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*Bureau for International Narcotics and Law
Enforcement Affairs*

International Narcotics Control Strategy Report

Part I

Drug and Chemical
Control

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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
UN Convention	1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNODCCP	United Nations Office for Drug Control and Crime Prevention
USAID	Agency for International Development
USG	United States Government
ha	Hectare
HCl	Hydrochloride (cocaine)
Kg	Kilogram
Mt	Metric Ton

INTRODUCTION

Legislative Basis for the INCSR

The Department of State's International Narcotics Control Strategy Report (INCSR) has been prepared in accordance with section 489 of the Foreign Assistance Act of 1961, as amended (the "FAA," 22 U.S.C. § 2291). The 2004 INCSR, published in March 2004, covers the year January 1 to December 31, 2003 and is published in two Parts, the second of which covers money laundering and financial crimes. It is the 18th 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 initially set forth in section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L. 107-115) (the "FOAA"), and now made permanent pursuant to section 706 of the Foreign Relations Authorization Act, Fiscal Year 2003 (P.L. 107-228) (the "FRAA").

Section 706 of the FRAA requires that the President submit an annual report no later than September 15 identifying each country determined by the President to be a major drug-transit country 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 2004 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 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 2004 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 understandings to the 1988 UN Drug Convention or other relevant treaties; such reservations, declarations, or understandings are generally not detailed in this report. For some of the smallest countries or entities that have not been designated by the President as major illicit drug producing or major drug-transit countries, the Department has insufficient information to make a judgment as to whether the goals and objectives of the Convention are being met.

Unless otherwise noted in the relevant country chapters, the Department's Bureau for International Narcotics and Law Enforcement Affairs (INL) considers all countries and other entities with which the United States has bilateral narcotics agreements to be meeting the goals and objectives of those agreements.

Information concerning counternarcotics assistance is provided, pursuant to section 489(b) of the FAA, in sections entitled "FY 2003-2004 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 consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228):

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 Part II of the INCSR in the section entitled “Money Laundering and Financial Crimes.”

Presidential Determination

White House Press Release
Office of the Press Secretary
Washington, DC
September 15, 2003

Presidential Determination No. 2003-38

Memorandum for the Secretary of State: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for 2004

Consistent with section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228) (the "FRAA"), 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 (the "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 governments most assiduous enforcement measures.

Consistent with section 706(2)(A) of the FRAA, I hereby designate Burma 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 report are justifications (statements of explanation) 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 U.S. assistance to Haiti in FY 2004 is vital to the national interests of the United States.

Combating the threat of synthetic drugs remains a priority, particularly the threat from club drugs, including MDMA (Ecstasy). Since January, we have redoubled our efforts with The Netherlands, from which the majority of U.S. MDMA seizures originate. I commend the Government of The Netherlands for its efforts to address this scourge, including increased enforcement, improved risk assessment and targeting capabilities of passenger aircraft and cargo, and international cooperation to control precursor chemicals. I urge the Government of The Netherlands to focus its efforts on dismantling the significant criminal organizations responsible for this illicit trade, using all tools available to law enforcement. Continued progress in implementing our joint action plan, developed in March, should have a significant impact on the production and transit of MDMA from The Netherlands to the United States. Although we have seen a stabilization of MDMA use rates domestically, there is an increase in

the number of countries in which MDMA is produced and trafficked. We will continue to monitor the threat from synthetic drugs and the emerging trends.

The United States and Canada are both targeted by international trafficking organizations. We continue to work closely with the Government of Canada to stem the flow of illicit drugs to our countries and across our common borders. The United States remains concerned about the diversion of large quantities of precursor chemicals from Canada into the United States for use in producing methamphetamines. We hope that Canada's newly implemented control regulations will disrupt that flow. The United States is also concerned about widespread Canadian cultivation of high-potency marijuana, significant amounts of which are smuggled into the United States from Canada. We will work with the Government of Canada in the coming year to combat these shared threats to the security and health of our citizens.

In the 8 months since my January determination that Guatemala had failed demonstrably in regard to its counternarcotics responsibilities, the Government of Guatemala has made efforts to improve its institutional capabilities, adhere to its obligations under international counternarcotics agreements, and take measures set forth in U.S. law. These initial steps show Guatemala's willingness to better its counternarcotics practices, but the permanence of these improvements has yet to be demonstrated. I expect Guatemala to continue its efforts and to demonstrate further progress in the coming year.

We are deeply concerned about heroin and methamphetamine linked to North Korea being trafficked to East Asian countries, and are increasingly convinced that state agents and enterprises in the DPRK are involved in the narcotics trade. While we suspect opium poppy is cultivated in the DPRK, reliable information confirming the extent of opium production is currently lacking. There are also clear indications that North Koreans traffic in, and probably manufacture, methamphetamine. In recent years, authorities in the region have routinely seized shipments of methamphetamine and/or heroin that had been transferred to traffickers ships from North Korean vessels. The April 2003 seizure of 125 kilograms of heroin smuggled to Australia aboard the North Korean-owned vessel "Pong Su" is the latest and largest seizure of heroin pointing to North Korean complicity in the drug trade. Although there is no evidence that narcotics originating in or transiting North Korea reach the United States, the United States is intensifying its efforts to stop North Korean involvement in illicit narcotics production and trafficking and to enhance law-enforcement cooperation with affected countries in the region to achieve that objective.

You are hereby authorized and directed to submit this report under section 706 of the FRAA, transmit it to the Congress, and publish it in the Federal Register.

GEORGE W. BUSH

Annual Presidential Determinations of Major Illicit Drug-Producing and Drug-Transit Countries

Statement by the Press Secretary

President Bush sent to Congress his annual report listing the major illicit drug producing and drug-transit countries (known as the "Majors List"). In the same report, he provided his determinations on which of these countries has "failed demonstrably to make substantial efforts" during the previous 12 months to adhere to international counternarcotics agreements and to take the counternarcotics measures specified in U.S. law.

The certification determinations required the President to consider each country's performance in areas such as stemming illicit cultivation, extraditing drug traffickers, and taking legal steps and law enforcement measures to prevent and punish public corruption that facilitates drug trafficking or

impedes prosecution of drug-related crimes. The President also had to consider efforts taken by these countries to stop production and export of, and reduce the domestic demand for, illegal drugs.

In his report, President Bush identified 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 President also reported to Congress his determinations that Burma and Haiti failed demonstrably, during the previous 12 months, to adhere to their obligations under international counternarcotics agreements and to take the measures set forth in U.S. law. The President determined, however, that provision of United States assistance to Haiti in FY 2004 is vital to the national interests of the United States. Therefore, under provisions of the FRAA, Haiti will receive assistance, notwithstanding their counternarcotics performance. The President did not make this determination with respect to Burma.

The President also registered his growing concern over heroin and methamphetamine trafficking linked to North Korea, and expressed his intent for the United States to intensify its efforts to stop North Korean involvement in narcotics production and trafficking.

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2003

U.S. Government international drug control programs made remarkable progress in 2003. Despite a “perfect storm” of conditions potentially favoring international criminal activity—the aftermath of war, violent insurgency, political turmoil, economic disruption, and endemic corruption—we further narrowed the global drug trade’s field of operations. Our long-standing, international campaign to curb the flow of cocaine and heroin to the United States advanced significantly in 2003. Together with our allies we limited drug crop expansion, strengthened interdiction efforts, destroyed processing facilities, and weakened major trafficking organizations. We furnished our partners critical training assistance to strengthen their law enforcement and judicial systems, while helping them reduce drug consumption in their own countries. We persuaded many once-reluctant governments to use the powerful instrument of extradition to deny notorious drug criminals the national safe haven they could once count on. Closer cooperation among governments and financial institutions has been sealing off the loopholes that have allowed the drug trade to legitimize its enormous profits through sophisticated money laundering schemes.

The Drug Threat

The drugs that threaten the United States are cocaine, heroin, marijuana, and synthetic amphetamine-type stimulants (ATS). Cutting off their supply has been, and will continue to be, our principal international counternarcotics goal. Although U.S. consumption has been on the wane recently, cocaine remains our greatest concern. An estimated 300 metric tons or more of cocaine HCl enter the country annually, aggravating addiction, fueling crime, and harming the economic and social health of the United States. Since all cocaine originates in the Andean countries of Colombia, Peru, and Bolivia, we have devoted a significant portion of our resources to eliminating coca cultivation, disrupting cocaine production, and keeping it from reaching the United States.

Coca and Cocaine

Colombia leads the world in coca cultivation, with Peru and Bolivia trailing a distant second and third. Colombia is also the source of 80 percent of the cocaine destined for the U.S. and other markets. Under the Andean Counterdrug Initiative (ACI), in 2003 the USG devoted the lion’s share of its resources to attacking Colombian coca cultivation, while helping prevent a resurgence of coca in Peru and Bolivia. In 2003, the joint U.S.-Colombian aerial eradication program reported spraying a record 132,000 hectares of coca and nearly 3,000 hectares of opium poppy. Although USG survey data were not available at the time of publication, preliminary information suggests that the eradication program has not only contained the coca crop—an important achievement in itself—but may have brought it below last year’s first reported declining crop (144,450 hectares) in a decade.

On average, between 213 to 256 hectares of coca are required to produce a metric ton of cocaine HCl. Thus, if all coca reported as sprayed were destroyed and if there were no losses in processing, the spray program theoretically could have kept as much as 500 metric tons of cocaine from entering the system. At U.S. retail prices of \$100/gram, a metric ton of cocaine is worth \$100 million if sold gram-by-gram on the streets of America’s cities. Keeping 500 metric tons of cocaine out of the system would have deprived the criminal economy of as much as \$50 billion in 2003.

There was also encouraging news from Bolivia and Peru, for decades the two leading sources of cocaine, until eclipsed by the explosion of coca cultivation in Colombia in the 1990’s. Total coca cultivation for both countries declined from an estimated 61,000 hectares in 2002 to 59,600 hectares at the end of 2003. In Bolivia, the government forcibly eradicated most of the crop in the Chapare region, the center of the illicit Bolivian coca trade. At the same time, however, coca cultivation increased by

4,500 hectares in the Yungas region, where most of the country's traditional, legal coca is grown. It is now also becoming a source for illicit cultivation. Even so, at 28,450 hectares Bolivian cultivation levels are barely half the 52,900 hectares registered during the peak year of 1989.

Peru's coca cultivation in 2003 fell to 31,150 hectares, the lowest level since the mid-1980's when we first were able to measure illicit crops with a high degree of accuracy. This 5,450-hectare reduction in Peruvian coca more than offset the increase in Bolivia, leaving open the prospect that the total Andean coca crop may be one of the smallest in years. Since 1995, our programs have caused coca cultivation in Peru and Bolivia to drop by 73 percent and 42 percent respectively. Both countries, however, face growing domestic political challenges from cocalero groups that link coca cultivation with national identity and sovereignty. These farmers' unions, often abetted by trafficking interests, promote coca cultivation and consumption as an ancient, indigenous rite that must be protected against international efforts to destroy it. With large indigenous segments of the population in both countries becoming more politically active, all countries involved can expect to face growing resistance to extensive coca eradication.

Interdiction

On the interdiction front, 2003 was a good year. Colombia recorded especially impressive interdiction results. Colombian counternarcotics forces destroyed 83 HCl laboratories in 2003, surpassing their 2001 record of 63 HCl labs destroyed. They also captured more than 48 metric tons of cocaine/cocaine base, 1,500 metric tons of solid precursors and 750,000 gallons of liquid precursor processing chemicals. The reintroduction, in August 2003, of the Air Bridge Denial (ABD) program, after a two-year hiatus because of the Peruvian shoot-down tragedy, boosted interdiction efforts. In the last four months of 2003, ABD operations resulted in the capture of three aircraft and a "go-fast" boat, the destruction of four aircraft, and the seizure of over five metric tons of cocaine.

Mexican authorities seized over 20 metric tons of cocaine hydrochloride during 2003. Marijuana interdiction continued at an impressive pace, with authorities confiscating over 2,000 metric tons. In addition, authorities confiscated 165 kilograms of heroin, 189 kilograms of opium gum, and 652 kilograms of ATS drugs.

Bolivian counternarcotics forces, supported by the USG, nearly tripled cocaine seizures in 2003. At year's end, Bolivian forces had seized 152 metric tons of coca leaf, 13 metric tons of cocaine, 8.5 metric tons of cannabis, and nearly 1,100 metric tons of liquid and solid precursor and essential chemicals. In Peru, the USG helped the Peruvian government successfully identify and dismantle several international cocaine trafficking organizations responsible for maritime and air shipment of metric tons of cocaine to U.S. and European markets. In 2003, Peruvian government forces had seized approximately four metric tons of cocaine base and 3.5 metric tons of cocaine HCl.

Opium and Heroin

Limiting the cultivation of opium poppy, the source of heroin, presents its own set of obstacles. Unlike coca, which currently flourishes in only three Andean countries, opium poppy can grow in nearly every region of the world. As an easily planted annual crop with as many as three harvests per year, it is much harder to eliminate.

Our main heroin threat comes from poppy cultivation in Colombia and Mexico. Although between them Colombia and Mexico account for only between four to six percent of the world's estimated production, the bulk of the heroin entering the United States originates in these two countries. Mexico's geographical proximity to the United States allows cultivators and processors to supply some 30 to 40 percent of the U.S. heroin market, particularly west of the Mississippi River. Colombia supplies most of the rest of country east of the Mississippi. Since eliminating poppy cultivation in

Colombia and Mexico can have a significant impact on the flow of U.S.-bound heroin, we have long-standing joint eradication programs in both countries.

Colombian law enforcement and alternative development programs eradicated 3,820 hectares of opium poppy in 2003, or 78 percent of the 2002-estimated crop. Of these, 2,821 hectares were sprayed and 1,009 hectares uprooted via forced and voluntary manual eradication programs. The 2003 cultivation and production data were not available at the time of publication, but we expect to keep the crop in check. In 2002, there were 4,900 hectares of opium poppy under annual cultivation down from 6,540 in 2001.

In Mexico, in the first 11 months of 2003, the Government of Mexico (GOM) reported eradicating almost 19,000 hectares of opium poppy. This is approximately the same annual level of opium eradication that Mexican authorities reported in 2002 and 2001. The 2003 cultivation and production data were not available at time of publication.

The other 90-plus percent of the world's estimated opium gum production takes place in Afghanistan and Burma, with Afghanistan accounting for nearly 80 percent of that figure. Each country offers unique challenges to opium poppy control. In Afghanistan, where a young government is recovering from the aftermath of war and a quarter-century of political misrule and economic chaos, poppy eradication is physically and politically difficult. Rugged terrain, and attacks by remnants of the Taliban regime present daily obstacles to the extension of government authority throughout the country.

For more than a decade, opium poppy has been Afghanistan's largest and most valuable cash crop. Taxes on the Afghan drug trade provided revenue to the Taliban regime and offered a degree of funding relief to a dysfunctional political regime that spent limited amounts on the populace. Until the final years of the regime, it ignored opium planting and used a tax on opium production and transportation and taxes on the transportation of heroin to prop up the regime. International pressure—and most likely a market glut of opium and heroin—led the Taliban to impose a poppy ban in 2000-2001, after which cultivation all but ceased. Drug stockpiles, however, continued to flow through traditional smuggling routes. Now Afghanistan has reemerged as the world's leading supplier of illicit opium, morphine, and heroin, with opium growing in 28 of the country's 32 provinces. The USG estimates the 2002-2003 crop at 61,000 hectares, nearly twice the estimate for the previous year. The International Monetary Fund calculates that the opium trade makes up between 40-60 percent of Afghanistan's GDP, with the farmers receiving approximately \$1 billion a year and another \$1.3 billion to processors and traffickers.

It is difficult to estimate precisely how much is earned from the narcotics trade and other illicit activities. The world financial community has only limited ability to track money that moves through the underground *hawala* system. However, given the street price of these drugs in Europe and further east, estimates of hundreds of millions of dollar are not out of order. Some of these proceeds may help fund elements hostile to the government of Afghanistan. Eliminating the opium crop without provoking extreme political and economic reactions poses one of the most serious drug control dilemmas the allied coalition faces.

Synthetic Drugs

Amphetamines. Demand for Amphetamine-Type Stimulants, such as methamphetamine, amphetamine, and MDMA ("Ecstasy"), is high throughout both the industrialized and the developing world. Amphetamines have displaced cocaine as the stimulant of choice in many parts of the globe, primarily in Central and Northern Europe, and Southeast Asia. The relative ease and low cost of manufacturing amphetamines from readily available chemicals appeals as much to small drug entrepreneurs as to the large international syndicates. Synthetics allow individual trafficking

organizations to control the whole process, from manufacture to sale on the street. Synthetics can be made anywhere and offer enormous profit margins.

Methamphetamine is also one of the fastest-growing drug threats in the United States today. Highly effective drug trafficking organizations, based in Mexico and California, control a large percentage of the U.S. methamphetamine trade. Though Mexico is still the principal foreign supplier of methamphetamine and ATS precursors—especially pseudoephedrine (PSE)—for the United States, U.S. counternarcotics authorities assess that a portion of the PSE imported into Canada continues to be diverted to the United States for the production of illicit drugs. Since the Government of Canada enacted new regulations controlling PSE and other precursor and essential chemicals in 2002, however, the numbers of both PSE imports and seizures have declined substantially.

Methamphetamine dominates much of the drug trade in Burma and Thailand, where heroin used to be the principal trafficking drug. Methamphetamine production in the U.S. is also widespread and active, as demonstrated by DEA's National Clandestine Drug Data reporting, as of January 14, 2004, of the seizure of 8,572 methamphetamine laboratories in 2003, with the largest numbers in Missouri (968), California (788), Arkansas (607) and Tennessee (551).

Ecstasy. There has also been great demand globally for MDMA (Ecstasy), the amphetamine analogue 3, 4-methylenedioxymethamphetamine. Clandestine laboratories in the Netherlands, and to a lesser extent in Belgium, remain the primary suppliers of MDMA to the international market. Labs in Poland are the primary suppliers of amphetamines to the European market, with the United Kingdom and the Nordic countries among the heaviest consumers of amphetamine. Ecstasy has also been a very popular drug in the United States, where young people use it at parties to give them stamina for hours of dancing. In 2003, however, the Monitoring the Future Study that tracks youth drug trends noted Ecstasy use has plummeted. According to the latest data, lifetime use of Ecstasy dropped 32 percent, from 8.0 percent to 5.5 percent. Past year and current use were each cut in half (from 6.1 percent to 3.1 percent and 2.4 percent to 1.1 percent). This is especially encouraging news about a drug that for years has had an upward trajectory and the potential for widespread addiction.

Cannabis (Marijuana)

Cannabis (marijuana) production and consumption is a serious problem in many countries—including in the United States. More than 10,000 metric tons 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. Colombia, Jamaica, and Paraguay also export marijuana to the U.S. 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. This is not the “pot” of the 1970's. It 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 Trafficking Organizations.

Drug distribution depends upon well-organized, sophisticated trafficking organizations. Our common strategy targets the leadership of the main trafficking groups, focusing on the operations along the network that bring drugs to the United States. Working with our international counterparts, our goal is not simply disruption, but the eventual dismantling of these organizations—their leadership, the facilitators who launder money and provide the chemicals needed for the production of illicit drugs, and their networks. In addition to hampering the organizations' effectiveness, capturing key traffickers

demonstrates—to the criminals and to the governments fighting them alike—that even the most powerful drug syndicates are vulnerable to joint action by U.S. and host-government authorities.

Mexican drug syndicates oversee much of the drug trafficking in the United States. They have a strong presence in most of the primary distribution centers in the United States, directing the movement of cocaine, heroin, ATS drugs, and marijuana. In 2003, U.S. and Mexican officials developed a common targeting plan against major drug trafficking organizations in Mexico and the United States and developed secure mechanisms for data-sharing. Mexican Federal enforcement and military authorities damaged several important trafficking syndicates. They arrested, among others, senior figures in the Juarez cartel, the head of the Milenio cartel of Michoacán, and the leaders of the trafficking group that controlled large-scale cocaine and cannabis trafficking through the Matamoros-Brownsville, Texas, smuggling corridor, as well as high-ranking members of other drug syndicates.

Institutional Reform

A long-standing element of our international drug control policy has been to encourage and assist governments to strengthen their judicial and banking systems to narrow the opportunities for their manipulation by the drug trade. In drug source and transit countries, law enforcement agencies have arrested prominent traffickers, only to see them walk free following a seemingly frivolous or inexplicable decision by a single judge. But the situation is gradually changing. In 2003, a number of countries continued to modernize their laws and professionalize their court systems through reforms ranging from installing more modern equipment to major changes in the way judges are appointed. Though there are still instances of judges arbitrarily dismissing evidence against or releasing well-known drug traffickers, the number of such cases is declining, as governments make basic reforms, such as giving judges better pay and greater personal protection.

Extradition

In 2003, the United States continued to encourage other countries to facilitate extradition to the United States, the sanction the drug trade and terrorist organizations fear most. The array of notorious drug criminals serving long prison terms in the U.S. is a sober reminder to even the most powerful cartel leaders of what can happen when they can no longer manipulate the judicial process through bribes and intimidation. Though the laws of several countries still prohibit the extradition of their nationals, that situation is changing, as governments fighting the drug trade realize the power of extradition. The number of drug-related extraditions to the U.S. from Colombia and Mexico has increased dramatically. In 2003, the Colombian government extradited 64 Colombian nationals and 4 others to the U.S., a 70 percent jump over the previous year's number. Mexico extradited 31 fugitives to the United States in 2003, up from a record 25 extraditions to the U.S. in 2002. However, the 2001 Mexican Supreme Court decision prohibiting extradition in cases with a potential life sentence remains an important obstacle to the extradition of some major drug traffickers and other criminals. In August 2003, the U.S. Senate ratified a major revision of the 1899 extradition treaty with Peru expanding the number of offenses subject to extradition and closing one more avenue for traffickers targeted by the United States.

Controlling Drug Processing Chemicals

Cocaine, heroin and synthetic drugs cannot be manufactured without certain critical 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 indispensable 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 specific legitimate uses. They are commercially traded in smaller quantities to discrete users. Governments must, therefore, have efficient legal and regulatory regimes to control such chemicals, without placing undue burdens on legitimate commerce. The United States, other major chemical trading countries, and the UN’s International Narcotics Control Board worked in 2003 to improve controls on cocaine and heroin processing chemicals, and those used for manufacturing synthetic drugs.

Bilaterally, we worked closely with the Canadian government in 2003 to curtail the diversion of drug processing chemicals to criminal interests in the United States. Pseudoephedrine (PSE), a common cold remedy and the main component in the manufacturing of methamphetamine, is legally imported into Canada from China, India, and Germany. U.S. counternarcotics authorities assess that a portion of those imports is diverted to the United States for the production of illicit drugs. Other precursor chemicals available in Canada and used in the production of synthetic drugs are saffron oil, piperonal, and gamma butyrolactone (GBL). These precursors are used in the manufacturing of Ecstasy (methylenedioxyamphetamine or MDMA), methylenedioxyamphetamine (MDA), and gamma hydroxybutyrate (GHB). Precursor smuggling from Canada, however, declined in 2003. New Canadian chemical control regulations, which became effective in January 2003, combined with a major bilateral enforcement operation, Northern Star, may be having an impact on chemical diversion from Canada to the United States. The U.S. Drug Enforcement Administration (DEA) reported that illicit PSE seizure rates of 8.8 million tablets from Canada as of September 15, 2003, were significantly lower than the 22 million tablets intercepted in 2002.

Controlling Supply

Our objective is to reduce and ultimately cut off the flow of illegal drugs to the United States. We target drug supply at critical points along a five-point grower-to-user chain that links 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 Afghanistan. It ends with the cocaine or heroin user in a U.S. town or city. The intermediate links are the processing (drug refining), transit (transport), and wholesale distribution stages.

Our international counternarcotics programs target the first three links of the grower-to-user chain: cultivation, processing, and transit. The closer we can attack to the source, 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 we destroy crops or force them to remain unharvested, no drugs will enter the system. It is the equivalent of removing a malignant growth before it can spread uncontrollably into the rest of the system. Theoretically, 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.

But theory inevitably clashes with the economic and political exigencies of the real world. Massive (aerial and chemical) eradication is not legal in many countries. Even if eradication is feasible, destroying a lucrative crop, even an illegal one, carries enormous political, economic and social ramifications for the producing country. It 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. Developing, implementing, and reaping the benefits of viable, long-term alternatives for the affected population can take decades. Therefore, we also focus upon the subsequent links: the processing and distribution stages of laboratory destruction and interdiction of drug shipments.

Our programs require 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 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—a difficult task given the high price of coca and generally depressed markets for many replacement crops. Alternative development programs play a vital role in countries seeking to liberate important parts of their agricultural sector from reliance on the drug trade. They offer farmers opportunities to abandon illegal activities and become part of the legitimate economy. In the Andean region, these programs provide funds and technical assistance to strengthen public and private institutions, expand rural infrastructure; improve natural resources management, introduce alternative legal crops, and develop local and international markets for these products.

Despite a host of obstacles, alternative development programs in Colombia were responsible for the manual eradication of more than 8,400 hectares of coca and 900 hectares of poppy in 2003. In Peru, the programs focused on rehabilitating 170 kilometers of highway and bridges to improve market access for isolated communities. In Bolivia, they created employment alternatives for 25,000 families formerly raising coca in the Chapare. Over a two-year period, these families' annual farm family income has risen, and crop yields have increased by approximately 25 percent. In Ecuador, the northern border area alternative development projects led to the construction of 30 potable water systems, land titling initiatives for farmers; and support for indigenous communities. Though the full impact of many alternative development programs will not be felt for years, progress to date suggests that eventually legitimate, economically viable agriculture can replace today's illicit cultivation.

Illegal Drugs, Spraying, and the Environment

Sooner or later, questions arise over the environmental risks of regular spraying of illegal drug crops. Colombia is at this time the only country that allows regular 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

One must weigh the environmental impact of approved herbicides against the devastating potential of all aspects of coca cultivation. Over more than 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. Tropical rains quickly erode the thin topsoil of the fields, increasing soil runoff, depleting soil nutrients, and, by destroying timber and other resources that would otherwise be available for more sustainable uses, decreasing biological diversity. The destructive cycle continues as growers regularly abandon non-productive parcels to prepare new plots. At the same time, traffickers destroy jungle forests to build clandestine landing strips and laboratories for processing raw coca and poppy into cocaine and heroin.

Illicit coca growers frequently are negligent in their use of fertilizers and pesticides. Largely ignorant about the consequences of indiscriminate use of strong chemicals, they 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.

Most destructive are the toxic chemicals that 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.

The Battle against Corruption

Fighting the drug trade is a dominant element in a broader struggle against corruption. Drug organizations possess and wield the ultimate instrument of corruption: money. The drug trade has access to almost unimaginable quantities of it. No commodity is so widely available, so cheap to produce and so easily renewable as illegal drugs. They 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 \$100 million on the streets of the United States; twice as much if the drug is cut with additives. That same metric ton typically would have cost around \$3,000,000 (\$3,000 per kilogram) when it left Colombia. Few legitimate businesses can boast of a 30-fold return. At \$100 per gram, the approximately 100 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. 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 2004 the State Department's budget for international drug control operations was approximately \$1.01 billion. That equates to roughly 10 metric tons of cocaine. The drug syndicates have lost that amount in a single shipment, with the only immediate consequence to the drug trade being the punishment of those responsible for the loss.

Though corruption may be a much less obvious threat than the challenge of armed insurgents, the weakening of government institutions through bribery and intimidation potentially poses just as great a danger to democratic governments. Guerrilla armies or terrorist organizations openly seek to topple and replace governments through overt violence. The drug syndicates, however, seek to undermine governments covertly to guarantee themselves a secure operating environment. They do so by co-opting key officials. A real fear of democratic leaders should be that one day the drug trade might take de facto control of a country by essentially buying off a majority of key officials, even the president. With a government secretly on its payroll, a criminal organization has an open field ahead of it. Though such a scenario has yet to happen, in the recent past there have been some close calls. By keeping the focus on eliminating corruption, we can prevent the nightmare of a government entirely manipulated by drug lords from becoming a reality.

Next Steps

Successfully confronting the international drug trade is a complex, dynamic process that does not get easier over time. The drug trade is nothing if not resilient. It learns quickly from its mistakes. Every year, natural selection leaves us with a slightly more astute adversary. Our successes force it to become smarter and more sophisticated in order to survive. We have seen this already in the difficulty

of targeting the hundreds of small, hard-to-target drug syndicates that filled the void left by the destruction of Colombia's two dominant cartels.

Yet the drug trade is far from omnipotent. It is vulnerable on many fronts. It needs raw materials to produce drugs, complex logistics arrangements to move them to their destination, cadres of professionals to run the technical and financial aspects of its operations, and some means of making its profits legitimate. Above all, it needs the protection of a reliable core of corrupt officials in all the countries along its distribution chain.

Unrelenting attacks at all of these vulnerable points keep the drug trade on the defensive. Step by step we have methodically hurt the drug trade at every stage. The media often overlook the day-to-day accomplishments of governments and law enforcement agencies against the drug trade. The regular drug seizures, the steady destruction of jungle drug labs and airstrips, the arrests of corrupt officials, and the improved performance of better trained police and judiciaries seldom make the front page. But these are the crucial, daily victories that are the key to success. Our experience has shown that cumulative effort and sustained cooperation with committed allies pay off. They are the weapons that ultimately will weaken the drug trade to the point where it no longer poses a serious threat to the security or health of the United States and its allies.

Demand Reduction

Drug "demand reduction" refers to efforts to reduce worldwide use and abuse of, and demand for narcotic drugs and psychotropic substances. The need for demand reduction is a fundamental and critical part of controlling the illicit drug trade. Escalating drug use and abuse continue to take a devastating toll on the health, welfare, safety, security, and economic stability of all nations. Recognizing this problem, the National Security Presidential Directive (NSPD#25) on International Drug Control Policy addressed rising global demand for illicit drugs as the principal narcotics-related threat to the U.S. A key objective of that policy urged the Secretary of State to expand U.S. international demand reduction assistance and information sharing programs in key source and transit countries. The NSPD also noted that international drug trafficking organizations and their linkage to international terrorist organizations constitutes a serious threat to U.S. national security. Demand reduction efforts aimed at reducing worldwide drug consumption therefore took on increased importance and served the national interest due to its potential for reducing the income that criminal and terrorist organizations derive from narcotics trafficking and for reducing crime/strengthening security in foreign countries that are key strategic allies of the United States.

Foreign countries are requesting technical and other assistance from the USG to address their problems, citing long-term U.S. experience and efforts on this issue. Our response has been a comprehensive and coordinated approach in which supply control and demand reduction reinforce each other. Such assistance plays an important role in helping to preserve the stability of societies threatened by the narcotics trade.

Our demand reduction strategy encompasses a wide range of initiatives. These include efforts to prevent the onset of use, intervention at "critical decision points" in the lives of vulnerable populations to prevent both first use and further use, and effective treatment programs for the addicted. Other aspects encompass education and media campaigns to increase public awareness of the deleterious consequences of drug use/abuse and community-coalition building. This latter effort involves the development of coalitions of private/public social institutions, the faith community, and law enforcement entities to mobilize national and international opinion against the drug trade and to encourage governments to develop and implement strong counternarcotics policies and programs. The demand reduction program also provides for evaluations of the effectiveness of these efforts and for

“best practice” research studies to use these findings to improve similar services provided in the U.S. and around the world.

In 2003, INL funded bilateral training at various locations throughout the world on topics such as community/grassroots coalition building and networking, U.S. policies and programs, science-based drug prevention programming, and treatment within the criminal justice system. INL training enhanced Muslim-based networks of counternarcotics/civil society organizations. This involved collaboration with Muslim faith-based organizations to augment prevention, intervention, aftercare and violence reduction services in Afghanistan, southern Philippines, Indonesia and Pakistan. INL also continued to sponsor sub-regional demand reduction training in Brazil, Colombia, the Czech Republic and Southeast Asia. In September, INL co-sponsored with the Government of Italy the 5th Global Drug Prevention Network (GDPN) summit in Pomizia, Italy. 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 funded comprehensive multi-year scientific studies on pilot projects and programs developed from INL-funded training to learn how these initiatives can help assist U.S.-based demand reduction efforts. Three comprehensive research best practice studies that documented effective treatment approaches, strategies, policies and technologies were completed in 2003. Research on prevention programs in selected Latin American countries that have developed promising prevention and antiviolence modalities from INL-funded training will be completed in 2004.

Methodology for Estimating Illegal Drug Production

How Much Do We Know? The INCSR contains a variety of illicit drug-related data. These numbers represent the United States Government’s best effort to sketch the current dimensions of the international drug problem. Some numbers are more certain than others. Drug cultivation figures are relatively hard data derived by proven means, such as imagery with ground truth confirmation. Other numbers, such as crop production and drug yield estimates, become softer as more variables come into play. As we do every year, 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, we revise our estimates in the light of field research. The clandestine, violent nature of the illegal drug trade makes such field research difficult. Geography is also an impediment, as 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. Cultivation—the number of hectares under cultivation during any given year—is our most solid statistic. For nearly twenty years, 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 extent of cultivation with reasonable accuracy.

What We Know With Less Certainty.. 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. To add to our uncertainty, most illicit drug crop areas are not easily accessible to the United States Government, making scientific information difficult to obtain. Therefore, we are estimating the 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. The size of 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. 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 obviously affect production.. (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, these illicit drug 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 dramatically in 2003. The cultivated area fell 36 percent to 66,030 hectares from 102,650 hectares the previous year. Potential opium gum production fell 17 percent to 684 metric tons from 829 metric tons in 2003. If all the opium gum were processed, this quantity could yield approximately 65 metric tons of heroin,

Opium poppy cultivation nearly doubled in Southwest Asia in 2003, with the bulk of the crop now cultivated in Afghanistan. The year-end total was 61,000 hectares of opium poppy, potentially yielding 2,865 metric tons of opium gum or 337 metric tons of heroin.

In the Western Hemisphere, the opium poppy growing countries have maintained active crop control efforts. Data for 2003 were not available at the time of publication for Colombia or Mexico. Though no specific data was available, there are reports 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 2003 crop will be smaller than last year's total of 144,450 hectares. In Bolivia, there were 28,450 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 dropped from 36,600 hectares at the end of 2002 to 31,150 hectares in 2003. 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, 680 metric tons of cocaine were potentially available from Colombia, 140 metric tons from Peru and 60 metric tons potentially available from Bolivia. Figures for 2003 were not available at publication time.

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. Figures for 2003 were not available at the time of publication. 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

1996–2003 (All Figures in Hectares)

	2003	2002	2001	2000	1999	1998	1997	1996
Opium								
Afghanistan	61,000	30,750	1,685	64,510	51,500	41,720	39,150	37,950
India							2,050	3,100
Iran								
Pakistan		622	213	515	1,570	3,030	4,100	3,400
Total SW Asia	61,000	31,372	1,898	65,025	53,070	44,750	45,300	44,450
Burma	47,130	78,000	105,000	108,700	89,500	130,300	155,150	163,100
China								
Laos	18,900	23,200	22,000	23,150	21,800	26,100	28,150	25,250
Thailand		750	820	890	835	1,350	1,650	2,170
Vietnam		1,000	2,300	2,300	2,100	3,000	6,150	3,150
Total SE Asia	66,030	102,950	130,120	135,040	114,235	160,750	191,100	193,670
Colombia		6,500	6,500	7,500	7,500	6,100	6,600	6,300
Lebanon								90
Guatemala								
Mexico		2,700	4,400	1,900	3,600	5,500	4,000	5,100
Total Other		9,200	10,900	9,400	11,100	11,600	10,600	11,490
Total Opium	127,030	143,522	142,918	209,465	178,405	217,100	247,000	249,610
Coca								
Bolivia ¹	28,450	24,400	19,900	14,600	21,800	38,000	45,800	48,100
Colombia		144,450	169,800	136,200	122,500	101,800	79,500	67,200
Peru	31,150	36,600	34,000	34,200	38,700	51,000	68,800	94,400
Ecuador								
Total Coca	59,600	205,450	223,700	185,000	183,000	190,800	194,100	209,700
Cannabis								
Mexico		3,900	3,900	3,900	3,700	4,600	4,800	6,500
Colombia	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Jamaica							317	527
Total Cannabis	5,000	8,900	8,900	8,900	8,700	9,600	10,117	12,027

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

Worldwide Illicit Drug Cultivation

1988–1995 (All Figures in Hectares)

	1995	1994	1993	1992	1991	1990	1989	1988
Opium								
Afghanistan	38,740	29,180	21,080	19,470	17,190	12,370	18,650	23,000
India	4,750	5,500	4,400					
Iran								
Pakistan	6,950	7,270	6,280	8,170	8,205	8,220	6,050	11,588
Total SW Asia	50,440	41,950	31,760	27,640	25,395	20,590	24,700	34,588
Burma	154,070	154,070	146,600	153,700	160,000	150,100	143,000	104,200
China	1,275	1,965						
Laos	19,650	19,650	18,520	25,610	29,625	30,580	42,130	40,400
Thailand	1,750	2,110	2,110	2,050	3,000	3,435	4,075	2,843
Total SE Asia		177,795	167,230	181,360	192,625	184,185	189,205	147,443
Colombia	176,745				1,160			
Lebanon	6,540	20,000	20,000	20,000	3,400	3,200	4,500	na
Guatemala	150		440	na	1,145	845	1,220	710
Mexico	39	50	438	730	3,765	5,450	6,600	5,001
Vietnam	5,050	5,795	3,960	3,310				
Total Other	11,779	25,845	24,838	24,040	9,470	9,495	12,320	5,711
Total Opium	238,964	245,590	223,828	233,040	227,490	214,200	226,225	187,742
Coca								
Bolivia	48,600	48,100	47,200	45,500	47,900	50,300	52,900	48,900
Colombia	50,900	45,000	39,700	37,100	37,500	40,100	42,400	34,000
Peru	115,300	108,600	108,800	129,100	120,800	121,300	120,400	110,400
Ecuador					40	120	150	240
Total Coca	214,800	201,700	195,700	211,700	206,240	211,820	215,850	193,540
Cannabis								
Mexico	6,900	10,550	11,220	16,420	17,915	35,050	53,900	5,003
Colombia	5,000	4,986	5,000	2,000	2,000	1,500	2,270	4,188
Jamaica	305	308	744	389	950	1,220	280	607
Total Cannabis	12,205	15,844	16,964	18,809	20,865	37,770	56,450	9,798

Worldwide Potential Illicit Drug Production 1996–2003 (All Figures in Metric Tons)

	2003	2002	2001	2000	1999	1998	1997	1996
Opium Gum								
Afghanistan	2,865	1,278	74	3,656	2,861	2,340	2,184	2,174
India							30	47
Iran								
Pakistan		5	5	11	37	66	85	75
Total SW Asia	2,865	1,283	79	3,667	2,898	2,406	2,299	2,296
Burma	484	630	865	1,085	1,090	1,750	2,365	2,560
China								
Laos	200	180	200	210	140	140	210	200
Thailand		9	6	6	6	16	25	30
Vietnam		10	15	15	11	20	45	25
Total SE Asia	684	829	1,086	1,316	1,247	1,926	2,645	2,815
Colombia					75	61	66	63
Lebanon								1
Guatemala								
Mexico		47	71	21	43	60	46	54
Total Other		47	71	21	118	121	112	118
Total Opium	3,549	2,159	1,236	5,004	4,263	4,453	5,056	4,285
Coca Leaf								
Bolivia ¹	17,210	19,800	20,200	26,800	22,800	52,900	70,100	75,100
Colombia ²				583,000	521,400	437,600	347,000	302,900
Peru		52,700	52,600	54,400	69,200	95,600	130,200	174,700
Ecuador								
Total Coca³	17,210	72,500	72,800	664,200	613,400	586,100	547,300	552,700
Cannabis								
Mexico		7,900	7,400	7,000	3,700	8,300	8,600	11,700
Colombia		4,000	4,000	4,000	4,000	4,000	4,133	4,133
Jamaica							214	356
Belize								
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Cannabis	3,500	15,400	14,900	14,500	11,200	15,800	16,447	19,689

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.

