime Act provisions were superseded by the 1999 Money Laundering (Prevention) Act, which criminalized the laundering of proceeds with respect to 15 prescribed offenses, including narcotics-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 (e.g., to the Director of Public Prosecutions) 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 competent foreign authorities. Assistance includes the provision of documents, giving of testimony, undertaking of examinations, execution of search and seizure, and the provision of information and evidentiary items. The Authority has a number of regulatory powers, including the right to enter the premises of a financial institution during normal working hours to inspect transaction records or copy relevant documentation, issue guidelines to financial institutions, and to instruct a financial institution to facilitate an investigation by the Authority.

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. An IBC may be incorporated under the IBC Act. Only a person licensed under the Registered Agent and Trustee Licensing Act as a licensee may apply to the Registrar of IBCs to incorporate and register a company as an IBC. The registration process involves the Registered Agent submitting to the registrar the memorandum and articles of the company, payment of the prescribed fee and the Registrar's determination of compliance with the requirements of the Act. IBCs can be registered online through the GOSL's Pinnacle web page IBCs intending to engage in banking, insurance or mutual funds business may not be registered without the approval of the Minister responsible for international financial services. An IBC may be struck off the register on the grounds of carrying on business against the public interest.

The GOSL has neither signed nor ratified the UN International Convention for the Suppression of the Financing of Terrorism. No evidence of terrorist financing has known to have been developed in St. Lucia. The GOSL has not taken any specific initiatives focused on the misuse of charitable and nonprofit entities.

As a member of the Caribbean Financial Action Task Force (CFATF), St. Lucia underwent a first mutual evaluation immediately prior the establishment of St. Lucia's offshore sector. St. Lucia will undergo its Second Round evaluation in March 2003. St. Lucia is a party to the 1988 UN Drug Convention and a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In February 2000 St. Lucia and the United States brought into force a Mutual Legal Assistance Treaty. On September 26, 2001, St. Lucia signed the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

The GOSL should continue to enhance and implement money laundering legislation and increase supervision of the offshore sector. The GOSL also should take the steps necessary to bring St. Lucia into full compliance with the FATF 8 Special Recommendations. The GOSL should fully establish a Financial Intelligence Unit to allow information exchange with foreign authorities.

St. Vincent and the Grenadines. Until its government fully implements the financial sector and antimoney laundering laws it has recently enacted, St. Vincent and the Grenadines (SVG) will remain vulnerable to money laundering and other financial, as a result of the rapid expansion and inadequate regulation of its offshore sector in recent years.

SVG's offshore sector includes 15 offshore banks (down from 33), 9,734 IBCs (down from over 11,000), two offshore insurance companies, six mutual funds, 400 international trusts, and Internet gaming licenses. SVG's domestic sector comprises five commercial banks, one development bank, two savings and loan banks, one building society, 21 insurance companies, nine credit unions and two money remitters. As with most Eastern Caribbean countries, the Eastern Caribbean Central Bank (ECCB) supervises SVG's five domestic banks. Beginning in October 2001 with an administrative agreement and finalized in the International Banks (Amendment) Act No. 30 of 2002, the Government of SVG (GOSVG) has given the ECCB increasing authority to review and make recommendations regarding approval of offshore bank license applications and to directly supervise SVG's offshore banks in cooperation with the GOSVG's Offshore Finance Authority (OFA). The agreement includes provisions for joint on-site inspections to evaluate the financial soundness and anti-money laundering programs of offshore banks. The OFA alone continues to supervise and regulate the other offshore sector entities. The GOSVG has strengthened the structure and staffing of the OFA by appointing five new members to the OFA board, including a new chairman and individuals bringing it to a total of 12 staff to regulate offshore insurance and mutual funds. However, this staff exercises only rudimentary controls over these institutions.

In June 2000, the Financial Action Task Force (FATF) placed SVG on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against 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, the GOSVG has acted on a number of fronts to address the concerns of the international community. It has passed substantial legislation, primarily the International Banks (Amendment) Act No. 7 of 2000 that deals with the authorization and regulation requirements for offshore banks as well as with the rules regarding the transfer of shares and beneficial interest. SVG also enacted the International Banks (Amendment) Act of October 2000, which enables the Offshore Finance Inspector to have 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 licensee. SVG has enacted the International Business Companies Amendment Act No. 26 of 2002, which became effective on May 27, 2002, immobilizes and registers bearer shares. It has also revoked the Confidentiality Act and passed the Exchange of Information Act No. 29 of 2002 to

authorize and facilitate the exchange of information, particularly among regulatory bodies. It has revoked 16 bank licenses as well as caused the licenses of two others to be surrendered. In April 2001, the GOSVG revoked its economic citizenship program, which provided the legal basis to sell SVG citizenship and passports, although no passports are reported to have been issued.

SVG enacted the Proceeds of Crime and Money Laundering (Prevention) in December 2001 and the Proceeds of Crime (Money Laundering) Regulations in January 2002. Subsequent amendments further strengthened provisions of the Act and the Regulations. Among other measures, this Act criminalizes money laundering and imposes on financial institutions and regulated businesses a requirement to report suspicious transactions suspected of being related to money laundering or the proceeds of crime. The establish mandatory related regulations record keeping rules and limited identification/verification requirements. Subsequent to the passage of the Financial Intelligence Unit Act No. 38 of 2001, the GOSVG has established a Financial Intelligence Unit (FIU) that began operation in the summer of 2002. The FIU Act, 2001 allows for the exchange of information with foreign FIUs. An amendment to the FIU Act permits the sharing of information even at the investigative or intelligence stage. The FIU has received approximately eight suspicious activity reports (SARs) during 2002. The FIU has conducted investigations and has forwarded a case to the Director of Public Prosecutions with the recommendation to file a money laundering charge. The case is still pending. The FIU has received initial and ongoing training from the Caribbean Anti-Money Laundering Program, a program jointly funded by the United States, the United Kingdom and the European Union, and Department of State-funded computer and other equipment as well as mentoring in management and asset tracing and forfeiture.

The FATF stated in its October 2002 report that the SVG had enacted most, if not all, legislation needed to remedy deficiencies; however, until the deficiencies are fully addressed and the necessary reforms implemented, the SVG will remain listed. FATF invited the SVG to submit implementation plans that will enable the FATF to evaluate actual realization of the legislative changes in the SVG anti-money laundering regime. The SVG submitted an implementation plan in August 2002. The GOSVG's current progress in implementing anti-money laundering measures will be reviewed at the February 2003 FATF plenary.

Subsequently, St. Vincent and the Grenadines enacted the United Nations Terrorism Measures Act #34, effective August 2, 2002. Sections 3 and 4 of the Act criminalize terrorist financing. The GOSVG is a party to the UN International Convention for the Suppression of the Financing of Terrorism and is deemed to be partially compliant. No evidence has yet been known to be developed of terrorist financing in SVG. Also, the GOSVG has not undertaken any specific initiatives focused on the misuse of charitable and non-profit entities.

The GOSVG is a member of the Caribbean Financial Action Task Force (CFATF), and underwent its Second Round mutual evaluation in November 2002. 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 2001. An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and SVG entered into force in September 1999.

The GOSVG should address concerns raised by the international community concerning the remaining deficiencies in the GOSVG's anti-money laundering regime. The FIU should strengthen its relationship with its foreign counterparts and join the Egmont Group. The GOSVG 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. Money laundering takes place as a result of transnational criminal activity related to the transshipment of Colombian cocaine and European-produced ecstasy through Suriname en route to markets in Europe and the United States. Narcotics-related money laundering is believed to occur primarily through the non-banking financial system and a variety of other means, including the sale of gold purchased with illicitly obtained money and the manipulation of

commercial and state-controlled bank accounts. Suriname's casinos and cambios are also presumed to be used to facilitate money laundering.

Suriname's overall anti-money laundering regime is considered weak, although in September 2002 the Government of Suriname (GOS) brought into force a package of anti-money laundering legislation based on the recommendations of the Caribbean Financial Action Task Force (CFATF). The new legislation defines money laundering and establishes penalties for money laundering activities, requires the reporting of unusual and suspicious financial transactions, establishes a Financial Intelligence Unit (FIU) to track and report on unusual and suspicious financial transactions, and requires financial service providers to confirm the identities of clients, individual or corporate, and to store information on clients for seven years. The FIU, to be administered by the Attorney General's office, is designed to assist in the enforcement of the requirements of the banks and other financial institutions to identify, record and report the identity of customers engaging in significant transactions. The legislation includes a due diligence section making individual bankers responsible if their institution is laundering money and ensures the protection of bankers and others with respect to their cooperation with law enforcement officials. The GOS is receiving technical assistance in establishing the FIU from the EU/US/UK-funded Caribbean Anti-Money Laundering Program. The U.S. is providing equipment and furniture for the FIU.

The new legislation also amends the criminal code to provide for the confiscation of illegally obtained proceeds and other assets obtained partly or completely through criminal offenses, to allow criminal offenses to be filed and penalties to be levied against corporate entities, and to punish persons who participate in an organization that intends to commit crime. The Government of Suriname (GOS) has not criminalized terrorist financing, although current legislation allows assets to be seized under criminal investigative authority. No terrorist-related assets have been identified in Surinamese financial institutions.

Suriname is a member of the CFATF and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Suriname is a party to the 1988 UN Drug Convention.

The GOS should set as priorities the effective implementation of the new anti-money laundering legislation, including establishment of the FIU, and enactment of legislation to criminalize terrorist financing.

Swaziland. Swaziland is a growing regional financial center. International narcotics-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, relatively open society, and developed economic infrastructure make it attractive for trafficking organizations and increase the risk for money laundering.

The Money Laundering Act of 2001 criminalizes money laundering for specified predicate offenses, including narcotics-trafficking, kidnapping, counterfeiting, extortion, fraud, and arms-trafficking. The Act establishes a currency reporting requirement, requires banks to report suspicious transactions to the Central Bank, and provides conditions when assets may be frozen and forfeited. 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.

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 UN International Convention against Transnational Organized Crime, which is not yet in force internationally. Swaziland is an active member in the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. In August, 2002, Swaziland hosted the ESAAMLG plenary and Council of Ministers meeting. At the Council of Ministers meeting, Swaziland assumed the one-year presidency of ESAAMLG.

Swaziland should criminalize terrorist financing. Swaziland should also establish a Financial Intelligence Unit capable of sharing information with foreign law enforcement and regulatory officials.

Sweden. Sweden does not appear to have a significant money laundering problem. Swedish anti-money laundering legislation includes all serious crimes. Sweden's money laundering controls allow Sweden to fulfill the recommendations of the Hague Forfeiture Convention.

Swedish law requires financial institutions, insurance companies, currency exchange houses, and money transfer companies to verify customer identification, inquire into a transaction's background, and verify identities for each transaction, particularly in the case of new customers and involving amounts above SEK 110,000 (\$12,300). Swedish law allows for the sanctioning of non-compliant institutions rather than the individual officers of those institutions. Any suspicious transactions are required to be reported to the police Financial Intelligence Unit (FIU). The FIU is 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 the sale of lottery tickets. Swedish law also provides for the seizure of assets derived from drug-related activity.

Although Sweden did not adopt the euro as its country's legal currency, it recognized the potential for money laundering prior to and during the changeover period. Guidelines were issued to the financial sector regarding the scrutinizing of large-scale financial transactions, and the FIU conducted a study on potential problems associated with the changeover.

In 2002, the FIU received approximately 8,000 suspicious transaction reports, almost double the number reported in 2001.

Sweden ratified the UN International Convention for the Suppression of the Financing of Terrorism on June 6, 2002. In July 2002, Sweden adopted a new law on the freezing of assets to combat the financing of terrorism, with the additional purpose of fully implementing UNSCR 1373. Prior to this law, assets could not be frozen. The law also makes it illegal to collect, supply or receive money or other kinds of assets for the purpose of financing terrorist crimes or activities.