³ 2002 and 2001 totals do not include Colombia. See footnote 2 above.

Worldwide Potential Illicit Drug Production 1988–1995 (All Figures in Metric Tons)

	1995	1994	1993	1992	1991	1990	1989	1988
Opium Gum								
Afghanistan	1,250	950	685	640	570	415	585	750
India	77	90						
Iran								
Pakistan	155	160	140	175	180	165	130	205
Total SW Asia	1,482	1,200	825	815	750	580	715	955
Burma	2,340	2,030	2,575	2,280	2,350	2,255	2,430	1,280
China	19	25						
Laos	180	85	180	230	265	275	380	255
Thailand	25	17	42	24	35	40	50	25
Vietnam								
Total SE Asia	2,564	2,157	2,797	2,534	2,650	2,570	2,860	1,560
Colombia	65							
Lebanon	1		4		34	32	45	
Guatemala					11	13	12	8
Mexico	53	60	49	40	41	62	66	67
Total Other	119	60	53	40	86	107	123	75
Total Opium	4,165	3,417	3,675	3,389	3,486	3,257	3,698	2,590
Coca Leaf								
Bolivia	85,000	89,800	84,400	80,300	78,000	77,000	78,200	79,500
Colombia	229,300	35,800	31,700	29,600	30,000	32,100	33,900	27,200
Peru	183,600	165,300	155,500	223,900	222,700	196,900	186,300	187,700
Ecuador			100	100	40	170	270	400
Total Coca	497,900	290,900	271,700	333,900	330,740	306,170	298,670	294,800
Cannabis								
Mexico	12,400	5,540	6,280	7,795	7,775	19,715	30,200	5,655
Colombia	4,133	4,138	4,125	1,650	1,650	1,500	2,800	7,775
Jamaica	206	208	502	263	641	825	190	405
Belize					49	60	65	120
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total	20,239	13,386	14,407	13,208	13,615	25,600	36,755	17,455

Parties to the 1988 UN Convention

Country	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

INCSR 2004 Part I

Country	Date Signed	Date Became a Party
32. Central African Republic	Accession	15 October 2001
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

Policy and Program Development

Country	Date Signed	Date Became a Party
66. Haiti	Accession	18 September 1995
67. Honduras	20 December 1988	11 December 1991
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 October 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

INCSR 2004 Part I

Country	Date Signed	Date Became a Party
100. Mexico	16 February 1989	11 April 1990
101. Moldova	Accession	19 February 1995
102. Monaco	24 February 1989	23 April 1991
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

Policy and Program Development

Country	Date Signed	Date Became a Party
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
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

Signed 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
6. Zaire	20 December 1988	

Other		
1. Anguilla		Not UN member
2. Aruba		Not UN member
3. Bermuda		
4. BVI		Not UN member
5. Cambodia		
6. Central African Republic		
7. Chad		
8. 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 2003 Actual	FY 2003 Supp	FY 2004 Actual	FY 2004 Supp	FY 2005 Request
ACI Country Programs					
Bolivia: Interdiction/Eradication	49,000		49,000		49,000
Bolivia: Alt. Dev./Inst. Building	41,727		42,000		42,000
Colombia Interdiction/Eradication	284,000	34,000	313,000		313,000
Colombia: Alt. Dev./Inst. Building	149,200		150,000		150,000
Ecuador: Interdiction/Eradication	15,000		20,000		11,000
Ecuador: Alt. Dev./Inst. Building	15,896		15,000		15,000
Peru: Interdiction/Eradication	59,500		66,000		62,000
Peru: Alt. Dev./Inst. Building	68,552		50,000		50,000
Panama	4,500		6,487		6,000
Brazil	6,000		10,200		9,000
Venezuela	2,075		5,000		3,000
Air Bridge Denial Program					21,000
Subtotal: Interdiction/Eradication	413,698	34,000	462,000		471,000
Subtotal: Alter.Dev./Inst.Bldg	281,752		269,000		260,000
Total ACI Country Programs	695,450	34,000	726,687		731,000
INCLE Country Programs					
Other Latin America					
The Bahamas	1,100		1,000		1,000
Guatemala	2,500		3,000		2,820
Jamaica	1,200		1,500		1,500
Mexico	12,000		32,000		40,000
Latin America Regional	6,500		4,850		3,250
Subtotal	23,300		42,350		48,570
Africa					
Liberia					5,000
Nigeria			2,250		2,250
South Africa			1,770		1,770
Africa Regional	6,700		2,830		1,480
East Africa Initiative					
Subtotal	6,700		6,850		10,500

DoS (INL) Budget by Program (Continued)

(\$000)

	FY 2003 Actual	FY 2003 Supp	FY 2004 Actual	FY 2004 Supp	FY 2005 Request
Asia and the Middle East					
Afghanistan				170,000	90,000
Indonesia					10,000
Iraq	17,000				
Laos	2,500		2,000		2,000
Morocco					6,000
Pakistan	6,000	25,000	36,500		40,000
Philippines			2,000		2,000
Thailand	3,700		2,000		2,000
Asia/Middle East Regional	4,500		1,000		1,000
Subtotal	33,700	25,000	43,500	170,000	153,000
Total INCLE Country Programs	63,700	140,500	92,700	170,000	212,070
INCLE Global Programs					
Interregional Aviation Support	65,000		70,000		70,000
Systems Support/Upgrades	4,000		5,000		4,500
International Organizations	2,870		14,000		13,000
Drug Awareness/Demand Reduction	5,000		4,200		4,200
Trafficking in Persons	10,000		12,000		5,000
INL Anticrime Programs	12,300		11,324		19,000
Civilian Police Contingent			2,700		2,700
International Law Enforcement Academy (ILEA) Operations	14,500		14,500		14,500
Regional Narcotics Training	4,500				
Total INCLE Global Programs	118,170	25,000	133,724		132,900
Program Development & Support	13,850		13,850		13,850
Total ACI Programs	695,450	34,000	726,687		731,000
Total INCLE Programs	195,720	25,000	240,274	170,000	358,820
Total INL Program¹	891,170	59,000	966,961	170,000	1,089,820

¹ These 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 and Border 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.

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.

International Law Enforcement Academies (ILEAs)

The mission of the ILEAs has been to support emerging democracies, help protect U.S. interests through international cooperation and to promote social, political and economic stability by combating crime. To achieve these goals, ILEA has provided high-quality training and technical assistance, has supported institution building and enforcement capability and has fostered relationships of American law enforcement agencies with their counterparts in each region. ILEAs have also encouraged strong partnerships among regional countries, to address common problems associated with criminal activity.

The ILEA concept and philosophy is a united effort by all of the participants—government agencies and ministries, trainers, managers, and students alike—to achieve the common foreign policy goal of international law enforcement. They are an ideal blend of professionals that will craft the future for rule of law, human dignity, personal safety and global security.

The ILEAs are a progressive concept in the area of international assistance programs. The regional ILEAs offer three different types of programs: the Core course, specialized training courses and

regional seminars tailored to region-specific needs and emerging global threats. The Core program typically includes 50 participants. The specialized courses, comprised of about 30 participants, are normally one or two weeks long and often run simultaneously with the Core course. Topics of the Regional Seminars include transnational crimes, counterterrorism and financial crimes.

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, Homeland Security and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 12,000 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 950 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, including the Special Administrative Regions of Hong Kong and Macau. Subject matter experts 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 gradual expansion to East African and other sub-Saharan African countries. United States and Botswana trainers provide instruction. 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 and other selected criminal justice officials. 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 Latin America, 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 after ratification of the Agreement by the Costa Rican Congress.

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 to 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 80 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 2003 to host nation counterparts in support of the four established mission components.

Bilateral Investigations

In late December 2002, officers from the Royal Thai Army (RTA), Interagency Intelligence Fusion Center (IIFC) received information from a Confidential Source (CS) that a United Wa State Army (UWSA) caravan with approximately 2 million methamphetamine tablets was expected to arrive in **Thailand** from Burma between January 3-5, 2003. During this period, the RTA and the Royal Thai Border Patrol Police (BPP) were unsuccessful in efforts to interdict this caravan. On January 9-10, 2003, the RTA received additional information from the CS that the methamphetamine had been buried in a remote area near the Thailand-Burma border, after scouts for the caravan had observed the RTA and BPP presence along the caravan's trail. On January 13, 2003, based on information from the CS, RTA units located and seized 1 million methamphetamine tablets buried in a remote, mountainous area. Agents from the Chiang Mai Resident Office and officers from the Royal Thai Police, Narcotics Suppression Bureau, Chiang Mai Intelligence Center and the Sensitive Investigative Unit-North were involved with this investigation.

On March 26, 2003, the Royal **Thai** Police/NSB, Sensitive Investigative Unit/Bangkok Intelligence Center arrested Suphap Seedang and charged him with racketeering, money laundering and conspiracy to distribute narcotics; 92 million Thai Baht in currency (approximately \$2.14 million U.S.) and 600 million Thai Baht (approximately \$13.95 million U.S.) in additional assets were seized from Suphap and his family members. Through the course of this investigation 1,004 million Thai Baht (\$23.35 million U.S.) in cash and 900 million Baht (approximately \$21 million U.S.) worth of jewelry, gold, and other assets were seized. This is the largest money seizure in Thai history.

April 2003, the Australian Federal Police seized the MV Pong Su, a North Korean cargo vessel caught smuggling 125 kilograms of heroin into **Australia**. The Canberra Country Office (CCO) is coordinating closely with the AFP concerning the investigation. On August 6, 2003, the AFP Drug Registry Unit provided the CCO with 100-two gram samples of heroin seized during the investigation of the MV Pong Su. These samples were submitted to the Special Testing Lab for analysis.

On May 3, 2003, officials from the Thai Office of Narcotics Control Board (ONCB) executed a search warrant at an apartment in Bangkok and seized approximately 5,721,400 tablets of methamphetamine. This seizure is the second largest seizure of methamphetamine tablets in **Thailand**.

On May 6, 2003 Royal **Thai** Metropolitan Police seized 200,000 methamphetamine tablets, 1.1 million Thai Baht (approximately \$26,000.00 U.S.) and arrested 6 individuals. Subsequent to the arrests, a Sensitive Investigative Unit source of information reported that one of the female arrestees had contacted her brother to move a safe from their mother's house. Search warrants were obtained and an additional 62 million Thai Baht (approximately \$1.48 million U.S.) was seized from a large safe. Also, 12 diamond Rolex watches, a large amount of gold and jewelry worth an additional 70 million Thai Baht (approximately 1.8 Million U.S.) were seized.

On May 6, 2003 the Lao Government agreed to the expulsion of a USCS fugitive in **Laos**. The Bangkok Country Office (BCO), Vientiane Country Office (VCO) and the Sensitive Investigative Unit assisted the United States Customs Service (USCS) in locating the fugitive by conducting an extensive surveillance of the fugitive's wife and sister. This surveillance covered approximately 500 miles from Bangkok to Mukdahan, which is near the Lao border. On

On June 9, 2003, the largest amount of heroin ever detected in **Vietnam** was seized according to Vietnam's State controlled media. A truck carrying 128 bricks of heroin weighing about 40 kilograms was stopped and searched near the Lao Bao border crossing. The driver and five other individuals were arrested.

On June 13, 2003, a unilaterally controlled Confidential Source of the Royal Thai Police (RTP), Narcotics Suppression Bureau, Sensitive Investigative Unit North (NSB-SIU-N) provided information/services which resulted in the seizure of 86 units of heroin in Tachilek, **Burma**. Subsequently, officers from NSB/SIU-N and the Counter-Narcotics Enforcement Team (SIU/CNET) in Bangkok, assisted by DEA Agents from the Chaing Mai Resident Office (CMRO) and Bangkok Country Office, conducted a controlled delivery of 36 units of heroin in Bangkok which resulted in the arrest of five Taiwanese nationals. Concurrently, officers from NSB/SIU-N, SIU/CNET, and NSB in Songkhla, assisted by DEA Agents and Investigative Assistants from the CMRO and Songkhla Resident Office, conducted a controlled delivery of an additional 50 units of heroin in Hat Yai, Thailand and arrested four Chinese-Malaysian subjects.

On July 29, 2003, the Rangoon Country Office (RCO) reported that the **Burmese** military seized a heroin processing refinery in Nant Tway Haw village, Hsenwi Township, Burma. A total of 12.3 pounds of heroin, 22.6 pounds of opium, and over 400 gallons of various processing chemicals were also seized at the site. Five individuals were arrested pursuant to the seizure.

In August 2003, the Belgian Federal Police advised the Australian Federal Police that a shipment of approximately 800,000 MDMA tablets hidden in an agricultural irrigation system was departing **Belgium** for Australia. In September 2003, the CCO) was asked to join the investigation. On Oct 4, 2003, the MV Tamerline arrived in Sydney with the irrigation system. An examination was performed and 865 packages of MDMA were seized and six individuals arrested.

On August 7, 2003, a **Korean** Customs Service Investigator operating in conjunction with the Seoul Country Office Airbust Unit at Incheon International Airport seized approximately 27.5 kilograms of raw opium. The opium was secreted in the false bottom of a luggage bag which had been abandoned in the airport.

On August 18, 2003, the **Burmese** Central Committee for Drug Abuse Control (CCDAC) provided the following information to the Rangoon Country Office. A joint Lashio Police Task Force and Lashio Directorate Defense Services Intelligence operation led to the arrest of three suspects and the seizure of approximately 236,000 methamphetamine tablets.

On August 25, 2003, a unilaterally-controlled Confidential Source of the Chiang Mai Resident Office (CMRO) provided information relative to a remote storage location in which 1.4 million methamphetamine tablets were stored. Based on this information, officers from the Royal **Thai** Border Patrol Police, assisted by DEA Agents from the CMRO, located and seized the 1.4 million methamphetamine tablets secreted in a remote mountain cave.

On August 29, 2003, Mohammad Kahlid Azizi, Muzaffar Khan Afridi, Alamdar Khan Afridi, Wai Ul-Din Wardak, and Zalmai Ibrahimi were arrested in Bangkok, **Thailand**. The Bangkok Country Office (BCO) and the Thai Office of Narcotics Control Board have been assisting the Washington Field Division and the FBI Calverton District Office in an ongoing investigation involving a Pakistani based heroin trafficking organization with direct ties to the U.S. On September 4, 2003, the Royal Thai Police advised the BCO that all gems/jewelry located at the Azizi Gems and Minerals Company Ltd and additional gems found at the Azizi's home were seized pursuant to possible violations of money laundering statutes. The property is estimated at approximately 2.4 million dollars.

On September 10, 2003, the Australian Federal Police (AFP), Australian Crime Commission (ACC), and the Australian Customs Service (ACS) conducted a controlled delivery that resulted in the arrest of three individuals and the seizure of 750 kilograms of pseudo ephedrine. This operation was initiated in January 2003 when the ACC identified a shipment of 24 kilograms of heroin that arrived in **Australia** secreted in a shipment of frozen fish originating in Cambodia. This seizure resulted in the arrest of two individuals in the Sydney area. In August 2003, Cambodian Law Enforcement Officials arrested five individuals in Cambodia associated with the seized heroin shipment. During the week of September 8, 2003, the ACC and AFP came across information about a shipment of goods from Thailand. The ACS determined the shipment had arrived and was in holding. A search was conducted and 750 kilograms of pseudo ephedrine was found in ornamental plaques.

On September 14, 2003, the Chiang Mai Resident Office and the Royal Thai Police, Narcotics Suppression Bureau-North, conducted a controlled delivery of 40 kilograms of heroin to Bangkok, **Thailand**. As a result, officers arrested 5 Thai Nationals and seized 40 kilograms of heroin and gold jewelry with an estimated value of 50 million baht (USC \$1.2 million dollars). Information provided by a Confidential Source indicates that this 40 kilogram shipment was part of a larger shipment of 560 kilograms which is controlled by Eakasit Sirimongkul, an ethnic Chinese narcotics trafficker affiliated with the United Wa State Army.

Three subjects from the West African nation of **Benin** were arrested in Chicago on September 19, 2003, for accepting a parcel containing nearly 500 grams of heroin. The parcel was shipped from Bangkok, **Thailand** to a business in Chicago. An employee of the business accepted the parcel and delivered it to a nearby apartment. Agents raided the apartment, arrested two individuals and seized approximately 470 grams of heroin and \$8,000 in U.S. currency (USC). As the search of the apartment was being conducted, a third individual involved in this conspiracy arrived at the apartment and was arrested.

On October 1, 2003, Phnom Penh Municipal Police seized approximately 35 kilograms of heroin and 15 kilograms of amphetamines in one of the largest drug busts in **Cambodian** history. Three Cambodian Ministry of Defense Intelligence Officers were among the 13 suspects arrested.

On October 7, 2003, the Royal Malaysian Police (RMP) Narcotics Department successfully dismantled two drug processing laboratories, operated by a Chinese-Mayla syndicate, in Batu Uban of Penang, **Malaysia**. In this operations, the RMP arrested seven suspects, seized 8.9 kilograms of heroin

#3, 5,200 tablets of MDMA, 540 grams of MDMA powder, 614 grams of ketamine powder, and 50 grams of caffeine. In addition, the RMP confiscated \$164,964 in currency, nine vehicles, four pistols, and 390 rounds of ammunition.

On October 7, 2003, LAFD D/I Susan Langston received information from the **Hong Kong** Country Office that Solstice Medicine Co. in LA placed an order to import pseudo ephedrine tablets. A search warrant for a vessel arriving in the Port of LA was issued. On October 31, 2003, 133 boxes of pseudo ephedrine were seized and each box contained 5,760 tablets.

On October 23, 2003, the **Hong Kong** Customs and Excise Officers seized approximately 1 kilogram of cocaine and arrested one courier at the Hong Kong International Airport. The cocaine was infused into a garment carried by a Latin male courier. This is an unusual concealment method for cocaine destined for Hong Kong. Further, this seizure demonstrates a new trend where Asia bound drug couriers from Latin America are departing from Sao Paulo, Brazil and/or transiting Johannesburg, South Africa.

On October 31, 2003, the Taiwanese Ministry of Justice Investigation Bureau, Kaohsiung Police and Coast Guard Administration seized approximately 14 kilograms of crystal methamphetamine, 700 kilograms of liquid methamphetamine and a large amount of laboratory equipment from a clandestine laboratory, which resulted in the arrest of Li Wen-Cheng, the head of the drug trafficking syndicate based in Kaohsiung, **Taiwan**. Taiwanese authorities reported that this seizure was the largest ever in Taiwan.

On November 21, 2003, a huge lab was seized in an industrial area in Antipolo, **Philippines** (East of Manila). Early estimates indicate approximately 1,068 kilograms of methamphetamine (466 kilos of crystal "ice" methamphetamine, and 602 kilograms of 'wet' methamphetamine being dried) and 33 55-gallon drums of chemicals were seized at the site.

On November 26, 2003, the first ever MDMA lab in **Northern Ireland** was seized. The seizure was based upon intelligence provided by a Hanoi Country Office Confidential Source.

On December 4, 2003, CA Christopher Browning, of the Seoul Country Office, contacted Atlanta Field Division (FD) Task Force Group 1 to report that **Korean** Customs had seized 9.9 kilograms of opium from a suitcase belonging to an individual identified as Olivia Naphaivong. Two other individuals were traveling with the female. Atlanta FD Task Force Officers and Customs personnel detained the suspected individuals. A total of 30 kilograms of opium were seized in Seoul and Atlanta, Georgia.

On June 12, 2003, the Colombian Coast Guard (CCG), acting upon DEA supplied information, intercepted a go-fast vessel in the Gulf of Uraba, located along the northwest coast of **Colombia**. The vessel was initially detected by radar and after a brief pursuit by the CCG, the vessel was abandoned on the beach near the town of Punta Yerbatal, Colombia. Approximately 1,000 kilograms of cocaine hydrochloride were seized as a result of the intercept. No arrests were made as the crew fled prior to the arrival of the CCG.

On October 4, 2003, JIATF South air assets, acting on information provided by the Cartagena Resident Office (RO), detected a go-boat fast boat approximately 100 miles northwest of Santa Marta, **Colombia**. Following notification of the go-fast location, the Cartagena RO directed Colombian Coast Guard (CCG) and Colombian Air Force (CAF) assets to the area. After a lengthy pursuit, the go-fast boat was forced to beach near the coastal city of Sabanilla, Colombia. The operation resulted in the seizure of approximately 270 kilograms of cocaine and two arrests. The remainder of the cocaine was observed being thrown overboard by CCG and JIATF air assets while the pursuit was underway.

On May 20, 2003, as a result of a two year investigation, a major heroin organization that operated in **Colombia**, New York, Newark and Philadelphia was dismantled. This investigation resulted in 45

arrests and the seizure of approximately 14 kilograms of heroin and U.S. \$320,000 to date. The target of the investigation was the Franklin Santos Heroin Trafficking Organization. According to affidavits filed in support of the arrests and search warrants, Santos, a Dominican national living in Philadelphia, was supplied by a heroin organization based in Colombia. The Santos Organization was responsible for distributing kilogram quantities of heroin throughout Philadelphia.

On February 13, 2003, over 400 Officers and Agents executed 63 arrest warrants and 29 search warrants during the takedown of Operation Goodwrench. This operation targeted an international heroin/cocaine trafficking organization based in Medellín, **Colombia** that supplied distributors in New York. The transportation route for this organization originated in Medellín and transited several South American countries before reaching Puerto Rico. From Puerto Rico, the organization would smuggle the heroin or cocaine into the U.S. This investigation culminated in the arrest of 67 defendants and the seizure of 21 kilograms of heroin, 17.4 kilograms of cocaine, 1.9 kilograms of crack cocaine, 8 pounds of marijuana and U.S. \$438,420. This investigation was an Organized Crime Drug Enforcement Task Force initiative, coordinated by the DEA Special Operations Division and comprised of Agents and Analysts from the USCS, FBI, IRS and various DEA offices.

On March 27, 2003, the Bogota Country Office, Colombian National Police Sensitive Investigative Unit, the Colombian Fiscalía's Office, the Colombian Navy and the Tampa District Office executed the takedown of OPERATION PEGASUS II, a multi-district; multi-agency, OCADETF investigation. This organization was responsible for transporting multi-ton loads of cocaine from the Pacific Coast of **Colombia**. The enforcement operation involved the coordinated execution of 55 search warrants and 7 U.S. Provisional Arrest Warrants in the following Colombian cities: Cali, Medellín, Puerto Tejada, Bogota, and Buenaventura. Fifteen suspects were arrested and \$30,000 in Colombian pesos, \$100,000 in jewelry and watches, six fishing vessels and several weapons were seized.

On March 8 and 9, 2003, the **Venezuela** Guardia Nacional seized 5,020 kilograms of cocaine in a small fishing village located about 30 KM from the port city of Carupano, Venezuela. The seizure occurred as the result of information provided by DEA and Venezuelan sources. The cocaine was being stored in a small shack, allegedly waiting to be smuggled to a larger vessel for transshipment to Europe. Also seized were 11 small fishing boats and several small arms.

On July 29, 2003, intelligence information developed in coordination with the Athens Country Office, Bulgarian Police, Bolivian Narcotics Police and the La Paz Country Office resulted in the execution of 10 search warrants in Santa Cruz, **Bolivia**. In furtherance of those warrants, 24 arrests were carried out, to include 1 Colombian National, 1 Brazilian National and 22 Bolivians. The following was seized: approximately 2,000 kilograms of liquid cocaine mixed into fine sand, contained in 78 plastic barrels and destined for Madrid, Spain; a total gross weight of 14,911 kilograms of mashed potato mixture, which was determined by Bolivian chemists to contain approximately 3,087 kilograms of powder cocaine HCL, which was destined for Bulgaria, via Chile; 139,300 kilograms of lime powder and other precursor chemicals; 6 vehicles and 2 handguns.

On September 10, 2003, based on Colombian National Police (CNP) intelligence, the Bogota Country Office and the CNP conducted a raid on a cocaine HCL laboratory located in the rural area east of Buga, in Valle de Cauca, **Colombia**. The CNP seized a cocaine HCL Laboratory, 1.3 tons of cocaine HCL, 1,000 gallons of acetone, 700 gallons of sulfuric acid and 1,000 gallons of hydrochloric acid. The CNP also apprehended four subjects that were later identified as laboratory operators. CNP developed intelligence indicated that this laboratory was operated and controlled on behalf of the North Valley Cartel and had an estimated production capacity of 1,000 kilograms of cocaine HCL per week.

In May 2003, 3.6 tons of cocaine was seized off the coast of **Spain**. This seizure was the result of a joint investigation involving the DEA Athens Country Office, DEA Madrid Country Office and the Hellenic National Police. The investigation targeted a maritime shipping organization as part of the

Athens Country Office's Maritime Intelligence Program. A tracking device was installed on a vessel belonging to a member of the suspect maritime organization, leading to the seizure.

In August 2003, Estonian officials executed a search warrant at a residence in Tallinn, **Estonia** and seized a pill press, various chemicals and 150 kilograms of liquid MDMA. The Copenhagen Country Office, working in conjunction with Estonian law enforcement officials and a Confidential Source, provided the information that led to the seizure. The Estonian National Laboratory calculated that the liquid MDMA seized would have produced approximately 750,000 tablets of MDMA. According to the Confidential Source, the liquid MDMA originated in Russia. This is the largest MDMA laboratory ever seized in the Baltic and Nordic countries.

On November 5, 2003, the **Turkish** National Police (TNP), working jointly with the Istanbul Resident Office, seized 495 kilograms of heroin in an ongoing, nine-month TNP/DEA Priority Target investigation. This organization has been known to DEA since 1978. The organization is an international narcotics transportation group providing services to the most significant trafficking organizations throughout the region. Many of these trafficking organizations have direct ties with opium suppliers in Pakistan and Afghanistan and heroin distributors in Western markets. Three suspected heroin laboratories, which had been controlled by this organization, were dismantled as a result of this investigation..

On July 4, 2003, the Spanish National Police (SNP) seized the M/V Carida C, 3,300 kilograms of cocaine and arrested seven crewmembers. The seizure was based upon information provided by the Madrid Country Office and a DEA controlled Confidential Source. Several Colombian and Spanish nationals, not on board the vessel during the seizure, were later arrested in Pontevedra, **Spain** in conjunction with this investigation.

The DEA Vienna and Athens Country Offices, in conjunction with Bosnian and Serbian authorities, conducted an investigation which resulted in the seizure of 34 tons of acetic anhydride in **Bosnia-Herzegovina**. Six amphetamine laboratories, several tons of acetic anhydride and 165,295 captagon tablets were seized in Belgrade, Serbia-Montenegro as part of the same investigation. The acetic anhydride seized in Bosnia-Herzegovina arrived at the port of Ploce, Croatia from Mexico and was transported from Croatia to Bosnia-Herzegovina via truck.

On March 14, 2003, Osiel Cardenas-Guillen, head of a major Mexican drug trafficking organization (DTO) and designated as a DEA Priority Target and Consolidated Priority Target Organization (CPOT), was arrested by Mexican military units in Matamoros, **Mexico**. Until his arrest, Osiel Cardenas had been the Mexico-Central America Division's number one Priority Target. The proactive pursuit of this important fugitive represents part of an encouraging, sustained effort on the part of the Fox Administration in bringing high-level traffickers to justice. Osiel Cardenas-Guillen and nine of his associates are under indictment in the Southern District of Texas, and are charged with seventeen different counts including drug trafficking, money laundering and assault on Federal Agents. Cardenas and his associates are wanted for the assault and attempted kidnappings of Special Agents Joseph Dubois (DEA) and Dan Fuentes (FBI) on November 9, 1999.

On April 4, 2003 Arturo Hernandez-Cardenas aka "El Chaqui," head of security for the Vicente Carrillo-Fuentes DTO, a DEA CPOT investigation, was arrested by vetted units of Mexico's Agencia Federal De Investigaciones (AFI), in Manzanillo, **Mexico**. Hernandez-Cardenas has been charged under Mexican law with violations of organized crime statutes, as well as crimes against health, money laundering, and narcotics trafficking. Hernandez-Cardenas, a former Policia Judicial Federal (PJF) officer, was responsible for the personal security of Amado Carrillo-Fuentes until his untimely death in July 1997. Hernandez-Cardenas also is known to be responsible for numerous brutal assassinations conducted on behalf of the ACFO. Following the death of Amado Carrillo-Fuentes, Hernandez-Cardenas continued in the same capacity as security and enforcer for Vicente Carrillo-Fuentes.

On April 9, 2003, the Governments of **Panama** and **Colombia** conducted a simultaneous takedown of a DEA designated Priority Target investigation which resulted in the dismantlement of a maritime smuggling organization. This effort was the first bilateral investigation between Panama and Colombia that resulted in a unified, simultaneous takedown based on shared wire intercept information. The level of cooperation exhibited by both countries through the nine month investigation is noteworthy. The Government of Panama executed numerous arrest and search warrants throughout Panama. Thirty-two individuals were arrested and seizures included real property, vessels, small weapons, vehicles, documents and computers. Twenty-two defendants were arrested in Colombia, including Panama Country Office Priority Target Harold Irurita-Lopez. Colombian national Irurita-Lopez headed an organization that transported multi-ton quantities of cocaine from Colombia through Central America to the U.S.

On May 22, 2003, Byron Gilberto Linares-Cordon, a key lieutenant of the Otto Herrera-Garcia Drug Trafficking Organization (DTO), (a DEA CPOT investigation), was arrested by members of the **Guatemala** City Country Office DEA Task Force (SAIA). Fourteen million dollars in drug proceeds and 1,090 kilograms of cocaine were seized. Linares-Cordon was arrested pursuant to a Guatemalan arrest warrant issued on April 24, 2003, for narcotics activity, money laundering, illicit investments, and other illegal activities. The cocaine trafficking organization directed by CPOT and Priority Target Otto Roberto Herrera-Garcia is the most prolific DTO in Guatemala. Based on intelligence obtained from various independent sources, it is estimated that this organization is responsible, on a monthly basis, for the transshipment through Guatemala of approximately 5 metric tons of cocaine.

On July 31, 2003, Attorney General John Ashcroft and the DEA announced the indictment of Mexican drug lord Ismael Zambada-Garcia, head of the Zambada-Garcia drug organization (ZGO), a Consolidated Priority Target (CPOT) organization, and the arrests of over 240 individuals in the United States and **Mexico**. The indictment and related arrests are the result of Operation Trifecta, a 19-month-long international Organized Crime Drug Enforcement Task Force investigation into cocaine, marijuana and methamphetamine trafficking. The investigation was conducted by agents and analysts from the DEA, Federal Bureau of Investigation, Bureau of Immigration and Customs Enforcement, Internal Revenue Service, Bureau of Alcohol, Tobacco, Firearms and Explosives, attorneys from the Justice Department's Criminal Division and various U.S. Attorneys' offices, and coordinated by the Special Operations Division.

On August 15, 2003, the DEA Monterrey and Guadalajara Resident Offices provided detailed cooperating source information regarding major drug trafficker and CPOT Armando Valencia Cornelio to the Government of **Mexico's** Organized Crime Unit (UEDO). On that same date, the UEDO Unit successfully arrested Valencia-Cornelio and seven co-conspirators. Armando Valencia-Cornelio, was a Guadalajara-based Mexican poly-drug trafficker who transported and distributed multi-ton quantities of cocaine

On December 6, 2003 DEA CPOT Fernando Requena-Duval was arrested at Tocumen International Airport, Panama City, **Panama**. He was arrested based on an International Wanted Notice issued by Interpol on November 21, 2003. Requena-Duval was indicted on December 19, 2002, by a Federal Grand Jury in Washington, D.C and a Provisional Arrest Warrant was sent to Panama via diplomatic channels on December 6, 2003. Fernando Requena-Duval is the leader of one of the largest maritime smuggling organizations based in Central America. Requena-Duval's organization imported large quantities of cocaine from Colombia into Nicaragua for eventual transportation to the United States.

On May 4, 2003, the St. Croix Resident Office arrested a significant **U.S. Virgin Islands** based cocaine trafficker and several members of his organization. Subsequently, these individuals are providing information provide historical information on the organizations source of supply. During July 2003, this investigation became an OCDETF, Priority Target, and RPOT investigation. The Bridgetown CO is the only foreign office in the Caribbean division to be the lead agency in an

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On June 17, 2003, DEA Fugitive, Beaudouin Ketant AKA Jacques Ketant was expelled from **Haiti** and subsequently arrested by DEA. Ketant was a fugitive from a 1996 Southern District of Florida Federal Grand Jury indictment charging Ketant with a violation of U.S. drug laws, 21 USC 846. Ketant is also wanted for the murder in Dade County, Florida.

On October 16, 2003, Jean ELIOBERT JASME was expelled from **Haiti** and subsequently arrested by DEA. JASME has been indicted in Fort Lauderdale and New York for cocaine trafficking and importing in excess of one ton of cocaine into the U.S. from Haiti (the one ton figure is based on actual seizures in the US).

Santo Domingo CO participated in investigations resulting in the worldwide arrest of 152 people, the seizure of 2,750 kilograms of cocaine, 18 kilograms of heroin, 892,726 dosage units of MDMA, 1,000 pounds of marijuana and the seizure of more than \$5,000,000 in cash and property.

Intelligence Gathering

DEA coordinates intelligence gathering and dissemination worldwide. The DEA Intelligence Division 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 intelligence activities around the world.

Traditional routes through northern Thailand and southern China are beginning to be forsaken in favor of routes through **Laos**, Northern **Vietnam**, and **Cambodia**. Officials of the United Nations noted that from April to June of 2003, it had been unusually quiet on the northern and northwestern border areas of **Thailand**. This reduction in activity was attributed to the all-out assault on drug smuggling that was undertaken by Thai authorities from February to April 2003. The intensity of the Thai effort, while not eliminating use of the traditional routes, certainly has many drug organizations aggressively seeking alternative smuggling routes and methods. A senior Thai official stated that Thai intelligence believes that many Burmese warlords and trafficking organizations are becoming frustrated and unsure of what to do with the millions of methamphetamine tablets that have had to be stored as a result of the Thai Government's counternarcotics push early in the year. Thus, producers are actively re-routing many of their shipments. Heroin and crystal methamphetamine that usually exited the Golden Triangle through southern China are now being sent through northern Vietnam. Methamphetamine tablets are now turning up in much larger quantities in Laos, Cambodia and even India, as alternative routes continue to be explored.

Cambodia has become a hotbed of trafficking for both heroin and methamphetamine as lax and inadequate enforcement, rampant corruption, and the easy accessibility of the Mekong River all combine to make **Cambodia** one of the preferred choices for introducing drugs to the international market. Laos also continues to be used more and more as a safer route for moving heroin and

methamphetamine. Heroin passing through Laos usually enters either Vietnam or Cambodia for shipment to international markets, while the methamphetamine normally passes from Laos into Cambodia then back to Thailand for consumption or onward to Malaysia.

During June 2003, Operation Cold Remedy was established as a regional and global chemical control tracking initiative within the Far East Region. The operation was created for the purpose of tracking the movement of legitimate pharmaceutical products used in the production of methamphetamine, namely pseudo-ephedrine combination products from **Hong Kong** to suspect countries such as **Mexico** and **Panama**. To date, the HKCO has been able to track approximately 80 shipments of pseudo ephedrine combination tablets that have been exported from Hong Kong to Mexico. The 80 shipments total approximately 347 million tablets.

In 2003, the DEA Cochabamba Resident Office implemented the Chapare Valley LOOKOUT system, a computer satellite vehicular intelligence system. This system was designed to develop, analyze and disseminate the modes of cocaine flows entering/exiting the Chapare Valley via vehicle traffic.

In 2003, the DEA La Paz Country Office implemented the Bolivian Intelligence Fusion Center manned by the Bolivian National Police's Counter-Narcotic Force Special Intelligence and Operations Group. This center develops, analyzes and disseminates intelligence information on cocaine and chemical trafficking organizations operating in **Bolivia**.

A TDY Special Agent in Sophia **Bulgaria**, working jointly with the DEA La Paz Country Office and Bulgarian and British law enforcement authorities, identified a maritime transportation group smuggling cocaine into Bulgaria for distribution in the Balkans and Europe. Intelligence gleaned from Title III intercepts identified two cocaine laden containers in Bolivia being readied for shipment to Spain and Bulgaria. Bolivian authorities seized 2.5 tons of cocaine from each container. Additionally, authorities in Bulgaria and **Bolivia** arrested a total of 28 suspects and detained 18 others as part of this investigation.

In June 2003, the Milan Resident Office, working in conjunction with **Croatian** law enforcement authorities and a DEA Confidential Source, targeted a Croatian maritime smuggling organization that was illicitly importing cocaine into Europe via the Caribbean. In September 2003, based upon information developed during the investigation, Croatian authorities seized 336 kilograms of cocaine and arrested four defendants. Authorities also seized the vessel used in the smuggling operation, two firearms and one vehicle.

In June 2003, based on information provided by the DEA Paris Country Office and a DEA Confidential Source, **French** authorities arrested an associate of an extremist terrorist group. The suspect had requested assistance from the Confidential Source in obtaining false French passports for members of the group to travel to the United States to carry out unspecified terrorist attacks. Despite the lack of an immediate drug nexus, French counterparts requested DEA's assistance which subsequently enabled the identification of the associate's residence and ultimate arrest.

In March 2003, members of the **Uzbekistan** Sensitive Investigative Unit (SIU) attended a SIU Basic course at the Justice Training Center in Quantico, Virginia. The Uzbekistan SIU became fully operational in April 2003 and commenced operations in May 2003. As of September 2003, the SIU has conducted 21 separate operations, resulting in the arrest of 50 defendants, and the seizure of 17.33 kilograms of heroin and 3.6 kilograms of opium.

Centers for Drug Information. During the spring of 2002, DEA implemented the Centers for Drug Information (CDI) concept by initiating plans to establish four regional Centers in the geographical areas of Mexico and Central America, the Andean Ridge, the Southern Cone, and the Caribbean. The four Centers have now been established in Bogota, Colombia; Santo Domingo, Dominican Republic; Mexico City, Mexico; and Santa Cruz, Bolivia and are fully operational. These Centers provide the law enforcement personnel of 41 participating nations with the capability to share drug-related tactical

and investigative information in a timely manner. One hundred and thirty-one computers provide the foundation for this rapid and timely exchange of information. The four Centers are staffed by the host nation personnel, a JIATF-South TAT analyst and a DEA analyst.

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 numerous law enforcement and judicial officials from nine Association of Southeast Asian Nations (ASEAN) countries, the 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. On June 27, 2003, Thai Foreign Minister Surakiart and Ambassador Johnson jointly lead a formal groundbreaking ceremony for a permanent instructional/office facility for ILEA Bangkok.

The Bogotá Country Office hosted specialized training conducted by the Special Testing Laboratory for forensic chemists in the Andean Region. This week-long training course was held in Bogota from September 7-13, 2003. Topics covered included: Evidence Handling and Evidence Sampling, Methamphetamine and Club Drugs, Courtroom Testimony, Heroin Processing, Clandestine Labs, Marijuana, Cocaine Processing, the Heroin Signature Program, the Methamphetamine Signature Program, and the Cocaine Signature Program.

The International Asset Forfeiture and Money Laundering program is coordinated by the International Training Section of DEA in a joint effort with the Department of Justice. During fiscal year 2003 a total of 168 participants were trained from the following countries: Brazil, Malaysia, Costa Rica, France and Greece.

The Department of Justice authorizes, the Office of International Operations manages, and DEA's International Training Section conducts the training for Sensitive Investigative Unit (SIU) program. Participating countries currently involved in the SIU program are: Bolivia, Brazil, Colombia, Dominican Republic, Ecuador, Mexico, Peru, Thailand, Pakistan and the newly added participating country of Uzbekistan. During 2003, 270 participants from the ten participating countries were trained.

The International Law Enforcement Academy (ILEA) program was established and is funded by INL. DEA provides all counternarcotics training at the ILEAs. Currently, there are three established ILEAs operating in Budapest, Hungary; Bangkok, Thailand; and Gaborone, Botswana. ILEA Budapest hosts officials from such countries as: Armenia, Azerbaijan, Croatia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Romania, Russia, Slovenia, Tajikistan, Ukraine, and Uzbekistan. ILEA Bangkok trains participants from countries such as: Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand and Vietnam. ILEA Gaborone conducts training to include the following countries: Botswana, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Pretoria, South Africa, Swaziland, Tanzania, Uganda, and Zambia. A total of 658 participants were trained during fiscal year 2003 at the ILEAs.

Bilateral Training Seminars funded by INL and conducted by DEA's International Training Section for fiscal year 2003 include training seminars for 531 participants as follows: Airport Interdiction Seminar in Kenya; Chemical Diversion Seminar in Chile; Basic Drug Enforcement Seminar in Indonesia; Basic Drug Enforcement Seminar in Laos; Basic Drug Enforcement Seminar in Costa Rica; Advanced Drug Enforcement Seminar Paraguay; Basic Drug Enforcement Seminar in Haiti; Advanced

Intelligence Analysis Seminar in Dominican Republic; Airport Interdiction Seminar in Dominican Republic; Airport Interdiction Seminar in Laos; Advanced Drug Enforcement Seminar in Poland; Basic Drug Enforcement Seminar in Belize; Basic Drug Enforcement Seminar in Nicaragua; Intelligence Collection and Analysis Seminar in Honduras; and Basic Drug Enforcement Seminar in Dominican Republic.

In addition, the following Regional Bilateral Training Seminars for 98 participants were also conducted: Regional Basic Drug Enforcement Seminar for Kenya, Madagascar, Mauritius, South Africa and Tanzania; Airport Operations Seminar for Sri Lanka and Maldives; and Regional Intelligence Seminar for Kyrgyzstan, Tajikistan and Uzbekistan.

The International Training Section of DEA also conducted "Operations Containment" Seminars training 104 participants as follows: Regional Interdiction Seminar held in Romania training law enforcement officials from Albania, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Hungary, Macedonia, Moldova, Romania, Serbia-Montenegro, Slovenia, Turkey and Ukraine; and an Advanced Wiretap T-III Seminar conducted in Turkey. This training targets those foreign counterparts critical to the success of combating the heroin production and trafficking from the Afghanistan Region.

The International Narcotics Enforcement Management Seminar (INEMS) is a three-week program funded by the Department of State conducted by the International Training Section of DEA held in the United States for upper-level law enforcement managers. Fiscal year 2003's INEMS Number 81 included 19 participants from Afghanistan, Bosnia-Herzegovina, Bulgaria, Croatia, Greece, Hungary, India, Kazakhstan, Kyrgyzstan, Macedonia, Pakistan, Romania, Russia, Serbia-Montenegro, Slovenia, Tajikistan, Turkey and Uzbekistan. This annual training seminar is conducted in Washington D.C.

The Executive Observation Program (EOP) conducted by DEA's International Training Section and jointly coordinated with the Office of International Operations hosts foreign law enforcement officials and provides briefings of the training programs conducted and available. During fiscal year 2003 the International Training Section hosted 137 officials from the following countries: Brazil, Colombia, Hong Kong, Israel, Laos, Mexico, New Zealand, Paraguay, and Scotland. Also included in our statistics was a briefing provided to the Western Hemisphere Institute for Security Cooperation (WHINSEC) Foreign Military Personnel. International Training EOPs are conducted at the DEA Academy in Quantico, Virginia.

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 DEA's efforts in foreign liaison and institution building activities.

The Bangkok Country Office successfully concluded an undercover operation with the Chinese Ministry of Public Security and the Fujian Public Security Bureau on May 16, 2003, that capped an unprecedented 20-month U.S./China investigative effort. As a result, the "125" trafficking organization was effectively dismantled. WONG, Kin-Cheung aka: 125, and three of his top associates, known as the "Four Untouchables," were arrested. Immediately following the arrests, Chinese authorities and the DEA New York Field Division executed simultaneous arrests in China and the United States resulting in the arrest of 29 defendants in China, Hong Kong, India, Canada and the United States. One of the "Four Untouchables" provided additional information which led to a seizure of a major clandestine methamphetamine laboratory in Calcutta, India. This successful Chinese/U.S.

effort represented a major breakthrough in DEA's operation in China. Groundbreaking events were achieved throughout the investigation, to include the first DEA Agent to operate in an undercover capacity in China, authorized by the Ambassador and the Chinese authorities. The travel of a high-level Chinese delegation to Washington D.C. and New York in October, 2002 for operational meetings was unprecedented. DEA's participation in the command post for the May 16, 2003 operation in Fuzhou was the first ever in the history of Chinese law enforcement. DEA's input throughout the joint command was highly respected and fully considered by the Chinese. The subsequent joint press conference in Beijing was also unprecedented. For the first time, the Ambassador granted DEA an exemption to the Mansfield's Amendment, which enabled DEA Agents to access the defendants immediately following their arrest in Fuzhou, China. The Agents monitored undercover telephone calls made by a cooperative defendant to LIN Cheng Zhong, aka: Lan Ren, (financier) in New York. As a result, LIN was indicted in the Southern District of New York for his role in the conspiracy. This unprecedented level of cooperation has ushered in a new era of counternarcotics cooperation between the United States and China.

Burma was placed on the Financial Action Task Force's (FATF) list of non-cooperating territories in June 2001, because of the poor quality of its anti-money laundering laws and its poor 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 new money laundering law, as well as any directives issued by the central bank, to block the assets of narcotics traffickers and terrorist organizations.

On June 26, 2003, Regional Director William Snipes received the Indonesian "National Golden Award" from the Vice President of the Republic of Indonesia, on behalf of DEA. The award recognizes contributions and achievements in the field of drug abuse, prevention, and control.

On August 27, 2003 the Commissioner of the Korean Customs Service (KCS), Yong Duk Kim, presented Country Attaché (CA) Christopher Browning, SCO, with a Certificate of Commendation. The commendation was issued for his dedicated work with the KCS, outstanding contributions towards their narcotics investigations and continued support to the agency with training programs and seminars. The commendation is unique in the fact that it is a registered document with the Republic of Korea Government and CA Browning was the first non-Korean to receive the award.

Regional Director William Snipes traveled to Cambodia from September 29-30, 2003 for meetings with the U.S. Ambassador, the Cambodian Deputy Prime Minister and assorted other Cambodian counterparts. The U.S. side complimented the Cambodians on their increased enforcement efforts and commended the Cambodians for taking their counternarcotics responsibility seriously. The meetings were also designed to re-establish ministerial-level contacts on a regular basis for the Regional Director and the Ambassador. The Deputy Prime Minister, Sar Kheng, agreed to regular meetings on a quarterly basis. It is important to note that there has been an increased effort by Cambodian counternarcotics authorities to interdict drug smuggling. During a two day period, July 25-26, 2003, Cambodian authorities arrested five persons in two separate cases at the Phnom Penh International Airport. As a result of these arrests, 9.2 kilograms of illicit substances (8.4 kilograms of opium alkaloids and 0.8 kilograms of amphetamine) was seized.

Extradition is one of the most effective weapons available to the United States in the fight against Colombian drug trafficking organizations. The Extradition Reform Act of the Colombian Constitution, which allows for the extradition of Colombian nationals for crimes committed after the date of enactment, entered into force on December 17, 1997. In 2003, 64 Colombians were extradited to the United States for prosecution.

In August 2003, pursuant to an ongoing investigation being conducted by the New Delhi, Beijing and Hong Kong Country Offices and the New York Field Division, a delegation of Chinese drug law

enforcement officials traveled to India. Travel was in regard to an investigation into a Chinese organization involved in heroin and methamphetamine production and distribution in India. The delegation included members of five Chinese government agencies. The level of cooperation between Indian and Chinese drug law enforcement authorities involved in the case as facilitated by the New Delhi and Beijing Country Offices has been unprecedented. Not only have both Indian and Chinese law enforcement officials involved briefed one another on their respective investigation, the Indians have taken the unparalleled step of allowing their Chinese counterparts to interview the defendants currently in Indian custody and to review all of the evidence seized to date by Indian authorities. This cooperation between the two nations was facilitated by the DEA New Delhi and Beijing Country Offices.

The Drug Enforcement Administration is very pleased with the unprecedented bilateral cooperation between the United States Government (USG) and the Government of Mexico in the area of drug law enforcement over the last two years. The most significant progress is the result of the continued climate of trust and cooperation that has allowed our nations to share sensitive information regarding major operations. In 2003, the GOM continued to target every major drug trafficking organization in Mexico, mounting successful operations against most of them.

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), the National Interdiction Command and Control Plan (NICCP), national security and other directives complimenting the contributions of our law enforcement (DOJ/DEA, DHS/ICE, CIS, CBP, 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 removal of cocaine being smuggled via three major smuggling vectors: Eastern Caribbean, Western Caribbean and Eastern Pacific.
- Strengthening ties with source and transit zone nations to increase their capabilities in maritime law enforcement, reduce drug-related activities and enhance legitimate commerce within their territorial limits. Support 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 several maritime counternarcotics operations in 2003 in coordination and/or cooperation with law enforcement forces from: the French West Indies, Regional Security System nations, Trinidad and Tobago, the Dominican Republic, United Kingdom and its Overseas Territories, Netherlands and Netherlands Antilles, Jamaica, Cayman Islands, Honduras, Nicaragua, and Venezuela.

International Agreements

Increasing numbers of bilateral agreements to 23 between the U.S. and Central and South American and Caribbean nations is moving us toward our goal of a "seamless" territorial sea and airspace.

In 2003, Guatemala signed a maritime counternarcotics agreement with the USG, but it is not yet in force. The Caribbean Regional Agreement opened for signature in April 2003; five States are needed to bring the CRA into force, and while 11 States have signed the Agreement, only the U.S. has completed its domestic process to bring the agreement into force.

International Cooperative Efforts

In 2003, the Coast Guard was involved in 65 narcotics smuggling events, which resulted in the seizure of 56 vessels, the arrest of 283 suspected smugglers, and the seizure of 136,864 pounds of cocaine and 14,059 pounds of marijuana. Of the 65 events, 36 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 95,665 pounds of cocaine (70 percent of total seized) during these 36 events.

The Coast Guard has worked out informal counternarcotics cooperative efforts with Mexico, which have improved overall effectiveness. In 2003, the Coast Guard provided direct support to the Mexican Navy in two cases.

The Coast Guard continued to enjoy exceptional cooperation from the Government of Colombia in maritime interdiction resulting in the seizure of over 66,000 pounds of cocaine in 2003. The U.S.-Colombia Shipboarding 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 GOC authorized all 64 requests for USCG boardings of claimed Colombian flagged vessels in 2003.

[Go to [Coast Guard charts.](#)]

U. S. Customs and Border Protection

The Department of Homeland Security, Customs & Border Protection (CBP) processes goods and merchandise entering and exiting the United States. Inspectors, mail examiners and canine officers intercept contraband, illicit goods, and unreported currency as it crossing our borders. Interdiction efforts are targeted in order to minimize impact on legitimate trade by utilizing techniques of selectivity to identify high-risk shipments for intensive examination. CBP has responded to the nation's terrorism priorities by developing strategic programs to increase port security. CBP is a highly successful border control agency operating with a high level of efficiency and integrity. On the average day, CBP 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 CBP promote international cooperation through interagency agreements providing training and assistance programs throughout the world. The agreements enable CBP to deliver a variety of training, high tech tools, and management strategies for combating transnational crime, thereby increasing success in international law enforcement.

International Training and Assistance

CBP conducted a number of programs in response to emerging priorities in 2002:

- CBP 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. CBP has developed and conducted specialized training on topics which include: International Controlled Deliveries and Drug Investigation conducted jointly with DEA; Complex Financial Investigations conducted jointly with IRS; and Intellectual Property Rights conducted with the FBI. CBP 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. sent survey and textile transshipment teams to AGOA countries to implement the Act.

In 2003 CBP officials conducted textile production and verification team (TPVT) training activities in South Africa, Lesotho, Botswana, and Swaziland. A short-term advisory mission was conducted in Botswana on September 22-24, 2003. In addition, CBP officials were deployed to six beneficiary countries—Mauritius, Namibia, Senegal, Ghana, Uganda, and Cameroon—to conduct training needs assessments. Based on the results of the assessments, CBP prescribed training and technical assistance for these countries in classification, post-audit clearance and leadership (train-the-trainer). Training is expected to follow, and additional training will be delivered to those countries that have recently gained eligibility under AGO—Mauritania, Sierra Leone, and The Gambia.

Industry Partnership Programs

Currently, CBP 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 CBP. 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, CBP-supported alliance created to combat narcotics smuggling via commercial trade. BASC was designed to complement and enhance the CIP program. The idea behind BASC is to examine the entire process of manufacturing and shipping merchandise from foreign countries to the United States. The program also heightens business awareness about narcotics smuggling in the import and export communities.
- The Americas Counter Smuggling Initiative (ACSI) is a priority undertaking, established by CBP, 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, CBP 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, CBP 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 (C-TPAT), and Plan Colombia.

Under the C-TPAT initiative, CBP is working with importers, carriers, brokers, and other industry sectors to develop a seamless security-conscious environment throughout the entire commercial process. By providing a forum in which the business community and CBP can exchange counterterrorism ideas, concepts, and information, both the government and business community will increase the security of the entire commercial process from manufacturing through transportation and importation to ultimate distribution. This program underscores the importance of employing best business practices and enhanced security measures to eliminate the trade's vulnerability to terrorist actions.

C-TPAT is a cooperative endeavor. The program calls upon the trade community to establish procedures to enhance their existing security practices and those of their business partners involved in the supply chain. Once these procedures are in effect, imports of C-TPAT members may qualify for expedited CBP processing and reduced exams at ports of entry.

Customs and Border Protection 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, CBP 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 2003, almost a million dollars of basic inspection tools, vehicles, and high-tech equipment was donated to the Colombian National Police and to Colombian Customs.

Customs Mutual Assistance Agreements

CMAA negotiations are currently on-going with the Governments of Algeria, Kuwait, and Peru. CMAAs provide for mutual assistance in the enforcement of custom-related laws, and U.S. Customs utilizes these agreements to assist in evidence collection for criminal cases involving narcotics smuggling and money laundering. U.S. courts have rules that evidence gathered via these executive agreements is fully admissible in U.S. court cases.

Training in the U.S.

International Visitors Program (IVP). Visiting foreign officials consult with appropriate high level managers in CBP 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 879 participants for 209 programs to benefit 146 countries during 2003.

Training in Host Countries

Overseas Enforcement Training. Program combines formal classroom training and field exercises for border control personnel. The curriculum includes narcotics interdiction, identifying falsified travel documents, targeting search techniques, WMD and hazardous materials identification in the border environment. In 2002 the curriculum was updated to include an overview on the topic of counterterrorism. The Program was delivered to 240 participants in 8 countries.

Short Term Advisory. 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 WMD. Advisors are also fielded for strategic planning, commercial processing, investigations, automation and border/trade facilitation. In FY2003, 35 short term advisors were fielded to 7 countries in Latin America.

Integrity/Anti-Corruption. Course is designed to promote professionalism and integrity within the workforce of agencies particularly vulnerable to bribery and corruption. Focus is on integrity awareness training and development of internal investigation organizations. The course was delivered to 175 participants in 7 countries.

Canine Training (U.S.-Based). 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 2 canine teams for Guam and 1 Technical Trainer for Romania.

Looking Ahead

The Department of Homeland Security began operations in January 2003. CBP, with its tradition in revenue collection and border protection, took its place with other agencies designated to combat terrorism. The long-standing mission of CBP in providing security to its citizens through targeted

examination and interdiction play a major role in the new organization. Port security functions continue to be in the forefront focused on enforcement activities promoting domestic security and fighting the threat of international terrorism.

In the year of 2004 border security will be strengthened through initiatives designed to examine containerized cargo prior to lading aboard ships destined for the U.S. CBP international missions will expand and emphasis will be placed on evaluating the effectiveness of our programs with objective measurement techniques. Advisors, short- and long- term, will be fielded to assist countries to improve operations to meet recognized international standards for security and reporting.

CHEMICAL CONTROLS

Summary

The moving targets of chemical control—traffickers developing strategies to circumvent control measures, and changes in drug usage patterns requiring greater emphasis on different chemicals—remain constant challenges to chemical regulatory and law enforcement authorities. Traffickers have continued to shift their procurement of the key cocaine and heroin chemicals, potassium permanganate and acetic anhydride, to countries not participating in Operations Purple and Topaz, the multilateral tracking operations designed to prevent diversion of these chemicals. The steady increase in synthetic drug abuse, combined with the small quantities of chemicals required for their manufacture and the many locations where it occurs, require a different approach from that for cocaine and heroin chemicals. The international community is responding by urging expanded participation in Operations Purple and Topaz, and moving forward with the implementation of Project Prism, the multilateral initiative to control the chemicals and equipment necessary for synthetic drug manufacture.

Background

Chemicals are essential to the manufacture of narcotic drugs, either for the processing of coca and opium into cocaine and heroin respectively, or as an integral component in the case of synthetic drugs. Only marijuana, of all the major illicit drugs of abuse, is available as a natural, harvested product.

Chemical diversion control is a proactive and straightforward strategy to deny traffickers the chemicals they must have. 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 chemical commerce.

Chemical control, as a strategy to prevent a crime, requires the examination of proposed commercial chemical transactions, the bulk of which are legitimate, to identify and stop those liable to diversion to illicit drug manufacture. Chemical producers 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. When transactions are denied, this information must be shared with third countries to prevent traffickers from turning to alternative chemical source countries. To avoid hindering legitimate commerce, the information exchange and the decision-making must be rapid.

Governments approach chemical control from different perspectives. Some consider it a health issue to be handled by health ministries, with a primary interest in protecting public health. Others consider it 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 needs to 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.

The U.S. has found a combination of regulation and law enforcement to be the most effective approach to chemical control. The regulatory component controls commerce in chemicals subject to diversion, authorizing legitimate transactions and identifying diversion attempts. The law enforcement

component provides the capability to apprehend criminals seeking to divert chemicals, and to track back cases of successful diversion.

Chemicals used in drug manufacture are divided into two categories, precursor and essential chemicals, although the term precursors is used to identify both. Precursor chemicals are used in the manufacture of synthetic drugs and become part of the final product. They are sold commercially in relatively small quantities. Essential chemicals are used in the refining of coca and opium into cocaine and heroin. Although some remain in the final product, the basic raw material is the coca or opium. Many essential chemicals required for illicit drug manufacture have extensive commercial applications, are widely traded, and are available from numerous source countries.

All countries having commerce in precursor and essential chemicals—exporting, trading, transit, and importing—must exchange information to prevent their diversion throughout the transaction chain and to investigate successful diversions. The information exchange must include feedback from countries receiving information, particularly importing countries, on actions they have taken in response to it. The U.S. continues to seek implementation of effective multilateral mechanisms for this information exchange.

Participation in multilateral chemical control mechanisms requires the promulgation of national chemical control regimes, the regulatory structures to implement them, and the law enforcement structures to enforce them. The national regimes must include provisions for the multilateral information exchange, while respecting the legitimate commercial interests of the businesses involved.

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.

The Inter-American Drug Abuse Control Commission of the Organization of American States (CICAD) has approved Model Regulations for the control of drug-related chemicals that set a high standard for government action. The Model Regulations cover all the chemicals included in the 1988 UN Drug Convention. 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 updated to better deal with the problem of synthetic drug chemicals.

The 1988 UN Drug Convention, national legislation and regulations provide the framework for chemical control. They do not provide the mechanisms for the multilateral information exchange required for their successful implementation. The United States and other governments use the annual meetings of the UN Commission on Narcotic Drugs (CND) to forge agreement on information exchange mechanisms and to highlight emerging chemical control concerns.

The CND is also used to focus international attention on the use by traffickers of substitute chemicals in place of those controlled under the 1988 UN Drug Convention, 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 Convention for which substantial evidence 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. In April 2003, CND members reviewed progress in achieving the ten-year goals and objectives established by the UNGASS and reaffirmed their commitment to meeting them.

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 largest chemical manufacturing and trading nations. It also importantly provides for the exchange of information on chemical transactions with third countries.

Informal, voluntary operations targeting specific chemicals or classes of chemicals are proving invaluable in facilitating implementation of the Convention and agreements. They allow countries to exchange information in support of chemical control operations to the extent permitted by their commercial laws and practices. Operation Purple tracks trade in potassium permanganate, a key cocaine essential chemical, and Operation Topaz tracks trade in acetic anhydride, a key heroin essential chemical. By focusing on “choke point” chemicals, these operations allow authorities to concentrate resources on denying traffickers chemicals that are difficult to substitute in the drug production process without adverse impacts on product quality and the expense and ease of their manufacture. The INCB is now organizing a project, Project Prism, concentrating on stricter tracking of trade in the chemicals and equipment required to manufacture synthetic drugs.

How Traffickers Obtain Chemicals

Chemicals are traded in vast quantities from multiple sources, both domestically and internationally, offering many opportunities for their diversion to illicit drug manufacture. In a few cases, traffickers will manufacture chemicals, when diversion is successfully curbed through effective enforcement. Traffickers in the U.S. are increasingly extracting ephedrine and pseudoephedrine from non-prescription, over-the-counter medications for use in amphetamine and methamphetamine manufacture. 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 as non-controlled chemicals. In this case, the diversion takes place at the manufacturer or distributor level. Poor 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.
- Traffickers extract chemicals, particularly ephedrine and pseudoephedrine, from pharmaceutical preparations available without prescription or other controls.

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.

2003 Chemical Diversion Control Trends and Initiatives

The danger posed by amphetamine-type stimulants (ATS) became even more apparent in 2003. A major study on ecstasy and amphetamines released in 2003 by the UN Office of Drugs and Crime noted that from the 1995-97 period to the 2000-01 period the number of amphetamine and methamphetamine users increased by 40 percent and the number of ecstasy users increased 70 percent. For the same periods the estimated number of cannabis and heroin users increased by about 15 and 5 percent respectively, while the number of cocaine users remained basically stable.

The same study noted that the greatest cost in ATS manufacture is the chemicals required, because they must be obtained through diversion and smuggling. In recognition of this, the international community, with the INCB in the lead, is moving forward with the design and implementation of Project Prism, a voluntary, multilateral initiative started in 2003 to track and prevent the diversion and trafficking of ATS chemicals and the equipment required for ATS manufacture. The major participants in Project Prism are China, the Netherlands, South Africa, the U.S., the European Commission, the International Criminal Police Organization (ICPO-Interpol), the World Customs Organization, and the INCB Secretariat.

ATS chemicals present a different and a more difficult target than cocaine and heroin chemicals. Cocaine and heroin are dependent on coca and opium as their basic raw materials. Both are grown in relatively restricted areas, primarily Colombia and other Andean Region countries, and Afghanistan and Burma. Their manufacture usually takes place near the source of the coca or opium and requires large quantities of chemicals.

ATS manufacture does not have these constraints. It requires no plant raw materials and can be accomplished in small labs wherever the chemicals are available. Furthermore the quantities of chemicals required are smaller (1.5 kilograms of ephedrine and other chemicals can produce 1 kilogram of amphetamine, or approximately 30,000 street doses). This highlights one of the most serious emerging problems, the extraction of sufficient ephedrine and pseudoephedrine from non-prescription medications to manufacture significant quantities of ATS. In previous years, pharmaceuticals from Canada, manufactured from large pseudoephedrine imports, supplied many U.S. ATS labs. However, in 2003, Canada significantly tightened controls on pseudoephedrine imports and Mexico is becoming a major supplier.

The major source countries for potassium permanganate and acetic anhydride participate in Operations Purple and Topaz designed to stem their diversion. However, traffickers continue to evade the reach of these initiatives by turning to non-participating countries to obtain these key cocaine and heroin chemicals. Many of these countries lack the legal, administrative, and law enforcement infrastructure to control the chemicals. Central Asian countries bordering Afghanistan are particularly worrisome in this regard as Afghanistan regains its position as the world largest opium producer, with about 75 percent of the global production.

The Road Ahead

The value of chemical control as an essential component of an overall counternarcotics strategy has been accepted, and the international obligation for governments to establish and implement chemical control regimes has been established. Furthermore, multilateral procedures for controlling the most important precursor and essential chemicals have been developed. The objective now is to make this package work more effectively. The most pressing elements are improving information exchange, expanding participation in existing operations, stemming the flow of heroin chemicals to Afghanistan, and addressing the problem created by traffickers using non-prescription drugs as a source of ATS chemicals.

Multilateral information exchange is the key to effective chemical control, and progress has been made in expanding the flow of information between national chemical regulatory and enforcement agencies, but more needs to be done. The misconception that exchanging commercial information in regulatory and law enforcement channels can compromise it and cause commercial disadvantage needs to be dispelled. As this happens, information on proposed transactions can be more widely shared, beyond the bilateral exchange between exporter and importer, thereby expanding the intelligence available to identify suspect transactions, and preventing traffickers from shopping among potential suppliers until they find one unaware of their male fides.

The two-way nature of information exchange needs to be improved. Currently, in too many cases exporting countries are not receiving replies to pre-export notifications sent to importing countries. The purpose of the pre-export notification is to enable to importing country authorities to verify the legitimacy of the transaction and reply to the exporting country, approving or denying the transaction. The system breaks down without replies, allowing shipments to proceed without verification and leading to a situation where exporting countries no longer bother with pre-export notifications.

More countries need to be enlisted into existing chemical information exchange mechanisms, Operations Purple and Topaz and Project Prism. Traffickers are avoiding their impact by obtaining chemicals from non-participating countries that make their decisions to authorize exports without the benefit of the information the operations provide.

The internal situation in Afghanistan with regard to drugs, as evidenced by the rapid resumption of opium poppy cultivation, indicates a limited capability to control chemicals. Therefore, efforts to deny

Afghan traffickers heroin essential chemicals need to concentrate on neighboring chemical transit countries. This is particularly true of Central Asian countries. However, because these countries also suffer from chemical control infrastructure shortfalls, and they do not manufacture key chemicals, control efforts should also focus on determining the original source countries and urging them to control better their exports to the region. By ensuring the legitimacy of transactions to neighboring countries, they can help preclude the diversion and smuggling of chemicals into Afghanistan from its neighbors.

The problem of traffickers extracting ATS precursor chemicals for non-prescription pharmaceuticals is most serious in the United States. Sales of many of the same preparations are controlled in some, but not all other countries. Furthermore, the 1988 UN Drug Convention has been generally interpreted to exclude pharmaceutical preparations from its requirements. This makes developing an international consensus in support of better controls difficult. However, there are things that can be done. Mindful of the extraction of precursor chemicals from pharmaceutical products, countries can be urged to apply the full provisions of article 12 of the 1988 UN Convention to monitor exports of pharmaceutical preparations containing ATS precursor chemicals. Moreover, governments can urge manufacturers to develop formulations of these pharmaceuticals that make it more difficult to extract ATS precursor chemicals.

These issues will be the major themes in our policy dialogue with our international partners in chemical control, starting with the March 2004 UN Commission on Narcotic Drugs and will be included in our regular bilateral contacts.

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 same scale, or with the broad range of precursor chemicals, as the countries in this section. These designations are reviewed annually.

Article 12 of the 1988 UN Drug Convention is the international standard for national chemical control regimes and for international cooperation in their implementation. The 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 these chemicals, and to provide for their seizure if there is sufficient evidence that they are intended for illicit drug manufacture.

The Americas

Argentina

Argentina has a well-developed chemical industry that manufactures chemicals necessary for cocaine processing. Many of these are liable to smuggling into neighboring Bolivia. Argentina 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 placed controls on precursor and essential chemicals, requiring that all manufacturers, importers or exporters, transporters, and distributors of these chemicals be registered with Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR).

During 2003, Argentina took positive steps to improve its chemical control system. Some of these steps included revamping the National Chemical Registry, the adoption of the UN-designed National Data System and the installation of a 24-hour chemical help line to assist law enforcement agencies in the field. Starting in April 2002, SEDRONAR implemented a fee for services system that allowed it to obtain funds to modernize its technological infrastructure. Additional personnel have been hired to analyze information submitted by registrants to identify rogue companies. Inspections conducted in 2003 resulted in at least eight civil actions and several criminal referrals to the Argentine Prosecutors Office.

Investigations and seizures of suspicious shipments, especially in the northern border area, have also become an increasingly important element of Argentine counternarcotics efforts. From November 2002 to October 2003, law enforcement authorities in the northern border area seized more than 401 metric tons of chemicals.

Despite these achievements, Argentina needs to enhance its legal provisions to provide a real deterrent to chemical diverters. The current chemical control legislation does not appropriately address civil and criminal sanctions against firms and/or individuals who violate the

established chemical control regulations. Existing legislation only sanctions violations that are carried out within 100 kilometers of the northern border.

Argentina is a participant in Operation Topaz and Operation Seis Fronteras. Argentine authorities willingly shares chemical control information with U.S. authorities.

Brazil

Brazil is a party to the 1988 UN Drug Convention. It has South America's largest chemical industry, and also imports significant quantities of chemicals to meet its industrial needs.

Brazilian law requires registration with the Federal Narcotics Police of all producers, transporters and distributors of precursor chemicals. The chemical section of the Drug Enforcement Division of the Federal Police has the authority to add or delete chemicals to the list of chemicals under control. New regulations effective in February 2003 increased the number of controlled chemicals to 146. Any person or company that is involved in the purchase, transportation, or use of these chemicals must have a certificate of approval of operation, real estate registry and other documents issued by the Federal Police. Companies are required to keep records and submit audits and reports on a monthly basis.

The Federal Police have organized precursor chemical training and initiated interdictions targeting controlled chemicals. These have included cyclical audits and investigations of Brazilian chemical firms.

Brazil borders the three major cocaine-producing countries, Colombia, Peru and Bolivia, making Brazilian chemicals liable for diversion from the domestic market and smuggling across remote borders into these countries. There are indications of cocaine labs on Brazilian territory for processing coca and partially processed cocaine smuggled from these countries into cocaine HCL, using domestically diverted chemicals.

Brazil participates 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 hosted a meeting of the OAS-CICAD experts group on precursor chemicals in August 2003.

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. DEA has a Diversion Investigator assigned to its Brasilia office.

Canada

Canada is a transit and producer country for precursor chemicals and over-the-counter drugs used to produce synthetic drugs, particularly methamphetamine. The chemical most widely used for this purpose is pseudoephedrine, a regulated chemical on Table 1 of the 1988 UN Drug Convention. Other precursor chemicals available in Canada that are used in synthetic drugs manufacture include sassafras oil, piperonal and gamma butyrolactone. Canada is a party to the 1988 UN Drug Convention.

Until 2003, Canada had not effectively controlled imports of pseudoephedrine, with the result that legal imports increased, primarily from China, India and Germany. 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. This changed on January 9, 2003, when

new Canadian regulations brought the strengthened chemical control provisions of the Controlled Drug and Substances Act into force. The new regulations provide for control of the 23 chemicals listed in the 1988 UN Drug Convention, and for the proper licensing of companies in order to import, export, produce, or distribute controlled chemicals. The agency with primary responsibility for implementing the new regulations is Health Canada, but lead enforcement responsibility lies with the Royal Canadian Mounted Police. At the request of Health Canada, in early 2003 DEA sent a Diversion Investigator and a Program Analyst to advise on U.S. experience in implementing chemical controls. Cooperation on regulatory matters between DEA and Health Canada is very good and ongoing. Canada is participating in Project Prism.

Law enforcement cooperation is excellent, and includes information sharing. In April 2003, DEA and the RCMP announced the arrest of 65 individuals in ten cities throughout the U.S. and Canada. The investigation, dubbed Operation Northern Star, targeted the entire methamphetamine trafficking process, including the suppliers of precursor chemicals, transporters, manufacturers, distributors, and money launderers. The 34,000 pounds of pseudoephedrine seized could have produced approximately 20,000 pounds of methamphetamine.

Mexico

Mexico has major chemical manufacturing and trading industries that produce, import or export most of the chemicals necessary for illicit drug manufacture. The country is a party to the 1988 UN Convention and has laws and regulations meeting its chemical provisions.

During 2003, Mexico took significant steps towards improving the regulatory component of its chemical control program. Changes and improvements included implementation of a UN-designed National Data System and the creation of a regulatory inspections group. This has enabled Mexico to respond to pre-export notifications it receives and to issue its own in a timely manner. Additionally, unannounced inspections of chemical firms are being conducted on a regular basis. As a result of these inspections, Mexican authorities have taken civil and administrative actions against several firms and have referred matters for criminal investigation.

In addition, the Federal Investigative Agency has created a Chemical Sensitive Investigative Unit and assigned one of its members to investigate chemical and pharmaceutical diversion. Mexico is a good example of the growing problem, whereby traffickers exploit non-prescription pharmaceuticals containing easily extractable pseudoephedrine as a source of this precursor for methamphetamine manufacture. Elements of the new investigative unit collect and analyze information on past shipments from the Far East to determine common links and use this information to identify those responsible for illegal shipments. International information sharing resulted in the identification of 75 illicit shipments of pseudoephedrine products to bogus firms in Mexico, totaling over 420 million 60 mg tablets. From September 2003 until year's end, four controlled deliveries, conducted in coordination with DEA, resulted in the seizure of four pseudoephedrine shipments originating in Hong Kong totaling 12.6 million tablets and the closure of a customs broker.