Sweden has endorsed the September 1997 Basel Committee's "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 UN Convention against Transnational Organized Crime, which is not yet in force internationally. 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 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 are aware of this and 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. Switzerland's extensive market in fine arts is also used to launder money. Although both Swiss and foreign individuals or entities conduct money laundering activities in Switzerland, narcotics-related money laundering operations are largely controlled by foreign narcotics-trafficking organizations, often from the Balkans or Eastern Europe. For example, some of the money generated by Albanian narcotics-trafficking rings in Switzerland goes to armed Albanian extremists in the Balkans.

Money laundering is a criminal offense. Switzerland has significant anti-money laundering legislation in place making banks and other financial intermediaries subject to strict Know-Your-Customer and reporting requirements. Switzerland has also implemented legislation for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets.

The current money laundering laws and regulations have been extended to non-bank financial institutions. Consequently, all non-bank financial intermediaries are required to either join an accredited self-regulatory organization (SRO), or come under the direct supervision of the Money Laundering Control Authority (MLCA) of the Federal Finance Administration. The MLCA was formed in 1998 to oversee anti-money laundering laws in the non-banking sector. The SROs must be independent of the management of the intermediaries they supervise and must enforce compliance with due diligence obligations. Non-compliance can result in a fine or a revoked license. About 7,000 fiduciaries operate in this previously unregulated arena. During the summer of 2002, the MLCA shut down three financial management companies, because they were operating illegally and failed to comply with anti-money laundering regulations. This action marked the first time the MLCA took direct action against financial intermediaries in Switzerland.

Additional legislation effective January 1, 2002 is intended to make the prosecution of organized crime, money laundering, corruption and other white-collar crime more effective by increasing the personnel and financing of the criminal police section of the federal police office. The law confers on the federal police and Attorney General's office the authority to take over cases that have international dimensions, involve several cantons, or which deal with money laundering, organized crime, corruption and white collar crime. During the summer of 2002, the Swiss Federal Council presented a bill to the Nationalrat, Switzerland's National Council, that addressed a number of terrorism issues surrounding ratification of the UN terrorism conventions. This bill also includes legislation for implementation, including a self-standing provision on terrorist financing that introduces criminal liability for legal persons for terrorism financing. The Staenderat was expected to make a decision on this bill in December 2002, and the Swiss House is scheduled consider it in the first half of 2003.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's Financial Intelligence Unit (FIU). 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 reported to MROS and frozen within 5 days until a prosecutor decides whether to take further action. MROS' staff, particularly the non-banking sector staff, increased in 2002, so the FIU now has twice the staff it had at its establishment in 1998.

Switzerland's banking industry offers the same account services for both residents and non-residents. 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 and must also be informed of any change regarding the beneficial owner. Bearer shares may be issued by stock companies but not by limited liability companies.

The Government of Switzerland has made it a key foreign policy goal to correct the country's image as a haven for illicit banking services. In November 2001, the Swiss Federal Banking Commission ordered the dismissal of the Swiss manager of Zurich's Bank Leumi le-Israel because of professional malfeasance in accepting funds from a customer with questionable ties and fund sources. The Commission will also implement a new regulation, starting July 2003, that will significantly increase the banks' diligence rules for "high risk" clients whose political exposure make them vulnerable to corruption. The new regulations call for a systematic recording of new and existing business relationships, the performance of comprehensive, in-depth investigations into "risky" relationships, and electronic monitoring of high-risk transactions.

The Oversight Commission of the Swiss Bankers Association fined Credit Suisse for inadequate due diligence in connection with a total of \$214 million deposited in the bank by former Nigerian dictator Sani Abacha. Swiss press reports put the fine at \$500,000 (SFr. 750,000), making it the largest fine ever imposed by the Commission. The recipient of the fine will be the International Red Cross Committee.

Despite the measures that Switzerland has taken, it continues to come under fire by its neighbors and EU member countries for its continued banking secrecy laws and its refusal to look upon tax evasion as a crime. The EU finance ministers issued a warning to Switzerland in 2002, saying that Switzerland's lack of action is hampering the global crackdown on money laundering and other financial crimes, and threatened sanctions if Switzerland does not change its banking secrecy laws. However, current Swiss law provides for no banking secrecy for suspected fraud, money laundering, or terrorist-related funds, despite Switzerland's steadfast position on maintaining banking secrecy in the face of tax evasion not related to other crimes.

Switzerland ranks among the world's leading art markets. Generating about \$200 billion a year in turnover, the market offers lucrative opportunities for organized crime to transfer stolen art or use art to launder criminal funds. The Swiss art market is especially attractive for unethical transactions since artworks, which may have been smuggled into Switzerland, can legally be re-exported as genuine Swiss artwork after five years. Swiss officials are concerned about the possible abuse of its art dealer market and a new bill against illegal cultural transfers is slated for parliamentary debate next year. The United States is Switzerland's most important art trading partner, importing \$300 million worth of art from Switzerland in 2001

The soon-to-be amended Swiss penal code makes terrorism financing a predicate offense for money laundering. It has yet to pass the Nationalrat, but it is expected to pass in the spring of 2003, and will be effective immediately upon passage. Switzerland cooperates with the United States to trace and seize assets, and has shared a large amount of funds seized with the U.S. Government (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, 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 in 2001 to signal Peru that it had uncovered 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 suspicious transactions. Based on the "State Security" clause of the Swiss Constitution, the authorities have ordered banks and other financial institutions to freeze assets of organizations and individuals designated by UN 1267 Sanctions Committee. In 2001, the MROS was notified a record 417 times of suspicious transactions, according to its annual report published in May 2002. This marks a 34 percent increase over the previous year's 311 notifications. The MROS blocked a record \$1.8 billion (SFr. 2.73 billion) during 2001, compared to \$436 million (SFr. 656 million) during 2000. Five international cases account for more than \$1.3 billion (SFr. 2 billion) in assets blocked during 2001. Much of the increase in the number of reported cases was due to the extensive search of terrorist assets following September 11. At least 95 notifications concerning funds totaling \$24.6 million (SFr. 37 million) were linked to the terrorist attacks. In 35 cases, the beneficial owner of the blocked assets was a Saudi-Arabian national, in 33 cases Swiss, and in 5 cases Italian. Others came from Liechtenstein, Afghanistan, France, Egypt, United States, United Kingdom, Bahamas, Syria, Turkey, Bosnia-Herzegovina, Bangladesh, Somalia, United Arab Emirates, Bahrain, and Pakistan. In the year following September 11, 2001, Switzerland froze 72 bank accounts worth \$20 million with suspected links to terrorism. Over 400 money laundering cases, totaling over 2.7 billion Swiss francs, reported during the same time frame.

Switzerland is a signatory of, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Switzerland has ratified the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of Proceeds from Crime. Switzerland is expected to soon have ratified all of the UN terrorism conventions. The Federal Council presented, with its bill to Parliament in the summer of 2002, language concerning ratification of the UN International Convention for the Suppression of the Financing of Terrorism and the UN International Convention for the Suppression of Terrorist Bombings. Of the twelve UN Conventions, ten have been ratified, and the Nationalrat is expected to ratify the other two in the spring session. To date, Switzerland has not ratified the 1988 UN Drug Convention.

Switzerland has a Mutual Legal Assistance Treaty in place with the United States, and Swiss law allows authorities to furnish information to U.S. regulatory agencies provided it is kept confidential and used for supervisory purposes. Switzerland is a member of the Financial Action Task Force and the Egmont Group. Switzerland is a member of the Basel Committee on Banking Supervision, which established the first international code of conduct for banks. Legislation that aligns the Swiss supervisory arrangements with the Basel Committee's "Core Principles for Effective Banking Supervision" is contained in the Swiss Money Laundering Act.

Switzerland should extend its anti-money laundering program to include dealers in art and high-end goods. Switzerland should continue to work toward full implementation of its anti-money laundering regime.

Syria. Syria is designated by the U.S. Department of State as a State Sponsor of Terrorism. As host to one of the most underdeveloped banking sectors in the world, Syria is not a likely center for money laundering via the formal financial sector. Since private banks were nationalized in the early 1960s, Syria's entire financial system has been owned and operated by the state. The existing public banks are inefficient and highly-regulated, and focus almost exclusively on financing public enterprises. As a result, Syrian businessmen traditionally use banks in neighboring Lebanon and Jordan to receive a full range of banking services. The private sector routinely conducts foreign currency transactions to finance imports, generally by using letters of credit from Lebanon and Europe. Due to foreign exchange controls, the private sector also has restricted access to foreign currency. Illicit proceeds from the narcotics trade may flow through Syria, but it is generally believed they are moved to Lebanon for laundering purposes. As a result, the primary money laundering vulnerability in Syria is not necessarily through financial institutions but via the use of alternative remittance systems such as hawala, trade-based money laundering, gold, and currency smuggling. These money laundering methodologies are known to be used to finance terrorism throughout the region and elsewhere.

The government-controlled banking system in Syria consists of the Central Bank of Syria and five public banks, each specializing in one aspect of economic activity: the Commercial Bank of Syria, the Agricultural Cooperative Bank, the Industrial Bank, the Real Estate Bank, and the People's Credit Bank. These banks employ a rigid interest rate structure that discourages savings deposits, particularly during periods of inflation. Only the Commercial Bank of Syria is permitted to provide commercial banking services. The Commercial Bank, as the sole legal trader of foreign currencies, also effectively controls all foreign trade and all foreign currency transactions. In addition to monopolizing the exchange of foreign currencies, the Syrian government maintains one of the last remaining fixed, multiple exchange rate systems in the world, employing three different rates depending on the nature of the transaction. This inefficient system undoubtedly contributes to alternative methods of transferring value outside the state controlled banking system. There are reports that such transactions occur with the tacit approval, if not involvement, of Syrian government officials. A large percentage of Lebanon's banking services involve Syrian accounts.

In April 2001, Syria enacted new laws on both legalizing private banking (Law No. 28) and establishing rules on banking secrecy (Law 29). However, no private bank has yet been granted permission to open. Much still needs to be done to fundamentally restructure the banking sector, particularly in terms of either suspending or amending existing regulations that would prohibit a newly-licensed private bank from

operating fully. The Syrian government continues to work on detailed regulations that will govern the operation of private banks.

Reportedly, the Syrian government is aware that with the liberalization of its banking sector, measures to prevent such activity must be firmly in place. Therefore, it is preparing draft money laundering legislation that may be passed sometime in 2003. The details of this draft legislation are as yet unclear.

Syria is a party to the 1988 UN Drug Convention. Syria has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

As a first step in crafting an effective anti-money laundering program, Syria should approve comprehensive anti-money laundering and anti-terrorism finance legislation that adheres to world standards. Syria should also be aware that money laundering can easily by-pass financial institutions and take enforcement measures to address these vulnerabilities.

Taiwan. Taiwan's modern financial sector and its role as a hub for international trade make it attractive to money laundering. Its location astride international shipping lanes makes it vulnerable to transnational crimes such as narcotics-trafficking and smuggling. The use of alternative remittance systems or "underground banking" is a money laundering vulnerability. There is a significant volume of informal financial activity through unregulated non-bank channels. According to suspicious activity reports (SARs) filed by financial institutions on Taiwan, the predicate crimes linked to SARs include: financial crimes, corruption, narcotics, and other general crimes, in that order.