Mexico has recently taken steps towards more vigorous enforcement of criminal chemical diversion cases. A streamlined system of referrals, together with the designation of prosecutors to focus on these cases should help. In January 2004, U.S. prosecutors and law enforcement agents conducted a workshop for Mexican chemical prosecutors; this was the first workshop of its kind.

Mexico is an active participant in Operations Purple and Topaz, and Project Prism. The U.S.-Mexico bilateral chemical control working group is the formal vehicle for information sharing and coordination on chemical control. It met once in 2003. Information is exchanged more regularly in the course of normal operational cooperation. DEA has two Diversion Investigators assigned to its Mexico City office.

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 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 import/export declarations 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 end-use. In other countries, DEA agents perform this task. The diversion investigators and agents work closely with host country officials in this process. If legitimate end-use cannot be determined, the legislation gives DEA the authority to stop shipments. U.S. Customs and Border Protection provides important assistance in this area.

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 had a leadership role in the design, promotion and implementation of cooperative multilateral chemical control initiatives. It co-chairs the steering committee for Operations Purple; it is on the steering committee for Operation Topaz and the task force coordinating Project Prism. It also has established close operational cooperation with counterparts in major chemical manufacturing and trading countries. This cooperation includes information exchange in support of chemical control programs and in the investigations of diversion attempts.

Asia

China

With a large and developed chemical industry, China is major producer of chemicals required for illicit drug manufacturer. It is a major producer of acetic anhydride, potassium permanganate, ephedrine, and pseudoephedrine, all chemicals on table 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 it. 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.

Despite the adequate legislation, China remains 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.

In 2003, Chinese authorities claim to have made significant progress in controlling precursor chemicals. The Executive Director of the National Narcotics Control Commission has emphasized the need to prevent the supply of chemicals to the drug producing countries of the “Golden Triangle.” In 2002, the latest year for which figures are available, 28 illicit shipments involving 2288 tons of chemicals were stopped.

U.S. and Chinese cooperation in chemical control is good, within the limits of Chinese capabilities. China is a participant in Operations Purple and Topaz, and Project Prism. Information is exchanged through these operations in the course of normal counternarcotics cooperation. DEA has Diversion Investigators assigned to its Beijing and Hong Kong offices.

India

India’s large and fairly advanced chemical industry manufactures a wide variety of chemicals, including ephedrine, pseudoephedrine and acetic anhydride, sought for amphetamine, methamphetamine and heroin manufacture in Burma and heroin manufacture in Afghanistan. There is also evidence that some acetic anhydride is being diverted to domestic heroin manufacture.

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 Indian-produced chemicals most likely to be diverted, ephedrine, pseudoephedrine, acetic anhydride, and N-acetylanthranilic acid, chemicals listed in the convention. Indian law allows the government to place other chemicals under control. The list is reviewed and updated annually. In February 2003, the government added anthranilic acid to the list of controlled chemicals, since it has been found in the manufacture of methaqualone (Mandrax).

The Indian Chemical Manufacturing Association, in cooperation with the government, has implemented strict controls on acetic anhydride. Chemical manufacturers visit customers to verify the legitimacy of their requirements, and shipments are monitored to prevent diversion. Domestic and export sales of acetic anhydride require a letter of no objection from the government.

Indian authorities are 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.

DEA has a Diversion Investigator assigned to its New Delhi office.

Europe

Chemical diversion control within the European Union (EU) is regulated by EU regulations binding on all Member States. These regulations meet the chemical control provisions of the 1988 UN Drug Convention and the more comprehensive recommendations contained in the 1991 G-7 Chemical Action Task Force Report. The EU regulations are updated to meet emerging drug threats, such as synthetic and designer drugs. The regulations include provisions for record keeping on transactions in the chemicals listed in the 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 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, making it a target for traffickers seeking chemicals. In recognition of this, precursor control as a preventive measure is a major focus in combating drug crime in Germany. The country 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.

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 and German Customs have a very active Joint Precursor Chemical Unit, based in Wiesbaden, devoted exclusively to chemical diversion investigations.

Germany has been in the forefront of 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 senior DEA Diversion Investigator in DEA's Frankfurt Resident Office

cooperates closely 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. German and U.S. delegations regularly support joint positions on chemical control in multilateral meetings such as the Commission on Narcotic Drugs.

The Netherlands

The Netherlands is a major chemical manufacturing and trading country. 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 its chemical control requirements 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.

Large quantities of ecstasy are manufactured in the Netherlands, and the government has become pro-active in meeting this threat. It is taking a lead role in the development of Project Prism, a multilateral initiative to control better the chemicals and equipment required for synthetic drugs manufacture, and in raising awareness of the adverse health and social consequences of their abuse. In October 2003, the government hosted the "International Synthetic Drugs Enforcement Conference" (Syndec), with participation from all major Western European, North American and many Latin American countries. Enforcement efforts are also being stepped up. A July 8, 2003 government report to parliament reported an increased in the number of ecstasy labs seized in 2001 to 2002 of 35 to 43, and in the number of pills confiscated from 3.6 million to 6 million.

The government has concluded that many of the important precursor chemicals used in local ecstasy manufacture come from China. It is providing administrative data on precursor seizures to the International Narcotics Control Board and exporting countries (mostly China). In view of the human rights situation in China, the Netherlands will not enter into a mutual legal assistance treaty. However, in October 2003, the government proposed a Memorandum of Understanding formalizing the existing information exchange, and providing for feedback from the Chinese on actions taken in response to the information being provided. No response has yet been received.

The Dutch continue to 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

International and U.S. surveys indicate that in 2003 Afghanistan again produced three-quarters of the world's illicit opium. An increasingly large portion of the raw opium crop is being processed to some extent in country. There are labs in Afghanistan capable of processing opiates in all forms, from morphine base to fully refined white heroin.

With no domestic chemical industry, 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 and it has joined Operation Topaz, directed at controlling the heroin chemical acetic anhydride. However, it lacks the legal, regulatory and enforcement infrastructure to comply with the Convention's chemical control provisions, or to actively participate in Operation Topaz. Until the infrastructure is developed, Afghanistan will require regional cooperation to prevent the transit of chemicals for smuggling into the country.

Burma

Burma remains the primary source of ATS in Asia, producing hundreds of millions of tablets annually, and is the world's second largest illicit opium producer, but cultivation is decreasing. Burma does not have a chemical industry and the chemicals required for ATS manufacture and the processing of opium into heroin are primarily produced in India, China and Thailand.

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. Seizures of key precursor chemicals declined during the first ten months of 2003. Ephedrine seizures, an ATS precursor, were 266 kilos and acetic anhydride seizures, a heroin chemical, were 2,540 liters. In 2002, the totals were 3,922 kilos of ephedrine and 12,318 liters of acetic anhydride.

Burma has been active in regional chemical control initiatives. In January 2003, it hosted a chemical control meeting with India, China and the UN Office of Drugs and Crime, and in July 2003 with India, China, Thailand, and Laos. Burma also participated in a chemical control meeting in Thailand that included India, China and Laos. The five countries agreed on cross-border cooperation to stop the flow of precursors chemicals among the countries of the Mekong river sub-region. Burma is a participant, although largely inactive, in Operation Topaz.

Latin America

Bolivia

Bolivia is not a major producer of precursor chemicals, virtually all such chemicals are smuggled in from neighboring countries. One of the continuing focuses of Bolivian counternarcotics policy is the interception of smuggled chemicals and the detection and destruction of the organizations that smuggle chemicals into Bolivia.

Bolivia has an increasingly effective chemical interdiction program led by the Special Group for Investigations of Chemical Substances (GISUQ), an elite group within the Bolivian counternarcotics police. The historically weak Bolivian Directorate of Controlled Substances (DGSC), a civilian agency, is responsible for registering and tracking industrial chemicals, including drug precursors. Although GISUQ has succeeded in making precursor chemicals more difficult and expensive to obtain, Bolivian traffickers have been able to adapt by substituting inferior chemicals and recycling—the purity of Bolivian cocaine base has actually improved in recent years (a study of 108 samples taken in the Chapare in 2001 and 2002 showed an average purity level of 74 percent). GISUQ has revised its strategy to focus more aggressively and exclusively on sulfuric acid and sodium bicarbonate, which are difficult to substitute in Bolivia.

In 2003, GISUQ showed impressive gains, having increased seizures of solid precursors by 384 percent and liquid precursors by 127 percent over the same period in 2002. GISUQ is pressing DGSC to improve information sharing and tracking of key precursors. There is a proposal for GISUQ to assume control of DSCG's inspection function.

Bolivia is a party to the 1988 UN Drug Convention, and has the legal framework for implementing its chemical control provisions. Bolivia participates in voluntary multilateral chemical control initiatives such as Operation Purple and Operation Seis Fronteras, and cooperates closely with U.S. officials. DEA has a Diversion Investigator assigned to its La Paz office.

Colombia

The chemicals required for Colombia to maintain its position as the world's largest producer of cocaine and an important producer of heroin are primarily imported into the country with valid import licenses and subsequently diverted. Lesser amounts are smuggled in from neighboring countries, Brazil, Ecuador and Venezuela.

Colombia is a party to the 1988 UN Drug Convention and has chemical control laws meeting or exceeding its requirements. The National Police Anti-Narcotics Chemicals Regulatory Units conduct inspections and criminal investigations of registered chemical companies, and 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 continues to be 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. The permits are also issued for lengthy periods of time, rather than on a shipment-by-shipment basis. This has resulted in numerous cases of diversion in which

the Colombian importer had a valid import permit, and the diversion was accomplished after the legal importation.

Colombia participates in Operations Purple and Topaz, and Operation Seis Fronteras. DEA has a Diversion Investigator assigned to its Bogota office.

Peru

Peru produces some of the chemicals required for cocaine processing and imports the remainder. Many tons of these are diverted from legitimate use, and other chemicals are smuggled in, usually via rivers from Brazil and Colombia. The Peruvian National Police (PNP) proactively cooperate with neighboring countries and the U.S. to conduct regional chemical control operations. In 2003, the PNP seized over 900 metric tons of illicit chemicals.

Peru is a party to the 1988 UN Drug Convention and has laws meeting its chemical control provisions.

U.S. and Peruvian authorities cooperate closely in chemical control. With U.S. assistance, a precursor chemical assessment was completed in November 2003, providing a roadmap for the government to implement a series of reforms, including drafting new chemicals control legislation, which could substantially reduce the flow of precursor chemicals and increase the effectiveness of interdiction efforts in coca growing areas. Peru is a strong supporter of Operation Seis Fronteras and participates in Operation Purple.

SOUTH AMERICA

Argentina

I. Summary

Argentina is not a major drug producing country, but it is a transit country for cocaine flowing from neighboring Bolivia, and less so from Peru and Colombia. Argentina has also 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 supply in the U.S. According to Argentine government (GOA) statistics, domestic drug use continues on the upswing. Although the number of arrests for possession and trafficking declined in 2003, seizures of most types of drugs increased in 2003. This is indicative of a more focused use of investigative resources, to target trafficking organizations instead of individual violators. Argentina is a party to the 1988 UN Drug Convention.

II. Status of Country

Argentina is not a major drug producing country. However, because of its advanced chemical production facilities, it is one of South America's largest producers of chemicals used to manufacture almost all the precursors necessary to process cocaine and heroin. Marijuana is the most popular illegal drug consumed, with cocaine HCl and inhalants ranked second and third. Bolivia is the primary source of cocaine entering Argentina. Other drugs, such as marijuana, enter via Paraguay and Brazil. The trafficking of Colombian heroin through Argentina to the U.S. East Coast has increased although there is no evidence that the quantities involved significantly affect supply in the U.S. Seizures of amphetamines and ecstasy (MDMA), a synthetic stimulant with hallucinogenic properties, are also increasing. Although Buenos Aires has a sophisticated financial sector, its attractiveness to traffickers for money-laundering was diminished substantially by the 2001-02 financial crisis.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The government actively targets the trafficking, sale, and use of illegal narcotics. During 2003, the GOA's Secretariat for the Prevention of Drug Addiction and Narcotics Trafficking (SEDRONAR) took the lead, along with the Gendarmeria Nacional [border guards (GN)], Customs, and the Federal Police, and jointly worked toward improving the country's chemical control system and interagency cooperation. Additionally, Argentina law enforcement participated in Operation SEIS FRONTERAS (Six Borders) and recorded the second highest total of chemical seizures of the participating countries.

To deal with the precursor problem, the GOA has introduced more secure import and export certificates to address suspicious shipments of precursor chemicals. SEDRONAR has been working 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 proposed to its neighbors that they work together to monitor the flows of chemicals in the region. SEDRONAR officials are willing to exchange records with USG law enforcement authorities and have begun to do so in an effective manner mutually beneficial to both governments.

Accomplishments. From November 2002 to October 2003 the Northern Border Task Force (NBTF) of the GN seized in excess of 153,569.50 kilograms of illicit chemicals. These significant seizures carried out under Operations Gran Chaco and Seis Fronteras indicate that chemical diversion remains a serious problem. The NBTF and Group Condor seized 507.88 kilograms of cocaine, including base, and arrested 207 traffickers in FY 2003. A major benefit derived from these operations has been the enhanced cooperation between the agencies in the conduct of joint investigations.

The total quantity of clandestine laboratories seized in Argentina during the last five years by all Argentine law enforcement authorities was 23, eight of which were being seized in the last year. Of the 23, all except one had a production capability of less than five kilos. The largest was capable of processing 30 kilos of coca base. In 2003, of the eight labs seized, one had a capacity of 150 kilograms/year and another had a 50 kilograms/year capacity.

According to the SEDRONAR, 45,553 kilograms of marijuana were seized in 2003, compared to 35,254 kilograms in 2002. SEDRONAR also reports that 39.5 metric tons of coca leaf were seized during the first nine months in CY-2003, up slightly from the 32.3 metric tons seized in all of CY-2002. Seizure totals for the last two years are considerably lower than the 91.3 metric tons seized in CY-2001, and 95.9 metric tons in CY-2000.

The continued low seizure totals for coca leaf are likely attributable to reduced production and improved interdiction in Bolivia. Another likely factor is increased emphasis on chemical seizures, resulting in greater scrutiny of the northbound potentially chemical-laden traffic exiting the country at the expense of monitoring the southbound potentially chemical-laden traffic entering from Bolivia. Other possible factors are the coca leaf price increases and the GOA's enforcement of prohibitions on the importation of coca leaf.

Law Enforcement Efforts. Federal counternarcotics policy is coordinated by the SEDRONAR. The primary federal forces involved are the Federal Police who have jurisdiction for crimes committed in or connected to the city of Buenos Aires, GN, National Customs Service, National Air Police, and Prefectura Naval (Coast Guard). Provincial police forces also play an integral part in counternarcotics operations. While cognizant of its responsibilities in the interdiction area, Argentina continues to focus on demand reduction. This effort is discussed in greater detail in the Demand Reduction Programs section.

All of Argentina's security forces face continuing severe counternarcotics budget limitations which have hampered investment in training and equipment. Also, weak coordination between law enforcement agencies continues to lessen GOA effectiveness. The GOA recognizes this problem and has taken some steps to alleviate it although more needs to be done to effect better cooperation.

Corruption. The Kirchner administration, which took office in May 2003, has made the fight against corruption one of its main priorities. Most significantly, it worked to encourage the resignation of the former Chief Justice of the Supreme Court and another Supreme Court Justice on malfeasance and corruption-related allegations. It supported Congressional efforts that resulted in the impeachment of a third Supreme Court Justice. The Kirchner administration also fired the Chief of the Federal Police and other senior officials on corruption charges. The Kirchner administration has indicated its intentions to enhance existing anticorruption regulations and procedures. It has endorsed the work of the Ministry of Justice's Anti-Corruption Office, while at the same time widening the scope of anticorruption activities to include other GOA elements. The GOA does not facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Argentina remains very active in multilateral counternarcotics organizations such as the Inter American Drug Abuse Commission, the International Drug Enforcement Conference (IDEC), and the United Nations Drug Control Program. The GOA hosted the IDEC in 2000 and played an active role in IDEC 2001-3. In 2003, Argentina continued to urge MERCOSUR (Southern Common Market) to play a larger role in money laundering and chemical precursor diversion investigations.

Argentina is a party to the UN Convention Against Transnational Organized Crime and two of its protocols (trafficking in persons and alien smuggling), and has signed by not yet ratified the third protocol (firearms). The GOA has bilateral narcotics cooperation agreements with many neighboring

countries. The United Kingdom, Germany, Australia, France, and Italy provide limited training and equipment support. In 1998, a witness protection program for key witnesses in drug-related prosecutions was created. 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. Department of the Treasury and SEDRONAR dealing with the exchange of financial information relating to money laundering was also signed in 1995. In 1990, Argentina and the USG signed a mutual legal assistance treaty that entered into force in 1993. Argentina is a party to the 1988 UN Drug Convention.

Cultivation/Production. Illicit cultivation remains negligible. There is very limited refining or manufacturing of illicit drugs, with small amounts being produced in the country.

Drug Flow/Transit. Most Argentine officials agree that the drug trafficking is a problem. Drug shipments out of the country are mostly via commercial aircraft, Argentina's maritime port system, and, in some cases, by cruise ship passengers. 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. As a member of MERCOSUR, Argentina cannot open and inspect sealed containers from another member state that pass through the country. These uninspected containers are considered to be a high trafficking threat. Riverine traffic from Paraguay and Brazil is another probable method for moving narcotics through Argentina.

Demand Reduction Programs. The GOA continues to focus its 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 province and also the one with the largest number of regular drug users, has its own well-established demand reduction program.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The GOA has yet to sign the standard USG Letter of Agreement due to Ministry of Foreign Affairs legal and policy concerns. The delay has hampered bilateral counternarcotics efforts for the last eight years by impeding the disbursement of funding and material assistance to the GOA. The U.S. Embassy continues to work with the Ministry of Foreign Affairs to resolve the situation. Counternarcotics programs are funded with money obligated from previous years.

Cooperation between the USG and Argentine authorities, both federal and provincial, continued to be excellent in 2003. USG assistance supplied equipment and training programs for Argentine law enforcement personnel, including the Northern Border Task Force (NBTF) and Group Condor. The USG funded a course on airport drug interdiction methods and a money-laundering seminar put on by U.S. Customs. All GOA federal law enforcement agencies and the Argentine Customs Service were represented at these seminars. Based on the success of the NBTF and Group Condor task forces, the USG planned to provide additional training and to assist the GOA in establishing similar task forces, but those plans have been hampered by the absence of LOA-provided funding.

Notwithstanding the failure to reach agreement on an LOA, the U.S. Embassy will still seek to channel some funding to assist Gendarmeria efforts to establish new task forces. The USG will also look to provide assistance to the Prefectura Naval for maritime drug interdiction activities.

The Road Ahead. With the inauguration of President Kirchner in May 2003, counternarcotics cooperation has continued to improve, despite the administration's early initiative to address corruption in the country's security forces and the federal judiciary. The Kirchner government has left in place the drug policies and priorities established by preceding governments. The USG will encourage the GOA to continue to focus its efforts on the northern border area where the vast majority of cocaine enters Argentina, but also not to neglect 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. The U.S. Embassy will continue to work with SEDRONAR to develop effective chemical controls and identify the illegal diversion of precursor chemicals. Finally, the U.S. Embassy will double efforts to sign the Letter of Agreement to enhance assistance in the future.

Bolivia

I. Summary

Consistent policies on forced eradication across successive Bolivian governments have virtually eliminated the Chapare as a significant source of coca destined for cocaine. The dramatic record-breaking seizures of both drugs and precursor chemicals in 2003 demonstrate the value of long-term investments made in developing special counternarcotics police units (FELCN). Alternative development (AD) initiatives in the Chapare continue to provide licit alternatives to coca and new AD activities in the Yungas are beginning to show their value. Bolivia is a significant transit country for cocaine precursor chemicals.

The Yungas is the largest coca growing area in Bolivia, where topography (mountain ranges transpierced by one small road) and a long history of traditional coca cultivation argue against simply replicating the successful Chapare forced eradication strategy. This area will be President Carlos Mesa's principal challenge. In 2003, the Government of Bolivia (GOB) continued efforts to build up mechanisms to control the licit coca market and to prevent diversion of coca to cocaine production. In recognition of the importance of counter narcotics (CN) issues, President Mesa is personally chairing the reorganized and strengthened Counter-Narcotics Control Board (CONALTID).

Bolivia is a party to the 1988 UN Drug Convention.

II. Status of Country

Bolivia has produced coca leaf for a millennia for traditional uses. Coca remains a core part of indigenous ceremonies and medicine, as well as a popular legal stimulant in the form of tea and chewing. Bolivian law permits 12,000 hectares of legal coca cultivation for this market, mostly in the Yungas.

By 1990 the Chapare region was the principal supplier of cocaine to the U.S. market. Through aggressive intervention, the GOB reduced cultivation from its peak in 1989 (from 52,900 to 28,450 hectares in 2003), effectively removing the Chapare from the coca/cocaine circuit. In 2003, the successful reduction of coca cultivation in the Chapare (down 15 percent) was offset by a 26 percent increase in the Yungas resulting in an overall increase of 17 percent or 4,050 hectares. Bolivia is also an important transit country (especially for Peruvian cocaine) because its borders run along the most remote and least controlled territories of its five neighboring countries.

III. Country Actions Against Drugs in 2003

Policy Initiatives. President Banzer (1997-2001) changed Bolivian policy from one of inaction to one of serious confrontation of the coca/cocaine circuit. Since then, and despite tremendous social and political crises (in part due to CN issues), the GOB policy of forced eradication in the Chapare and increasingly sophisticated interdiction of illicit drugs and precursors has continued. Coca growers ("cocaleros") efforts to stop eradication have been rebuffed, but the GOB has been willing to discuss a variety of other coca-related issues in an attempt to avoid the violence and economic disruption that result from cocalero-mounted demonstrations and violence.

The weak coalition Sanchez de Lozada government resigned in the face of widespread protests due in large part to economic issues in October 2003, after only 14 months of a five-year term. The successor Mesa government faces major social and political challenges. Despite this context, President Mesa has assumed personal chairmanship of CONALTID, the ministerial committee that coordinates the GOB's

counternarcotics policy. Reorganized in November, CONALTID shows potential of taking a more forceful role in 2004.

The principal challenge facing Bolivia is the unconstrained growth of coca cultivation in the Yungas. Violent cocalero opposition and an extreme geographic terrain have discouraged forced eradication in the Yungas. Instead, the GOB has pursued a containment strategy based on interdiction. By using the same mountainous terrain that makes forced eradication difficult, the GOB channels the movement of leaf, precursors and illicit drugs through control checkpoints. The U.S. Government (USG) is working closely with the GOB to improve the efficiency and reliability of DIGECO, the institution charged with regulating the commercialization of legal coca.

A major challenge in this effort has been the lack of the institutionalization of a professional civil service. The Mesa Administration has asked the USG to help develop a modern civil service in the agencies and offices involved in the counternarcotics program, beginning with the Ministry of Government.

Accomplishments. The GOB was successful in 2003 in its counternarcotics efforts: according to the CNC, forced eradication led to a 15 percent drop in coca cultivation in the Chapare; despite a 17 percent increase in coca overall, the potential production of cocaine remained unchanged due to the immaturity of new planting; interdiction statistics increased dramatically; and major trafficking organizations were taken out.

Law Enforcement Efforts. The GOB and USG continue to work together cooperatively to develop the capabilities of the Special Drug Police Force (FELCN) and its specialized units, including: expanding personnel; upgrading existing physical infrastructure; and constructing new bases. As a direct result, interdiction seizures improve yearly and 2003 statistics are up to three times as high as those for 2002 with 152 metric tons of leaf and 12.9 metric tons of cocaine captured.

Corruption. Bolivia's trafficking organizations do not appear to exercise a major corruptive influence at the higher levels of the GOB. Recent governments have not condoned, encouraged or facilitated any aspect of narcotics trafficking. The GOB has aggressively investigated allegations and seems prepared to take appropriate action in instances where investigations suggest current or former Bolivian National Police or other officials are involved in or otherwise implicated in narcotics-related corruption. The recent creation of the Office of Professional Responsibility within the FELCN and the National Police will help minimize the opportunity for corruption among the police and increase its internal affairs capacity. The USG will encourage establishing a similar unit within the prosecutors' office. In 2003, there were no prosecutions of narcotics-related cases involving senior level officials, although four judges have been suspended and are under administrative judicial review. Upon adjudication of the judicial review, formal charges for prosecution will be determined.

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 U.S. signed an extradition treaty in 1995, which 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, but have remained before the Lower House for final approval for over a year. In November 2001 Bolivia ratified the Protocol to Prevent, Suppress and Punish Trafficking in Persons. On December 10, 2003 Bolivia signed the UN Convention against Corruption.

Extradition. Bolivia and the U.S. signed a bilateral extradition treaty in 1995, which 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 U.S. in 2003, nor were any sought. The last drug trafficking related extradition from Bolivia was in August 2001.

Cultivation/Production. The GOB continued forced eradication in the Chapare. The CNC estimated that coca cultivation in the Yungas grew by 26 percent, bringing Bolivia's total area under cultivation to 28,450 hectares, a 17 percent increase over 2002. Law 1008 authorizes up to 12,000 hectares of legal coca cultivation to supply the licit market. Total potential cocaine production in Bolivia decreased from an estimated 240 metric tons in 1995 to 60 metric tons in 2003.

Drug Flow/Transit. The FELCN enjoyed a banner year in 2003, nearly tripling cocaine seizures over 2002. Through end-2003, the GOB seized 152 metric tons of coca leaf, 12.9 metric tons of cocaine and 8.5 metric tons of cannabis, in addition to 546,252 liters of liquid precursor chemicals (acetone, diesel, ether, etc.) and 538.1 metric tons of solid precursor chemicals (sulfuric acid, bicarbonate of soda, etc.). It also destroyed 1,769 cocaine base labs and made 3,902 arrests in 4,709 operations. The GOB continues to focus upon the interception of illicit drugs and chemicals, as well as on the detection and disruption of organizations which bring chemicals into Bolivia from Chile and Argentina and of those which transfer cocaine from Bolivia into Brazil and Argentina.

Approximately 30 metric tons of Peruvian cocaine crosses into Bolivia along the northern reaches of the shared border, then traverses Bolivia to enter Brazil. This cocaine is mostly consumed in Brazil. Some increasing proportion of Peruvian cocaine transiting Bolivia and of cocaine from Bolivia itself is likely destined for Europe, Argentina, Chile and Paraguay. An increasing amount is being consumed in Bolivia itself.

Alternative Development. In the Chapare, USAID supported coca reduction by deepening and broadening alternative development (AD) assistance. Through FY-03, USAID helped some 26,000 farm families with AD support, and increased licit (non-drug) crops from 127,013 to 129,703 hectares—even with a two-month program pause caused by social conflicts, violence and blockades. The average family income from licit products increased from \$2,055 in 2001 to \$2,138 in 2002 and the number of jobs rose to almost 53,000 by the end of 2003. After the Argentine economic crisis of 2002, AD programs enjoyed greatly improved market access, with an estimated 30 percent increase in export of bananas (to 22,000 metric tons) and a 250 percent increase exported pineapples (to 900 metric tons). Additionally, USAID initiated major new activities in land titling, health, environment and democracy in the region.

Through 2003, the Yungas AD program completed 96 rural and small-town infrastructure projects, initiated 44 new projects, and began design of 40 projects. These included potable water systems, schools, coffee post-harvesting plants and other types of social and productive infrastructure. In addition, USAID continued to build social capital through scholarships for 33 regional university students in health and farm science. AD programs have trained 60,000 Yungas residents in 454 communities in disease prevention, supported programs to provide medical treatment for tuberculosis and leishmaniasis to over 2,000 patients, constructed 240 latrines benefiting about 6,000 people, maintained and improved 112 kilometers of rural mountain roads (constructing three major bridges), and provided technical assistance in coffee harvest and post-harvest techniques in 116 communities affecting over 5,000 families (and helped increase specially coffee exports by 300 percent to more than \$1 million).

A USG-supported Organization of American States project to modernize organic cacao and banana cultivation in the Yungas is effectively mitigating poverty and preventing the spread of illicit coca cultivation to this vulnerable region. 1,300 families participating in the project, each averaging 2 hectares of cultivation, are enjoying revenues of between \$1,866 and \$2,900 per year—in addition to the subsistence crops grown for food and market.

Domestic Programs (Demand Reduction). In March 2003 the Vice Ministry of Prevention and Rehabilitation was moved from the Ministry of Government to the Ministry of Health, resulting in a further weakening of bilateral projects in demand reduction. The USG has encouraged the Mesa Government to return this function to its original Ministry, placing it under the Vice Ministry for

Social Defense, the GOB's "drug czar". At the end of the year, CONALTID was planning to re-emphasize demand reduction as one of the four poles of GOB CN policy and consider where to place the coordinating function.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal USG counternarcotics goals in Bolivia are: to 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 to provide farmers with 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 through the country; to reduce and combat the market for the domestic abuse of cocaine and other illicit drugs; and to institutionalize a professional law enforcement system. The USG works through various programs to promote institutional reform and to strengthen the elements within the GOB dedicated to addressing counter narcotics-related issues.

Bilateral Cooperation. The GOB and Embassy meet routinely at all levels and across several functional entities to coordinate policy, to implement programs/operations and to resolve issues. INL, through the Embassy's Narcotics Affairs Section (NAS) and its Air Wing, supports and assists all interdiction and eradication forces. This support is defined by Letters of Agreements (LOAs) signed annually with the GOB.

Road Ahead. Bolivia today is experiencing its worst political instability since its 1952 Revolution. President Gonzalo Sanchez de Lozada took office in 2002, at the head of a weak coalition, and was forced to resign in October 2003 during a series of massive violent protests and road blockades led by several disparate radical opposition groups. The unrest demonstrated a widespread and long-term undercurrent of popular dissatisfaction with the political system. Current President Carlos Mesa leads an "apolitical" government, whose ministers are serving without links to any political parties. However, governing under the perpetual threat of renewed popular protest and massive financial requirements poses a formidable challenge.

Evo Morales, the most well known radical cocalero leader, received the second largest plurality in votes in the 2002 presidential election. He in turn heads a political movement that is an agglomeration of disparate political elements that campaigned against the status quo. There are other anti-establishment leaders vying with Morales for the leadership of Bolivia's disaffected, each seeking to benefit politically from the growing sense of disenfranchisement and frustration evident among many voters, especially those from the mountain highlands, Bolivia's altiplano.

The implications of the political situation on the ability of Bolivia to fulfill its obligations under the 1998 Convention and its LOA with the USG are difficult to predict. To date there is support for continued interdiction across many political groupings.

The biggest narcotics challenge facing Bolivia is how to control the growth of illicit cultivation in the Yungas, where coca has been cultivated for millennia and cocaleros are willing to fight to protect their "right" to grow it.

Bolivia Statistics

(1995–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995
Coca									
Net Cultivation ¹ (ha)	28,450	24,400	19,900 ²	14,600	21,800	38,000	45,800	48,100	48,600
Eradication (ha)	10,000	11,839	9,435	7,653	16,999	11,621	7,026	7,512	5,493
Cultivation (ha)	18,450	12,561	10,465	22,253	38,799	49,621	52,826	55,612	54,093
Leaf: Potential Harvest ³ (mt)	29,083	19,800	20,200	13,400	22,800	52,900	70,100	75,100	85,000
HCl: Potential (mt)	60	60	60	43	70	150	200	215	240
Seizures									
Coca Leaf (mt)	152	102	65.95	51.85	56.01	93.72	50.60	76.40	110.09
Coca Paste (mt)	—	—	—	—	—	—	0.008	—	0.05
Cocaine Base (mt)	6.4	4.7	3.95	4.54	5.48	6.20	6.57	6.78	4.60
Cocaine HCl (mt)	6.5	0.4	0.51	0.72	1.43	3.12	3.82	3.17	3.59
Combined HCl & Base (mt)	12.9	5.1	4.46	5.26	6.91	9.32	10.39	9.95	8.19
Agua Rica ⁴ (ltrs)	—	—	20,240	15,920	30,120	44,560	1,149	2,275	16,874
Arrests/Detentions	—	1,422	1,674	2,017	2,050	1,926	1,766	955	600
Labs Destroyed									
Cocaine HCl	2	2	1	2	1	1	1	7	18
Base	1,769	1,420	877	620	893	1,205	1,022	2,033	2,226

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 counternarcotics events of 2003 were the expansion of Operation COBRA to Brazil's northern border areas, increased attention by Brazil to bilateral relations with its South American neighbors, the implementation of the Unified Public Safety System (SUSP), and increased actions against corrupt civil servants.

Brazil is a major transit country for illicit drugs shipped to Europe and, to a lesser extent, to the United States. Brazil continues to cooperate with its South American neighbors to effectively control the remote frontier regions where illicit drugs are transported. Brazil is a signatory of various counternarcotics agreements and treaties, including the 1988 UN Drug Convention, the 1995 bilateral U.S.-Brazil counternarcotics agreement, and the annual Memorandum of Understanding (MOU) with the U.S.

II. Status of Country

Brazil is a conduit for cocaine base and cocaine HCl moving from source countries in South America to Europe and Brazilian urban centers, as well as a conduit for smaller amounts of heroin moving from source countries to the U.S. and Europe. Crack cocaine is used among youths in the country's cities, particularly Sao Paulo. Brazil is not a significant drug-producing country. Narcotics-related arms trafficking into and through Brazil was also observed in 2003.

III. Country Actions Against Drugs in 2003

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.

Throughout 2003, the Brazilian government, through the National Anti-Drug Secretariat, implemented its National Anti-Drug Policy (PNAD). PNAD's main focus is on demand reduction and treating the user, although it addresses the supply side as well, through improved law enforcement capabilities. PNAD also focuses on local support of counternarcotics strategies, through municipal and state drug councils, with representatives from all areas of drug prevention/treatment/enforcement. PNAD highlights the transnational character of drug trafficking and the connection of this type of crime with other illegal activities such as money laundering, and assigns enforcement roles to various Government of Brazil (GOB) agencies. The Brazilian policy is a reaffirmation of commitments made in the Special Session of the General Assembly of the UN in June of 1998.

In September, the GOB expanded its inter-agency Colombia border security program (COBRA) to other northern borders, including those with Peru (PEBRA), Venezuela (VEBRA), and Bolivia (BRABO). COBRA, which was started in September 2000, focuses on controlling land and air entry into Brazil from Colombia at various border control points, with a central headquarters in Tabatinga, on the Colombia-Brazil border. PEBRA, VEBRA, and BRABO will function in a similar manner, with representatives from a wide variety of GOB agencies, including, but not necessarily limited to: Customs, Internal Revenue Service, Armed Forces, IBAMA (similar to U.S. EPA), and others, with the lead role being fulfilled by the Brazilian Federal Police (DPF). With the 2003 full implementation of the Brazilian System for the Vigilance of the Amazon (SIVAM), the DPF and other agencies will have more information available to them. 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.

Together with expanding COBRA in 2003, the Brazilian government increased outreach and contacts with its South American neighbors. During 2003, President Lula met with most of his South American counterparts, including the presidents of Colombia, Bolivia, Venezuela, Argentina, and Paraguay. To complement these visits, the GOB formed a “mixed commission” (CM) led by the Brazilian Foreign Ministry, with representatives from the DPF, SENAD (National Anti-drug Secretariat), SENASP (National Public Safety Secretariat), ANVISA (National Agency of Health Monitoring), Health Ministry, and ABIN (National Intelligence Agency). In 2003, the GOB CM team visited Bolivia, Peru, Venezuela, and Ecuador and met with their counterparts to discuss cooperation in a wide variety of law enforcement and counternarcotics areas. Plans for 2004 CM meetings include Argentina, Paraguay, Chile, and Cuba.

In 2003, all of Brazil's 26 states and one federal district joined the Unified Public Safety System (SUSP). SUSP, which is administered by SENASP, is a national system to integrate diverse state, civil, and military police forces. Each state has formulated its own public safety plan, in accordance with SENASP's national plan. SUSP will assist the GOB in ensuring a unified approach to law enforcement and the reporting of crime statistics and narcotics seizures.

The GOB is increasing its emphasis on enforcement of anticorruption laws and has arrested and sentenced a wide variety of corrupt civil servants. In 2003, examples included several anticorruption operations which took place throughout Brazil: Foz do Iguacu (Sucuri), Manaus (Eagle), Rio de Janeiro (Glider), Rio de Janeiro (Propinoduto), Sao Paulo (Anaconda), and Roraima (Grasshopper). In all of the operations, police forces arrested corrupt civil servants (including Federal, Civil, Military, and Judicial) who were violating the public trust.

Accomplishments. In 2003, the GOB exercised a regional counternarcotics leadership role. In February and September, the GOB organized and hosted “Operation Alliance X and XII” with Brazilian and Paraguayan counternarcotics interdiction forces in the Paraguayan-Brazilian border area. In October, the DPF hosted the HONLEA (Heads of National Law Enforcement Agencies) meeting in Salvador, Bahia, which was sponsored by the United Nations Office on Drugs and Crime (UNODC) and attended by representatives of 34 different countries.

Illicit Cultivation/Production. With the exception of some cannabis grown primarily for domestic consumption in the interior of the northeast region, there is no significant evidence of the 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. Federal Counter-narcotics Police and state authorities are investigating the extensive domestic distribution networks in major and secondary cities in Brazil.

Sale, Transport And Financing. The DPF have taken measures to identify significant drug trafficking trends, patterns, and traffickers throughout Brazil in 2003. Although one or two monthly deliveries of large amounts of Colombian cocaine may be shipped to Brazil's urban centers of Rio de Janeiro and Sao Paulo, DPF information indicates that Bolivian cocaine generally tends to dominate in those markets.

Asset Seizure. Many assets, particularly motor vehicles, are seized during narcotics raids and put into immediate use by the DPF under a March 1999 Executive Decree. Other assets are auctioned and proceeds distributed based on court decisions. DPF show that seven airplanes, 709 motor vehicles, 93 motorcycles, 5 boats, 291 firearms, and 924 cell phones were seized in 2003.

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. Brazil and the U.S. are parties to a bilateral extradition treaty signed in 1961. There were three extraditions from Brazil to the U.S. in 2003, one of which was narcotics-related. In addition, in November, one person was extradited to Paraguay, for financial crimes (not narcotics-related).

Law Enforcement and Transit Cooperation. The DPF and SENAD continued to express their interest in active cooperation, particularly intelligence sharing, and coordination with the U.S. in drug control activities.

During 2003, various USG agencies and sections of the U.S. Embassy, including the Narcotics Affairs Section (NAS), the Public Affairs Section, Department of Homeland Security (DHS) representatives, DEA representatives, FBI representatives, and others, provided training throughout Brazil in a wide variety of law enforcement areas, including combating money laundering, cyber-crime, community policing enhancing port security, and demand reduction programs.

In August, a visiting team from DHS briefed the GOB on the container security initiative (CSI) program.

Brazil cooperates with authorities in neighboring countries, particularly Colombia, Peru and Bolivia, to enhance regional counternarcotics efforts. In November, two GOB officials attended specialized port security training in Guayaquil, Ecuador. In a separate program in November, two DPF officers attended the regional needs assessment meeting in Quito, Ecuador, of the International Law Enforcement Academy (ILEA). Previously, in January, a group of 12 Brazilian police officers (9 Federal, 2 state military, and one civilian) attended the ILEA advanced management course in New Mexico.

Demand Reduction. In 2003, the DARE (Drug Abuse Resistance and Education) program (known as PROERD in Brazil) was expanded to include all 26 states and the Federal District. Through the Brazilian National Public Safety Secretariat (SENASP) and the National Antidrug Secretariat (SENAD), NAS assisted in financing and logistics, and NAS personnel visited several of the training sessions. Brazil has the largest DARE program outside of the U.S. The DARE program reinforces a positive image of local police forces, while providing a strong message concerning demand reduction. SENAD has begun work on Drug Information (OBID), which will be supported by funds from the U.S.-Brazil letter of agreement on counternarcotics cooperation. SENAD continues to enjoy success with its toll-free number on drug information.

Law Enforcement Efforts. In 2003, the DPF seized 7.3 metric tons of cocaine HCl, 128 kilograms of crack, and 342 kilograms of base. Marijuana (cannabis) seizures totaled 157.7 metric tons in 2003. One cocaine drug laboratory was dismantled in 2003. 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. As described above, in 2003, the GOB conducted a number of anticorruption operations.

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). Brazil is also a party to the Inter-American Convention against Corruption and is a signatory to the December 2003 UN Convention against Corruption, which has not yet entered into force.

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

VI. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. counternarcotics policy in Brazil focuses on liaison with, and assistance to, Brazilian authorities in identifying and dismantling international narcotics trafficking organizations; reducing money laundering and increasing awareness of the dangers of drug abuse and drug trafficking; and related issues such as organized crime and arms trafficking. 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 2003 included: cooperation with the Regional Intelligence Center of Operation COBRA; expansion of COBRA to northern border areas, the Heads of National Law Enforcement Agencies (HONLEA) meeting in October; and SENASP workshops and training for approximately 400 state and federal public safety officials in the area of combating organized crime. Brazil and the U.S. are seeking to meet all goals set forth in the bilateral LOA

Through the LOA, in 2003, the USG worked closely with the DPF, SENASP (Brazilian National Public Safety Secretariat), and SENAD. Various operations, such as Operation Alianza X and XI, 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. The USG worked with SENAD in 2003 to begin implementation of the Brazilian Observatory for Drug Information (OBID).

Brazil continues to be actively involved in the International Drug Enforcement Conference (IDEC). Worldwide conferences are held annually, and sub-regional 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 V is part of a continuing regional exercise involving Brazil, Bolivia, Colombia, Ecuador, Peru, Venezuela, and U.S. DEA to concentrate counternarcotics law enforcement efforts in the area of precursor chemicals, and has been successful.

NAS and PAS provided assistance in the area of drug courts. In November, a three-person FINCEN (U.S. Treasury Financial Crimes Enforcement Network) and OAS team visited Brasilia; the FINCEN's visit was financed by NAS. NAS funded the visit by a team of four Military Police officers to the International DARE (Drug Abuse Resistance and Education, called PROERD in Brazil) conference in New Jersey in June, and will continue to assist in the expansion of the DARE program in Brazil.

The Road Ahead. In September, Brazil officially announced the expansion of its Operation COBRA in northern Brazil towards other border areas, including the northern border with Suriname and Guyana and the southern tri-border 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. 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 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, but Chile is not a major source of refined cocaine.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Chilean Congress continues to work on a comprehensive revision of Chile's 1995 drug legislation, a project pending since 1999. A section relating to money laundering was removed from this project and passed separately in September 2003. The National Drug Control Commission (CONACE) develops and coordinates the National Drug Control Strategy. The current plan covers the years 2003-2008. CONACE also coordinates all demand reduction programs.

Accomplishments. In August 2003, Embassy Santiago, in conjunction with CONACE, organized the launch of CHIPRED, a network of Chilean NGO's working on drug issues. The network conducts activities throughout all of Chile. CHIPRED will allow better coordination of programs to prevent drug abuse and reduce demand. CHIPRED immediately joined the Drug Prevention Network of the Americas (DPNA) and it will send representatives to DPNA's next international conference. In January 2004, a group of five CHIPRED representatives will participate in a voluntary visitor program on managing drug abuse prevention programs.

Chile continues to implement its multi-year criminal justice reform project. As of December 2003, all of Chile's 12 regions have adopted the new adversarial judicial system, leaving only the metropolitan area of Santiago operating under the old system. The new system involves oral trials rather than document-based legal proceedings and generally results in a faster resolution of cases. The Santiago metropolitan region, which accounts for almost 40 percent of Chile's population, will present special challenges. For budgetary reasons, the transfer in Santiago was rescheduled to June 2005 from December 2004.

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. Traffickers assume that Chile's clean reputation with authorities in the U.S. and Europe means that vessels and aircraft originating from Chile are less closely scrutinized.

In 2003, Chilean authorities seized 4.6 kilograms of heroin, 3,410 kilograms of cannabis, and 559 kilograms of cocaine. Law enforcement agencies also arrested 8,343 persons for drug-related offenses, a decrease from 10,369 in 2002. Chilean authorities are also addressing the domestic distribution sources of cocaine, marijuana, and most recently ecstasy. A rise in the use of ecstasy among young

people has shifted the focus of many counternarcotics operations to this drug. Police seized 5,000 pills of ecstasy in a raid in December 2003, for instance.

Corruption. Narcotics-related corruption among police officers and other government officials is not a major problem in Chile. Although a series of scandals rocked the Chilean political establishment in 2003, there is no indication that drug production, processing, or shipment played any role. The government actively discourages illicit production and distribution of narcotic and psychotropic drugs and the laundering of proceeds from illegal drug transactions. No Chilean senior officials have been accused of engaging in such activities. The corruption scandals of 2003, though not narcotics-related, provide an example of the gravity that Chile attaches to corrupt behavior by government officials. Law enforcement agencies and the justice system responded to the challenge to reassure the Chilean public that corruption in government would be rooted out. Transparency International's Annual Corruption Perception Index ranked Chile 17th in 2003, one spot lower than the U.S.

Agreements and Treaties. Efforts are currently underway to update the U.S./Chile extradition treaty signed in 1900, under which no Chilean citizen has ever been extradited to the U.S. Chile expressed interest in updating the current treaty in late 2002. Draft language has been exchanged and exploratory meetings may begin in early 2004. The U.S. and Chile do not have a mutual legal assistance treaty (MLAT). The U.S. is hoping that Chile will ratify the OAS MLAT to which the United States is a party. Chile is party to the Inter-American Convention Against Corruption.

The September 2002 letter of agreement between Chile and the U.S. remains the most recent accord for cooperation and mutual assistance in narcotics-related matters. 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 (national uniformed police), and some INL funding provides training and equipment for the SIU. The SIU is not yet fully operational. Chile has bilateral narcotics cooperation 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.

Cultivation/Production. There is no known major cultivation or production of drugs in Chile, and it is not a major drug-transit country. Very small amounts of marijuana are cultivated in Chile to meet domestic demand.

Drug Flow/Transit. Increasing amounts of drugs are transshipped from Andean source countries through Chile, destined for the U.S. and Europe. 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 some enter through Argentina. 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.

No labs producing synthetic drugs have been found in Chile to date. Ecstasy enters the country primarily in small amounts, but the seizure of 5,000 pills in December 2003 indicates that some larger scale importation is taking place.

Demand Reduction Programs. The Chilean government has expressed concern about domestic drug use. In July 2003, CONACE released a new study of drug usage based on a 2002 survey. Based on the numbers of respondents who reported having been treated for addiction and the numbers of drug users who stated that they would like to be treated, the report found that the existing treatment infrastructure in Chile is insufficient. According to the survey, 5.7 percent of Chileans had used drugs in the previous 12 months. This represents a slight decrease from the previous survey in 2000, which registered 6.3 percent. Prevalence of marijuana use in the previous 12 months fell from 5.8 percent in 2000 to 5.2 percent in 2003. Use of cocaine base fell from 0.7 percent to 0.5 percent, but use of refined cocaine rose slightly from 1.5 percent to 1.6 percent. The 2002 survey found that 22.9 percent of

respondents had used illegal drugs at least once in their lives. CONACE continues to work with NGO's, community organizations, and schools to develop demand reduction programs. With the launch of CHIPRED, the network of NGO prevention and treatment organizations, CONACE is able to cooperate more effectively with the NGO community.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. support to Chile in 2003 reinforced ongoing priorities in five areas; 1) Training for prosecutors, police, judges, and public defenders in their roles in the criminal justice system reform; 2) Demand reduction; 3) Enhanced police investigation capabilities; 4) Police intelligence capability; and 5) Money laundering.

Bilateral Cooperation. During 2003, the U.S. government pursued numerous initiatives based on the above priorities. These include; 1) creation of a nationwide drug intelligence computer network for the Carabineros; 2) two oral advocacy courses for new Chilean prosecutors; 3) a U.S. speaker program on money laundering; 4) an INL-funded course on interview and interrogation techniques; 5) the launch of CHIPRED, a network of Chilean NGO's in the area of drug abuse prevention and treatment; 6) a series of INL/DEA-funded seminars about the drug ecstasy aimed at law enforcement, the medical community, and the public; 7) the establishment of a dedicated server network for the Investigations Police; 8) a course for narcotics prosecutors; 9) INL-funded support of the police to provide equipment for counternarcotics operations; 10) two International Visitor programs (IVP) on narcotics prosecution issues; 11) two IVP's on money laundering issues; 12) one IVP on drug control policy and demand reduction efforts; 13) the launch of PRIDE drug abuse prevention programs at schools in four municipalities in the Santiago area; and 14) continued discussions towards updating the 1900 U.S./Chile extradition treaty.

The Road Ahead. In 2004, the U.S. Government will continue to support Chilean efforts to combat the narcotics-related problems listed above. Since the criminal justice system reform is an ongoing process, the U.S. plans to continue to provide capacity-building assistance. Efforts to enhance the counternarcotics capabilities of both the Carabineros and the Investigations Police pursuant to the LOA will also continue.

Colombia

I. Summary

Despite dramatic progress against the narcotics trade, Colombia remains a major producing country. Proceeds finance the Revolutionary Armed Forces of Colombia (FARC), the United Self Defense Forces of Colombia (AUC), and, to a lesser extent, the National Liberation Army (ELN). They control areas within Colombia with concentrations of coca and heroin poppy cultivation and their involvement in narcotics is a major source of violence in Colombia. In 2003 the Government of Colombia (GOC) eradicated illicit crops at a record-setting pace. The U.S.-supported Colombian National Police Antinarcotics Directorate (DIRAN) sprayed over 127,000 hectares of coca and 2,821 hectares of opium poppy. Subsequent field verification demonstrated that this spraying effectively eradicated 116,000 hectares of coca. In addition to spray operations, the GOC manually eradicated 8,441 hectares of coca and 1,009 hectares of opium poppy. Plan Colombia has reduced narcotics production and seizures of illicit commodities are up; the scope and delivery of key government services have been extended; the effectiveness and availability of institutions of justice have been increased; and, the GOC is in negotiations with the AUC toward demobilization. Colombia is party to the 1988 UN Drug convention.

II. Status of Country

The FARC continues its drug and arms trafficking and terrorist activities, including for the first time violent actions targeted specifically against Americans. The FARC has been exchanging drugs for arms and cash and conducting its armed attacks for some time in rural areas. Now the FARC is acting in urban areas. In February 2003, the FARC detonated a car bomb at an exclusive Bogota social club, killing 36 people. In September 2003, the FARC detonated a bomb on a motorcycle in front of a nightclub in the city of Florencia, killing thirteen. Then, on November 16, 2003, grenades were tossed into two crowded Bogota restaurants frequented by Americans; one Colombian citizen was killed and 72 others, including four Americans, were injured. A suspect apprehended at the scene and subsequently identified as a FARC commando confirmed that American citizens were the targets of the attacks. These attacks brought to six the number of attacks within Bogota attributed to the FARC in 2003.

On November 29, 2003, a FARC military commander and spokesman criticized the United States for “training and aiding government forces in counterinsurgency tactics and actions” and stated that “the invasive foreign troops are a military target for the FARC.” The FARC is apparently responding to the active counterterrorism and counternarcotics campaign of President Alvaro Uribe, who is supported by the United States.

III. Country Actions Against Drugs in 2003

Policy Initiatives: The AUC also has a reputation for large-scale involvement in the drug trade. After months of peace talks, the GOC and several AUC front commanders reached a tentative agreement to dismantle nine AUC fronts within the next two years. It is estimated that there are a total of 10,000 armed militants in these nine fronts. The negotiations focused on two major points: the permanent disarmament of AUC troops and a provisional amnesty granted by the GOC for past AUC actions.

AUC leaders representing approximately ninety percent of the AUC have agreed in principle to laying down arms. At least three AUC national leaders, however, are under indictment in the United States

for narcotics trafficking. Potential extradition to the U.S. may dissuade them from demobilization or surrender. Five AUC fronts were not a part of these negotiations.

On November 25, 2003, 855 members of the Cacique Nutibara Front disarmed in a nationally televised ceremony in Medellin, Colombia. The event, which featured the Colombian national anthem, a surrender of rifles and ammunition belts, and speeches from AUC leaders apologizing for past AUC actions, was the first tangible result of AUC demobilization. The Cacique Nutibara Front and a later demobilized sector in Cauca, however, are somewhat anomalous with the AUC. All three branches of the GOC continue to explore terms for provisional amnesty legislation to encompass demobilization of the major AUC blocks and other armed groups.

In addition to negotiating with the AUC, the Colombian Congress recently passed constitutional reforms that will grant the GOC additional tools to combat terrorism. These include granting the Colombian military authority to conduct wiretaps and detentions for a 36-hour period with the option for an additional 36 hours if approved by a judge. The GOC intends to develop a residential registry of persons in conflicted areas. Some human rights groups and NGO's have strongly criticized this legislation.

Accomplishments. The U.S.-supported aerial eradication program achieved another record setting year. Despite the net loss of two spray aircraft during 2003, the Colombian National Police (CNP) Antinarcotics Directorate (DIRAN) sprayed over 127,000 hectares of coca and nearly 3,000 hectares of poppy.

The CNP's Investigation and Resolution staff resolved over 50 percent of 4,000 complaints of spray damage to legitimate crops; five cases were determined to have merit and compensation was paid. USG and GOC personnel ensure that spray operations are conducted in an environmentally sound manner. Toward that end, the U.S. Department of Agriculture trained ten Colombian scientists in glyphosate analysis and the Colombian National Institute of Health is training health care professionals in the identification and management of different types of pesticide and herbicide poisoning.

Interdiction efforts were boosted in August 2003 with the reintroduction of the Air Bridge Denial (ABD) program following a hiatus of over two years, because of the tragic shutdown in Peru. Through year-end 2003, ABD operations have resulted in the destruction of four aircraft, the capture of three aircraft, the seizure of one "go-fast" boat (which had been tracked by air), and the seizure of over five metric tons of cocaine in Colombia and Guatemala.

The Colombian Navy, with the support of the USG and other foreign governments, created a Special Reconnaissance and Assault Unit, trained and equipped by the USG. In 2003, this unit seized 12 metric tons of cocaine, 12 kilograms of heroin, 17 go-fast boats, 34 outboard motor boats, 2 commercial fishing vessels, and 75 traffickers.

In 2003, DIRAN destroyed 83 HCl laboratories, surpassing its previous record of 63 HCl labs in 2001. DIRAN also captured over 48 metric tons of cocaine/cocaine base, 1,539 metric tons of solid precursors and 755,588 gallons of liquid precursors. The DIRAN, with USG support, opened two major interdiction support bases, one in Santa Marta and one in Tulua. Each new base supports an Airmobile Interdiction Company (approximately 166 "Jungla" jungle commandos) and 10-12 helicopters and crews, plus related command and control and intelligence units. This new capability, combined with the existing Bogota-based Airmobile Interdiction Company, extends the reach and improves the CNP's response capability. The Santa Marta interdiction group is coordinating its operations with the Colombian Navy and is a key element of the Embassy-supported "Firewall" concept that integrates intelligence and operations against maritime trafficking.

Narcotics terrorists have reacted to increased spray operations by increasing their efforts to shoot down spray and escort aircraft. In response, the Counter Drug (CD) Brigade has actively supported

coca spray operations, attacking narcotics terrorist concentrations and serving as a quick reaction force. Since departing Tumaco in June 2003, the CD Brigade has supported coca spray operations in Sur de Bolivar, Norte de Santander, Arauca, Meta, and Neiva. In addition to supporting spray missions, the CD Brigade seized seven metric tons of cocaine, two metric tons of coca base and destroyed 16 cocaine HCL labs and 948 coca base labs.

The Airport Interdiction Project (AIP) was initiated in 2001 to share intelligence to interdict illegal drug shipments originating at Colombia's international airports. Units from airport security, the National Security Service (DAS), and DIRAN received special equipment and training to identify drug-carrying couriers and detect hidden compartments, as well as to identify the organizations behind these illegal activities. In 2003, the AIP led to the seizure of 445 metric tons of cocaine, 117 kilos of heroin, \$3.9 million in U.S. currency, 900,000 in Euros, and the arrest of 121 couriers.

Operation MORPHEUS, a comprehensive initiative forged by the Colombian Heroin Task Force (HTF), conducts long-term conspiracy cases against major Colombian heroin trafficking organizations. Information obtained by MORPHEUS is disseminated to other DEA foreign offices, domestic offices, and the Special Operations Division-Bilateral Case Group. Working with DOJ prosecutors, this information has been used in numerous instances as probable cause for affidavits to support domestic Title III investigations.

The objective in conspiracy cases pursued in conjunction with Operation MORPHEUS is to dismantle the leadership of Colombian heroin trafficking organizations in their entirety, including the Colombia-based suppliers and the U.S.-based distributors. Several U.S./Colombian bilateral investigations in 2003 dismantled transportation organizations that were in place in transit countries such as Panama and the Dominican Republic. Since the beginning of April 2002 through February 13, 2004, there have been twenty-nine arrestees extradited to the U.S. for heroin-related offenses.

The number of drug-related extraditions from Colombia to the United States has increased dramatically under the administration of President Alvaro Uribe. During the Pastrana administration from 1998 to 2002, 64 individuals were extradited to the U.S. Sixty-seven fugitives (64 Colombian nationals and three others) were extradited to the U.S. during 2003, a 70 percent increase from the previous year.

The desertion rate from Colombia's illegal armed groups increased 80 percent in 2003. During President Uribe's administration, 2,432 illegal militants have been demobilized. Intelligence from the deserters has helped prevent terrorist actions, prosecute criminals, and assist in locating weapons, explosives, drugs, and other materiel used by criminals.

Law Enforcement Efforts. Operation Fuente is a joint heroin initiative of the DEA Heroin Group, the U.S. Army Regional Information Support Team (RIST) and the Colombian National Police Judicial Police Section (SIJIN). The operation includes a media saturation campaign involving newspaper advertisements, leaflets, posters, billboards, and television advertisements to promote a toll-free heroin telephone tip line manned by the SIJIN. The tip line provides a conduit for anonymous information regarding heroin organizations, routes, stash sites, and laboratories in exchange for reward money, should the information lead to arrests and/or seizures.

The operation has been a success, though most actionable intelligence has resulted in arrests and seizures related to cocaine rather than heroin. In 2003, the operation resulted in the following seizures and arrests: 607 kilograms of cocaine HCL/cocaine base, 12 kilograms of heroin, 11 vehicles, and 54 arrests. 338,975,000 Colombian pesos were seized, the equivalent of roughly US\$130,375. The operation has also generated intelligence on transportation methods and routes, as well as prices for heroin and cocaine products in the Medellin area.

In 2003, the DEA Cartagena Resident Office initiated "Operation Firewall" to interdict go-fast boats by combining DEA and various land, air, and sea elements of the CNP and military. It enables joint

action for interdiction. In 2003, 13 go-fast boats were seized containing 3.9 metric tons of cocaine and 1.1 metric tons of marijuana.

Corruption. The GOC does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or money laundering. The GOC has enacted appropriate legislation to combat money laundering and related illegal financial flows associated with narcotics trafficking, and a unit made up of officials of the Ministries of Justice and Finance tracks the illegal flow of money. The Colombian anti-money laundering and anticorruption specialized task force units, supported and assisted by the DOJ Justice Sector Reform Program, have been strengthened, resulting in increased investigation and conviction levels.

Agreements And Treaties. Colombia is a party to the 1988 UN Drug Convention, and the GOC's national counternarcotics plan of 1998 meets the strategic plan requirements of that convention. Recent reforms have generally brought the GOC into line with the other requirements of the convention. In September 2000, Colombia and the United States signed an agreement formally establishing the Bilateral Narcotics Control Program. This effort provides the framework for specific narcotics project agreements with the various Colombian implementing agencies.

The GOC and the USG are also parties to a Maritime Shipboarding Agreement signed in 1997, providing faster approval for shipboarding in international waters and setting guidelines for improved counternarcotics cooperation with the Colombian Navy and Coast Guard. Colombia has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime.

Cultivation/Production. Colombia continues to be the world's largest producer of cocaine base, despite recent reductions in production and cultivation. In 2002, 680 metric tons of cocaine base were produced and 144,000 hectares were under cultivation in Colombia, a decrease of 115 metric tons and 26,000 hectares respectively over the previous year. Nonetheless, nearly 80 percent of the world's cocaine hydrochloride (HCl) continues to be processed from Colombian coca crops, with a limited amount of production from imported Peruvian and Bolivian cocaine base.

Colombia is also a significant supplier of high quality heroin to the United States. Colombia hosted approximately 4,900 hectares of opium poppy under annual cultivation in 2002 (down from 6,540 in 2001). In 2003 the CNP aggressively sprayed poppy and carried out forced manual eradication to supplement the voluntary poppy eradication conducted through alternative development programs. However, Colombia's potential 2003 heroin production was undetermined as of the date of this publication.

Drug Flow/Transit. The Pacific Coast Maritime Interdiction Program seeks to interdict shipping from strategic locations on Colombia's Pacific Coast. The program is comprised of DEA Enforcement Group 1, the Colombian Navy, Coast Guard, and Marines, as well as the CNP. These groups worked together to conduct large-scale investigations and enforcement activities against drug trafficking organizations operating primarily in Cali, Buenaventura, and Tumaco. Despite these achievements, narcotics traffickers continue to move multi-metric ton cocaine shipments to the Colombian coast and onward.

Domestic Programs (Demand Reduction). The Colombian Social Protection Ministry is charged with promulgating Colombia's national drug demand reduction strategy. In 2004, the Ministry will conduct a nation-wide survey to determine the extent of drug use in Colombia. A comprehensive demand reduction policy and specific programs will be formulated based on the findings of the survey.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The United States is focused on institution building, especially within the police, military, and judicial systems.

Bilateral Cooperation. To assist the GOC in combating drug production and trafficking, the USG is developing and strengthening the land and air capabilities of the CNP/DIRAN. With USG assistance, the CNP is training and equipping 62 Carabinero Mobile Squadrons (16,500 police in all) for assignment throughout rural Colombia. Deployed Carabinero units in 2003 arrested 1,316 persons, captured 641 firearms, seized 11.6 metric tons of coca base and 17.4 metric tons of marihuana, as well as locating and eradicating illegal drug crops. The USG supported the establishment of police units in 140 of the 158 municipalities (equivalent to a U.S. county) that had no police presence in 2002. The remaining 18 police units were in training and scheduled to be deployed in January and February 2004.

The USG also supports DIRAN's aviation unit (ARAVI), which includes 19 fixed-wing and 61 rotary-wing aircraft (ARAVI operates three fixed-wing and seven rotary-wing aircraft independently of Plan Colombia). In addition to counternarcotics missions, ARAVI has, with Embassy approval, used USG-supported assets for humanitarian missions, targeted intelligence gathering, counterterrorism, antiskidnapping, and public order missions. With USG assistance, ARAVI was able to maintain an availability rate of approximately 75 percent, which is comparable to most commercial airlines. The opening of forward operating bases in Santa Marta and Tulua allowed greater flexibility and improved response time in the northern and southwestern areas of Colombia.

The UH-1N, UH-1H II, UH-60, and K-MAX helicopters of the Plan Colombia Helicopter program continued to provide support to the CD Brigade and other vetted COLAR units throughout 2003. Since its inception in 1999, program aircraft have flown over 56,000 hours, transported over 95,600 passengers and 3,000,000 pounds of cargo, and conducted 235 medical evacuation missions. In 2003, Plan Colombia aircraft flew 23,015 hours, carried 28,800 passengers and 1,101,268 pounds of cargo, and flew 60 medical evacuation missions.

In addition to strengthening the CNP and COLAR ability to directly attack drug production and trafficking, the USG is providing assistance to other government agencies and institutions in their efforts to combat the drug trade. For example, in response to the threat of bomb attacks by narcotics terrorists, the ATF has trained, equipped, and created protocol for all bomb disposal technicians from GOC agencies. As a result, deaths incurred during deactivation/destruction of bombs declined from seven in 2001 to zero in 2002 and 2003.

The U.S. Bureau of Prisons (BOP) continued to strengthen and develop the Colombian prison system to ensure that convicted drug traffickers cannot conduct their operations while incarcerated. Throughout 2003, USG funded training for personnel selection, ISO 9000 (International Organization for Standardization standards for quality management systems) compliance, close quarters combat, hostage rescue, and other activities for over 600 GOC prison employees. As a result, prisoner escapes have declined 50 percent from 2001 and inmate deaths declined 25 percent over the same period.

To safeguard the viability of drug related prosecutions, the U.S. Marshals Service provided training in witness and judicial and dignitary protection to Colombian security officials. Likewise, to ensure that business and government activities could be conducted in a safe environment, the USG provided protection from narcotics terrorists for 821 individuals under threat, including journalists, mayors, and union leaders.

To ensure that the GOC's drug related investigations and prosecutions conform to international standards, the U.S. Department of Justice (DOJ) trained nearly 400 prosecutors, judges, investigators and defense attorneys in their new roles in the framework of an accusatorial criminal system. The USG supported the establishment of 15 oral trial courtrooms to facilitate Colombia's transition to an accusatorial system of justice. In addition, over 800 police personnel were trained in basic and advanced crime solving techniques. USG personnel also conducted anticorruption seminars for over 230 CNP and other law enforcement officials.

Likewise, the DOJ Justice Sector Reform Program improved the efficiency of the Colombian judicial police by providing specialized investigative training, technical assistance and enhanced forensic science capabilities. Calendar year 2003 accomplishments included: the training and support of specialized task force units (human rights, money laundering/asset forfeiture, anticorruption, narcotics/maritime enforcement), the training of 840 police later assigned to rural outposts with little or no previous police presence; the training of 400 police in accusatory system/oral trial techniques; the training of 172 prosecutors, judicial police, and judges in Trial Advocacy preparation; the training of 80 judicial police in the Management of Electronic Surveillance Evidence; the training and certification of 60 police as instructors, thereby multiplying the number of training courses given to the different police agencies; and the training of 45 CNP, DAS, and CTI officials in crime scene reporting techniques. The Justice Sector Reform Program also provided forensic training and equipment to Colombian crime labs. All of these efforts help ensure that the GOC's drug related (human rights and other criminal) prosecutions conform to international standards.

USG and GOC joint efforts are having a major impact on illicit agriculture. To encourage farmers to abandon the cultivation of drug crops, the USG supported the creation of 38,563 hectares of legal crops—corn, cacao, soybeans, specialty coffee, etc.—up from 10,512 in 2002) and the establishment of 488 social and productive infrastructure projects (up from 142 in 2002) to the benefit of 31,170 families in 16 Departments.

Aside from combating drug production and trafficking, the USG is assisting Colombians in areas that have been most ravaged by the drug trade. For example, the USG helped 82 local citizen committees to complete social infrastructure projects and 36 municipalities to improve the delivery of public services, including the delivery of potable water and sewage treatment. To date, USAID has provided non-emergency support for over 1.2 million Colombians internally displaced by narcotics terrorism, including aid for over 1,100 former child militants. Two peaceful coexistence centers were created in Barrancabermeja and San Gil to provide legal, social and educational services. Additionally, the GOC's presence in rural areas was expanded by the creation of 12 Justice Houses offering access to justice and peaceful conflict resolution.

The Road Ahead. Both Plan Colombia and the Andean Counter-drug Initiative recognize the interdependence of Colombia's counternarcotics programs and their efforts to defeat insurgent groups. These activities also influence Colombia's relations with neighboring countries. The greatest challenges in 2004 will again be the threat posed by the three terrorist organizations, the FARC, the ELN and the AUC. U.S. policy recognizes these groups as narcotics terrorist organizations and permits selective use of USG- provided counternarcotics assets to defeat them.

Colombia Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Coca										
Potential Harvest (ha)	—	144,450	169,800	136,200	122,500	101,800	79,500	67,200	50,900	44,700
Eradication (ha)	132,817	122,695	84,251	47,371	43,246	—	19,000	5,600	8,750	4,910
Estimated Cultivation (ha)	—	—	—	183,200	—	—	98,500	72,800	59,650	49,610
HCl: Potential (mt)	—	571	839	580	520	435	350	300	230	70
Opium										
Potential Harvest (ha)	—	—	6,500	7,500	7,500	6,100	6,600	6,300	6,540	20,000
Eradication (ha)	—	3,371	2,583	9,254	—	—	6,972	6,028	3,760	3,906
Estimated Cultivation (ha)	—	TBD	9,083	—	—	—	13,572	12,328	10,300	23,906
Cannabis										
Potential Harvest (ha)	5000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	4,980	4,986
Eradication (ha)	—	—	—	—	—	—	—	—	20	14
Estimated Cultivation (ha)	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Potential Yield (mt)	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,133	4,138
Seizures										
Heroin (mt)	0.5	0.77	0.78	0.572	0.504	0.317	0.261	0.183	0.419	0.181
Opium (mt)	—	0.11	0.002	—	0.183	0.100	0.120	0.036	0.078	0.128
Cannabis (mt)	126.1	76.9	36.6	46	65	69	136	235	166	2000
Base/Basuco (mt)	31.1	30	26.70	—	9.00	29.30	10.00	17.50	19.50	32.00
Cocaine HCl (mt)	114.0	94	57.30	69.00	22.73	54.70	34.00	23.50	21.50	30.00
Total HCl/Base (mt)	145.1	124	80.00	69.00	31.73	84.00	44.00	41.00	41.00	62.00
Total Arrests	—	15,868	15,367	8,600	—	1,961	1,546	1,561	1,745	2,154

Ecuador

I. Summary

Ecuador is a major transit country for drugs and precursor chemicals. Armed violence on the Colombian side of Ecuador's northern border renders interdiction especially difficult. Police and military forces are working together to improve security and curtail drug trafficking in the border area. Most drugs exit the country via commercial containers. Ecuadorian counternarcotics police, with help from the USG, continue efforts to enhance port inspection facilities and to improve drug detection capacity in ports and airports. Drug seizures overall for 2003 were at levels comparable to 2002, while seizures of precursor chemicals increased significantly. Imperfect implementation of the new penal code, a faulty judicial system and conflicting laws hamper Ecuador's prosecution of accused criminals. Substantial progress was made in 2003 toward creating legal protections against money laundering. The USG continues to provide equipment, infrastructure and training to improve counternarcotics performance.

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. Scanty government presence on the southern border facilitates resurgent drug traffic from Peru. The National Police (ENP) and military forces are inadequately equipped and trained to deal with a challenge of this magnitude, although USG resources are helping correct this deficiency.

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 base enters Ecuador from eastern Colombia (east of the Andes) and exits to western Colombia (west of the Andes) for refinement. Coca base increasingly transits Ecuador from Peru to laboratories in Colombia. Cocaine HCL and heroin from Colombia and Peru are carried to Ecuador's sea and airports for international distribution in volumes ranging from ingested individual loads of a few hundred grams to multi-ton sea shipments. Detected shipments of drugs via international mail and messenger services increased in 2003. The USG has made significant contributions to the Ecuadorian police and military to strengthen security in the northern border region and to interdict illicit drug-related activities.

III. Country Actions Against Drugs in 2003

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 precursor 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 Ecuadorian Government agencies, including the armed forces. CONSEP has announced the intention to formulate a strategic plan in the first quarter of 2004. Military and police forces generally cooperate at the local level, conducting joint operations in 2003 to destroy illicit crops and seize precursor chemicals. The GOE continues to reinforce its security presence in the northern border area. The GOE began a fundamental reorganization and re-staffing of the historically ineffectual CONSEP. The new CONSEP management began selling a limited number of seized assets that had been held for several years and significantly improved its enforcement of chemical controls. An interagency task force completed a draft stand-alone money laundering law with technical assistance from the Organization of American States. The draft was submitted to the President in November 2003 for subsequent introduction to the Congress early in 2004.

The Counternarcotics Directorate (DNA) of the National Police, established in 1999, was further increased to 1229 members including a number of women officers. Using the trainers and curriculum developed in 2001-2002 with USG assistance, training in implementation of the new code of criminal procedures was expanded to police and other judicial operators throughout the country.

At the time of writing, completion of the new Manta port cargo inspection facility was expected by March 2004. The port authority of Puerto Bolivar, Machala allocated suitable space for a cargo inspection facility that is now in the design stage. Further improvements were made in the National Police intelligence data and voice communications networks. The management of the Quito and Guayaquil airports provided space for advanced technical inspection equipment that is currently being installed. The GOE national budget includes administrative funds for the DNA, and the National Police allocated additional new vehicles to the DNA fleet.

Law Enforcement. Narcotics-related guerrilla 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 is growing. Meanwhile, overall drug seizures were comparable to the prior year, with a decline in the level of cocaine seizures. Total cocaine seizures were 6.84 metric tons compared to 11.36 metric tons in 2002. Heroin seizures totaled .29 metric tons, compared to .35 metric tons in 2002. Cannabis seizures rose from 1.90 to 2.57 metric tons.

New administration and the naming of a capable chemicals control expert in CONSEP, the responsible agency, brought a notable improvement in chemicals control in the second half of 2003, reflected in vastly increased chemical seizure totals.

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. Using seminars, virtual classrooms and training manuals and videos, 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 prosecution of any government official, including a judge, 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. In 2003 several individual members of the National Police and the Armed Forces were arrested for corrupt activities including the theft of Ecuadorian military weapons for sale to Colombian insurgents. A break-in at the CONSEP evidence warehouse in Guayaquil, during which three security guards were bound and executed, resulted in the loss of several hundred kilograms of cocaine. The exact amount could not be determined because of faulty inventory practices. There are indications that the thieves may have had inside help. In October 2003, a judge was arrested when it was found that he

had purloined cocaine evidence that he claimed was destroyed. Also in October, police interdicted a 429-kilogram cocaine shipment being readied in Portoviejo, Manabi Province, arresting 14 persons including the former governor of the province, prominent businessman Cesar Fernandez, who was caught red-handed preparing the packages. Three aircraft, several automobiles and real estate were seized. Those arrested Mexican, Colombian and Ecuadorian nationals. Ecuador is a party to the Inter-American Convention Against Corruption.

Law Enforcement Cooperation. Ecuadorian law enforcement agencies cooperate well with U.S. and other foreign law enforcement agencies. 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 and develop information sharing conduits. Cooperation between the USG and GOE in 2003 resulted in numerous successful drug interdiction operations and the dismantling of some international trafficking organizations. National Police personnel policies requiring frequent transfer of personnel of all ranks among different functions detracts seriously from the development and continuity of specialized expertise.

Arrests and Prosecutions. A total of 2,295 Ecuadorians and 391 foreigners were arrested for drug trafficking from January through October 2003. While many arrests result in convictions, prosecutions in general are impeded by the dysfunctional judicial system and persistent confusion over proper implementation of the new (2001) Code of Criminal Procedures. The GOE performed its own investigation of two front companies of the Cali Drug Cartel and ordered them liquidated and closed in August 2003, well before the Office of Foreign Assets Control listed them as Specially Designated Narcotics Traffickers in October 2003. Despite these orders, the companies remain in business.

Agreements and Treaties. Ecuador and the United States signed a customs mutual assistance agreement in 2002. Ecuador signed and ratified the United Nations Convention against Transnational Organized Crimes and its protocols dealing with migrant smuggling and trafficking in persons.

The United States-Ecuador extradition treaty, signed in 1872 and amended in 1939, is outdated. There have been some exploratory talks about its possible revision, but no further action has been taken. Ecuador has cooperated with the USG to deport or extradite non-Ecuadorian nationals. The Ecuadorian constitution prohibits the extradition of Ecuadorian nationals. Thus, the negotiation of a new extradition treaty depends on whether Ecuador would be willing to amend its constitution to permit 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) for counternarcotics surveillance at the Ecuadorian Air Force base in Manta.