Taiwan's anti-money laundering legislation is embodied in the Money Laundering Control Act (MLCA) of April 23, 1997. Its major provisions include a list of predicate offenses for money laundering, customer identification and record keeping requirements, disclosure of suspicious transactions, international cooperation, and the creation of a Financial Intelligence Unit, the Money Laundering Prevention Center (MLPC). In October 2002, the Executive Yuan approved draft legislation to amend the MLCA and forwarded it to the Legislative Yuan for approval. Among the amendments are provisions for the freezing of assets related to money laundering and terrorism, and for the creation of a system for sharing forfeited assets with domestic and foreign enforcement agencies. The legislation also expands the list of financial institutions to include pawnshops, travel agents, car dealers, and real estate brokers. Other amendments call for stiffer penalties for major or recidivist money launderers, the lifting of immunity from prosecution of conspiring family members or cohabitants, and the introduction of a currency transaction reporting (CTR) requirement for cash transactions. Financial institutions currently have an electronic system in place to identify and record transactions that exceed NT \$1 million (\$30,000); the amendments require financial institutions to report CTRs to an as yet unidentified agency (likely the MLPC). The CTR threshold amount has not yet been determined but will be in the range of NT \$1-1½ million (\$30,000-45,000).

According to statistics published by the MLPC, of the 791 SARs filed in 2001, 28 percent were referred to law enforcement authorities for investigation, 22 percent were under review, and 50 percent were archived with no further action. According to the MLPC, authorities on Taiwan prosecuted 179 individuals in 38 cases for money laundering during 1997-2001. In addition, in 2001 the MLPC provided information to assist 46 domestic and 20 international investigations.

The authorities on Taiwan are actively involved in countering the financing of terrorism. The Bureau of Monetary Affairs (BOMA) has circulated to all domestic and foreign financial institutions in Taiwan the names of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list. Terrorist financing is not explicitly criminalized, but in accordance with UN Security Council Resolution 1373, the MLCA was amended to allow the freezing of accounts suspected of being linked to terrorism. Under current law the ability of authorities on Taiwan to identify, freeze and seize terrorist-related financial assets is limited, although legislative amendments are pending. At present, authorities on Taiwan must post a bond before freezing or seizing financial assets. No targeted assets have been identified to date.

Alternative remittance systems, or underground banks, are considered to be operating in violation of Banking Law Article 29. Authorities on Taiwan consider these entities unregulated financial institutions, although pending legislation would bring them under the regulatory umbrella. Authorities on Taiwan do not believe that charitable and non-profit organizations in Taiwan are being used as conduits for the financing of terrorism. Taiwan is, however, investigating a number of foreign-owned and operated commercial enterprises that handle remittances by guest workers to their home countries.

A mutual legal assistance agreement between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office in the United States (TECRO) entered into force in March 2002. It provides a basis for the law enforcement agencies of the territories represented by AIT and TECRO to cooperate in investigations and prosecutions for narcotics-trafficking, money laundering (including the financing of terrorism), and other financial crimes. 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 in compliance with the goals and objectives of the Convention. Taiwan is a founding member of the Asia/Pacific Group on Money Laundering (APG) and actively participates in the Group's meetings. The MLPC is a member of the Egmont Group.

Over the past five years Taiwan has created and implemented an anti-money laundering regime within international standards. The APG's May 2001 Mutual Evaluation Report on Taiwan recommended a number of improvements to its anti-money laundering program. The MLCA amendments, introduced in 2002, address a number of these recommendations, especially in the area of asset forfeiture. The authorities on Taiwan should adopt these proposed amendments to continue to strengthen the existing anti-money laundering regime. The authorities on Taiwan should also criminalize the support and financing of terrorism. The authorities on Taiwan should also enact legislation that would result in the issuance of regulations regarding alternate remittance systems.

Tajikistan. Tajikistan is not a financial center, and its underdeveloped banking sector does not make it attractive for money laundering. However, with average monthly income in the country near ten U.S. dollars, the temptation to become involved in narcotics-related transactions remains high for many segments of the society. Further, as the Government of Tajikistan (GOT) continues to pursue financial sector reform, measures to counter money laundering will grow in importance. There are indications that some small-scale money laundering takes place in the country, mostly through the purchase and subsequent import of goods and properties. Trade based money laundering is commonly used in the region.

Tajikistan has criminalized money laundering; the Criminal Code specifies fines ranging from approximately \$700 to \$4,000 (the fines are based on the national minimum wage, currently four Somoni per month or about \$1.30) and a maximum prison term of ten years for the use or masking of funds derived from illegal activities. Tajik law also provides for the seizure of assets used in or derived from narcotics-related activity.

Tajik authorities have been cooperative with U.S. efforts to trace and halt terrorist-related funds, and Tajikistan has signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Tajikistan is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Tajikistan has not yet enacted terrorist financing legislation.

Tanzania. Tanzania is a regional trade center. Police and government officials confirm that Tanzania is vulnerable to money laundering due to poor anti-money laundering controls. Similarly, a weak financial sector and an under-trained, under-funded law enforcement apparatus make such crimes difficult to track and prosecute. Officials have noted that some real estate and used car businesses are used for money laundering purposes. Government officials have also cited drug trafficking and the emerging casino industry as areas of concern for money laundering. The prevalence of money laundering and hawala, and

the threat of terrorist organizations, on the unregulated island of Zanzibar make it an area of concern. Officials indicate that money laundering schemes in Zanzibar generally take the form of foreign investment in the tourist industry and bulk cash smuggling.

The Proceeds of Crime Act of 1991 criminalizes narcotics-related money laundering. However, the Act does not adequately define money laundering, and it has only been used to prosecute corruption cases. The law obliges financial institutions to maintain records of transactions exceeding 10,000 shillings (approximately \$10) 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. Financial institution employees are legally protected from liability stemming from reporting suspicious transactions.

In November 2002, Parliament approved the Prevention of Terrorism Act, which the President signed into law on December 14. The Act criminalizes terrorist financing. It also requires all financial institutions to inform the government each quarter of whether any of their assets or any transactions may be associated with a terrorist group, although the implementing regulations for this provision have not yet been drafted. Under the Act, the government may seize assets associated with terrorist groups.

On November 11, 2002, the Parliament ratified the UN International Convention for the Suppression of the Financing of Terrorism, although the Government of Tanzania (GOT) has not yet deposited its instruments of ratification with the UN. Tanzania is a party to the 1988 UN Drug Convention. Tanzania is a member of the East and Southern Africa Anti-Money Laundering Group (ESAAMLG), which was founded in 1999. The GOT continues to play a leading role in the operation of this FATF-style regional body and has detailed personnel to the ESAAMLG Secretariat, located in donated office space in Dar es Salaam. In March 2002, Tanzania hosted the biannual ESAAMLG plenary, and will host it again in March 2003. Tanzania has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Consonant with its commitment to supporting the ESAAMLG, Tanzania should enact comprehensive money laundering legislation that would apply to all serious crimes and include mandatory customer identification. The legislation should also require reporting of suspicious transaction reports to a Financial Intelligence Unit (FIU), which would be empowered to share information with other FIUs and foreign law enforcement agencies.

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 toward 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. Smuggling of narcotics and contraband and evasion of customs duty are significant problems. Thailand is also a major production, transit and distribution country for counterfeit goods. Drug traffickers use Thailand's banking system 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 financial institutions and gem industry are also vulnerable to misuse by terrorist organizations and their supporters. Corruption remains a major problem and several high profile investigations were launched in 2002 concerning the laundering of the proceeds of corruption by public officials.

Thailand's anti-money laundering legislation, the Anti-Money Laundering Act (AMLA) B.E. 2542 (1999) criminalizes money laundering for the following seven predicate offenses: narcotics-trafficking, trafficking in women or children for sexual purposes, fraud, financial institution fraud, public corruption, customs evasion, extortion, and blackmail. The AMLA requires customer identification, record keeping, and the reporting of large and suspicious transactions, and provides, as well, for the civil forfeiture of property involved in a money laundering offense. Financial institutions are also required to keep customer

identification and specific transaction records for a period of five years from the date the account was closed, or from the date the transaction occurred, whichever is longer. Reporting individuals (banks and others) who cooperate with law enforcement entities are protected. Thailand does not have secrecy laws that prevent disclosure of client and ownership information of bank accounts to supervisors and law enforcement authorities. The AMLA gives the anti-money laundering office the authority to compel a financial institution to disclose such information.

The AMLO is Thailand's financial intelligence unit. AMLO receives, analyzes, and processes suspicious and large transaction reports as required by the AMLA. Between 1,000 and 1,200 suspicious transactions are reported each month on a regular basis. In addition, AMLO has the responsibility for investigating money laundering for civil forfeiture purposes and has additional responsibility for the custody, management, and disposal of seized and forfeited property. The AMLO is also tasked with providing training to the public and private sectors concerning the provisions of the AMLA. The law also creates the Transaction Committee which operates within AMLO to review and approve disclosure requests to financial institutions and asset restraint/seizure requests. The AMLA also established the Money Laundering Control Board, which is comprised of ministerial level officials and agency heads and serves as an advisory board that meets periodically to set national policy on money laundering issues and propose the relevant ministerial regulations.

The anti-money laundering controls apply to financial institutions and the Bureau of Land. The Stock Exchange of Thailand (SET) requires securities dealers to have know-your-customer procedures, however, the SET does not do any anti-money laundering compliance checks during its reviews. There are no anti-money laundering regulations for the insurance industry. Currency exchange dealers are required to be licensed, however, there are no anti-money laundering regulations for exchange businesses.

The Bank of Thailand (BOT) regulates financial institutions in Thailand, however, bank examiners are prohibited, except under limited circumstances, from examining the financial transactions of a private individual. This prohibition acts as an impediment to the BOT's auditing a financial institution's compliance with the AMLA or BOT regulations. Besides this lack of power to conduct transactional testing, BOT does not examine its financial institutions for anti-money laundering compliance. BOT and AMLO have agreed to jointly undertake this effort which should commence in 2003.

Financial institutions (such as banks, finance companies, savings cooperatives, etc.), land registration offices, and persons who act as solicitors for investors are required to report significant cash, property, and suspicious transactions. Reporting requirements for most financial transactions (including purchases of securities and insurance) exceeding 2 million baht (approximately \$50,000) and property transactions exceeding 5 million baht (approximately \$125,000) have been in place since October 2000. However, in December 2002, a proposal was made to lower the threshold for reporting cash transactions to 500,000 baht (\$12,000). The proposal is not yet effective. The various land offices are also required to report on any transaction involving property of 5 million Thai baht, or greater, or a cash payment of 2 million Thai baht, or greater, for the purchase of real property.

Licenses were first granted to Thai and foreign financial institutions to establish 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 lending in Thailand or offshore. The United Nations Drug Control Program and the World Bank listed BIBFs as potentially vulnerable to money laundering activities, because they serve as transit points for funds. Thailand's 44 BIBFs are now subject to AMLA.

The Royal Thai Government (RTG) recently proposed legislation to establish a new agency, the Special Investigation Department (SID). If the law is passed, it is likely SID will have responsibility for investigating most major financial crimes, including money laundering.

Thailand has not yet criminalized the financing of terrorism. Legislation to make terrorism a serious criminal offense, criminalize terrorist financing, and make it a predicate offense under AMLA is pending approval by the Thai parliament. The RTG issued instructions to all authorities to comply with UN Security Council Resolutions 1267, 1269, 1333, 1373, and 1390, including the freezing of funds or financial resources belonging to the Taliban and the al-Qaida network. To date, Thailand has not identified, frozen and/or seized assets linked to individuals and entities included on the UN 1267 Sanctions Committee consolidated list. The only action taken regarding alternative remittance systems is the general provisions of the AMLA, that make it a crime to transfer, or receive a transfer, that represents the proceeds of a predicate criminal offense.

The U.S.-Thai Mutual Legal Assistance Treaty entered into force in 1993. Thailand also has mutual legal assistance agreements with the United Kingdom, Canada, China PRC, France, and Norway. Numerous bilateral agreements are pending, as well as memoranda of understanding between the Anti-Money Laundering Office and financial intelligence units in other nations. AMLO expects to sign a number of agreements in March 2003 when Thailand hosts the 2nd Pacific Rim Conference on Money Laundering and Financial Crimes. Thailand is a member of the Asia/Pacific Group on Money Laundering (APG). In December 2000, Thailand signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally and is studying its domestic laws to determine what implementing legislation is required. In June 2001, Thailand became a member of the Egmont Group of financial intelligence units. Thailand is a party to the 1988 UN Vienna Convention. The RTG has signed, but not ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

The Royal Thai Government should continue to implement its anti-money laundering program but until the RTG provides a viable mechanism for its financial institutions to be examined for compliance with the AMLA, Thailand's anti-money laundering regime will not comport with international standards. The RTG should require the SET to include anti-money laundering compliance checks during its reviews. The RTG should develop and implement anti-money laundering regulations for exchange businesses and should take additional measures to address alternative remittance systems to further strengthen its anti-money laundering regime against crime, particularly by expanding its predicate offenses to include a broader base of serious financial crimes, such as arms/weapons trafficking, alien smuggling, and environmental crimes, as well as making structuring a criminal offense. Thailand continues to suffer problems with asset management and disposition due in part to a lack of resources. This lack of resources could be addressed through the creation of an Asset Forfeiture Fund which could make funds available for money laundering and asset forfeiture investigations. The RTG should create such a fund. Thailand's lack of anti-terrorist financing legislation renders its financial institutions vulnerable to misuse by terrorist organizations and their supporters. The RTG should pass legislation criminalizing terrorist financing and ratify the International Convention for the Suppression of the Financing of Terrorism.

Togo. Togo's poor financial infrastructure makes it an unlikely venue for money laundering through its financial institutions. Its porous borders, however, make it a transshipment point in the regional and subregional trade in narcotics. Togo's 1998 drug law criminalizes narcotics-related money laundering and penalizes offenses with up to 20 years in prison. However, there have never been any arrests for money laundering. Financial institutions are required to monitor and report monetary transactions above a threshold appropriate to the local economic situation, and must maintain records of such transactions and supply them to government authorities on request. Financial institutions are legally protected in respect to their cooperation with law enforcement authorities. Due diligence legislation applies to bankers and other professionals, although no arrests have been made for violations of this law.

The Government of Togo (GOT) has the legal authority to seize assets associated with drug trafficking. In 2001, President Eyadema created the national Anti-Corruption Commission to combat corruption and money laundering.

Terrorist financing is a criminal offense in Togo. The GOT has circulated to Togolese financial institutions the names of suspected terrorists and terrorist organizations listed on the UN 1267/1390 consolidated sanctions list and on additional lists supplied by the U.S. Government. The GOT closely regulates charities and other non-governmental organizations.

The Central Bank of West African States (BCEAO), based in Dakar, is the Central Bank for the countries in the West African Economic and Monetary Union (WAEMU): Benin, Burkina Faso, Guinea-Bissau, Cote d'Ivoire, Mali, Niger, Senegal, and Togo, all of which use the French-backed CFA franc currency. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. In September 2002, the WAEMU Council of Ministers, which oversees the BCEAO, issued a directive requesting that each member country set up a national committee under their Minister of Finance to deal with financial information as it relates to money laundering. The BCEAO would be in charge of coordinating such committees. Each member country is now responsible for putting legislation in place to implement this directive, and the legislation is expected to be harmonized regionally.

The WAEMU Council of Ministers issued another directive in September 2002 requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations targeted by the UNSCR 1267/1390 consolidated list.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Togo. In July 2002 Togo participated in the 2002 West African Joint Operation Conference (WAJO) that promotes regional law enforcement cooperation against narcotics-trafficking, terrorism, and money laundering.

Togo is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Togo ratified the UN International Convention for the Suppression of the Financing of Terrorism on February 14, 2002.

Togo should criminalize money laundering for all serious crimes.

Trinidad and Tobago. Trinidad and Tobago has a well-developed and modern banking sector, and is an increasingly significant regional financial center. Consequently, the country suffers increasingly financial crimes, mostly in the form of counterfeiting and credit card fraud. It is likely that money laundering takes place in investment firms, credit unions, banks, insurance companies, casinos, and some retail businesses. Importers under-invoicing imported goods for possible money laundering purposes is a concern as well. In December 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 POCA's record keeping and reporting requirements can result in a fine of 250,000 TT (approximately \$40,000) and imprisonment for two years for summary conviction, and a fine of 3,000,000 TT (approximately \$500,000) and seven years imprisonment for conviction on indictment. Upon summary conviction for money laundering, an offender can be liable for a fine of 25,000,000 TT (approximately \$4,000,000) 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, although no profits or property have been seized under the Act. Under POCA and the 1987 Prevention of Corruption Act, a former Minister of Finance has been charged, along with others, with offenses ranging from corruption and money laundering to misbehavior in public office and aiding and abetting the same. 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. The GOTT has circulated to its financial institutions the lists of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, al-Qaida, the Taliban, along with the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224 (on terrorist financing) and the relevant EU lists. GOTT customs regulations require that any sum above \$5,000 (in currency or monetary instruments) entering or leaving the country be declared. Cash above \$10,000 may be seized, with judicial approval, pending determination of its legitimate source. The GOTT 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 GOTT has approved a UNDCP plan that involves drafting 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 1993 Financial Institutions Act. 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 narcotics-trafficking and related money laundering.

The U.S. Internal Revenue Service is providing technical assistance to the Trinidad and Tobago Bureau of Inland Revenue to assist them in developing a comprehensive criminal investigations system that would be targeted to reducing corruption and enforcing the criminal statutes concerning tax administration and related financial crimes. This is being done in order to achieve compliance with the GOTT's Income Tax Act.

The GOTT has not become a signatory to the UN International Convention for the Suppression of the Financing of Terrorism, nor is the GOTT deemed to have implemented its principles in accordance with it's own FATF self-assessment. There has not yet been any identified evidence of terrorist financing in Trinidad and Tobago.

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 second round CFATF mutual evaluation in 2002, and the report has been endorsed by CFATF's Council of Ministers. Trinidad and Tobago is also a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. In 1999, an MLAT with the United States entered 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.

The GOTT should pass anti-terrorist financing legislation that will provide the authority to identify, freeze and seize terrorist assets. The GOTT should also continue its efforts to improve its ability to criminally investigate money laundering.

Tunisia. There is little public information about money laundering in Tunisia. Although it is an offshore financial center, 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. The Ministry of Finance and the Central Bank regulate 12 offshore banks. The Central Bank regularly conducts surprise audits of accounts and transactions of offshore banks. The Ministries of Commerce and Industry and Energy regulate approximately 1,200 offshore manufacturing companies. The Ministry of Commerce also regulates 300 offshore trading companies. The offshore companies may be 100 percent foreign owned. Anonymous directors are not permitted, and the names of all directors and

companies must be listed when the company is organized or when there is a change in directorship. 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 or its equivalent must be declared (approximately \$750). There are limits on the amount of gold that may be brought into the country. In December 2002, the legislature discussed tightening gold import regulations in light of an emerging parallel gold market.

Tunisia has no specific counter-terrorist financing law, but in November 2001, Tunisia signed the UN International Convention for the Suppression of the Financing of Terrorism. Tunisia is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Tunisia should pass a comprehensive anti-money laundering law as the first step in developing a viable anti-money laundering program. Tunisia should also criminalize terrorist financing.

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. However, local narcotics-trafficking organizations are reportedly responsible for only a small portion of the total of funds laundered in Turkey. A substantial percentage of money laundering that takes place in Turkey appears to involve tax evasion. 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 value items such as real estate, gold and luxury automobiles. Turkey is not an offshore financial center and does not have secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement officials. Since the financial crisis of 2000, the Turkish Government has taken over 19 of Turkey's 81 banks, and has significantly tightened oversight of the banking system through an independent regulatory authority.

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. However, the number of STRs being filed is only about 100 per month, a very low number, even taking into consideration the fact that the Turkish economy is a cash-based one. A possible reason for this is the lack of safe harbor protection for bankers and other filers of STRs. Turkish officials indicated in August 2002 that the GOT has drafted a bill that will provide such protection.

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 GOT broadened the definition of money laundering in 2001 through adoption of three conventions of the Council of Europe (CE): the CE Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime; and the CE Criminal Law Convention 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. As of December 2002, the GOT had submitted to the Turkish Parliament a draft law that would add bribery to the list of predicate offenses for money laundering.

In July 2001, the Ministry of Finance issued a circular of banking regulations requiring all banks, including the Central Bank, securities companies, and post office banks, to 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 \$4,000. The circular also required exchange offices to sign

contracts with their clients and to record tax identity information for all transactions over \$3,000. Financial institutions will have to obtain tax identity information before cashing customers' securities. And non-interest bearing entities such as Islamic financial institutions are required to record tax identity information for all transactions.

The Ministry of Finance also issued a circular mandating that a tax identity number be used in all financial transactions as of September 1, 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.

The 1996 anti-money laundering law established the Financial Crimes Investigation Board (MASAK), which is part of the Ministry of Finance, which receives, analyzes and refers STRs for investigation. MASAK serves as Turkey's financial intelligence unit (FIU). MASAK has a pivotal role between the financial community, on the one hand, and Turkish law enforcement, investigators and judiciary, on the other. In 2002, MASAK received a grant from the European Union to set up a new database system that will give it direct online access to all Turkish government databases. In 1997, the GOT established the Financial Crimes Investigative Board (FCIB). Since that time, the FCIB has pursued more than 500 money laundering cases. Of those, 59 have been prosecuted, with only one case resulting in a conviction. Most of the cases involve non-narcotic criminal actions or tax evasion; roughly 30 percent are narcotics related. It is believed that Turkish-based traffickers collect and transfer money to pay narcotic suppliers in Pakistan and Afghanistan, primarily by using money exchanges in Istanbul. The exchanges in turn wire transfer the funds through Turkish banks to accounts in Dubai and other locations in the Gulf. The money or value is then transferred, often through alternative remittance systems, to narcotics suppliers in Pakistan and Afghanistan.

Turkey cooperates closely with the United States and its neighbors to support the development of a regional anti-crime center in the Balkans under the Southeast Europe Cooperation Initiative (SECI). Turkey and the United States have a MLAT and cooperate closely on narcotics and money laundering investigations.

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. In December 2000 Turkey signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Turkey has traditionally taken a strong stance against terrorism. In May of 2002, Turkey became a party to the UN International Convention for the Suppression of Terrorist Bombings. In February 2002, MASAK issued General Communique No. 3 that detailed a new type of suspicious transaction report to be filed by financial institutions in cases of terrorist financing. Turkey also became a party to the UN International Convention for Suppression of the Financing of Terrorism on June 28, 2002. The GOT has the authority to identify and freeze the assets of terrorist individuals and groups designated by UN 1267 Sanctions Committee, and it froze such assets in several cases during 2002. Although Turkey has not specifically criminalized the financing of terrorism, there are various laws that have provisions which can be used to punish the financing of terrorism. In particular, Article 169 of the Turkish Penal Code prohibits assistance in any form to a criminal organization and any organization which acts to influence public services, media, proceedings of bids, concessions and licenses; to gain votes by using or threatening violence; to commit crimes by implicitly or explicitly intimidating and cowing people is illegal under the provisions of the Law No. 4422 on the Prevention of Benefit-Oriented Criminal Organizations.

Turkey has demonstrated a commitment to fight money laundering and terrorist financing. The GOT should enact its safe harbor bill to protect the filers of STRS, which may result in increased filings. Tax evasion remains a severe problem in Turkey and is directly linked to money laundering. Turkey's 2001 initiative on tax identity numbers should enhance its ability to prosecute tax evaders. Turkey should also regulate and investigate alternative remittance networks for to thwart misuse by terrorist organizations or their supporters.

Turkmenistan. Turkmenistan has only a few international banks and a small, underdeveloped domestic financial sector. Turkmenistan's economy is primarily cash-based. Due to the presence of narcotics-trafficking and 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 did not report any suspected cases of money laundering in 2002.

Article 242 of the Criminal Code imposes liability for the laundering of criminal proceeds. Financial and other transactions using criminal proceeds are punishable by a fine or up to two years imprisonment. Presidential Resolution 0210/02-2 of 1995 gives the Central Bank authority over all international financial transactions. Under this resolution, any entity 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.