The Government of Ecuador is a strong supporter of regional cooperation and has signed bilateral counternarcotics agreements with Colombia, Cuba, Argentina and the United States, as well as the Summit of Americas money laundering initiative and the OAS/CICAD document on an Anti-Drug Hemispheric Strategy.

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

The responsible governmental agency, CONSEP, is attempting to establish new inventory controls and began to sell seized assets in 2003 for the first time in several years.

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, \$465 million northern development master plan. The plan, critically dependent on the support of foreign donors, 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.

Cultivation/Production. Joint police/military operations located and destroyed about 5,400 cultivated coca plants in scattered locations, mostly near the northern border, in 2003. 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.

Petroleum ether, popularly known as "white gas," a by-product of petroleum extraction, has long been trafficked from oil fields in Sucumbios to neighboring Putumayo Department, Colombia, where it is used in cocaine production. Until 2003, CONSEP took the position that white gas was not a controlled substance. Although police and military forces occasionally seized shipments of the compound (totaling 7,061 liters from January through May 2003) they had no legal basis to prosecute the traffickers. In June 2003, the new CONSEP management ruled that "white gas" was chemically equivalent to petroleum ether, which is on the GOE controlled chemicals list. Supported by this finding, security forces—primarily the Ecuadorian Army—seized 301,779 liters of white gas from August through October 2003.

The USG and the Government of Ecuador have a bilateral agreement under which the Drug Enforcement Administration (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 underway. Prevention of domestic drug abuse is an integral part of the Ecuadorian government's drug strategy. Coordination of abuse prevention programs is the responsibility of CONSEP, whose new management plans to reinvigorate a multi-agency national prevention campaign. National prevention activities currently 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 counternarcotics police conduct an abuse prevention program in selected communities.

Asset Seizure. By law, seized assets cannot be forfeited until the owner is convicted of a drug offense. 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

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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, ground vehicles, computers and field supplies. Resources are being provided to the Ecuadorian Navy for expanded patrol and interdiction operations on Ecuador's northwestern coast. A major USG-funded police counternarcotics base in Sucumbios Province (northeastern Ecuador) opened in April, 2003 and another is under construction in San Lorenzo, Esmeraldas Province (northwestern Ecuador). Two additional police checkpoints, in north-central and southwestern Ecuador, are in the design phase. Renovated port cargo inspection facilities in Guayaquil and new facilities in Manta began operation. A port cargo inspection facility is being designed for Puerto Bolivar, Machala, in southern Ecuador.

In 2002, the USG funded a Judicial Police training program, the purpose of which was to educate the judicial police on the new penal code. Trainers who successfully completed that first course are now training their colleagues. Police and judicial authorities are working to revise some ineffective aspects of the new code.

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. The USG began in 2003 to provide advanced technical equipment for port and land route inspections.

The Department of Homeland Security, Customs and Border Protection, in cooperation with the Narcotics Affairs Section of the American Embassy in Quito, fielded six Customs inspectors and firearms instructors as short-term advisors to Guayaquil and Quito in 2003.

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 land route interdiction through the provision of expanded training and essential infrastructure and equipment. Increasing emphasis will be given to the detection and prosecution of money laundering (once the new legislation is passed by the Ecuadorian Congress), expanded training of the judicial police and the interdiction of illicit chemical precursors.

Ecuador Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Seizures										
Cocaine (mt)	6.22	10.49	10.83	1.72	9.24	10.770	2.160	9.800	4.400	2.186
Base, paste (mt)	0.62	0.87	1.26	1.60	0.93	0.690	1.605	0.530	0.250	0.192
Cannabis (mt)	2.57	1.90	3.07	18.26	2.98	17.730	0.022	0.200	0.200	0.131
Heroin (mt)	0.29	0.35	0.23	0.11	0.08	0.053	0.034	0.070	0.053	0.024
Labs Destroyed										
Cocaine	0	0	4	0	2	2	0	1	0	0
Arrests/Detentions										
Nationals	2,522	2,106	2,018	2,532	3,567	3,596	3,346	2,075	1,858	2,872
Foreigners	417	605	440	434	267	292	346	204	2,214	201
Total Arrests	2,939	2,711	2,458	2,966	3,834	3,888	3,692	2,279	4,072	3,073

Paraguay

I. Summary

The Government of Paraguay (GOP) took significant steps to bolster its counternarcotics capabilities in 2003. President Nicanor Duarte Frutos re-appointed Hugo Ibarra as the Executive Director of the Anti-Narcotics Secretariat (SENAD). Under Ibarra's four-year leadership, the SENAD has transformed itself into an effective, albeit limited counternarcotics agency. Also, President Duarte approved the SENAD's request to proceed with plans to bring the SENAD into the special unit program, joining other Drug Enforcement Administration (DEA) programs in South America. In 2003, Andean cocaine seizures in Paraguay increased, due primarily to implementation of the counternarcotics law approved in 2002, which allowed the SENAD to employ new investigative methodologies and law enforcement techniques. The Major Violators Unit (MVU) carried out successful operations to disrupt cocaine trafficking networks, arresting a narcotics terrorist and a major Brazilian drug fugitive. The GOP will also introduce a new money laundering law, with technical assistance by the Embassy's Resident Legal Advisor (RLA), in the Congress in 2004. The SENAD saw the creation of an internal affairs section to fight corruption, and in conjunction with the Attorney General's Office (AG), carried out a sting operation that led to the arrest of two attorneys, including a prosecutor assigned to drug cases. 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, Europe, and Africa. Paraguay is also used by the FARC to trade cocaine for arms. The Mobile Enforcement Team (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 2003

Policy Initiatives. Shortly after taking office, President Nicanor Duarte Frutos re-appointed Hugo Ibarra as the SENAD's Executive Director. Under Ibarra's four-year leadership, the SENAD has transformed itself into an effective, albeit limited counternarcotics agency. On September 17, the new president approved the SENAD's request to proceed with plans to officially request inclusion into the DEA Special Unit program, to bring the SENAD up to par with other DEA programs in South America. Meanwhile, President Duarte is expected to approve the creation of a dedicated unit to considerably expand the existing semi-vetted program.

Accomplishments. The most notable counternarcotics achievement in 2003 was the capture and expulsion to Brazil of Claudair Lopes de Faria, who was wanted in Brazil for trafficking and murder. During the investigation, the discovery that Claudair possessed false Paraguayan identification, opened a probe into possible government accomplices. The arrest served to highlight the advances the SENAD has made in surveillance techniques and investigative strategies. The same skills proved successful in the arrest of known narcotics trafficker Hassan Abdullah Dayoub, who was stopped at the Asuncion airport on his way to Syria carrying 2.33 kilograms of cocaine hidden inside an electric organ. Improved detection skills were also on display in the arrest of several individuals attempting to carry cocaine by ingestion. In conjunction with the Attorney General's Office (AG), the SENAD carried out a sting operation that led to the arrest of two attorneys, including a prosecutor assigned to

drug cases. In 2003, cocaine seizures stood at 278 kilos, slightly above last year's total, and marijuana seizures totaled 47,459 kilos. The joint Paraguayan-Brazilian counternarcotics "Alliance" exercise continued in 2003. The February exercise netted 160 kilograms of pressed or cut marijuana, and the destruction of 319 hectares of planted marijuana and 40 camps. Ten marijuana presses were also seized. A second "Alliance" was scheduled for December 11-20. The canine program continues to shine. In airport and bus terminal searches, the dogs have discovered about 92 kilograms of cocaine, including a single bust of 59.3 kilograms, which was hidden in the interior panel of a bus originating in Bolivia, and an undetermined amount soaked in clothes.

Law Enforcement Efforts. According to the SENAD chief, 201 persons, including drug producers, distributors and bagmen, were arrested. The Supreme Court reaffirmed the assignment of two magistrates as special narcotics judges. They approved SENAD requests for search warrants and the use of investigatory powers granted in the narcotics law. DEA sponsored a trip to the U.S. for its informal advisory group, composed of the two dedicated judges, the Deputy AG and a Supreme Court justice, for a detailed briefing of DEA activities in Latin America. The group also had the opportunity to see how DEA employs the same law enforcement tools that were granted to the SENAD in the 2002 counternarcotics law.

Asset Forfeiture. The GOP has auctioned its first seized airplane since a revised asset forfeiture law took effect in 2002. As a result, the SENAD will receive about \$28,000 in proceeds from the sale of the aircraft.

Corruption. The SENAD established an internal affairs unit to deal with corruption. Polygraph tests have played a major role in keeping the SENAD honest. Several SENAD agents were removed after failing the test; the vast majority remained clean. The Duarte Administration has made anticorruption the linchpin of its program of governance. In the first one hundred days of his administration, President Duarte dismissed his deputy chief of staff, environmental minister, and the head of the state oil company after allegations of fraud and corruption emerged. On the mere appearance of impropriety, Duarte dismissed his Interior Minister, a personal friend and political ally; the Customs head, and the National Police commander. Additionally, dozens of other Customs officials or other public officials have been replaced and reassigned. The GOP has also launched a campaign against some of the largest tax evaders, and President Duarte has ordered that transparent bidding and contract procedures are implemented early next year. We remain concerned, however, that reportedly corrupt police officials are in positions to give protection to or compromise law enforcement actions against narcotics traffickers. There is no evidence that the government or any senior official facilitates the distribution or production of narcotics or other controlled substances, however.

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 ratified the UN Convention against Transnational Organized Crime, Inter-American Convention Against Corruption and the Inter-American Convention Against Terrorism. It also signed the OAS/CICAD Hemispheric Drug Strategy. Paraguay has law enforcement agreements with Brazil, Argentina, Chile, Venezuela, and Colombia. The 1987 bilateral letter of agreement, under which the U.S. provides counternarcotics assistance to Paraguay, was extended in 2003.

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 5,500 hectares were dedicated to the cultivation and production of marijuana in 2003.

Drug Flow/Transit. The levels of Andean cocaine transiting through Paraguay remained stable in 2003. U.S. law enforcement officials estimate that 40-60 metric tons of Colombian, Bolivian, and Peruvian cocaine transit Paraguay annually. The SENAD estimates that close to 85 percent of marijuana cultivated in Paraguay is for the Brazilian market. It also estimates that the remaining 10-15 percent is for the Southern Cone countries and that a very small amount is consumed domestically, between 2-3 percent. The U.S. is not the destination.

Demand Reduction Program. The increased marijuana cultivation in Paraguay has led to a perceived rise in substance abuse. According to an INL-funded drug poll published in January 2003, Paraguayans' perception, confirmed by SENAD analysts, is that marijuana is the most abused drug (alcohol excepted) by adults, followed by cocaine. Among children, glue is the most abused drug. The SENAD's Office of Demand Reduction does a significant amount of outreach work, primarily in schools. The SENAD has the principal coordinating role under the National Program Against Drug Abuse and works with the Ministries of Health and Education and several NGOs. President Duarte asked President Bush at their September 26 meeting in the White House for USG support in developing a local sugar substitute (stevia) as a crop replacement for marijuana.

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 priorities in Paraguay. To accomplish these goals, the USG will support further professional development of the SENAD's MVU and CMET, providing for a more effective counternarcotics and organized crime investigative and operational capability, as well as the expansion of the semi-vetted unit program. We will continue to work closely with judicial and law enforcement agencies to use the new money-laundering law to make head-way against trafficking networks.

DEA continues to work with the SENAD, providing guidance on operations and investigations. INL will continue to provide commodities and training support to SENAD, including the purchase of detection canines, computers and computer-related items, uniforms, laboratory and other equipment. SENAD officers participated in an Office of Defense Cooperation (ODC)-sponsored Special Forces Training.

The Road Ahead. The USG will continue to strengthen the SENAD's counternarcotics investigative and operational units, as well as the anti-money laundering Financial Investigative Unit (FIU), through training, technical assistance, equipment, and other donations. The next phase of the counternarcotics program involves the expansion of the SENAD's ability to better track the movements of drug traffickers and the fortification of special agent units that can react to improved intelligence the semi-vetted unit will acquire. The new leadership of the FIU, expected large budget increase, hiring and training of new personnel, and passage of a new money laundering law should significantly better Paraguay's ability to fight money laundering. Additionally, USAID Paraguay will fund a feasibility study on the production and marketing of stevia, which the GOP is exploring as a potential crop substitute for marijuana.

Peru

I. Summary

In calendar year 2003, the Government of Peru (GOP) eradicated 11,313 hectares of coca by forced and voluntary eradication. GOP agencies have prepared an eradication plan for 2004 that could eliminate as many as 12,000 hectares of coca. According to a USG May to September 2003 survey, coca cultivation in Peru declined by 15 percent compared to a similar period in 2002, leaving a total of 31,150 hectares under cultivation, the lowest level of coca cultivation in Peru since 1986. Nevertheless, much of the forced eradication was conducted in abandoned fields and parklands, and the extensive presence of high-density coca cultivation in the Monzon and Apurimac/Ene river valleys remains a major concern.

Over the past year, the USG has supported new Peruvian alternative development activities that link eradication to the provision of development benefits. Key to program success is the political commitment of elected leaders as well as ensuring that alternative development funding is tied to eradication results. The benefits offered at four different levels—regional, municipal, community, and household—have led communities to express their interest in participating in the program. Farmers participating in this program voluntarily eradicated over 4,000 hectares of coca during the six months since the program's inception in June 2003.

According to U.S. Embassy reporting, coca farmers received approximately \$126 million from buyers for their coca leaf output in 2002. This total is only a fraction of the size of the total cocaine economy in Peru, which may equal 1.2 to 2.4 billion dollars or more annually (or 2 to 4 percent of Peru's GDP). Nearly all of the wealth derived from the cocaine economy accrues to narcotics traffickers and other criminal elements. Notwithstanding the income they receive from planting, caring for and harvesting the crop, coca farmers remain impoverished and are vulnerable to enticements, pressures, and even threats of violence from the narcotics traffickers. The lack of security and any significant government presence in the coca-growing areas provides ample opportunity for narcotics traffickers to carry out their activities unopposed. Poor infrastructure and services in coca-growing areas limit opportunities for licit economic activity. While eradication and alternative development in Peru face formidable challenges, the negative impact of the coca economy on Peru, the U.S. and other countries make continued efforts to reduce coca production all the more necessary.

II. Status of Country

Coca is grown in a number of areas east of the Andes in Peru. The USG has estimated there were 31,150 hectares of managed coca for 2003 and identified the Upper Huallaga and the Apurimac valleys as the source of 67 percent of the coca crop. In addition to the five major areas tracked by the USG, GOP ground reconnaissance has identified new areas of coca cultivation in the Marañon river valley (1,230 hectares) in the department of Loreto. Additional increases in cultivation have also been identified in the department of Puno (at least 3,000 hectares) close to Peru's borders with Bolivia and Brazil. There are no confirmed estimates as to the amount of opium poppy under cultivation in Peru.

Trafficking organizations continue to use all available methods to move coca products out of Peru via air, river, land and maritime routes to Mexico, Bolivia, Brazil, Colombia, Ecuador and Chile. Opium latex and morphine moved overland north into Ecuador and/or Colombia, where they are collected and converted to heroin for subsequent export to the U.S. and Europe. Although maritime smuggling of larger cocaine shipments is on the increase, traffickers continue to use private aircraft to transport cocaine base from Peru to Bolivia, Brazil, Colombia, and Mexico.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In Peru, DEVIDA, the Peruvian equivalent of the USG's Office of National Drug Control Policy, coordinates counternarcotics policy. During 2003 DEVIDA worked closely with the USG on a host of counternarcotics issues, including voluntary eradication, alternative development, and law enforcement and interdiction strategy.

In 2003, the Peruvian Congress set the stage for the enactment of new legislation that should provide increased legal authorities and better responsibilities and programs within the GOP designed to address drug trafficking. In July 2003, the Alternative Development Commission of the Peruvian Congress laid out a framework to eliminate and penalize illegal coca in Peru.

The USG supports research to quantify traditional coca consumption which, together with documented legal commercial coca sales, could be used by the GOP to define the legal limits of coca production under any new coca legislation.

The GOP, with USG support, is urging regional and municipal elected leaders in coca growing areas to take a public position rejecting illicit coca cultivation and narcotics trafficking as impediments to development. To date, six of seven regional presidents and numerous mayors have signed formal statements to this effect.

Treaties and Agreements. The GOP supports the objectives of the 1996 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.

Under Peru's 2002 law creating a Financial Intelligence Unit (FIU), banks and other financial institutions are required to report individual transactions over US\$10,000 (the standard international threshold). Peruvian officials have made clear their intent to seek, as soon as it is feasible, membership in the Egmont Group a cooperative and information-sharing alliance composed of well-established national FIUs from various countries.

Extradition. The United States and Peru exchanged instruments of ratification on August 25, 2003, and the new extradition treaty entered into force on that date. This treaty represents a major step forward in bilateral efforts to combat drug trafficking and organized crime. Among other things, the treaty provides for temporary surrender of a fugitive for purposes of trial and sentencing, even though the accused may have judicial processes pending in his/her home country. Under the previous treaty, signed in 1899, a defendant could not be extradited when released from prison on parole.

Illicit Cultivation. In 2003, Peru eradicated over 11,313 hectares of coca, its best performance since 1999. Forty percent of this total was as a result of community-based or government-assisted voluntary eradication, with the remainder coming as a result of forced eradication. Due to the potential for social unrest, forced eradication was limited to "non-conflictive" areas. Most of the forced eradication that took place during the year was done in San Martin and near Pucallpa.

A series of well-financed and organized strikes by coca growers (cocaleros) in February 2003, to protest GOP eradication programs, briefly shut down the Tingo Maria-Aguaytia-Pucallpa highway linking the Huallaga Valley to points eastward. Cocalero representatives demanded an end to eradication, withdrawal of NGOs from the coca valleys and an alternative development program that put funds directly into the hands of the cocaleros.

President Toledo issued an Executive Decree (DS-044) in April 2003, which restricted forced eradication to coca planted since November 2000, coca growing in national parks, and coca growing near maceration pits and processing facilities. Since April 2003, there have been no further national strikes by cocaleros, even though most of the forced eradication that took place in 2003 was done after the issuance of the decree.

As part of its voluntary eradication efforts, the USG promoted a new program of social and economic infrastructure projects and productive projects that provide income to beneficiaries. The goal of the program is to bring jobs and sustainable development to ex-coca-growing regions. Coca fields are measured and eradication is verified by the Ministry of Interior. The USG is committing up to \$8 million monthly under the program, which signed up 330 communities in 2003.

Law Enforcement Efforts. In 2003, the GOP made important progress in investigating and dismantling major drug organizations and in attacking drug processing sites in the key growing valleys of the Monzon and Apurimac/Ene. The Peruvian National Police Narcotics Directorate (DIRANDRO) mounted a number of successful operations in the Monzon and Apurimac Valleys. In a well-coordinated and extensive five-day operation in the Monzon valley in November 2003, the PNP utilized over 500 personnel and 11 helicopters—including 9 NAS UH-1H aircraft—to conduct a complete criminal sweep. The police targeted maceration pits, precursor chemicals, stolen vehicles, criminal fugitives, false documents, terrorism activities, and foreigners illegally in Peru on false documentation. The operation, logistically supported by DEA and NAS, received local support and favorable press coverage in Peru. In addition to interdiction activities, GOP personnel carried out civic action activities, specifically targeting local needs. The PNP estimated that 80 percent of Monzon valley residents supported the operation. Follow-up operations later in the year were equally well-received by residents there.

In 2003 coca base and cocaine HCl seizures were less than in 2002. Overall, in 2003 GOP interdiction efforts resulted in the destruction of approximately 3,762 kilograms of cocaine base, 3,250 kilograms of coca paste, and 134 metric tons of coca leaf. To further complement these and other law enforcement successes, DIRANDRO has re-initiated road interdiction operations in the coca growing regions of Peru. DIRANDRO personnel conduct inspections of trucks and other vehicles suspected of smuggling illegal drugs and chemicals, particularly on those highways exiting the coca-producing jungle region.

DIRANDRO successfully identified and dismantled several international cocaine trafficking organizations responsible for maritime and air shipment of metric tons of cocaine to U.S. and European markets. The USG and GOP have cooperated to improve port security and to address increased maritime smuggling at key Peruvian port locations. In September 2003, the Peruvian National Police (PNP) seized 1,079 kilos of high purity cocaine near the port city of Chimbote. The cocaine was destined for the U.S. via Mexico; eleven men were arrested in the bust.

In August 2003, two DIRANDRO basic training academies were established at the Mazamari and Santa Lucia police bases. Candidates for these schools were recruited from local communities. Each school will train classes of approximately 200 cadets a year, and graduates will be assigned to DIRANDRO units in the drug source zones. These schools have already increased police presence in the Upper Huallaga and Apurimac/Ene Valleys.

Peruvian law requires that, save for exceptional circumstances, a prosecutor be present when investigatory operations are carried out. The counternarcotics prosecutors (Fiscales Especiales Antidrogas, or “FEAs”) continued to play an integral role in narcotics interdiction. The GOP has stationed counternarcotics prosecutors in Lima and in the other provinces as well.

Corruption. As a matter of policy, the GOP does not encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substance, or the laundering of the proceeds from illegal drug transactions. No senior official of the GOP 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.

Demand Reduction. In 2003, the results of two important national surveys were released. CEDRO, a local NGO, conducted a public opinion survey in seven Peruvian cities on the drug problem in Peru.

The survey revealed that drugs are viewed as Peru's second most important problem (after the economy). It also showed that 93 percent of urban Peruvians believe there is a relationship between coca and drug use in their country. The survey also pointed out that a majority view coca growers as victims rather than as accomplices of narcotics trafficking.

A second survey released by DEVIDA, the GOP's counternarcotics office, showed a continuing increase in drug use in Peru. Marijuana use among 17 to 19 year olds has almost doubled since 1998. The most frequently consumed illegal drugs are marijuana, cocaine base and cocaine. Additionally, sniffing of legal substances such as gasoline and glue continues to be a problem, especially among 12-16 year olds. For the first time, Ecstasy (MDMA) appeared as an abused drug, with a 0.4 percent use rate.

Rising concern about the affects of the drug economy prompted the government and private sector to mount an counternarcotics public education campaign. DEVIDA, with the support of the USG, produced a widely televised commercial that linked the cultivation of coca to violence, delinquency and corruption by explaining 90 percent of all Peruvian coca leaf is used to make cocaine. Also with support from the USG, the NGO Alliance for Drug-Free Peru broadened its focus from drug education and prevention to include messages linking coca production to narcotics trafficking.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG's Andean Counter-narcotics Initiative (ACI) program in Peru provides law enforcement support to the GOP (inter alia, for eradication of mature managed coca and seedbeds, busts of labs and maceration pits, riverine interdiction, customs interdiction at ports and airports, road-based interdiction, control of precursor and essential chemicals, and anti-money laundering efforts) as well as assistance for alternative development and drug awareness and demand reduction programs. Particularly important in affording mobility to GOP units is the aviation support (helicopters and fixed-wing assets) that the U.S. Embassy's Narcotics Assistance Section (NAS) provides.

The USG continues to encourage the GOP to focus its counternarcotics law enforcement operations in the major drug source zones in the Upper Huallaga Valley and Apurimac/Ene valley. The PNP has used USG assistance to increase police presence and its operational productivity in these areas by fortifying existing police bases and establishing two police training academies.

Precursor Chemicals. Peru produces some of the precursor chemicals, such as sulfuric acid, required for the processing of coca to cocaine base and cocaine HCl. Peru also is a major importer of all other necessary chemicals for cocaine production. Many tons of these chemicals are diverted from legitimate use. The PNP proactively cooperates with neighboring countries and the U.S. to conduct regional chemical control operations. In 2003, the PNP seized over 900 metric tons of illicit chemicals; Peruvian Customs officials seized 4,300 kilograms of such chemicals.

With USG assistance, a chemical precursor assessment study was completed in early November. The assessment provides a roadmap for the GOP to implement a series of reforms, including the drafting of new chemical control legislation which could substantially reduce the flow of such chemicals and increase the effectiveness of interdiction efforts in coca-growing areas.

Anti-Narcotics Coordination Center (ANCC). The USG is currently engaged in discussions with the GOP on strengthening efforts to prevent the illegal shipment of drugs via ground, river and air. As part of this effort, the two countries are discussing the establishment of an Anti-Narcotics Coordination Center (ANCC), which would help coordinate law enforcement activities among various GOP agencies.

Riverine and Maritime Programs. The joint USG/GOP riverine program was established to prevent traffickers from using Peru's extensive river system to transport drugs. The results of this program have been disappointing.

As a consequence, the USG has redirected its resources towards building a stronger drug interdiction program in Peru's seaports. The USG is helping the GOP build a capability to identify and inspect suspect cargo shipments. The program started in Callao, Lima's principal seaport, and initial efforts to expand it to other Peruvian ports with significant export traffic to the U.S. are currently underway.

Alternative Development Efforts. Beginning in June 2002, USG resources have been employed to support a voluntary eradication program which directly links Alternative Development Program (ADP) benefits to a commitment on the part of communities and political leadership to permanently eliminate illegal coca cultivation. This approach has resulted in the eradication of 4,290 hectares of coca, most of which was eradicated in the last six months of 2003.

The ADP portfolio is a multi-sector approach to removing barriers to development, improving local governance, strengthening rule of law and increasing the economic competitiveness of coca-growing areas. It strengthens the planning, management and budgeting capabilities of regional and local governments via direct training as well as through their participation in the implementation of infrastructure, health and education projects. During 2003, the ADP completed work on 751 km of road, 6 bridges, 4 irrigation systems, 32 health posts, and 79 schools and continues work on over 500 additional km of rural roads. The ADP is helping to develop IIRSA (public-private-partnerships for national road integration) concessions to generate private investment in major roads and infrastructure, and is currently contracting for the rehabilitation of 170 km of the Fernando Belaunde Highway, a major link between the Huallaga Valley and national markets. The program supports the expansion of ombudsman services to coca growing areas to help resolve conflicts and prevent the intimidation of participating communities by narcotics interests, and works to increase the number of cases tried in these areas.

During 2003, business deals supported by ADP resulted in an increase in sales of US\$9.5 million, while ADP-supported forest concessionaires generated 400 permanent jobs and commercialized \$5 million in lumber. The ADP is supporting credit mechanisms and providing land titles. In 2003, ADP concluded an agreement to make US\$12 million in credit available over the next five years in the coca areas, financed approximately US\$1.5 million in loans and issued the first 200 of 4,300 land titles that will be given out by March 31, 2004.

Road Ahead. After a banner year in terms of meeting its coca eradication and interdiction goals, the GOP will need to build upon this success in the coming year. Persistent efforts to provide both positive incentives and negative disincentives for farmers to desist from coca cultivation are necessary. The GOP's counternarcotics agenda will need to include: continued emphasis on forced eradication of mature managed coca in high-density cultivation areas, drug interdiction, expansion of the pilot voluntary eradication program, increased efforts to identify and eradicate cultivation of opium poppy, establishment of, and support for, the contemplated Anti-Narcotics Coordination Center, further development of its Financial Investigative Unit, a renewed commitment to taking ownership of the Riverine Program, and hard thinking on how to best establish an effective maritime interdiction program.

A large part of the USG/GOP bilateral cooperation will continue to revolve around alternative development that is tied to eradication results. The community-based activities we are jointly undertaking to strengthen institutions, infrastructure, and governance are a long-term project. While short-term results are a must, they cannot substitute for long-term success.

Peru Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Coca										
Net Cultivation (ha)	31,150	36,000	34,000	34,100	38,700	51,000	68,800	94,400	115,300	108,600
Eradication (ha)	11,313	7,000	3,900	6,200	13,800	7,825	3,462	1,259	0	0
Cultivation (ha)	42,463	42,000	37,900	40,200	52,500	58,825	72,262	95,659	115,300	108,600
Leaf (Potential Harvest) (ha)	—	52,700	52,600	60,975	69,200	95,600	130,600	174,700	183,600	165,300
HCl (Potential) (mt)	—	140	140	154	175	240	325	435	460	435
Seizures										
Coca Leaf (mt)	132.9		13.8	55.0	164.3	132.9	146.8	99.1	33.4	25.2
Coca Paste (mt)	—	—	—	—	—	—	—	—	—	—
Cocaine HCl (mt)	3.25	3.7	2.77	2.70	3.59	1.70	2.30	1.01	7.65	0.10
Cocaine Base (mt)	3.76	8.7	5.71	9.01	6.65	19.70	8.80	18.68	15.00	10.60
Total Cocaine (mt)	7.01	12.4	8.48	11.70	10.24	21.40	11.10	19.69	22.65	10.70
Heroin (mt)	.004	—	.004	.002	—	—	—	—	—	—
Aircraft (items)	0	0	1	2	—	—	11	7	22	4

Uruguay

I. Summary

Uruguay is not a major narcotics producing or transit country. Efforts to fight drug trafficking and domestic consumption are effective, although law enforcement agencies and counternarcotics programs have limited resources. Current areas of concern include increasing drug consumption, limited inspection of containers at ports, limited border controls, lack of radar coverage over most of the territory, and the possible use of free trade zones for the movement of drugs and precursors. Uruguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Uruguay is not a major narcotics producing or transit country, but a five-year recession, which is just ending, and its strategic location, could lead to increased trafficking. Domestic drug consumption consists mainly of marijuana that arrives in small planes from Paraguay. However, Bolivian cocaine, smuggled through Argentina and Brazil, is increasingly in evidence, as are small quantities of heroin brought in through the airports by Uruguayan, Colombian, Argentine, and Brazilian traffickers. The tri-border area of Paraguay, Argentina and Brazil, which has long been a haven for narcotics traffickers, affects Uruguay, and the long porous border with Brazil lends itself to infiltration. Limited inspection of airport and port cargo is a problem, with Uruguay serving as a transit point for contraband to Paraguay and elsewhere. Although chemical precursor controls exist, they are not effectively enforced.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Despite President Jorge Batlle's occasional public statements supporting the legalization of drugs, the Government of Uruguay (GOU) continues to make counternarcotics a priority. Batlle has increased military involvement in antitrafficking efforts and got personally engaged to improve anti-money laundering regulations. The GOU remains committed to education and prevention, although funding for this is low. Uruguay is an active member of the Southern Cone Working Group of the International Conference for Drug Control, as well as other international mechanisms that fight narcotics, money laundering and corruption.

Accomplishments. Uruguay continued to cooperate fully with U.S. and regional counter narcotics efforts. In April 2003, working with Brazilian authorities, the police arrested Brazilian narcotics trafficker Joao Arcanjo Ribeiro who purchased a residence in Montevideo. Four of the 23 companies he owns are located in Uruguay and were allegedly used for money laundering. Arcanjo remains in prison pending extradition to Brazil. Uruguayan law enforcement authorities increased drug seizures in 2003, demonstrated cooperation with their regional counterparts, and fractured urban distribution rings. In addition, the GOU has mounted a concerted campaign on demand reduction.

Law Enforcement Efforts. The expertise of the different groups responsible for narcotics-related law enforcement has improved, and they are generally effective. However, difficulties remain in coordination 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). The DNII is now under the direct supervision of the Minister of the Interior and has expanded its assignment to include combating organized crime, contraband, terrorism, and financial crimes.

According to Uruguay's General Direction of the Repression of Illicit Drug Trafficking, drug seizures amounted to 1,110 kilos of marijuana, 41 kilos of cocaine, 12 kilos of heroin and some ecstasy in 2003. Also in 2003, 1,690 suspects were arrested (188 were minors), and 269 were convicted. Major achievements included the dismantling of the smuggling ring around the Uruguayan trafficker Omar Clavijo (who was murdered in Paraguay), the seizure of 12 kilos of heroin at Carrasco International Airport in June 2003, and the dismantling of urban distribution centers.

Corruption. There are no indications that senior GOU officials have engaged in drug production, trafficking, or money laundering, and the GOU does not condone narcotics production, trafficking and money laundering. Public officials who do not act on 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 officials and requires high-ranking officials to comply with financial disclosure regulations.

Uruguay has an active commission that investigates public sector corruption, whose head is in his second year as President of the Experts Group of the OAS Inter-American Convention Against Corruption. In April 2003, Public Prosecutor Carlos Garcia Altolaguirre was convicted on bribery charges for receiving money from drug traffickers and suspected money launderers in exchange for early release from jail. One of his colleagues, Pedro Miguel Milano, was also imprisoned.

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. It is also a member of the OAS's Inter-American Drug Abuse Control Commission (CICAD). The United States and Uruguay have signed an Extradition Treaty (1984), a Mutual Legal Assistance Treaty (1994), and annual Letters of Agreement under which the U.S. funds International Narcotics and Law Enforcement (INL) programs. Uruguay has signed drug-related bilateral agreements with Brazil, Paraguay, Bolivia, Chile, Mexico, Panama, Peru, Venezuela and Romania. Uruguay is a member of the regional financial action taskforce, Grupo de Acción Financiera de Sudamérica (GAFISUD), of which it held the presidency in 2003.

Cultivation/Production. There is no known cultivation or production of drugs in Uruguay, and it is not a major drug-transit country.

Drug Flow/Transit. Limited law enforcement presence along the Brazilian border and increased U.S. pressure on traffickers in Colombia, Bolivia and Peru could increase transit through Uruguay. Drug seizures are increasing, but would be even greater if the GOU had more funding for law enforcement equipment. To deal with this, the GOU is tendering for companies to operate container scanners at the main port, and the private consortium that won the contract to operate the main airport agreed to build new passenger and cargo terminals that meet international security and safety standards.

Demand Reduction Programs. The GOU does not maintain statistics on domestic drug consumption, but indications are that drug use within Uruguay is moderate but increasing, with marijuana dominating. GOU efforts focus on prevention, rehabilitation and treatment, based on a strategy developed by the National Drug Council, the Ministries of Education, Interior, Public Health, and Sports and Youth Affairs, and including INJU (The National Institute of Youth), INAME (The National Institute of Minors), the municipalities and NGOs. Specific demand reduction projects include: 1) the "Adventure of Life" program for teaching values and healthy habits to school children; 2) the "Espacio de Encuentro" web page chat forum of the National Drug Council; and 3) the "Centro de Referencia de Drogas," an NGO program that works with addicted children and young adults. The National Drug Council has sponsored teacher training, public outreach, and programs in community centers, and published several brochures on demand reduction.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. strategy is to prevent Uruguay from becoming a major narcotics transit or consumption country. In addition, given Uruguay's success as a regional financial center before the recession, the U.S. provides assistance to combat money laundering. U.S. support complements GOU counternarcotics efforts. In 2003 and 2004, funds from the State Department's INL Bureau will be used for travel, training, and conferences for GOU officials in counternarcotics, crime, corruption and money laundering. Additionally, funds will purchase computer equipment for the Central Bank and the prosecutors office, brochures on demand reduction, and a feasibility study on installing radar over northern Uruguay.

In recent years, the U.S. provided computers, software, passport scanners, vehicles and other equipment to the GOU to enhance its counternarcotics and anti-money laundering efforts. The U.S. funded conferences, seminars, and training on canine handling, community policing, and money laundering. In 2003, INL also sponsored a training session for policemen in patrol techniques and a seminar on investigating money laundering.

The Road Ahead. The U.S. will continue to work closely with the GOU and law enforcement agencies to strengthen Uruguayan counternarcotics and anti-money laundering efforts. The focus will be on stronger sea, air, and land border controls. In addition, regional cooperation will continue to play an important role, especially since MERCOSUR holds its administrative headquarters in Montevideo. Despite the current government's strong political will to fight drug trafficking, additional resources are needed to strengthen Uruguay's borders.

Venezuela

I. Summary

Continuing political turmoil in Venezuela distracted the Government of Venezuela (GOV) from the international narcotics control program throughout much of 2003. A two-month national strike virtually shut down the country at the beginning of the year. A series of activities for and against a national referendum on President Hugo Chavez' term in office kept much of the GOV's attention focused on internal political friction. Consequently, the key Anti-Organized Crime Bill received little attention and made no progress in 2003. Final steps in the ratification of the U.S.-Venezuela mutual legal assistance treaty also stalled. At year's end the GOV conducted two coca eradication operations, the first such operations against coca or opium poppy in two years. Corruption in the judicial and other sectors of the government hampered narcotics investigations and trials.

On the positive side, cocaine seizures increased dramatically. According to figures provided by Venezuelan authorities, cocaine seizures rose as high as 32 metric tons, which would be nearly double previous year record seizures of 17.79 metric tons. Heroin seizures remained on a par with last year's elevated rate at about half ton and led those throughout South America for a fourth straight year. A vetted unit working with DEA, the Venezuelan Prosecutor's Drug Task Force (VPDTF) accomplished a series of notable seizures, arrests, and convictions. Construction began on a model cargo inspection facility at Venezuela's primary container port and state-of-the-art X-ray machines were installed at two airports. Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

Situated next to the world's greatest source of cocaine, Venezuela shares Colombia's largest land border—2,200 kilometers of poorly controlled desert, mountains, and jungle crisscrossed by various highways, back roads, river systems, and ocean front. 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, is the site of coca and opium poppy cultivations and rudimentary production labs on both sides of the Colombo-Venezuelan border. The navigable Guaviare and Meta rivers flow from Colombia's coca-growing and cocaine-production region to form two sides of Venezuela's southwest border, eventually meeting 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 has been estimated at 100 to 150 metric tons per year, although figures provided by Venezuelan authorities suggest that the level could already exceed 250 metric tons per year. Although there is no reliable estimate on the amount of heroin transiting the country, the continuation of an exponential rise in heroin seizures over the last four years and the use of bolder smuggling methods is cause for grave concern; for the fourth straight year, Venezuela leads the continent in heroin seizures, ahead of Colombia. Large seizures of MDMA (Ecstasy) continued for the second year in a row. Coca and opium poppy are cultivated along the Colombian border in small amounts.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Progress on major counternarcotics legislative issues halted in 2003. The primary source of disappointment was the National Assembly's failure to pass, or even move forward on, the Anti-Organized Crime Bill (known by its Spanish acronym "LOCDO"). This bill, which was first sent to the National Assembly in 1999, would arm Venezuelan law enforcement with a full array of tools needed to effectively combat 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 criminal conspiracy, and enhanced and streamlined asset forfeiture.