Turkmenistan should criminalize terrorist financing and develop a viable anti-money laundering regime.

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 narcotics-traffickers. The TCI is vulnerable to money laundering because of a large offshore financial services sector as well as because of bank and corporate secrecy laws and Internet gaming activities.

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" that are 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 onsite inspections. The FSC became a statutory body under the Financial Services Commission Ordinance 2001 and became operational in March 2002, and now reports directly to the Governor.

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 have indicated that banks would be required to conduct due diligence on previously existing accounts by December 2005.

In 1999, the FSC, 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 antimoney 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 suspicious activity reports (SARS) to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which analyzes and investigates 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.

As with the other United Kingdom Caribbean overseas territories, the Turks and Caicos underwent an evaluation of its financial regulations in 2000, co-sponsored by the local and British governments. The report noted several deficiencies and the government has moved to address most but not all of them. The report noted the need for increased on-site examinations by supervisory authorities, which the government acknowledged, but which still remains a concern. An Amendment to the Banking Ordinance was introduced in February 2002 to remedy deficiencies outlined in the report relating to notification of the changes of beneficial owners, and increased access of bank records to the FSC, but the Ordinance has not yet been enacted. No legislation has yet been introduced to remedy the deficiencies noted in the report with respect to the Superintendent's lack of access to the client files of Company Service and Trust providers, nor is there legislation that clarifies how the Internet gaming sector is to be supervised with respect to anti-money laundering compliance.

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 is subject to the 1988 UN Drug Convention. The Mutual Legal Assistance Treaty between the United States and the United Kingdom concerning the Cayman Islands 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 by criminalizing the financing of terrorists and terrorism, and enhancing its on-site supervision program. 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.

The FSC has made steady progress in developing its regulatory capability and has some experienced senior staff. However, the current regulatory structure is not fully in accordance with international standards. Much progress has been made in enhancing the regulatory framework, with a considerable volume of new legislation passed, but TCI should continue its efforts.

Uganda. Uganda is not a regional money laundering center. Ugandan law enforcement agencies suspect that Uganda's banks and non-bank financial sector are used to launder money, but thus far have been unable to prove their suspicions because of the country's inadequate legal framework. Foreign exchange bureaus and alternative remittance systems are widely used in Uganda and are essentially unregulated.

In 2001, Uganda criminalized narcotics-related money laundering. The Bank of Uganda has issued "Know Your Customer" guidelines; however, it does not have the authority to penalize non-compliance. Uganda lacks a comprehensive anti-money laundering regime.

Uganda established an interagency Anti-Money Laundering Committee in 2000, which was tasked with drafting an anti-money laundering law based on FATF principles. In August 2002, the Committee produced a draft law based on UN models, international standards and South Africa's anti-money laundering law. The draft law, which at the end of 2002 was undergoing comment and revision, contains provisions relating to suspicious transaction reporting, record keeping, legal protection for those who cooperate with law enforcement, the regulation of non-bank financial institutions, international cooperation, and asset forfeiture. As of December 2002, the issue of criminalizing money laundering for all serious crimes through the draft law was still undecided. Uganda is also working on a bill that would provide for an offshore banking sector.

Uganda criminalized terrorist financing in the Anti-Terrorism Act, which was enacted on June 7, 2002.

Uganda has signed the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) MOU and has assumed the rotating chairmanship of ESAAMLG for 2003. 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, which is not yet in force internationally. Uganda has signed, but not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

Uganda should enact a comprehensive anti-money laundering regime that criminalizes money laundering for all serious crimes.

Ukraine. The lack of a comprehensive anti-money laundering system seriously impedes 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. Transparency International has rated Ukraine 2.4, on a scale where 10 means "highly clean." Ukraine's former Prime Minister, Pavlo Lazarenko, is in a U.S. prison awaiting trial on charges that he laundered over \$100 million, which he allegedly obtained illegally while serving as Prime Minister. Ukraine has provided assistance to the United States in connection with this prosecution.

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 (Moneyval, formerly 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."

Effective September 1, 2001, the Government of Ukraine (GOU) criminalized non-drug money laundering in the Criminal Code of Ukraine. Provisions in the criminal code also address drug-related money laundering offenses and provide for the confiscation of proceeds generated by criminal activities. 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 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.

In August 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services" was signed. The law establishes some regulatory controls 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 law defines financial "institutions" and "services," imposes record keeping requirements on covered entities, and identifies the responsibilities of regulatory agencies. The law created a Committee on Supervising Financial Operations and Markets, which, with the National Bank of Ukraine and the State Commission on Securities and Stock Market, has the primary responsibility for regulating financial services markets.

When the FATF, in September 2001, placed Ukraine on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering, its report noted that Ukraine lacked (1) a

complete set of anti-money laundering laws; (2) an efficient mandatory system for reporting suspicious transactions to a Financial Intelligence Unit (FIU); (3) adequate customer identification requirements; and (4) adequate resources at present to combat money laundering. Following the FATF action, FinCEN, the U.S. Financial Intelligence Unit, issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Ukraine.

On December 10, 2001, the Presidential Decree "Concerning the Establishment of a Financial Monitoring Department" mandated 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 is an independent authority that operates under the Cabinet of Ministers. Under the current law the FMD becomes the Authorized Agency designed to receive and analyze financial information from first line financial institutions. With the new legislation (effective six months after signing), the FMD will have more authority and guidelines for operation.

On November 28, 2002, President Kuchma signed into law an anti-money laundering package "On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime." The law calls for customer identification, reporting of suspicious and unusual transactions to an "Authorized Agency," and five years of record keeping. It also mandates the establishment of anti-money laundering procedures in first-line financial institutions such as banks; stock, securities, and commodity brokers; and insurance companies, among other entities. Non-cash transactions in amounts equal to or greater than 300,000 hryvnyas (approximately \$55,000) and cash transactions equal to or greater than 100,000 hryvnyas (approximately \$18,500) are to be monitored. Any transaction that is suspected of being connected to terrorist activity is to be reported to the appropriate authorities immediately. Corresponding changes to the Criminal Code to establish a money laundering offense in conformity with this law have yet to occur.

The GOU has cooperated with USG efforts to track and freeze the financial assets of terrorists and terrorist organizations. The National Bank of Ukraine (NBU), State Tax Administration, Ministry of Finance, and State Security Service (SBU) are fully aware of Executive Order (E.O.) 13224 and subsequent updates and addenda to the lists of terrorists and terrorist organizations. All agencies have tracked data that was provided, and have exchanged information. The NBU has issued orders to banks to freeze accounts of individuals or organizations listed in the E.O. and later lists. There are, however, problems (which the Ukrainians themselves recognize) of coordination among agencies, and serious gaps in legislation and regulation. Many of the difficulties are directly related to what the FATF had already noted, and the GOU is working to address these issues. The GOU has also taken appropriate steps to implement UN Security Council resolutions relevant to fighting terrorism. The Cabinet of Ministers, on December 22, 1999, issued a resolution ordering agencies and banks to freeze Taliban funds as specified in UNSCR 1267. A Cabinet of Ministers resolution, on April 11, 2001, instructed the NBU to order all banks to comply with UNSCR 1333. In response to these measures, the NBU sent letters to regional departments and commercial banks to execute all applicable provisions of UNSCRs 1267 and 1333.

Ukraine is a party to the 1988 UN Drug Convention as well as the 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. A bilateral Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and Capital, which provides for the exchange of information in administrative, civil and criminal matters, is also in force. Ukraine has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In January 2002, the European Convention on the Suppression of Terrorism was signed. Ukraine ratified the UN International Convention for Suppression of the Financing of Terrorism in December 2002.

FATF gave Ukraine until October 2002 to enact comprehensive, effective anti-money laundering legislation, or it would face the possibility of countermeasures from the FATF member countries. At its September 2002 plenum, FATF extended this deadline until December 15. Nevertheless, Ukraine had not

responded satisfactorily to its listing by FATF. On December 20, the FATF determined that Ukraine's statute did not meet international standards and announced that FATF members would impose countermeasures on Ukraine. Under Section 311 of the USA PATRIOT Act, the United States has designated Ukraine as a jurisdiction that is a primary money laundering concern and has announced possible countermeasures.

By passing its legislation, Ukraine had hoped to forestall the countermeasures threatened by FATF. The FATF Europe Review Group's report to the FATF Plenary, however, highlighted a number of shortcomings and ambiguities, which make the law ineffective. Just one example is Article 8, which states unequivocally that information containing bank secrecy information may not be shared with anyone. This is in direct conflict with Article 13, which mandates turning over relevant materials to the appropriate law enforcement authorities.

Ukraine must demonstrate its political will to combat money laundering by strengthening and clarifying its newly adopted law. It must adopt appropriate regulations, amend its Criminal Code, and criminalize terrorist financing. Additionally, GOU should implement mandatory reporting of suspicious and unusual transactions to the FMD, and allow the FMD to forward cases to the appropriate authorities.

United Arab Emirates. The United Arab Emirates (UAE) is a major financial and trading center in the Gulf region of the Middle East and is 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. Currently, the UAE financial system has 20 national banks (with 311 branches), 27 foreign banks (with 110 branches), two investment banks, five finance companies, five investment companies and 45 representative offices of foreign banks. There are 100 money exchanges (with 113 branches) operating in the country, along with 45 other financial intermediaries (brokerages) and eight banking, financial, and investment consultation establishments and companies.

The UAE's 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. 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 around 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, the Gulf Arabs' traditional role as business brokers, and lax customs control, the UAE is particularly vulnerable to trade-related money laundering.

In January 2002, the President of the United Arab Emirates promulgated Law No. 4 criminalizing all forms of money laundering activities. All persons, financial institutions, and other commercial and economic establishments will be criminally liable for the offense of money laundering. Such offenses are punishable by imprisonment (up to seven years) and steep fines.

The UAE, and in particular Dubai, is a major international hawala and currency exchange center. The fact that hawala is an undocumented and non-transparent system, and is highly resilient in response to enforcement and regulatory efforts, makes it difficult to control and a highly lucrative mechanism for terrorist and criminal exploitation. The UAE has begun to make progress in publicly accepting its vulnerability and involvement vis-à-vis hawala.

The UAE hosted an International Conference on Hawala in May 2002, which was attended by over 300 delegates including government officials, executives of supervisory institutions, banking experts, and law enforcement officials from 58 countries. The conference concluded with the issuance of "The Abu Dhabi Declaration on Hawala," which calls for the establishment of a sound mechanism to regulate hawala. The Central Bank of the UAE drafted a system for registering and supervising the hawaladars (the hawala brokers). The Board of Directors of the Central Bank approved the system, and it is being implemented.

Advertisements are published in the local press calling on hawaladars to register at the Central Bank and receive a certificate—free of charge—with minimum red tape. They are then required to provide details of remitters and beneficiaries on a special spreadsheet, and deposit such sheets at the Central Bank. They are also required to report suspicious transfers.

The supervision of the UAE banking and financial sector falls under the authority of the Central Bank. The Central Bank issues instructions and recommendations as deemed appropriate and is permitted to take any necessary measure to ensure the integrity of the UAE's financial system. The Central Bank issues licenses to financial institutions under its supervision and may impose administrative sanctions for compliance violations.

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 for a basic suspicious transaction-reporting obligation. Current regulations require that all cash transactions exceeding 200,000 dirhams (\$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 Committee, under the Chairmanship of the Central Bank's Governor, with representatives from the Ministries of Interior, Justice, Finance, and Economy, the National Customs Board, the Secretary General of the Municipalities, the Federation of the Chambers of Commerce, and five major banks and money exchange houses (as observers). It has overall responsibility for coordinating anti-money laundering policy.

Following a review of current practices by the Committee, in November 2000 the Central Bank issued Circular 24/2000, which consolidates and expands anti-money laundering requirements for the financial sector. It is applicable to all banks, money exchanges, finance companies, and other financial institutions operating 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 24/2000 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 Law 4/2002 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 them 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. Officials indicate that exchanges with foreign Financial Intelligence Units are possible, provided the exchanges are conducted on a basis of reciprocity. The AMLSCU, which is a member of the Egmont Group, is exploring areas of information sharing with other Financial Intelligence Units. AMLSCU has provided information relating to investigations carried out by international authorities.

The National Anti-Money Laundering Committee issued a Cautionary Notice in the local press to make the general public aware of the possibilities through which terrorist financing could be transacted and has urged avoidance of such possibilities. UAE has extended full support and cooperation to the UN and U.S. authorities in their efforts to track the accounts of terrorists. Under UNSCR 1267/1390, UAE has frozen accounts of certain organizations and individuals with amounts equal to approximately \$3 million.

Four known money laundering cases involving foreign nationals have been referred to courts. Some cases ended in convictions.

The government monitors registered charities and requires the organizations to keep records of donations and beneficiaries. The Ministry of Labor and Social Affairs regulates charities and charitable organizations in LIAE.

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 permit 100 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 Drug Convention, 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 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.

The United States and the UAE continue to share information on exchanging records in connection with terrorist financing and other money laundering cases on an ad hoc basis. The AMLSCU has conducted more than 55 workshops in 2002 jointly with U.S., German, UK, and other international banking authorities.

Following the September 11 terrorist attacks in the United States and revelations that terrorists had moved funds through the UAE, Emirati authorities acted to address potential vulnerabilities, and in close concert with the United States, to freeze the funds of groups with terrorist links. The UAE Government has demonstrated that it recognizes the need to implement an effective anti-money laundering system to protect the nation's security and has begun constructing a far-reaching anti-money laundering program. However, there remain areas requiring further action. The UAE should criminalize terrorist financing to ensure that its financial institutions are not misused by terrorist organizations or their supporters. The government should continue with its efforts to examine trade-related and alternative remittance money laundering vulnerabilities. There is currently an over-reliance on suspicious transaction reports to generate money laundering investigations. Law enforcement and customs officials should begin to take the initiative to recognize money laundering activity and proactively develop cases.

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 past few years have witnessed the movement of cash placement away from High Street banks and mainstream financial institutions. 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 UK has implemented the provisions of the European Union's Directive on the prevention of the use of the financial system for the purpose of money laundering and the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering. Narcotics-related money laundering has been a criminal offense in the UK since 1986. The laundering of proceeds from all other crimes is criminalized by subsequent legislation. Banks and non-bank financial institutions in the UK must report suspicious transactions.

Bank supervision falls under the 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 also 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 involving banks. The FSA administers a civil-fines regime and has prosecutorial powers. The FSA has the power to make regulatory

rules with respect to money laundering, and to enforce those rules with a range of disciplinary measures (including fines) if the institutions fail to comply.

The UK's banking sector provides accounts to residents and non-residents, who can open accounts through private banking activities or various intermediaries that often advertise on the Internet, and also offer various offshore services. 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 a tax advantage or for investment purposes.

In November 2001, money laundering regulations were extended to money service bureaus (e.g., bureaux de change, money transmission companies). The UK Government plans to bring more areas of the financial services industry into the regulated sector, making them subject to suspicious transactions reporting requirements. These areas of the industry would include attorneys, solicitors, real estate agents, and dealers in high value goods. Sectors of the betting and gaming industry that are not currently regulated are being encouraged to establish their own codes of practice, including a requirement to disclose suspicious transactions.

On July 24, 2002, the Proceeds of Crime Act 2002 was enacted, and it did not become effective until January 1, 2003. The legislation enhances the efficiency of the forfeiture process, and increases the recovered amount of illegally obtained assets. The Act consolidates existing laws on forfeiture and money laundering into a single piece of legislation and perhaps most importantly, creates civil asset forfeiture system for the proceeds of unlawful conduct. It also creates the Assets Recovery Agency (ARA), to enhance the financial investigators' power to request information from any bank about whether it holds an account for a particular person. The Act provides for confiscation orders related to people who benefit from criminal conduct, and for restraint orders to prohibit dealing with property; and allows the recovery of property that is, or represents, property obtained through unlawful conduct, or that is intended to be used in unlawful conduct.

Further, the Act gives standing to overseas requests and orders concerning property believed to be the proceeds of criminal conduct. The Act also provides the ARA with a national standard for training investigators, and gives greater powers of seizure at a lower standard of proof. Additionally, it creates for the regulated sector a new imprisonable offense of failing to disclose suspicious transactions in respect to all crime, not just narcotics- or terrorism-related crimes, as was the case previously. Along with the Proceeds of Crime Act of 2002 came an expansion of investigative powers relative to large movements of cash in the United Kingdom. In light of this, Her Majesty's (HM) Customs has increased its national priorities to include investigating the movement of cash through money exchange houses and identifying unlicensed money remitters.

Suspicious transaction reports (STRs) are filed with the Economic Crime Bureau (ECB) of the National Criminal Intelligence Service (NCIS). The NCIS serves as the UK's Financial Intelligence Unit (FIU). The ECB analyzes reports, develops intelligence, and passes information to police forces and Her Majesty's Customs and Excise for investigation. In 2001, the ECB received approximately 32,000 STRs. The ECB estimates it will receive roughly 65,000 STRs in 2002.

The Terrorism (United Nations Measures) Order 2001 makes it an offense for any individual, without a license from the Treasury, to make any funds for financial or related services available, directly or indirectly, to, or for the benefit of, a person who commits, attempts to commit, facilitates or participates in the commission of acts of terrorism. The Order also makes it an offense for a bank or building society to fail to disclose to the Treasury a suspicion that a customer or entity, with whom the institution has had dealings since October 10, 2001, is attempting to participate in acts of terrorism. The Anti-Terrorism, Crime, and Security Act 2001 provides for the freezing of assets.

As a direct result of the events of September 11, 2001, the ECB established a separate Terrorist Finance Team (TFT) to maximize the effect of reports from the regulated sector. The TFT chairs a law

enforcement group to provide outreach to the financial industry concerning requirements and typologies. The operational unit that responds to the work and intelligence development of the TFT has seen a threefold increase in staffing levels directly due to the amount of work that is being produced. The Metropolitan Police responded to the growing emphasis on terrorist financing by expanding the focus and strength of their specialist financial unit dedicated to this area of investigations. This unit is now called the National Terrorist Financing Investigative Unit (NTFIU).

On November 19, 2002, Chancellor Gordon Brown ordered financial institutions in the UK to freeze funds belonging to the Benevolence International Foundation (BIF). BIF's Chief Executive, Enaam Arnaout, a Syrian-born U.S. citizen, was recently indicted in the United States for running a racketeering enterprise, conspiracy to launder money, money laundering, wire and mail fraud, and providing material support to organizations, including Usama Bin Ladin's terror network.

The UK cooperates with foreign law enforcement agencies investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and is a member of FATF and the European Union. In January 2000, the UK signed the UN International Convention for the Suppression of the Financing of Terrorism and later ratified the Convention on March 7, 2001. In December 2000, the UK signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. The NCIS is an active member of the Egmont Group and has information sharing arrangements in place with the FIUs of the United States, Belgium, France, and Australia. The Mutual Legal Assistance Treaty (MLAT) between the UK and the United States has been in force since 1996. The United and UK recently negotiated an asset sharing agreement that is merely awaiting signature by the appropriate parties. The UK also has an MLAT with the Bahamas. Additionally, there is an MOU between the U.S. Customs Service and HM 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. In the past, Uruguay's strict bank secrecy laws, liberal currency exchange regulations, and overall economic stability made it vulnerable to money laundering, although its extent and exact nature were unknown. In 2002, however, banking scandals and mismanagement, along with massive withdrawals of Argentine deposits led to a near collapse of the Uruguayan banking system, and an end to Uruguay's role as a regional financial center. This probably serves to greatly diminish the attractiveness of Uruguayan financial institutions to money launderers in the foreseeable future. Over the last five years, the Government of Uruguay (GOU) has instituted several legislative and regulatory reforms in connection with the further consolidation of its anti-money laundering program. In May 2001, it enacted Law 17,343, which extended the predicate offenses for money laundering beyond narcotics-trafficking and corruption to include terrorism, smuggling (above the threshold of \$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.

The deputy chief of staff of the President works with the National Drug Board, which is the senior authority directing anti-money laundering policy. The Center for Training on Money Laundering serves as a forum for discussion and advice on policy as well as allowing private sector input. The Financial Information and Analysis Unit (UIAF), which works with Central Bank personnel, acts as a Financial Intelligence Unit, receiving, analyzing, and remitting to judicial authorities suspicious transaction reports. The Ministry of Finance and Economics, the Ministry of the Interior (via the police force), and the Ministry of Defense (via the Naval Prefecture) also participate in anti-money laundering efforts. The private sector has also developed self-regulatory measures against money laundering such as the Codes of Conduct approved by the Association of Banks and the Chamber of Financial Entities (in 1997), the Association of Exchange Houses (2001), and the Securities Market (2002).

According to GAFISUD, Uruguay's laws and regulations meet most of the FATF 40 Recommendations on Money Laundering. Money laundering is considered a crime separate from underlying crimes such as narcotics-trafficking, administrative corruption, terrorism or smuggling, which are formally listed in the legal statutes. The GOU can confiscate or preventively impound assets, proceeds or instruments used or intended to be used in money laundering crimes. However, real estate ownership is not registered in the name of the titleholder, which makes tracking money laundering in this important sector difficult, particularly in the partially foreign-owned tourist industry around Punta del Este. Safeguarding the financial sector from money laundering activities is a priority for the GOU. A series of Central Bank regulations require banks (including offshore), currency exchange houses, and stockbrokers to implement anti-money laundering policies, including the recording in internal databases transactions over \$10,000, and the reporting of suspicious transactions. In addition, the insurance and reinsurance sector, stock market, and currency exchange houses must know and thoroughly identify their customers, and report suspicious financial transactions to UIAF. The UIAF was created in December 2000, within the Superintendency of Financial Intermediation Institutions, to coordinate all anti-money laundering efforts. The UIAF, receives, analyzes, and remits to the judicial authorities, when appropriate, suspicious transaction reports. The Central Bank Circular 1722 that created the UIAF also generally provides UIAF the ability to respond to requests for international cooperation.

The insurance sectors are further required to maintain a registry of "relevant" transactions, such as payments of insurance premiums of \$10,000 or more, while stock and investment fund administrators must maintain a registry of individuals and entities exchanging currency or other valuables in amount greater than \$10,000. 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. Uruguay is a member of the Financial Action Task Force for South America (GAFISUD) and the deputy chief of staff of the President, has been named President of the GAFISUD for 2003. Uruguay is also a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. The USG and the GOU are parties to an extradition treaty and a mutual legal assistance treaty that entered into force in 1984 and 1994, respectively. Uruguay has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Uruguay has also signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

The GOU should take steps necessary to bring it into compliance with the FATF Special Eight Recommendations on Terrorist Financing. Effective implementation and enforcement of these antimoney laundering measures must remain a priority for the GOU in order to eliminate the potential for money laundering and terrorist financing activities throughout its financial sector.