The first reading of the LOCDO was completed by December 2001. The second reading was scheduled for early 2002, but other issues, including the temporary removal of President Chavez from office in April and subsequent political turmoil, distracted the National Assembly from this critical piece of legislation. By October 2002, the National Assembly pushed through 97 of the bill's 150 articles; however, work on the bill was again abandoned the next month as political tensions between the Chavez administration and the opposition again increased. After the nationwide strike from December 2002 through February 2003, the National Assembly did not take up the work again on the LOCDO in 2003.

The U.S.-Venezuela mutual legal assistance treaty (MLAT) was ratified by the National Assembly in March 2002, but by the end of 2003 it still awaited the final step of publication in the National Gazette before becoming law.

A major amendment to Venezuela's National Narcotics and Psychotropic Drug Law (LOSEP), which would include much needed enhancements to Venezuela's chemical control regulation, saw little movement in 2003. It cleared the first reading in 2003, but has not moved on to the second.

The GOV has introduced three antiterrorism bills, but much of their content is highly politicized (e.g., defining various forms of non-violent political protest to be forms of terrorism). These bills do not fulfill the requirements of either the UN International Convention for the Suppression of the Financing of Terrorism (1999) nor the UN International Convention Against Transnational Organized Crime (AKA the Palermo Convention—2000).

Accomplishments. Cocaine seizures in Venezuela climbed dramatically in 2003, reaching a level more typical of the amount normally seized in Mexico—according to figures provided by Venezuelan authorities, more than 32 metric tons in 2003. At more than double the annual average of 15 metric tons in recent years, 2003's record seizures indicate an improving interdiction capability within the GOV, as well as an increase in cocaine transit through Venezuela. A further indication of this increased flow is the approximately 61 metric tons of cocaine seized by the Government of Spain on the high seas from ships sailing under the Venezuelan flag during a three-month period in mid-2003.

The GOV in late December conducted two coca eradication operations in the Serrania de Perija mountain range, along the border with Colombia, the first such operations against coca or opium poppy cultivation in two years. Most illicit drug crop cultivation is believed to continue on a small, but increasing scale, on the border with Colombia. GOV efforts were focused primarily on disrupting the distribution, sale, transport of drugs, as discussed in part IV of this report (bilateral cooperation).

Finally, demand reduction programs abound in Venezuela, financed and administered by a number of government agencies, non-government organizations, and private sector companies.

Law Enforcement Efforts and Cooperation. At the law enforcement agency level, cooperation between GOV and USG continues to be excellent. A number of specific examples involving significant disruption of narcotics trafficking organizations (NTOs) can be cited.

In January 2003, the Venezuelan Prosecutor's Drug Task Force (VPDTF) took a lead role in a DEA investigation of the Ramiro Imitola Lopez NTO, which was responsible for the movement of multi-hundred kilogram quantities of heroin to the United States via commercial aircraft, a few kilos at a time. Thirty members of the Lopez NTO were also identified and arrested in the U.S., Venezuela, Colombia, and Curacao. Multi-kilogram quantities of heroin and half a million dollars in drug proceeds were also seized by Venezuelan authorities during the course of the investigation.

In February 2003, the VPDTF and DEA initiated an investigation of the Yorlank Pea NTO, which transported some 40 kilograms of heroin per month to New York. VPDTF's investigation turned up a number of members of the organization in the U.S. and other countries. This intelligence has proved not only valuable for evidentiary purposes, but also for developing leads for DEA offices in the U.S. and elsewhere. As a result, NTO leader Ramon Dugarte was arrested along with several of his cohorts.

From June through September 2003, the VPDTF supported several DEA offices in Caracas, Santo Domingo, Washington, and New York by conducting multiple court-ordered wire intercepts against DEA priority targets Mateo Juan Holguin-Ovalle and others. These co-conspirators were suspected of shipping large quantities of cocaine and heroin from Venezuela to the Dominican Republic, Puerto Rico, and the continental United States. The VPDTF not only allowed DEA to be present during subsequent arrests and search warrants, but also permitted DEA to interview the defendants and provided evidence to be used in the U.S. prosecution. Based in part on the evidence obtained by the VPDTF, the U.S. District Court in the District of Colombia issued arrest warrants for Holguin and another fugitive. A U.S. request for Holguin's extradition is being processed through the Venezuelan court system.

In April 2003, in response to the kidnapping of the American Embassy's security officer at Georgetown, Guyana, the GOV granted expedited flight clearance to allow a U.S. Customs aircraft to land in Caracas to pick up a team of Diplomatic Security and FBI agents for immediate deployment to Guyana. Although under the current bilateral agreement such flight clearance requests require five days advance notice, GOV authorization was granted at the most senior level within just a few hours. The rapid deployment of this team was instrumental in the successful resolution of the kidnapping.

In November 2003, through the joint efforts of the Venezuelan investigative police (CICPC) and the FBI, and pursuant to a GOV extradition request, the alleged mastermind of the 1999 kidnapping of Venezuelan businessman Antonio Nagen was returned to Venezuela from Miami, Florida. Evidence gathered by the CICPC was instrumental in the case. During his captivity, Nagen was held by the Colombian Ejercito de Liberacion Nacional (ELN), which is designated as a foreign terrorist organization by the Department of State.

Corruption. Venezuela placed 100th out of 133 countries in Transparency International's 2003 report, falling from its position of 83 in 2002. Venezuela now ranks among the six most corrupt countries in Latin America.

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. Venezuela's sometimes practice of assigning temporary stand-in judges to narcotics trafficking cases at key points of the trial has resulted in the release of numerous narcotics traffickers under suspicious, if not farcical, circumstances.

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. Although the GOV obtained legislative approval of the U.S.-Venezuela Mutual Legal Assistance Treaty (MLAT) in 2002, entry into force awaits publication in the National

Gazette and the completion of formal mutual notification of the completion of the ratification process through the diplomatic channel, in accordance with the terms of the MLAT. The GOV has 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. An extradition treaty between the U.S. and Venezuela was signed in 1922.

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 ratified the UN Convention against Transnational Organized Crime, and the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and has signed, but not yet ratified, the Protocol against the Smuggling of Migrants. Venezuela's 1999 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 European Union. The scope of these agreements ranges from suppression of trafficking and demand reduction to specific controls on money laundering and precursor chemicals.

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

Cultivation/Production. Unknown quantities of coca and opium poppy, not thought to exceed 400-600 hectares, are cultivated in the Serrania de Perija mountain range along the border with Colombia. The GOV conducted two successful coca eradication operations in that region in late December.

Two years ago, cocaine base labs were discovered for the first time ever in Venezuela, near the Colombian border. Three cocaine base labs with attendant chemicals and processing equipment were discovered in 2001.

Drug Flow/Transit. Venezuela is a major transit country for shipment of cocaine, heroin, and marijuana to the United States and Europe. Containerized shipments via commercial sea freight are the dominant method of smuggling cocaine in loads of a ton or more. Drug smuggling organizations also utilized pleasure boats to move a large percentage of the cocaine transiting Venezuela. Heroin is moved primarily via courier on commercial airlines and in packages sent via express courier services. Heroin smuggling continues to increase.

Based on seizure statistics for 2003, multi-ton shipments of cocaine continue to enter Venezuela from Colombia via the Pan American Highway (border state of Tachira) and exit Venezuela from the coastal states of Carabobo (Puerto Cabello), Vargas (Puerto La Guaira 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 on 2003 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 also takes place across the Guajira Peninsula and in the vicinities of Puerto Cabello and Maracaibo.

Domestic Programs (Demand Reduction). The National Commission Against the Use of Illicit Drugs (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. During the first nine months of 2003, Alianza ran a total of 2,317 public service commercials on three different networks. The value of the privately donated airtime is estimated at more than 3.7 million dollars.

No firm estimates on the size of the drug consuming population in Venezuela are available, although it is commonly agreed that national consumption is a problem. In fact, Venezuela is dealing very positively with drug abuse. The official 2003 first semester report shows that 25 public and private centers treated 3,468 patients. Marijuana consumption was highest, cocaine moderate, and heroin and methamphetamine low; the majority of the patients were between the ages of 15 and 29; 91 percent were male; 78 percent had less than a high school education; and 74 percent were unemployed or underemployed.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. 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 and convictions.

Bilateral Cooperation (Accomplishments). USG-GOV bilateral narcotics control efforts and programs continued to undergo significant development and expansion in Venezuela in 2003, notwithstanding a national work stoppage, that resulted in a two-month ordered departure of most embassy personnel, including the Narcotics Affairs Officer. Seaport and airport security programs were initiated and expanded during the year. Heroin seizures, both on the border and at the country's largest airport, continued at last year's high level. A multi-agency investigations task force begun in late 2001 built upon its excellent record in 2002, making major seizures and arrests in 2003. Arrests and prosecutions continued at an energetic level throughout the year, although convictions remained low, indicating the need for better-trained prosecutors, tougher laws (such as the Anti-Organized Crime Bill), and the need to crack down on judicial corruption.

Work began on a USG-funded model cargo inspection facility in Venezuela's largest commercial seaport, Puerto Cabello, a known embarkation point for multi-ton containerized shipments of cocaine to the U.S. The new national level directors of the three agencies responsible for control of exports agreed in principle to assign personnel to work together with U.S. Customs and Border Protection (CBP) officers in the new facility when complete. Two TDY CBP officers augmented the Port Security Program during seven months of the year and assisted in implementing improved procedures, organization, training, and equipment to detect and intercept drug shipments and conduct follow-up investigations.

Airport security projects were initiated at Maiquetia International Airport (servicing Caracas) and Michelena Airport in Valencia. In all, seven X-ray machines and two ion scanners were installed, with the dual capability of detecting drugs and explosives. Additionally, a number of portable radiation detectors were issued to airport and seaport inspectors to permit the discovery of radioactive material that might be used in the construction of “dirty” bombs.

The Venezuelan Prosecutors' Drug Task Force (VPDTF), begun in October 2001 with NAS logistical support and DEA advice, continued to develop its professional investigative and operational capability in 2003. 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 more than 11 metric tons of drugs (4.3 metric tons of cocaine, 31 kilograms of heroin, and seven metric tons of marijuana), conducted follow-up investigations resulting in the arrest of 59 traffickers (including one kingpin), and seized numerous watercraft, real estate, and cash. Additionally, the VPDTF's intelligence and investigations supported international operations that resulted in the seizure of 2.5 additional tons of drugs. Several counterterrorism courses and seminars were offered in country by the USG during FY 2003, including terrorist financing detection, terrorist crime scene investigation, and antiskidnapping. Competition to attend these courses was fierce and demand for additional training in 2004 is very high.

The International Narcotics Enforcement Officer Association Commendation Award was presented to two Venezuelan narcotics officers in 2003 for the outstanding results of their investigations, which resulted in the dismantling of several major narcotics trafficking organizations.

In support of the GOV-developed Criminal Case Tracking System software, the USG initiated the procurement of 100 computers to run the software and contracted the professional services of six lawyers to assist the Public Ministry in clearing its backlog of 2,692 narcotics trafficking cases. By the end of 2003, most of these cases had been processed.

In a trilateral project, the American Embassy, British Embassy, and the GOV National Financial Intelligence Unit (UNIF) pooled resources to purchase and install a 21-station local area network at the UNIF headquarters.

The Road Ahead. The pending Organized Crime Bill remains 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 call upon its contacts within the GOV and the international diplomatic community to lobby for speedy passage and enactment of this 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 2004. To the extent possible given Venezuela's polarized political situation, we will revive and rebuild focused training programs for judges, public prosecutors, and criminal investigators; improve interdiction capabilities at key transportation choke points; and seek to revitalize and expand a centralized organized crime intelligence analytical center. The emphasis will be on attacking narcotics trafficking as an aspect of organized crime.

Venezuela Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Seizures										
Cocaine HCl (mt)	32.20	14.89	13.39	15.03	12.48	7.30	14.58	5.60	6.17	5.10
Other Cocaine (Basuco) (mt)	—	0.343	0.79	0.62	0.62	1.30	1.60	1.60	1.60	1.60
Total Cocaine Products (mt)	32.20	15.23	14.18	15.17	13.10	8.60	16.18	7.20	7.77	6.70
Cannabis (mt)	9.50	19.38	14.43	12.43	19.69	4.50	5.52	5.30	13.70	10.00
Heroin (mt)	0.44	0.475	0.28	0.13	0.04	0.04	0.11	0.07	0.10	0.02
Arrests										
Nationals	1,897	1,614	2,733	2,341	6,414	7,242	4,880	—	3,000	—
Foreigners	290	450	336	275	216	289	499	—	600	—
Unspecified	—	647	—	—	—	—	—	—	—	—
Total Arrests	2,187	2,711	3,069	2,616	6,630	7,531	5,379	—	3,600	—

CANADA, MEXICO AND CENTRAL AMERICA

Belize

I. Summary

Belize, part of the major transit zone for narcotics moving towards the U.S., was removed from the Majors list in 1999. At the time, declining seizure rates and lack of hard evidence that drugs were transiting through Belizean waters and air space supported this decision. However, new evidence that Belize is a regular transshipment point continues to emerge.

The Government of Belize (GOB) recognizes that the transit of cocaine and other drugs are serious matters. The GOB continues to work closely with the United States on narcotics control and other international crime issues—most notably, stolen vehicles. The Belize Police Department, the Belize Defense Force, and the newly established International Airport Canine Unit provide counternarcotics efforts. Although the size of the Belize Police Department did not change in 2003, requests for training and other assistance to professionalize the force have been notable. Unfortunately, police department efforts to battle narcotics transshipment are half-hearted due to lack of air and maritime assets and internal government corruption. Belize is a party to the 1988 UN Drug Convention.

II. Status of Country

Belize, a potentially significant transshipment point for illicit drugs between Colombia and Mexico, continues to cultivate a small amount of marijuana, primarily for local consumption. The Belize Defense Force and the Belize Police Department have led successful eradication efforts over the past few years. Contiguous borders with Guatemala and Mexico, large tracts of unpopulated jungles and forested areas, a lengthy unprotected coastline, hundreds of small caves, and numerous navigable inland waterways, combined with the country's rudimentary infrastructure add to its appeal for drug trafficking. The number of abandoned suspect boats and airplanes found in Belizean waters and in clandestine areas increased in 2003. Drug-trafficking go-fasts have access to the coast at Belize City and are able to unload illicit cargo alongside legitimate shipments.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Anti-Drug Unit (ADU) expanded to 35 officers in 2003. The ADU is responsible for all counternarcotics work, both on land and at sea. Roughly one-third of the officers is stationed in the ADU office in Belmopan and the rest are stationed in the Belize City Office. Unfortunately, their superiors assign many ADU officers to combat violent crime in the streets, cutting into the time they can spend on narcotics investigations. The “Canine Unit”, a branch of the ADU, comprising seven canine members and seven handlers, refurbished its kennel in 2003. The U.S. Government donated three canines upon GOB request. One of the canines was trained to detect explosives—a new concept for Belize. Another canine was cross-trained to find both narcotics and weapons.

In 2003, Belize's Ministry of Home Affairs established a Forensic Laboratory project. A newly constructed building in Ladyville will house the Forensic Laboratory, fingerprinting facilities, and city morgue. A British contractor conducted an intense evaluation of the existing program, and upon his recommendation, new equipment was donated, intensive training was requested and a project manager was hired to develop a new Forensics Program with focus on Crime Scene Management and fingerprinting. The police department, which traditionally relied on officers for technical crime scene assistance, realized that it needed dedicated crime scene technicians and fingerprint technicians, and it hired civilians to do the job.

Accomplishments. A recent program provided significant assistance to unlicensed firearms investigations. The GOB installed an anonymous tip line for crime information, and advertised a one-month “Gun Amnesty” period. After the amnesty period, Belize took a harder stance on unlicensed firearms and revised its firearm legislation. This appears to have been one of the most successful self-initiated programs within Belize law enforcement over the past few years.

The GOB fully cooperated in one joint counternarcotics operation in 2003 utilizing Joint Task Force Bravo assets.

Cultivation/Production. The GOB successfully carried out many independent marijuana eradication missions in 2003. By October 2003, 103,058 marijuana plants had been eradicated. Illicit cultivation continues to occur at reduced levels from the widespread cultivation of a decade ago. Belize has a dense rainforest canopy, and farmers often grow crops in remote areas. Marijuana remains the most popular drug crop grown in Belize, but there is no evidence that it has any significant effect on the U.S. The BDF and BPD conduct manual marijuana eradication missions on a regular basis using their own aerial reconnaissance program.

Precursor Chemical Control. Although Belize has had very limited signs of precursor chemical production, the GOB, in support of the 1988 UN Drug Convention, has an existing precursor chemical program. The Medical Department at Carl Heusner Hospital keeps track of all statistics on precursor chemicals. Legislation for precursor chemical control was written and is in the edit process, with no specific date for presentation to the House. The legislation covers a variety of aspects including control, enforcement and registration of all precursor chemicals.

Asset Seizure. GOB law permits the seizure of assets connected to drug trafficking. To date planes, boats, cash, vehicles and weapons have been seized. Unfortunately, the vast majority of these seized assets are sold at grossly undervalued amounts to “friends” of the government. Very little, if any, of the proceeds from sale of seized assets is reinvested in fighting crime or narcotics trafficking.

Domestic Programs/Demand Reduction. GOB demand reduction efforts are coordinated by the National Drug Abuse Control Counsel (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.

Law Enforcement Efforts. Authorities seized 56.7 kilograms of cocaine in 2003. They also seized 55 kilograms of cannabis, 1 kilogram of cannabis seed, 144 grams of heroin, and 2 kilograms of crack cocaine. The ADU is supposed to be dedicated solely to handling narcotics cases and conducts operations throughout the year. To this end, 473 arrests were made on drug-related charges stemming from possession of or trafficking in marijuana, cocaine, crack cocaine and heroin. Additionally, fifteen go-fast boats originating from Colombia and three aircraft were seized. Finally, the Belize police arrested two local high-level narcotics traffickers, who were surrendered to U.S. authorities and currently are being prosecuted in the U.S.

The GOB's most serious internal drug problem is rooted in drug-associated criminality. Obtaining convictions remains difficult, as the Office of the Public Prosecutor remains under-trained, under-paid, and poorly equipped. The GOB is refurbishing its fingerprinting program with the assistance of the Panamanian government and the FBI. This is thought to be the key factor in obtaining convictions. The GOB expects to have its fingerprinting program reconstructed by the end of FY2004. The government also expects to have 14 civilian crime scene technicians trained and in the field by March 2004 to improve crime scene collection in conjunction with the opening of the new Forensics Laboratory.

Corruption. There is no evidence of narcotics-related corruption within the GOB. However, there is a general problem with corruption within some government agencies. In April 2000, the GOB created an Office of the Ombudsman, which can independently investigate allegations of wrongdoing. The police

also have an internal affairs investigator charged with handling complaints against police officers. A number of officers were dismissed in 2003 for misbehavior. RSO, DEA and NAS continue to gather increasing evidence and information pointing to the fact that the GOB suffers from serious corruption problems at all levels.

Agreements and Treaties. Belize has been a party to the 1988 UN Drug Convention since 1996. In July 2002, Belize ratified a stolen vehicle treaty with the U.S. Five stolen cars were investigated by the National Insurance Crime Bureau (NICB) and were successfully returned to the U.S. under the treaty. In September 1997, the GOB signed the National Crime Information Center Pilot Project Assessment Agreement, which allows for sharing of information and data between the U.S. and Belize. In 1992, Belize set the standard for maritime counternarcotics cooperation in the region by signing the first Maritime Counter Drug Agreement with the U.S. The GOB and the U.S. signed an Over Flight Protocol to the 1992 Maritime Agreement in April 2000 and placed a request for more joint operations under the Sea Rider Agreement in June 2003. A new Extradition Treaty entered into force in March 2001, and one individual on the “United States Marshals Service 15 Most Wanted” list was extradited under that treaty. The U.S.-Belize Mutual Legal Assistance Treaty (MLAT) entered into force in July 2003; Belize has been extremely responsive, primarily through its Financial Intelligence Unit, in executing requests under this treaty. Belize is a party to the Inter-American Convention Against Corruption.

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 U.S. The major narcotics threat in Belize is cocaine transshipment through Belize waters for onward shipment to the U.S. Cargo guards protect shipments of cocaine. Mexicans and Colombians carry automatic weapons and are considered extremely dangerous. These circumstances, coupled with the lack of visibility at night and the vegetation concentrated on the mangroves, makes sea duty 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 spots and shallow water. Often the drugs are off-loaded on the ocean side near the barrier reef to smaller vessels. These vessels freely transit inside Belize waters due to 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, it moves northward—often along the northern highway. This highway leads to the Corozal commercial free zone as well as the Santa Elena Belize/Mexico border crossing. Trafficker exploitation of several unguarded remote border crossings and lax customs enforcement contribute to cross-border operations.

Three deserted airplanes suspected of hauling large drug shipments were found in the latter half of 2003. One Antonov Russian cargo plane landed in the Northern District of Blue Creek and was suspected of hauling 2,000 kilograms of cocaine. These discoveries signal that air trafficking has continued to increase in Belizean airspace. It is suspected that river “wet drops” have also increased.

Intelligence suggests that the Colombian drug cartels have established partnerships with Mexican drug cartels, creating an increase of 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 trafficker merely provides resources and assists in the load transiting Belizean territory into Mexico while the Mexicans are fully in charge and responsible for the operation's success.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives and Bilateral Cooperation. The U.S. strategy in Belize continues to focus on assisting the GOB to develop a sustainable infrastructure to combat its drug problems effectively. In 2003, 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 canine branch, as well as the Belize Defense Force; and training for the Department of Immigration and the Customs and Excise Department, as well as the magistrate, supreme courts and the Director of Public Prosecution's Office. Under DEA leadership, an Airport Anti-Drug Task Force was established in October 2003, comprised of the Police Department, Immigration, Customs and the Airport Canine Unit. The USG also responded to a request by the International Airport to purchase new narcotic and explosive detection canines to reinstate a canine program that has been extremely effective in the past. The U.S. Coast Guard and the U.S. Southern Command, including JIATF-E and JTF-Bravo among others, have responded to GOB requests for training and logistics support for counternarcotics activities.

The Road Ahead. Given frequent changes in trafficking routes and Belize's lack of maritime and air assets, the potential remains for Belize to become an ever-increasing transshipment point for cocaine. Local marijuana cultivation necessitates continual monitoring and periodic eradication. After five years in power, the People's United Party continues to advocate combating drug trafficking and associated crime as a top priority, but avoids providing the appropriate units with resources. U.S. Mission support should continue to focus on supporting police counternarcotics units and the task force within the airport, providing improved communications and technology for all law enforcement branches, and improving Belize's Rule of Law infrastructure. Improvements in communications, collection of crime scene evidence and forensic examination, and increased training within the Prosecution office are currently being pursued, and seem to point the way toward a stronger criminal justice system in Belize.

Canada

I. Summary

The Government of Canada (GOC) seeks to reduce the harm caused by illicit drugs within its borders. Health Canada is the ministry charged with overall coordination of the nation's counternarcotics strategy, although other federal departments, municipal and provincial/territorial governments are fully involved in addressing control of illicit drugs. Internationally, Canadian law enforcement coordinates closely with U.S. counterparts to stem the flow of narcotics into North America and to combat transnational organized crime. Canada is a party to the 1988 United Nations Drug Convention Against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances.

In 2003, the GOC promulgated key regulations to help the GOC to monitor and control firms and transactions involving chemical precursors. The regulations, which implement legislation passed in 1996, are an important first step in making it more difficult for traffickers to obtain precursor chemicals and over-the-counter drugs needed to produce illicit synthetic drugs; however, Canada remains a source and transit country for precursor chemicals and marijuana destined for the United States, including higher-potency hydroponically-grown marijuana. The GOC proposed cannabis reform legislation (Bill C-38) that included alternate sentencing in cases involving possession of small amounts of marijuana intended for personal use—civil penalties (fines) rather than criminal charges—and increased criminal penalties for drug traffickers. The bill died under procedural rules in November, but was reintroduced in February 2004 by the new government, led by Liberal Party Leader Paul Martin.

II. Status of Country

In recent years, Canada has been a significant producer (from imported bulk materials) and transit country for precursor chemicals and over-the-counter drugs that are used to produce illicit synthetic drugs. Regulations effective in early 2003, however, require the licensing of Canadian companies to import, export, produce, or distribute precursor chemicals. This is a positive first step that makes it more difficult for criminals to divert precursor chemicals into the U.S. or other countries.

Pseudoephedrine (PSE), a common cold remedy and the main component in the manufacturing of methamphetamine, is legally imported into Canada from China, India, and Germany. Based on seizures and arrests in the United States in recent years, U.S. law enforcement authorities estimate that a significant portion of the PSE imported into Canada has been diverted to the United States for the production of illicit drugs. In 2003, however, DEA reported a significant drop in seizures of Canadian-sourced PSE, indicating a possible decline in diversion; as of September 15, U.S. authorities had seized 8.8 million Canadian-sourced tablets compared with 22 million tablets in 2002. 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 manufacturing of ecstasy (methylenedioxyamphetamine or MDMA), methylenedioxyamphetamine (MDA), and gamma hydroxybutyrate (GHB). A variety of synthetic drugs are also produced in Canada, including MDA and GHB, and are trafficked into the United States.

Cannabis cultivation, much of it destined for the United States, continues to expand throughout the country and is a serious concern for both governments. While the GOC does not produce annual production estimates, the Royal Canadian Mounted Police (RCMP) has, since 1998, estimated annual production of marijuana at approximately 800 metric tons (MT), based on seizures and average yield per plant. However, the a significant increase in marijuana seizures by U.S. law enforcement along the U.S.-Canada border, from 26,435 pounds in 2002 to 48,087 pounds in 2003, has led U.S. analysts to

believe that production in Canada may be higher than previously estimated. In addition, productivity appears to be increasing. Vietnamese organizations, for example, have developed technologically-advanced methods to produce high-THC level marijuana in hydroponic hothouses. Canadian law enforcement officials have also seized a few aeroponic installations, in which the roots are suspended in mid-air and sprayed regularly with a fine mist of nutrient-enriched water. Multi-thousand plant operations are no longer uncommon in Canada, and the RCMP has destroyed over 1.1 million plants in each of the last five years. Canadian law enforcement agencies have made considerable efforts to target criminal organizations involved in marijuana production, this is made more difficult by limited resources, increasing cultivation, and the minimal penalties imposed on growers by many courts.

Canada is also a significant consuming country of illicit drugs.

According to the RCMP, outlaw motorcycle gangs and Asian, Colombian, and Italian-based criminal organizations cooperate with one another to varying degrees in the trafficking and distribution of illegal drugs. Asian-based organized crime dominates the trafficking of heroin from Southeast Asia to Canada. The RCMP estimates that one to two tons of heroin are required annually to meet the demand of Canada's estimated 25,000 to 40,000 heroin users. Cocaine trafficking and distribution appears to involve a number of organized crime groups as well as individual carriers and sellers, Canadian or foreign. The RCMP estimates that approximately 15 to 24 metric tons of cocaine enter Canada annually, originating in South America and often transiting through Jamaica and the United States. In addition to substantial domestic production, Canada imports marijuana from abroad. In 2002, Canadian authorities seized nearly 3 metric tons of foreign marijuana coming from the United States, Mexico, Colombia, the Caribbean, the Middle East, and to a lesser degree, Thailand and Morocco. The RCMP reports that ecstasy (MDMA) imports into Canada have been increasing over the past several years and law enforcement officials in Canada seized 1.7 million ecstasy tablets during 2003. Though small-scale production occurs in Canada, it is Netherlands-based traffickers who bring the bulk of the ecstasy supply into Canada from Western Europe. The RCMP estimates that the drug trade in Canada generates over \$3 billion in criminal proceeds at the wholesale level and \$13.5 billion at the street level. Drug use among Canada's youth appears to be increasing; a Health Canada study in 2003 reported that 50 percent of Canadian youth between the ages of 16 and 19 have tried marijuana more than once.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOC recognized that Canada needed to adopt a regulatory and administrative framework to better control precursor chemicals. Regulations, promulgated in 2002, took effect in January 2003, which implemented provisions of the Controlled Drugs and Substances Act. The new system strengthens Canada's ability to monitor and control precursors and other substances used in the clandestine manufacturing of synthetic drugs. Companies must now be properly licensed in order to import, export, produce, or distribute precursor chemicals. As of November 2003, the GOC had granted licenses to almost 300 companies and issued over 400 export and 800 import permits for class A precursors. The new regulations encourage legitimate companies to work with Canadian authorities to identify suspicious trafficking activity; however, reporting of such activity is voluntary rather than compulsory and companies are not required to undergo mandatory on-site visits prior to being registered. Also, the regulations do not grant law enforcement officials access to all records of regulated transactions.

In May 2003, the GOC introduced cannabis reform legislation that, inter alia, included alternate sentencing for possession of small, personal-use amounts of marijuana. Had the legislation passed, an adult caught with 15 grams or less of marijuana (equivalent to about 20 cigarettes) would have received a fine of \$115 and a minor, a fine of \$75. The legislation died when Parliament prorogued on November 12, although it was reintroduced by the new government in February 2004. Canadian law

currently provides for the legal use of marijuana for medical purposes and Health Canada was instructed in 2003 to make marijuana available to some 700 Canadians with medical authorization. An Ontario court of appeals ruled in October that ill people may grow their own marijuana supply or obtain it from designated growers. The ruling closed a loophole, created by a previous court decision, which had effectively invalidated Canada's marijuana possession law as unconstitutional because it failed to provide exemption for medical use. In December 2003, Canada's Justice Department announced that it would not prosecute the approximately 4,000 people who were charged with possession of marijuana during this period of legal confusion.

In September 2003, the provincial government of British Columbia opened a supervised drug injection site in the Downtown Eastside area of Vancouver, home to an estimated 4,000 injection drug users. The pilot project, the first of its kind in North America, will cost an estimated \$1.5 million a year to operate. British Columbia is financing the project, although Health Canada has committed \$1.15 million to fund research. Vancouver city officials hope that the injection site will reduce the number of heroin deaths in the city as well as decrease the spread of HIV and Hepatitis C from intravenous drug use.

On December 12, Prime Minister Paul Martin announced a major initiative to create a new Ministry of Public Safety and Emergency Preparedness (PSEP). The new Ministry incorporates the law enforcement and public security activities of the former Office of the Solicitor General with additional functions of critical infrastructure protection and emergency preparedness; it will also add a National Crime Prevention Centre. In addition, a new Canada Border Services Agency will build on the Canada-U.S. Smart Border Initiative and the progress being made in expediting trade and travel while enhancing security with respect to high-risk arrivals. A new National Security Advisor to the Prime Minister in the Privy Council Office has been appointed and a new Cabinet Committee on Security, Public Health, and Emergencies established to manage national security and intelligence issues and activities and coordinate government-wide responses to all emergencies, including public health, natural disasters and security.

Accomplishments. In May 2003, the GOC announced the renewal of its comprehensive drug strategy. Health Canada committed \$186 million over five years to reducing both the demand for, and the supply of, illegal drugs in Canada. The renewed strategy will attempt to accomplish its goals through education, prevention, and health promotion initiatives, as well as stronger enforcement efforts. The strategy also provided new funding for statistical research on Canadian drug trends to enable more informed decision-making.

Law Enforcement Efforts. In April 2003, the DEA and RCMP announced the arrest of over 65 individuals in ten cities across the United States and Canada. The investigation, dubbed Operation Northern Star, targeted the entire methamphetamine trafficking process, including the suppliers of precursor chemicals, chemical brokers, transporters, manufacturers, distributors, and money launderers. The 34,000 pounds of pseudoephedrine seized in the investigation could have produced approximately 20,000 pounds of methamphetamine.

In May, the RCMP seized approximately 1.4 metric tons of cocaine in international waters in Project Outer Limits, the fifth largest single seizure of cocaine in Canadian history, with a street value of \$105 million. In December, RCMP and Canada Customs seized 200 kilograms of ecstasy, the largest amount of this drug ever seized in Canada. In September, an interagency police operation netted over 12,000 marijuana plants in eastern Ontario, worth an estimated street value of over \$9 million.

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 from office and are subject to prosecution. Investigations into accusations of wrongdoing and corruption by government officials are thorough and credible. As a matter of government policy, Canada neither encourages nor facilitates illicit production or

distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions.

Cultivation/Production. Cannabis cultivation, because of its profitability and relatively low risk, is a thriving industry in Canada. While the GOC does not produce a national estimate of cannabis production, the RCMP has estimated it at around 800 metric tons for many years; however, the USG believes that the figure could be much higher. Law enforcement officials seized approximately 1.1 million plants in raids in 2003. While outdoor cultivation continues, use of indoor grow operations is increasing because it allows production to continue year-round; they are also becoming larger and more sophisticated. Canadian law enforcement authorities estimate that marijuana cultivation in British Columbia alone represents a \$1 billion dollar a year growth industry with a sizable amount of the harvest being smuggled in to the United States. Nationwide, marijuana production generates an estimated \$4 billion in criminal proceeds annually.

Drug Flow/Transit. Drugs are smuggled into Canada for domestic use and for transshipment to the United States. Some illicit drugs destined for Canada come from or through the U.S. Heroin and marijuana arrive by both sea and land; cocaine and hashish arrive primarily by sea. Traffickers use couriers, commercial shipments, and international mail to move drugs.

Domestic Programs (Demand Reduction). Health Canada is the focal point for the nation's drug control policy and emphasizes demand reduction as an integral component of its drug control strategy. In an effort to decrease demand, Health Canada has financed a number of public education campaigns, many with a specific focus on youth. The GOC, along with NGOs, also offers extensive drug abuse prevention programs. Drug treatment courts in Vancouver and Toronto offer alternatives to jail for convicted drug abusers facing incarceration for non-violent drug possession offenses.

Agreements and Treaties. Canada 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. Canada is a party to the Inter-American Convention on Mutual Legal Assistance in Criminal Matters and the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials. Canada has also signed the Inter-American Convention Against Corruption. Canada has ratified the UN Convention against Transnational Organized Crime. Canada has ratified all 12 United Nations Security Council Resolutions pertaining to terrorist financing.

Canada actively participates in international activities aimed at eliminating illicit drugs. In November 2003, Canada assumed the Chairmanship of the Organization of American States' Inter-American Drug Abuse Control Commission (CICAD) at its meeting in Montreal. In 2003, Canada provided technical assistance and \$115,000 to CICAD for specific projects, including developing partnerships between health and law enforcement officials on drug issues. The GOC participates actively in the Dublin Group and the Commission on Narcotic Drugs (CND) of the United Nations Office on Drugs and Crime (UNODC).

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Canada and the United States have an extensive cooperative law enforcement relation. The two countries collaborate closely at both the federal and state/local levels, and this also extends into the multilateral arena. The principal bilateral cooperative forum is the annual Cross-Border Crime Forum, which engages policymakers in a joint effort to guide that relationship and to enhance coordination. The Forum's technical working groups continue to identify areas and priorities, such as intelligence sharing, where the two countries can better advance a common agenda.

In 2001, the U.S. Department of Justice and the Canadian Department of the Solicitor General released a joint report assessing the common threat posed by the cross-border illegal drug trade; this is currently being updated. In addition, Project North Star is an ongoing mechanism for operational coordination. The two governments also have broad array of agreements in place to facilitate cooperation in legal matters, such as the extradition and mutual legal assistance treaties, an information-sharing agreement, and an asset sharing agreement.

Canada is one of the USG' principal extradition partners.

The RCMP and U.S. law enforcement agencies provide reciprocal direct access to each other's criminal databases, including 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) and the USG's tactical National Drug Intelligence Center (NDIC). However, some aspects of Canada's criminal justice system, such as Canada's strict privacy laws, limits timely information exchange in some areas.

The Road Ahead. The U.S. is confident that law enforcement cooperation and coordination with Canada will continue to expand in the future. The GOC has taken important steps to enhance the capabilities of Canadian law enforcement to confront the growing threat of international organized crime, drug trafficking, and money laundering. For the year ahead, the USG remains particularly interested in the issue of precursor chemicals, and hopes that the chemical control regulations enacted by Canada in 2003 can be further strengthened to become an even more effective instrument in the effort to stem the diversion of these chemicals into the United States or other countries. Given the impact of Canadian-produced marijuana on the U.S., the USG is concerned about the possible negative consequences that some aspects of the proposed cannabis reform package could have on trafficking or on international cooperation, and hopes that international considerations are taken into account as the legislative process proceeds.

To further improve cooperation with Canada, the USG is committed to: support Canadian efforts to further strengthen chemical control legislation and regulatory practices, consistent with international standards and practices; maintain and expand two-way intelligence sharing to include the timeliness and relevance of information provided; expand professional exchanges and cooperative training activities between our law enforcement agencies; work with the GOC to increase the risks and penalties for criminals engaged in drug trafficking and other organized crimes; maintain joint cross-border investigations and operations; and to actively promote drug abuse awareness and prevention, particularly among our young people.