Uzbekistan. Uzbekistan is not considered an important regional financial center and does not have a developed financial system. Reportedly, Uzbek citizens and residents attempt to avoid using the official banking system for transactions, except when required by law. There is little trust in current financial controls. In Uzbekistan, the majority of the population hold savings in the form of cash dollars stored at home. There is a significant black market for smuggled goods in Uzbekistan. Since the Government of Uzbekistan (GOU) imposed a restrictive trade and import regime in mid-2002, the smuggling of consumer goods increased dramatically. Many Uzbek citizens make a living by shuttle-trading goods from neighboring countries, Iran, the Middle East, India, Korea, Europe, and the United States. The basically un-reported and un-monitored trade is very susceptible to trade-based money laundering. It is thought that narcotics traffickers exchange their proceeds on the black market, allowing small-scale business people access to drug dollars. As in neighboring countries, narcotics can also act as a commodity, and they

are frequently bartered or traded for desired goods. Illicit proceeds are often carried across Uzbekistan's borders for deposit in other countries' banking systems, such as in Kazakhstan, Russia, or the United Arab Emirates

Foreign exchange controls formally limit the availability of foreign currency in the economy. The controls also inadvertently encourage the use of alternate remittance systems. Cash proceeds of crime denominated in the local currency, the soum, can easily be converted into other currencies on the black market. Residents and non-residents may bring the equivalent of \$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 into the country. However, residents are limited to the equivalent of \$1,500. Nonetheless, foreign currency is readily available to criminals, via the thriving black market.

There appears to be little money laundering through formal financial institutions in Uzbekistan in large part due to the extremely high degree of supervision and control exercised by the Central Bank of Uzbekistan, the Ministry of Finance, and the state-owned and controlled banks. The GOU has anti-money laundering legislation. Banks are required to know, record and report the identity of customers engaging in significant transactions, including the recording of large currency transactions at thresholds appropriate to Uzbekistan's economic situation. All transactions involving sums greater than 4.5 million soum (\$4,000 at the black market rate) must be tracked and reported to the authorities. Institutions must report suspicious transactions immediately, via phone call and follow up memorandum to the Central Bank of Uzbekistan. Non-bank institutions such as jewelry stores and auto dealers are not required to report suspicious transactions. Banks are required to maintain records for only two years, generally not an adequate period to reconstruct suspect transactions.

Article 41 of the Law on Narcotic Drugs and Psychotropic substances (1999) stipulates that any institution may be closed for performing a financial transaction for the purpose of legalizing (laundering) proceeds derived from illicit traffic in narcotic drugs and psychotropic substances. Penalties for money laundering are from five to ten years imprisonment. Article 243 of the Criminal Code imposes penalties for the legalization of proceeds derived from criminal activity, i.e. five to ten years of imprisonment. This article also defines the act of money laundering. It includes transfer, conversion, exchange, as well as concealing of origin, true nature, source, location, disposition, movement and rights with respect to the assets derived from criminal activity as punishable acts.

In accordance with Uzbekistan's Code of Criminal Procedure, investigation of money laundering offenses falls under the jurisdiction of the Ministry of Internal Affairs. The Department of Investigation of Economic Crimes within the Ministry conducts investigations of all types of economic offenses. There are also specialized structures within the National Security Service and the Department on Combating Economic Crimes and Corruption in the Office of the Prosecutor-General, which are also authorized to conduct investigation of, inter alia, money laundering offenses.

Uzbekistan's Law Number 167 "On Fighting Terrorism", of 15 December, 2000, criminalizes terrorist financing. The law is designed to provide for the security of individuals, society, and the state from terrorism; protection of territorial integrity and state sovereignty; preserving civil peace; and preventing ethnic strife. The law names the National Security Service (NSS), the Ministry of Internal Affairs (MVD) the Committee on the Protection of State Borders, the State Customs Committee, the Ministry of Defense and the Ministry for Emergency Situations as responsible for implementing the anti-terrorist legislation. The law names the NSS as the coordinator for government agencies fighting terrorism.

The GOU has the authority to identify, freeze, and seize terrorist assets. The banking community, which is entirely state controlled and, with few exceptions, state-owned, generally cooperates with efforts to trace funds and seize accounts. Uzbekistan is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GOU has blocked terrorist assets.

Uzbekistan is a party to the UN 1988 Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally.

Vanuatu. Vanuatu's offshore sector is vulnerable to money laundering, as it has historically 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 in December 1999 that they would no longer process U.S. dollar transactions to or from Vanuatu. The Government of Vanuatu (GOV) responded to these concerns by introducing reforms designed to strengthen domestic and offshore financial regulation.

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 2,500 "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 Offenses (Confiscation of Proceeds) Act 1989 criminalizes the laundering of proceeds from all serious crimes and provides 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 receives suspicious transaction reports filed by financial institutions and distributes them to the Public Prosecutor's Office, the Reserve Bank of Vanuatu, the Vanuatu Police Force, the Vanuatu Financial Services Commission, and law enforcement agencies or supervisory bodies outside Vanuatu. The FIU also issues guidelines to, and provides 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 crimes. Financial institutions within Vanuatu must establish and maintain internal procedures to combat financial crime.

Every financial institution is required to keep records of all transactions. Five key pieces of information are required to be kept for every financial transaction: the nature of the transaction, the amount of the transaction, 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.

Vanuatu passed the Mutual Assistance in Criminal Matters Act in December 2002 for the purpose of facilitating the provision of international assistance in criminal matters for the taking of evidence, search and seizure proceedings, forfeiture or confiscation of property and restraining of dealings in property that may be subject to forfeiture or seizure. The Attorney General possesses the authority to grant requests for assistance, and may require government agencies to assist in the collection of information pursuant to the request.

Additionally, in December 2002, Vanuatu passed the Proceeds of Crime Act of 2002. The act criminalizes the financing of terrorism. The E-Business Act No. 25 of 2000 and the Interactive Gaming Act No. 16 of 2000 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, the Offshore Group of Banking Supervisors, the Commonwealth Secretariat, and the Pacific Island Forum. The Financial Intelligence Unit became a member of The Egmont Group in June 2002. Vanuatu has not signed the UN International Convention for the Suppression of the Financing of Terrorism or the Convention against Transnational Organized Crime, which is not yet in force internationally. Vanuatu is not a party to the 1988 UN Drug Convention. The Financial Action Task Force reviewed Vanuatu in 2000 and determined not to designate Vanuatu as non-cooperative in the fight against money laundering.

Vanuatu should immobilize bearer shares and require complete identification of the beneficial ownership of IBCs and implement all provisions of its newly enacted Proceeds of Crime Act.

Venezuela. Venezuela is not considered a regional financial center, nor does it have an offshore financial sector. The relatively small but modern banking system (71 financial institutions of which 58 are classified as banks) primarily serves the domestic market. Venezuela's proximity to drug-source countries, weaknesses in the anti-money laundering system, and corruption, 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 and anecdotal evidence suggests that some money is laundered through the real estate market in its Margarita Island free trade zone.

The 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 narcotics-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. Due to prosecutorial unfamiliarity with the new accusatory judicial system as well as assuming the burden of tens of thousands of backlogged cases, the number of cases resulting in seizure of trafficker assets has decreased.

To expand the predicate offenses for money laundering beyond activities involving the illicit drug trade, the GOV introduced the Organic Law against Organized Crime bill. Under this bill money laundering is made a separate, autonomous offense, with no drug nexus required, and 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. The bill broadens assets forfeiture and sharing provisions, and provides law enforcement with stronger investigative powers by authorizing the use of modern investigative techniques such as the use of undercover agents. The bill is in its final reading in the National Assembly, but over the past six years similar legislation was never ultimately passed and the current Organized Crime bill, after years of effort, has still not been passed or enacted.

Since 1997, the Superintendence 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, 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 \$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 suspicious activity reports (SARs) and refers those deemed appropriate for further investigation to the Office of the Public Prosecutor, which subsequently opens and

oversees the criminal investigation. Since 1998, the UNIF has received 8,545 SARs. The UNIF is a member of the Egmont Group (since 1999) and has signed bilateral information exchange agreements with counterparts worldwide. The Venezuelan Constitution guarantees the right to bank privacy and confidentiality, but in cases under investigation by the UNIF, the Superintendence of Bank and Other Financial Institutions, or the Office of the Prosecutor, or by order of the Judge of Control, bank secrecy may be waived. Comprehensive financial and law enforcement information is available to the UNIF.

The Venezuelan Association of Currency Exchange Houses (AVCC), which counts all but one of the country's money exchange companies among its membership, voluntarily complies with the same reporting standards as those required of banks including the reporting of suspicious transactions and has conducted a number or training initiatives for its members. The AVCC also drafted and distributed an extensive operations manual entitled "System for the Prevention and Control of the Serious Crime of Money Laundering." Each currency exchange house in the country has and employs systems to electronically transmit transaction reports to SBIF.

Lacking the legal basis to employ modern investigative techniques, with appropriate legal safeguards, Venezuelan law enforcement authorities find it difficult, if not impossible to investigate and prosecute sophisticated criminal organizations and complex crimes such as money laundering. Indeed, there have only been a few money laundering convictions in Venezuela and all of them are narcotics related. On June 20, 2002, two Venezuelan citizens were sentenced to 15 and 25 years, respectively, for drug-related money laundering. This builds upon the single arrest and prosecution of one Venezuelan citizen in 2001, who was sentenced to 20 years in prison.

Current Venezuelan law does not specifically mention crimes of terrorism. The Organized Crime Bill would rectify this by defining terrorist activities and establishing punishments of up to 20 years in prison. The Bill's expanded definition of money laundering would also make it possible to prosecute those engaged in terrorism financing and to freeze and seize their assets.

Venezuela participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, the Caribbean Financial Action Task Force (CFATF), and the Multilateral Working Group against the Black Market Peso Exchange System. Venezuela is a party to the 1988 UN Drug Convention and has signed and ratified the UN Convention against Transnational Organized Crime, which is not yet in force internationally. This Convention was ratified by the National Assembly, made into a Law of the Republica Bolivariana of Venezuela on December 15, 2000, and published in the Official Gazette No. 37.357 on January 2002. On November 16, 2001, the GOV signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 anti-drug money laundering agreement. The information shared has supported U.S. domestic operations, resulting in the seizure of significant amounts of money and several arrests in the United States.

The GOV should enact measures such as the criminalization of the financing of terrorists and terrorism and institute measures to be able to expeditiously freeze terrorist assets, in order to implement the FATF Special Eight Recommendations on Terrorist Financing. The GOV should enact the Organic Law Against Organized Crime to provide law enforcement and judicial authorities the much-needed tools for the effective investigation and prosecution of money laundering and other financial crimes.

Vietnam. Vietnam is not an important regional financial center. The Vietnamese banking sector is underdeveloped and the Government of Vietnam (GVN) controls the flow of all U.S. dollars in official channels. The nature of the banking system makes it unlikely that major money laundering or terrorist financing is currently occurring in financial institutions. The "drug economy" exists in Vietnam's informal financial system. Vietnam has a large "shadow economy" in which U.S. dollars and gold are the preferred currency. Due to the limited size of Vietnam's banking system and currency exchange controls, even

legitimate businesses carry on transactions in this "shadow economy." In addition, Vietnamese regularly transfer money though gold shops and other informal mechanisms to remit or receive funds from overseas. Officially, expatriate remittances account for one billion U.S. dollars and unofficially the number may be more than double that amount. There is speculation that a percentage of intra-familial transactions in this alternative remittance system may result from narcotics proceeds.

Vietnam does not yet have a separate law on money laundering or terrorist financing. However, Article 251 of the Amended Penal Code criminalizes money laundering. The 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 Ministry of Public Security's specialized counternarcotics agency the authority to require disclosure of financial and banking records when there is a suspected violation of the law. However, the implementing regulations have not yet been promulgated. The State Bank of Vietnam, which has the lead on countering terrorist financing, can also request the disclosure of information when it believes that a transaction might fall within this category. Furthermore, the State Bank requires banks to report suspicious transactions of any kind.

The World Bank is working with the GVN on draft banking legislation. This legislation may also include a section on money laundering. The GVN is also working with international agencies to increase its banking supervision capabilities.

The GVN is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GVN should pass separate terrorist financing legislation if it is not included in the current anti-money laundering draft legislation that is expected to cover all serious crimes. The GVN should also establish cross border currency controls and regulate the use of gold as an alternative remittance system.

Yemen. Yemen has no anti-money laundering legislation. Though the extent of money laundering is not known, the lack of legislation and the prevalence of hawala make Yemen vulnerable to money laundering. Yemen's banking sector is relatively small with 14 commercial banks, including three Islamic banks. The Central Bank of Yemen (CBY) supervises the country's banks. Local banks accounted for approximately 62 percent of the total banking activities, while foreign banks covered the other 38 percent.

In April 2002, the CBY issued Circular 22008, informing banks and financial institutions that they must verify the legality of all proceeds deposited in or passing through the Yemeni banking system. The circular stipulates that financial institutions must positively identify the place of residence of all persons and businesses that establish relationships with them. The circular also requires that banks verify the identity of persons or entities that wish to transfer more than \$10,000 through banks at which they have no accounts. The same provision applies to beneficiaries of such transfers. Banks must also take every precaution when transactions appear suspicious, and report such activities to the CBY. The circular was distributed to the banks along with a copy of the Basel Committee's "Customer Due Diligence for Banks," concerning "Know Your Customer" procedures.

At the end of 2002, the parliament was in the process of enacting anti-money laundering legislation. The governor of the CBY has prepared a primary draft that has been presented to the bankers' association and other financial bodies for recommendations. The proposed anti-money laundering law – which has been also reviewed and approved by the Ministry of Legal Affairs – criminalizes money laundering for a wide range of crimes including narcotics offenses, kidnapping, embezzlement, bribery, fraud, tax evasion, illegal arms trading, and money theft, and imposes penalties of three to five years' imprisonment. There is no specific legislation relating to counter-terrorist financing in Yemen. But terrorism is covered in various pieces of legislation that treat terrorism and its financing as serious crimes.

The proposed law requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that want to open accounts or deal with them, keep records of transactions for up to ten years and report suspicious transactions. In addition the draft law requires that reports be submitted to an information-gathering unit within the CBY. The unit will act as the Financial Intelligence

Unit (FIU), which in turn will report to an Anti-Money Laundering Committee (AMLC). Under the proposed law the AMLC – which will have representatives from the Ministries of Finance, Justice, Interior, and Industry and Commerce, the CBY, and the Board of Banks – is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

The proposed law grants the AMLC the right to exchange information with foreign entities. The head of the committee can ask local judicial authorities to enforce foreign court verdicts based on reciprocity. Also, the proposed law will permit the extradition of criminals in accordance with international treaties or bilateral agreements. CBY states that although the law is expected to pass in 2003, banks have begun applying its money laundering combating provisions in anticipation of its passage.

In response to UNSCR 1267/1390 and Yemen's Council of Ministers directives, CBY issued a number of circulars to all banks operating in Yemen directing them to freeze accounts of 144 persons, companies, and organizations, and to report any finding to CBY. As a result, one account was immediately frozen with a balance equal to \$33.

A law was passed in 2001 governing charitable organizations. This law entrusted the Ministry of Pensions and Social Affairs with overseeing their activities. The law imposes penalties of fines and/or imprisonment on any society or its members for carrying out activities or spending funds for other than the stated purpose for which the society in question was established.

Yemen is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Yemen is a member of the Arab Convention for the Suppression of Terrorism.

Although the Government of Yemen has made some attempts to improve the country's domestic antimoney laundering program and to cooperate internationally with criminal investigations, serious deficiencies remain. As a crucial first step to address these deficiencies, Yemen should pass, implement, and enforce the proposed anti-money laundering legislation. This would constitute a significant step toward meeting international standards. Yemen should also enact specific legislation with respect to the financing of terrorism and terrorists.

Yugoslavia, Federal Republic of. Narcotics-trafficking, smuggling, money laundering, and other criminal activities are continuing at a noticeable level in the Federal Republic of Yugoslavia. Yugoslavia is a transit country for illegal drugs moving along the Balkan route from Asia to Europe and the Americas. Yugoslav officials maintain that the majority of criminal proceeds from drug trafficking laundered in Yugoslavia are derived from illegal activities of the Kosovar Narco-Mafia. Since 1999, the Government of Yugoslavia has had no jurisdiction over Kosovo, based on UNSCR 1244, so Yugoslav authorities must rely on cooperation with UNMIK police and KFOR to combat these activities. Officials estimate that up to half of all financial transactions in Yugoslavia may be connected with money laundering.

In 2002, Yugoslavia decided to divide into a looser confederation of Serbia and Montenegro. This has had an impact in some ways on the laws and regulations on corruption and money laundering. Montenegro has decided to use the euro as its standard of currency, while Serbia has stayed with the dinar. In early 2003, a new constitutional charter will be ratified and implemented that will re-define relations between Serbia and Montenegro. When this charter becomes effective, it will affect ministries and departments currently under federal jurisdiction, and transfer them to or establish them in the governments of the respective states.

The year 2002 saw Yugoslavia, and then Serbia, concentrate on removing restrictions on current account transactions to enable the dinar to be declared convertible. It was proposed that Yugoslav individuals be allowed to transfer up to 5,000 euros each in cash abroad and Yugoslav companies be able to provide advance hard-currency payments for imports from abroad, borrow abroad, and make hard-currency repayments on loans. However, the government also determined that all transfers abroad must be strictly monitored to guard against money laundering. In addition, some restrictions remain: individuals may not borrow, open accounts, or buy real estate abroad, and companies cannot lend or invest abroad.

The Yugoslav Federal Assembly adopted an Anti-Money Laundering Law in September 2001. In March 2002, Yugoslavia divided into Serbia and Montenegro, and the law that went into effect became the law for the Serbia portion of Yugoslavia. The Serb Law came into effect in July 2002 and brings Serbia into line with the FATF Forty Recommendations. The law defines money laundering to mean depositing, or introducing into the financial system in any manner, money that 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, other financial credit institutions, the postal savings bank, the post office, 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 covered 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 \$10,000). Criminal penalties for money laundering violations range from six months to five years in prison, while civil penalties range from 45,000 to 450,000 dinars (\$750 to \$7,500) per offense. This law, when taken with the penal code and criminal procedure law, provides for the temporary seizing and permanent confiscation of assets derived from or used for criminal activities. It also authorizes the government to revoke business licenses and ban business activities of legal entities and natural persons involved in criminal activities.

The anti-money laundering law also provides for the establishment of a Financial Intelligence Unit (FIU). The Serb FIU, called the Federal Commission for the Prevention of Money Laundering (FCPML), became operational in July 2002, as mandated by the law. The Commission functions as an administrative unit. Currently, the staff of the FCPML numbers 18, but it expects to hire another ten analysts when the unit is transferred from federal jurisdiction to that of the Serbian Finance Ministry, probably in Spring 2003.

The Republic of Montenegro also prepared a law against money laundering, which is expected to be adopted in early 2003 and when effective will compel covered entities to report transactions meeting or exceeding 15,000 euros, the EU standard. As interim measures in 2002, Montenegro amended its penal code to criminalize money laundering and enable the government to seize and confiscate assets involved in criminal activity. In addition, the Central Bank began to require financial institutions to report suspicious transactions, establish anti-money laundering programs and train personnel in relevant matters. The Republic of Montenegro also required offshore banks to re-register, post a \$1 million Eurobond, and establish themselves as regular banks. No offshore institutions have done this, and Montenegro considers them to be dissolved.

The new law, when effective, is expected to bring Montenegrin standards into line with the European Convention definition of money laundering as well as the FATF Forty Recommendations. Under the law, covered entities include all banks, savings-credit unions, any legal entities that have been entirely or partially financed from state funds, investment and pension funds and other financial institutions, post offices, telecommunication companies, other companies and unions, the Privatization Council, insurance companies, stock exchanges and other financial institutions authorized to perform operations related to securities, offshore companies, exchange offices, pawnbrokers, gambling houses, bookmakers, slot machine clubs, and organizers of all lotteries and games of chance. Like the Serb law, the Montenegrin law also provides for the establishment of an FIU, known as the Office for the Prevention of Money Laundering. The FIU, to be housed in the Ministry of Finance, will function as an administrative unit.

In March 2002, Article 234 of the Law on Criminal Procedure was introduced, which authorizes an investigating judge to order financial institutions to release information about business and personal accounts at the request of a state prosecutor. This law is expected to give more power to the state to detect terrorism financing because the information can be obtained faster and with less bureaucracy.

The Government of Yugoslavia also submitted a Bill on the Amendment of the Criminal Law that would sanction terrorist financing as a separate offense in line with the UN International Convention for the Suppression of the Financing of Terrorism, which Yugoslavia signed on November 12, 2001 and became a party to on October 10, 2002. The law has yet to be adopted, however.

Also proposed by Serbia but yet to be signed is a special counter-terrorism law that will upgrade legislative and institutional frameworks for combating terrorism. It takes its cue from the successes of other countries and is intended to bring Serbia into compliance with UNSCR 1373. Among the FCPML's duties is to work on fighting terrorism and terrorism financing. The FCPML is currently tracing the names on the E.O. 13224 asset freeze list. Under discussion is the idea of having a separate department within FCPML specifically charged with combating terrorism financing. The Montenegrin FIU will also track terrorism financing as well as money laundering.

Yugoslavia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. In 2002, Yugoslavia ratified the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime, and participated in bilateral and multilateral fora to improve its analytical and seizure capabilities. Yugoslavia established a Belgrade office of Interpol to contribute to the fight against trafficking and terrorism. The Serbian and Montenegrin finance ministers joined finance ministers from Albania, Bulgaria, Croatia, Macedonia, and Republika Srpska in establishing a regional group to fight (among other economic corruption problems) money laundering.

FCPML has bilateral agreements on cooperation and information exchange with Macedonia, and expects to enter into agreements with Russia, Slovenia, Romania, and Bosnia-Herzegovina shortly. Yugoslavia also has mutual assistance agreements signed with over 20 other countries. Although there is no legislation to authorize the sharing of confiscated assets with other countries, and none is under consideration at this time. There is also no prohibition against it—leaving Serbia free to enter bilateral agreements.

Yugoslavia or its constituent parts should criminalize terrorist financing. Yugoslavia or its constituent parts still need to implement domestic legislation to support the international conventions signed in 2002. Laws should also be amended to enable the freezing and seizing of funds kept within the country by persons or entities located outside of it who have connections with international terrorist or narcotics activities. Both jurisdictions within Yugoslavia should 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 center. Law enforcement officials report that cash smuggling may be occurring in connection with the trade in illicit diamonds.

The Drug Enforcement Commission has the responsibility for investigating money laundering offenses. In 2001, the National Assembly passed the Prohibition and Prevention of Money Laundering Bill, which makes money laundering a criminal offense, stiffens penalties for financial crimes, and increases the investigative and prosecutorial powers of the Drug Enforcement Commission. The law also requires financial institutions to report suspicious transactions to regulators and to retain transaction records for ten years. The law authorizes investigators to seize assets related to money laundering. The Minister of Home Affairs has reported that there are plans to form an anti-money laundering authority, which will enforce the Prevention of Money Laundering Act No. 14 of 2001.

Although Zambia participates in meetings of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), Zambia has not formally joined the group.

Zambia is not a signatory to the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Zambia is a party to the 1988 UN Drug Convention.

Zambia should create a Financial Intelligence Unit, criminalize terrorist financing and sign the ESAAMLG Memorandum of Understanding.

Money Laundering and Financial Crimes

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 criminalizes narcotics-related money laundering. In October 2002, the Government of Zimbabwe submitted the Anti-Money Laundering and Proceeds of Crime Bill to Parliament. The bill would require banks to maintain records sufficient to reconstruct individual transactions for at least six years. The bill would also mandate a prison sentence of up to five years for a money laundering conviction.

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, which is not yet in force internationally.

Zimbabwe should enact a comprehensive anti-money laundering regime that criminalizes terrorist financing and money laundering for all serious crimes. Zimbabwe should join the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the FATF-style regional body. Zimbabwe should also sign the UN International Convention for the Suppression of the Financing of Terrorism.