Costa Rica

I. Summary

Costa Rica serves as a transshipment point for narcotics from South America to the United States and Europe. The bilateral Maritime Counterdrug Cooperation Agreement, which entered into force in late 1999, continues to improve the overall maritime security of Costa Rica and serves as an impetus for the professional development of the Costa Rican Coast Guard. Costa Rican law enforcement officials continue to demonstrate growing professionalism and reliability as USG partners in combating narcotics trafficking and dealing with ever-changing drug smuggling methods. The amount of illicit narcotics seized in Costa Rica increased dramatically in 2003, almost doubling in the case of cocaine and more than doubling in the case of heroin. The Government of Costa Rica (GOCR) continued to implement a 2002 narcotics control law that criminalized money laundering and created 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. The difficulty of maritime interdiction in Costa Rican waters is exacerbated by a total maritime jurisdiction that is more than 11 times the size of Costa Rica's land mass. These territorial waters are used for both transshipment of illegal drugs and refueling operations in which fishing vessels re-supply go-fast boats. In 2003, 2660 kilos of cocaine were seized in Costa Rica's Eastern Pacific. Traffickers along northbound maritime routes continued to use routes through Costa Rica's Pacific Exclusive Economic Zone and those further out to sea in the Eastern Pacific. In the last quarter of CY 2003, two seizures of 500 kilos of cocaine, one of 127 kilos and one of 67 kilos, suggest traffickers' efforts to smuggle sizable quantities of cocaine by land, a method that had not been seen in Costa Rica since 1998.

The amount of illicit narcotics seized in Costa Rica increased dramatically in 2003, almost doubling in the case of cocaine and more than doubling in the case of heroin. The GOCR runs an effective airport interdiction program aimed at passengers and the Embassy has worked with its counterparts to extend that success to cargo inspection at the Juan Santamaria International Airport. A similar effort is underway in the seaports of Limon and Caldera; however, clear legal authority for onboard inspection of containers and ships has yet to be established. This legal impediment and a lack of sufficient export control procedures for effective identification and inspection of high-risk cargo continue to present challenges.

Costa Rica has a stringent governmental licensing process for the importation and distribution of controlled precursor and essential chemicals and prescription drugs. Local consumption of illicit narcotics including crack cocaine and "club drugs," along with the violent crimes associated with such drug use, are growing concerns to Costa Ricans. Costa Rican investigators made two seizures of ecstasy pills in the last quarter of 2003 that were significant by local standards, the first of 211 pills on October 30 and the second of 1051 pills on December 5. These two seizures suggest increased consumption in Costa Rica and the potential use of Costa Rica as a transshipment point for "club drugs." In September 2003, Costa Rican authorities made the first recorded seizure of indoor hydroponic cannabis in Central America, raising concern over the possible export of high-quality cannabis. 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 2003

Policy Initiatives. The 1999 bilateral Maritime Counterdrug Cooperation Agreement and the Coast Guard Professionalization Law passed in 2000 have continued to catalyze the professional development of the Costa Rican Coast Guard. The Agreement, the first comprehensive six-part agreement in the region, has been instrumental in improving the overall maritime security of Costa Rica. The Costa Rican Coast Guard Academy established its permanent home in Golfito on the southwest Pacific Coast in 2002, and has thus far graduated 75 officials. On April 10, nine countries—Costa Rica, the Dominican Republic, France, Guatemala, Honduras, Haiti, the Netherlands, Nicaragua, and the United States—signed the “Agreement Concerning Co-operation in Suppressing Illicit Maritime and Aeronautical Trafficking in Narcotics Drugs and Psychotropic Substances in the Caribbean Area” in San Jose. Subsequently, Jamaica signed, bringing the total number of signatories to ten. While the agreement is not yet in force, the GOCR serves as the agreement's depository. The Costa Rica Counternarcotics Institute does develop an annual counternarcotics plan; however, resource limitations frustrate full implementation of the plan.

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 regular information sharing and joint operations. Evidence in 2003 of the USG's confidence in GOCR counterparts included the first-ever transfer by the USG to the GOCR, following a seizure on the high seas, of a significant amount of cocaine (1,360 kilograms) for destruction and a defendant for prosecution. In 2003, the Costa Rican Coast Guard, the U.S. Coast Guard and JIATFS conducted one joint counternarcotics operation. The refueling of two Costa Rican patrol craft in blue water made this another successful combined maritime operation and demonstrated again that Costa Rican vessels are a true force multiplier for the U.S. maritime interdiction effort.

Law Enforcement Efforts. The primary counternarcotics agencies in Costa Rica are the Judicial Investigative Police, under the Supreme Court, and the Ministry of Public Security's Drug Control Police. The Judicial Investigative Police operate a small, but highly professional, Narcotics Section that specializes in investigating international narcotics trafficking. The Drug Control Police investigate both domestic and international drug smuggling and distribution, and 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. The Drug Control Police achieved a milestone in 2003 by initiating intelligence and enforcement action that resulted in arrests in Costa Rica and New York. The effectiveness of the Costa Rican investigation led to the seizure of six kilograms of heroin and the indictment of 15 individuals in the Southern District of New York. Given the threat posed by trafficking via commercial air cargo and container shipments, increased attention was given in 2003 to training counterparts in the Ministry of Finance's Fiscal Control Police and Customs Agency. Efforts continued in 2003 to link local law enforcement resources with the private sector through the Business Anti-Smuggling Coalition (BASC) program. In September, a Costa Rican BASC member provided information to the Embassy that led to the seizure by U.S. Customs and DEA of 48 pounds of cocaine from a container ship in Ft Lauderdale, Florida.

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 such drugs or substances, or the laundering of proceeds from illegal drug transactions. In December 2003, the GOCR signed the UN Convention Against Corruption. The Embassy is working with the Ministries of Finance and Public Security to reinforce the commitment against corruption through the enhancement of anticorruption mechanisms at each ministry.

Agreements and Treaties. The six-part bilateral Maritime Counterdrug Cooperation Agreement continues to serve as the model maritime agreement for Central America and the Caribbean. The agreement has promoted closer cooperation in the interdiction of maritime smuggling and permitted the interdiction of 15,903 kilograms of illicit drugs in Costa Rica's Exclusive Economic Zone by U.S. Coast Guard and Navy vessels since 1999. Results of the agreement in 2003 include one combined maritime counternarcotics operation, 16 U.S. law enforcement ship visits to Costa Rica in support of Eastern Pacific and Caribbean counternarcotics patrols, and a number of search and rescue cases by USG assets. The United States and Costa Rica have had an extradition treaty in force since 1991. The treaty is actively used for the extradition of U.S. citizens and third-country nationals, but Costa Rican law does not permit the extradition of its own nationals. Costa Rica has ratified the Inter-American Convention Against Corruption and signed the UN Convention Against Corruption. Costa Rica ratified a bilateral stolen vehicles treaty in October 2002. 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. Costa Rica asserted its leadership on trafficking issues in 2003 by promoting the creation of a regional database to monitor child sexual exploitation through the Regional Commission on Migration.

Cultivation/Production. Marijuana cultivation is relatively small-scale and generally found in remote mountainous areas near the Panamanian border, in the Caribbean region near Limon and Talamanca, and the Valle del General on the southern Pacific coast. Such cultivation is sometimes intermixed with legitimate crops. Joint eradication operations are periodically carried out under the auspices of "Operation Central Skies," utilizing U.S. Army air assets. Over six million marijuana plants have been destroyed to date during these operations. In 2003, the Costa Rican Air Section and the Drug Control Police demonstrated an ability to conduct eradication operations independent of USG assistance, while seizing 448,000 plants. The quantity of plants eradicated suggests that marijuana is not being exported from Costa Rica. The first-ever seizure of hydroponic marijuana in 2003 created a concern that Costa

Rica could become a distribution point for this drug. Costa Rica does not produce other illicit drug crops.

Drug Flow/Transit. The last half of 2003 witnessed a return to sizable overland shipments transiting Costa Rica in truck compartments, dump truck loads and car compartments that were characteristic of trafficking trends 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 marijuana, cocaine, and crack, but ecstasy is increasing in popularity among young adults. LSD and heroin have also been detected.

Domestic Programs (Demand Reduction). Costa Ricans have become increasingly concerned over local consumption, especially of crack cocaine and ecstasy. 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. In November 2003, the Institute launched a country-wide campaign against ecstasy use with print, television and radio spots; web site information and training programs involving community leaders in contact with the target audience. The Institute and the Ministry of Education distribute demand reduction materials to all public school children. 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

U.S. 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 marijuana fields; and the continued targeting of high level trafficking organizations operating in Costa Rica. Specific initiatives include: continuing to implement the bilateral Maritime Counterdrug Cooperation Agreement; enhancing interdiction of drug shipments by improving the facilities and training personnel at the northern border crossing of Penas Blancas; enhancing the ability of the Air Section of the Public Security Ministry to respond to illicit drug activities by providing equipment and technical training; improving law enforcement capacity by providing specialized training and equipment to the Judicial Investigative Police Narcotics Section, the Drug Control Police, 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 nearing completion of 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 January 2004. A Mobile

Enforcement Team (MET) possessing specialized vehicles and equipment was inaugurated in 2003. The team—an interagency effort of canine units, drug control units, customs police and the Counternarcotics Institute—will supplement interdiction efforts at the inspection station. In November 2003, the MET participated in the first joint deployment of MET vehicles in a cross-border operation with Nicaraguan counterparts. The U.S. Customs Service and the DEA will continue to train MET officers.

Bilateral Cooperation. The Department of State allocated \$1.9 million appropriated under Title III, Chapter 2, of the Emergency Supplemental Act, 2000, as enacted in the Military Construction Appropriations Act (P.L. 106-246) for expanded assistance to the Costa Rican Coast Guard consistent with the MOU on Maritime Assistance and the Maritime Agreement. This assistance is designed to enhance Costa Rican and U.S. maritime security through the development of a professional Coast Guard. In 2003, USG assistance provided numerous U.S. Coast Guard training programs, over \$100K in maintenance and spare parts for the three U.S. donated 82-ft patrol boats, completed construction on a Coast Guard Station in Quepos on the Pacific coast, and continued funding support for a U.S. Coast Guard Advisor and a contract maritime engineering advisor position. The U.S. also provided increased information sharing on suspect vessel and air traffic movements near Costa Rica. The U.S. Embassy hosted a series of 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 interagency approach to provide a training series on law enforcement techniques related to border control and cargo inspection 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. Surveillance Vehicles were purchased for the Drug Control Police and Judicial Investigative Police Narcotics Section. A training package, four canines and a transport van were donated to the Ministry of Public Security's Canine Section.

The Road Ahead. The U.S.-sponsored, \$2.2 million Costa Rican Coast Guard Development Plan was completed in 2003. Subject to the availability of funds, the United States will continue to provide technical expertise, training, and funding to professionalize Costa Rica's maritime service and enhance its capabilities to conduct U.S. Coast Guard-style maritime law enforcement, marine protection, and search and rescue operations within its littoral waters in support of the bilateral Maritime Counterdrug Cooperation Agreement. Funding will also be sought for a Coast Guard Advisor. 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 inauguration of the Penas Blancas Inspection Station. In conjunction with the Inspection Station, GOCR counternarcotics agencies' interdiction capabilities will be enhanced through the continued 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, mainly cocaine and heroin. In 2003, the Government of El Salvador (GOES) passed a new counternarcotics law. The Forward Operating Location (FOL) facilities were expanded, and Salvadoran law enforcement cooperated with U.S. authorities on cases that led to the indictment in the U.S. of six major foreign drug traffickers. The National Civilian Police (PNC) increased their seizures of heroin. While El Salvador is not a major financial center, assets forfeited and seized as the result of money laundering or other crimes amounted to \$4.23 million dollars in 2003. Salvadoran authorities complied with resolutions regarding terrorist assets and did not find assets from individuals or entities on the terrorism lists.

II. Status of Country

Located in the isthmus between the U.S. and the major drug producing nations, El Salvador is a transit point for trafficking. Cocaine and heroin are the most commonly trafficked drugs. Climate and soil conditions are unfavorable for coca cultivation. Precursor chemical production, trading, and transit are not significant problems.

III. Country Actions Against Drugs in 2003

Policy Initiatives. According to the Salvadoran Anti-Drug Commission (COSA), progress in implementing the 2002-2008 National Anti-Drug Plan, the counternarcotics master plan of the Salvadoran Government (GOES), was made in the categories of 1) prevention, treatment, rehabilitation, and social reintegration; 2) research, information, and statistics; 3) substance control; and 4) law enforcement. In addition, the Salvadoran Legislature passed a new counternarcotics law.

Accomplishments. A significant development in achieving or maintaining compliance with the goals and objectives of the 1988 UN Drug Convention was the passage of a new counternarcotics law, which came into effect on November 7, 2003. The new law contains a stronger and more well-defined conspiracy provision, increases the penalties for a broad range of drug-related offenses, and includes additional aggravating circumstances that can further enhance penalties. It also punishes simple possession of illegal drugs and better defines procedures for the use of undercover agents, undercover buys, controlled deliveries, and confidential informants. In addition, the new law includes detailed procedures for the immobilization, seizure, and forfeiture of assets, including the establishment of a special fund for forfeited drug-related assets to be used for law enforcement, drug treatment, and drug prevention purposes. Another significant legislative development was the October 9, 2003 passage of an antigang law that led to the arrest of some gang members with connections to drug-trafficking.

Other significant developments included the establishment of an inter-agency working group to exchange information and coordinate actions to control the import and export of chemical substances and precursors as well as to respond to questionnaires and surveys required by the International Narcotics Control Board (INCB).

COSA points out its accomplishments in the following areas. In the area of prevention, strides were made including: the development of drug-prevention plans at the municipal level, celebration of the first-ever National Anti-Drug Week, the formation of youth counternarcotics coalitions in the country's 14 departments, and presentation of drug-prevention training courses and workshops.

Major achievements in the research, information and statistics category included the initiation of the second phase of the Inter-American System of Uniform Data on Drug Consumption survey, submission of quarterly reports on money-laundering and drug-related arrests, and the completion of a drug survey in 19 prison facilities.

Under the substance control category, major achievements included the creation of a coordination group for the auditing and control of substances at the ports of entry and holding two training workshops for 70 Customs and police personnel.

In addition, the United Nations Office on Drugs and Crime and the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS) held a mock money-laundering trial. El Salvador joined the Caribbean Financial Action Task Force, implemented the PNC's strategic counternarcotics plan, and reinforced security and control in the customs houses at the ports of entry.

Instances of regional counternarcotics cooperation included: the creation of a Permanent Central American Commission for the Eradication of the Production, Trafficking, Consumption, and Illicit Use of Drugs and Psychotropic Substances in Honduras; the establishment of a regional office of the International Criminal Police Organization in El Salvador; the PNC's continuing implementation of the Regional Plan for Reducing Drug Demand and Supply; a database for the exchange of information with local and international authorities regarding money laundering; and the operation of the Joint Information Coordination Center (JICC) which coordinates regional counternarcotics investigations and operations.

The GOES responded to the annual questionnaire of the United Nations International Drug Control Program, provided training to forensic laboratory personnel, held a training seminar on improving the quality of analysis regarding seized drugs provided to the courts, sent delegates to the Second Sub-regional Workshop of the Coalition of Central American Youth Organizations for the Prevention of Drug Abuse and HIV/AIDS, and participated in the School Prevention Seminar for the development of national plans for drug prevention, rehabilitation, and social reintegration.

The obstacles that prevented El Salvador from fully achieving all of the objectives of the 1988 UN Drug Convention included legal shortcomings, limited resources, and the consequent need to seek additional support from international organizations to carry out programs that would reach those objectives.

The new FOL facilities, located within the Salvadoran Air Force Base at Comalapa International Airport, were inaugurated on November 13, 2003, and include expanded office, storage, runway, and classified briefing spaces.

Law Enforcement Efforts. Law enforcement efforts in 2003 were adequate, given resource constraints and legal shortcomings, and in some areas represented an improvement over past years. These efforts were heavily focused on priority targets of mutual interest to both the U.S. and Salvadoran governments. Salvadoran efforts in this area led directly to the U.S. indictment of six major foreign drug traffickers, two of which were successfully expelled to the United States.

Salvadoran law enforcement efforts are still hindered by constitutional prohibitions on investigative tools such as wiretapping. Salvadoran authorities have encountered difficulties obtaining judicial authorization to destroy clandestine airstrips situated on private property and used by drug traffickers. The GOES gives a very high priority to counternarcotics law enforcement, but its available resources are inadequate to achieve all of its counternarcotics objectives. This is mainly because El Salvador is a poor country whose resources are targeted to other national priorities. Nevertheless, in 2003, the PNC's Anti-Narcotics Division (DAN) seized 17 kilograms of cocaine, less than 1 percent of last year's record haul of 2,068 kilograms, and slightly less than the 18 kilograms seized in 2001. This result reflects the somewhat anomalous single capture of 2,000 kilograms of cocaine in 2002 and,

probably, traffickers' reluctance to risk sending large shipments by way of El Salvador given the presence of the FOL.

In 2003, the DAN also seized about 22.1 kilograms of heroin, an amount more than 66 percent greater than the 13.2 kilograms seized in 2002 and more than twice as much as the 10.5 kilograms seized in 2001. There were 1,390 drug arrests in 2003, 4 percent more arrests than the 1,338 recorded in 2002, but 66 percent fewer than the 4,003 in 2001. This arrest level reflects the DAN's change of focus from arresting small drug dealers to investigating major drug traffickers. However, like the rest of the PNC, the DAN suffers from a lack of resources. U.S. aircraft flying out of the FOL played a significant role in the seizure of more than 39 tons of cocaine, mostly on the Pacific high seas.

The Salvadoran Navy's ability to patrol the Pacific coast was enhanced by the transfer of ex-U.S. Coast Guard vessels and boarding equipment in 2001. However, the Salvadoran Navy has been not yet been able to take full advantage of these new acquisitions in 2003 because of a lack of funds for fuel and maintenance.

Corruption. With U.S. Government (USG) assistance, the GOES drafted a code of government ethics and proposed an Office of Government Ethics to prevent, identify, and control corruption among public officials. A bill to establish the Office within the Court of Accounts (the Salvadoran equivalent of the Inspector General's Office) was submitted to the Legislative Assembly. The PNC's Internal Affairs Unit and the Attorney General's Office (FGR) investigate and prosecute police officers for corruption and abuse of authority. The USG provided specialized training in anticorruption to police, prosecutors, and judges.

The new drug law's provisions criminalizing drug conspiracies, preparative acts to commit drug offenses, cooperation in trafficking, and being an accessory to such offenses could apply to a corrupt official involved in drug trafficking. Moreover, using one's official position in relation to the commission of a drug offense is an "aggravating circumstance" that can result in an increased sentence of up to one-third of the statutory maximum. Furthermore, Salvadoran anticorruption laws apply broadly to corrupt acts, including accepting or receiving money or other benefits in exchange for an act or omission in relation to one's official duties, whether or not such bribery is drug-related.

The FGR's Anti-Corruption Unit is investigating several important cases of public corruption, including one involving the public water utility (ANDA) in a multimillion-dollar fraud. Although none of these cases is directly related to narcotics, they show that the GOES is making efforts to enforce its laws against corruption.

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. No senior official 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. The GOES has no INL-provided aircraft, nor has it misused any other equipment purchased with INL funds.

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 from such activity.

Agreements and Treaties. The current extradition treaty between the United States and El Salvador does not provide for the extradition of nationals. Narcotics offenses are covered as extraditable crimes by virtue of the 1988 UN Drug Convention, to which El Salvador is a party. Negotiations for a new, more comprehensive extradition treaty began in 2001 but are still in progress. El Salvador 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.

There is no bilateral mutual legal assistance treaty between El Salvador and the United States. But, mutual legal assistance in narcotics cases is available to the United States and El Salvador under Article 7 of the 1988 UN Drug Convention. Also, El Salvador has signed the Inter-American Convention on Mutual Assistance in Criminal Matters which, once ratified by El Salvador, will provide additional tools to facilitate legal cooperation between the United States and El Salvador. There is no bilateral precursor chemical agreement between El Salvador and the United States. Formal negotiations continue on a comprehensive maritime counternarcotics cooperation agreement, and the USG has offered an interim step of an International Maritime Interdiction Support Agreement that would allow expeditious movement of detainees and samples of contraband seized at sea to move through Salvadoran territory to the U.S. for prosecution. Annually, the two governments sign agreements under which the USG provides counternarcotics assistance to El Salvador.

El Salvador's Legislative Assembly approved the UN Convention against Transnational Organized Crime and its protocols on November 12. 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 Central American Mutual Legal Assistance Agreement between all Central American countries and Panama. The Protocol against the Illicit Trafficking of Migrants by Land, Sea, and Air was approved by the Legislative Assembly on November 17. The Protocol to Prevent, Suppress, and Sanction Trafficking in Persons, Especially Women and Children, was approved by the Legislative Assembly on November 18. The Protocol Against the Manufacture and Illicit Trafficking of Firearms, their Parts, Components, and Munitions was approved by the Legislative Assembly on October 23.

Cultivation/Production. Climate and soil conditions do not favor the cultivation of coca plants. Small quantities of cannabis are produced in the mountainous regions along the border with Guatemala and Honduras. However, the cannabis is of poor quality and is consumed domestically. There were no gains or setbacks in controlling cannabis cultivation and production because the small quantity and poor quality of the crop does not justify the expenditure of a systematic campaign against it.

There is no local methodology for determining cannabis crop size and yields. Cannabis is detected thanks to tips, routine foot patrols, and air surveillance.

Drug Flow/Transit. Cocaine from Colombia typically transits El Salvador via the Pan-American Highway and via maritime routes off the country's Pacific coast. 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. As in the rest of Central America, there has been a notable increase in the amount of heroin transiting both the international airport and land ports of entry. Both heroin and cocaine also transit by sea off the Salvadoran coast as well as through Salvadoran airspace.

Domestic Programs (Demand Reduction). In counternarcotics education efforts, the Anti-Drug Foundation of El Salvador (FUNDASALVA), with funds provided by the Madrid City Council, has worked with students, parents, and public schools to teach drug prevention. Together with the Ministry of Education, FUNDASALVA has also worked on a prevention program in high-risk zones that benefited 6,250 students. FUNDASALVA, public and private institutions, and the private sector have also been developing programs for a drug-free workplace. In addition, FUNDASALVA provides information about the effects of drugs to specific populations, especially students. 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.

FUNDASALVA also runs a comprehensive drug treatment and rehabilitation program. The Psychiatric Hospital also runs a program sponsored by the Public Health and Social Assistance

Ministry that focuses on rehabilitation and the training of facilitators among the recovered addicts. Other less comprehensive rehabilitation programs exist, usually faith-based and run by ex-addicts.

The exact magnitude of the country's drug abuse problem is unknown, but a comprehensive study of the problem funded by the USG is being organized by FUNDASALVA. Relative to the presumed size of the at-risk and addicted populations, demand reduction programs are inadequate.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States aims to assist in the professional development of the 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 funding for operational support for Grupo Cuscatlan and the high-profile crimes unit (GEAN) within the DAN, a mobile ion-scan machine and essential equipment for border police. In addition, USG funds were used to provide a laser tattoo-removal machine (to reduce drug consumption and crime), a comprehensive national study of drug use, an antitrafficking-in-persons public awareness campaign, and for drug treatment and rehabilitation in prisons. The USG also funded training and travel related to airport security, money laundering, maritime boarding operations, and antigang measures. DEA officers work closely with the DAN on issues of mutual concern.

Road Ahead. The USG 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 United States plans to finance the construction of a vehicle inspection facility, new headquarters for the JICC, and new kennels for the DAN's narcotics detection canine unit.

Guatemala

I. Summary

Guatemala remains a major drug-transit country for cocaine, heroin and illicit narcotics en route to the United States and Europe. In spite of improvements in the Government of Guatemala's (GOG) counternarcotic efforts in 2003, large shipments of cocaine continue to move through Guatemala by air, road, and sea. Guatemala's de-certification with a national interest waiver in early 2003 spurred the GOG to dramatically increase their efforts against narcotics trafficking; these efforts led to Guatemala's recertification in September.

The long-standing problems of acute lack of resources, weak leadership, widespread corruption and frequent personnel turnover continue to affect GOG ability to deal with narcotics trafficking and organized crime. However, there is a fair list of accomplishments. Most notably, cocaine seizures more than tripled compared to 2002, thereby returning to pre-2000 levels. Many of these seizures were made as a direct result of improved GOG police/military coordination, and cooperation with USG agencies in the interdiction of suspect aircraft violating Guatemalan airspace. Currency seizures totaled over \$20 million, including \$14.5 million seized from one drug trafficking organization, the largest bulk seizure of currency in Guatemala's history.

The GOG also made positive steps to pursue corrupt police: two cases involving 24 former members of the now defunct National Civilian Police's (NCP) Anti-Narcotics Operations Department (DOAN) were sentenced to prison for the theft of cocaine from the drug warehouse and for the torture and killing of two prisoners.

The newly created NCP's Anti-narcotics Information and Analysis Service (SAIA) has been very responsive to U.S. training and technical assistance. The USG will continue to assist in the professionalization of the SAIA, train prosecutors and courts in order to enhance investigations, and enhance interdiction and eradication operations. The GOG recognizes that there is a growing domestic consumption problem and supports an active demand reduction program. After eight years of negotiations, a comprehensive six-part maritime counternarcotics agreement was signed and ratified; however, it is not yet in force, as we are awaiting the transmittal of the relevant documents from the GOG. Guatemala is a party to the 1988 UN Drug Convention and the OAS Inter-American Anti-Corruption Convention.

II. Status of Country

Guatemala continues to be the preferred staging point in Central America for onward shipment of cocaine to the United States. USG estimates indicate that up to 400 metric tons of cocaine are shipped annually through, over and around the Central American corridor to Mexico and the United States. Guatemalan law enforcement agencies interdicted 8.8 metric tons of cocaine in 2003. This was a significant increase from the previous year's 2.4 metric tons. Narcotics traffickers continue to pay for transportation services with drugs, which enter into local markets, leading to an increase in domestic consumption and crime.

While Guatemala has enacted and implemented a law criminalizing the laundering of proceeds of crime, full monitoring has not yet been ensured and the country has not yet been removed from the list of countries that the Financial Action Task Force (FATF) on Money Laundering considers uncooperative in efforts to counter money laundering. The FATF is planning a visit to Guatemala in early 2004 to consider removing Guatemala from the list of uncooperative nations.

Guatemala grows minimal quantities of opium poppy. Marijuana is also grown, but only for local consumption. Apart from crack and marijuana, it is unknown if any quantities of illicit narcotics or club drugs are processed in Guatemala. Diversion of precursor chemicals is, at present, a non-quantified problem in Guatemala; the registration and control of these substances has just begun. With the enactment in 1999 of precursor chemical control legislation, and the approval of implementing regulations this year, the legislation is now a potentially useful law enforcement tool.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In 2003, Guatemala signed three Letters of Agreement (LOAs) amendments with the USG on counternarcotics and demand reduction. The GOG also developed and approved an updated counternarcotics master plan for the period 2003-08, replacing the plan that had been in force for the previous five- year period.

Following their decertification with a national interest waiver, the GOG organized a multi agency-working group to focus their counternarcotics efforts. As a result, progress was made on all nine benchmarks and Guatemala was recertified in September. We will urge the new government taking office in January 2004 to retain the working group as an effective means to focus GOG interagency efforts and coordination with the USG.

Guatemala's Congress ratified a comprehensive six-part maritime agreement with the U.S. during 2003, and also issued implementing regulations for the control of precursor chemicals.

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. Guatemala signed the UN Convention Against Corruption.

Illicit Cultivation, Production and Distribution. Guatemala has significant cannabis cultivation, all of which is consumed locally. There is minimal opium poppy cultivation. The GOG continues to have an active manual eradication program for cannabis and poppy. Eradication of cannabis plants continues to be robust, with more than a 40 percent increase in eradication from the previous year. Over 625,602 marijuana plants were eradicated in the remote northern area of the country during 2003.

Past seizures at processing labs indicate that shipments of cocaine transiting Guatemala are reprocessed to reduce purity, prior to repackaging for onward shipment to the U.S.

Sale, Transport, and Financing. Guatemala more than tripled total cocaine seizures in 2003. Seizures were made from land, air and sea transportation.

The Pan-American Highway is a major conduit for drugs traveling north to Mexico and eventually the U.S. The trend continued of individuals transiting Guatemala being arrested in U.S. airports with cocaine and heroin. This year the trend for delivery to Guatemala shifted toward the employment of small and medium sized aircraft; the use of go-fast boats and commercial fishing vessels declined but continues.

Commercial containers, both on land and through seaports, continue to offer the best opportunity for smuggling larger quantities of drugs through Guatemala's ports of entry. Unfortunately, this is the area that has had the least amount of interdiction success. Guatemala's Port Security Program (PSP) is trying to improve counternarcotics interdiction at the seaports. PSP is self-financed 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. Seizures have been very low due to continuing corruption in the seaports.

ONDCP estimates that, in some transactions, up to 33 percent of the cocaine transiting north toward the U.S. may be used as payment for the services of local smuggling groups. Most of the cocaine is sold to other traffickers moving cocaine to the U.S., while a portion is sold locally to users in Central

American countries. This is a major factor behind increased domestic consumption and the violent crime committed by drug trafficking gangs.

Law Enforcement and Transit Cooperation. Guatemalan law enforcement representatives work with U.S. personnel and organizations to curtail the flow of drugs through Guatemala in instances when the USG can provide intelligence, funding and technical assistance. U.S. law enforcement agencies continue to have collaborative relationships with Guatemalan law enforcement authorities and Guatemala exchanges limited information and maintains links with other Joint Intelligence Coordination Centers (JICCs) in South and Central America.

Guatemala actively participated in the Central Skies combined counternarcotics campaign plan that included DEA and the U.S. Army. Guatemala has also been very cooperative in allowing the U.S. permission to enter their airspace and territorial waters in connection with counternarcotics missions.

Demand Reduction. The GOG continues to support counternarcotics education and rehabilitation programs pursuant to the country master plan. Guatemala's demand reduction agency, SECCATID, implemented a variety of projects, including the first nationwide comprehensive drug consumption survey. The study found that in the last five years alcohol use has increased by 50 percent, cocaine by 40 percent, marijuana by 55 percent, and tranquilizers (primarily by young females) 380 percent.

Through the National Program of Preventive Education, SECCATID trained 1,138 instructors this year throughout the country using the "train the trainer" concept with the participation of the Ministries of Health and Education. SECCATID also provided training and education to parents, students and teachers. SECCATID also provided training to NGO reps, private company reps, soldiers, prison guards, and adults. The DARE program provided training to students and teachers. In 2003, SECCATID developed and distributed counternarcotics educational materials, including pamphlets, t-shirts and caps and school items, 50,000 school agendas, 60,000 notebook dividers, and with drug prevention messages.

Law Enforcement Efforts. In addition to the seizures described above, GOG law enforcement scored some notable successes during 2003. There has been a marked improvement in the ability of the GOG to react to incoming suspect aircraft, due to close cooperation between the USG and the Guatemalan Air Force (GAF). The GAF provides, when it can, air assets for interdiction missions and airlift for police and prosecutors conducting drug interdiction and eradication operations. Aging aircraft and lack of money for fuel continue to be constraints.

The SAIA has the potential to become a credible threat to narcotics trafficking. However, GOG law enforcement agencies must function with limited resources, as the GOG is having trouble paying salaries and utilities for all of its agencies. Significant resources, training and support from the USG will be needed to prepare and support the GOG to effectively engage in counternarcotics operations, particularly against major organized crime figures.

As in previous years, success in prosecuting major narcotics traffickers has been limited. The Public Ministry's narcotics prosecutors receive USG training and assistance, and continue to try cases and achieve convictions. However, corruption, intimidation, lack of resources in the judiciary, as well as an absence of criminal conspiracy laws in Guatemala, are important reasons for the lack of success in prosecuting and convicting major traffickers.

Widespread corruption, high turnover of law enforcement personnel and poor leadership also frustrate GOG law enforcement efforts. During the Portillo administration, there were four Ministers of Government, seven Directors of the National Civilian Police (PNC), and eleven different directors of the DOAN/SAIA. This constant turnover made continuity for operations and investigations impossible.

Corruption. Corruption remains the largest single obstacle to overall efficiency of all USG sponsored programs in Guatemala. Transparency International's August 2003 rankings listed Guatemala as one of 34 out of 133 countries where corruption is perceived to exist among public officials and politicians. There are frequent allegations of police, prosecutors, and judges being corrupt. High levels of impunity and intimidation exacerbate the problem.

The GOG is making efforts against corruption. Currently, new entries to the SAIA undergo a background investigation, polygraph exam, and urinalysis testing. On average, this process eliminates in excess of 60 percent of new candidates. This program has been institutionalized and extended to the Anti-Corruption, Money Laundering and Narcotics prosecutors' offices and includes the periodic re-testing of all active members of the SAIA.

The GOG also aggressively pursued corrupt police: eight members of the now-defunct National Civilian Polices Anti-Narcotics Operations Department (DOAN) were each sentenced to 16 years imprisonment for the theft of cocaine from the drug warehouse. In another case, 16 former members of the DOAN were each sentenced to more than 25 years in prison after their convictions for the torture and killing of two suspects in an effort to steal 2000 kilos of cocaine. Also during the year, 11 police were arrested for attempting to steal 10 kilos of cocaine from the drug warehouse and are expected to be tried during 2004. These arrests were made as a result of improved accountability procedures instituted by the SAIA at the drug warehouse. In compliance with one of the recertification benchmarks, the GOG also inventoried and destroyed all drugs seized before 1999. Newly seized drugs are being destroyed in an expeditious fashion. The USG has assisted the SAIA in developing written procedures for the storage and destruction of seized drugs, implementing new security measures to protect seized drugs, and providing some minor physical upgrades.

Finally, several high-level figures, including a congressman, were charged and arrested this year for theft of social security funds.

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 ratified the UN Convention Against Transnational Organized Crime.

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).

While most GOG law enforcement efforts have been consistent with the goals and objectives of the 1988 UN Drug Convention, some aspects of the Convention, such as the provisions on extradition, have not been codified into law. 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. When a Guatemalan citizen is involved, an extradition request will usually involve a significant expenditure of effort and time due to the required legal procedures. U.S. citizen fugitives are often expelled to U.S. custody on the basis of violations of Guatemalan immigration laws, a much shorter process. During 2003, a long-standing request for extradition of a Guatemalan citizen wanted for a double homicide in the U.S. was completed. There are currently 15 outstanding extradition requests; three are in jail in Guatemala pending judicial processing. In December the GOG signed the OAS multilateral Mutual Legal Assistance Treaty, to which the U.S. is a party.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG supports a wide range of law enforcement assistance and counternarcotic programs in Guatemala. The USG works with the office of the Vice President to

support Guatemala's demand reduction agency, SECCATID, to provide technical assistance in education, training and public awareness programs.

The USG also works with the Public Ministry and the Attorney General to support three task forces dealing with narcotics, corruption and money laundering investigations. This cooperation takes the form of training, technical and logistical support on case management and specialized legal subjects.

The USG supports the specialized drug police (the SAIA) through an agreement with the Ministry of Government. This support is designed to create a professional and capable force through training and development of infrastructure for units involved in counternarcotics operations.

An important part of this program is the Regional Anti-Drug School. The school primarily teaches the basic entry course for new SAIA agents, narcotics investigations and canine narcotics detection. They also offer regional courses in polygraph, false documents, intelligence analysis, and canine explosive detection, among others. This year the school had student participation from Bolivia, Colombia, Venezuela, Uruguay and all of Central America.

Policy Initiatives and the Road Ahead. 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 organized criminal activity that directly affects the U.S.

Special emphasis is placed on 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.

Future efforts will focus on investigations, interdiction, corruption, money laundering, task force development, and successfully implementing the maritime agreement. The USG will also continue to assist the GOG in improving the successful Regional Counternarcotics Training Center.

As a result of reorganization, the Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) will assume responsibility for the Department of Justice International Criminal Investigation Training Assistance Program (ICITAP) in Guatemala. This program which will continue to focus on law enforcement areas not specifically related to narcotics trafficking, such as the unification of police and prosecutor forensic laboratories, establishment of an Internal Affairs Unit in the Public Ministry, computerization of police case files, and the continued development of a model precinct that includes offices for prosecutors and judges to increase successful case investigation and closure.

*Guatemala Statistics**(1994–2003)*

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	—	—	0	0	0	10	7	0	39	50
Eradication (ha)	1	1	1	1	1	5	3	12	86	150
Cultivation (ha)	1	1	1	1	1	15	10	12	125	200
Potential Yield (mt)	—	—	0.00	0.00	0.00	0.20	0.10	0.00	0.40	0.50
Cannabis										
Potential Harvest (ha)	—	—	—	—	0	82	100	41	50	100
Eradication (ha)	662	38	43	32	52	58	50	213	250	100
Cultivation (ha)	62	38	43	32	52	140	150	254	300	200
Potential Yield (mt)	—	—	1	1	0	10	12	5	6	12
Seizures										
Cocaine (mt)	8.76	2.8	4.1	1.4	10.1	9.2	4.3	4.0	1.0	2.0
Cannabis (mt)	0.5	2.3	0.52	0.03	0.65	0.42	0.34	16.40	0.50	1.76
Heroin (kg)	0.05	18.00	16.00	9.30	52.00	3.65	16.20	7.80	0.00	0.00
Opium (kg)	0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Arrests	4,902	5,917	479	842	472	928	188	189		

Honduras

I. Summary

The transshipment of cocaine through Honduras by air, land, and maritime routes continued, but with significant disruption in 2003. Overall, seizures in Honduras were higher than the past five years combined. Corruption within the police, Public Ministry and the judiciary tempered some of the law enforcement successes. The Government of Honduras (GOH) moved forward with the implementation of the new Money Laundering Law, passed in 2002.

The National Council for the Fight Against Drug Trafficking renewed its commitment to lead the country's counternarcotics efforts. The Supreme Court operated with greater independence, but remained susceptible to political pressures. Funds to implement the approved counternarcotics plan were severely limited. Even though the Ministry of Public Security (which includes all police) and the Honduran Armed Forces took a more active role in counternarcotics operations, the Public Ministry did little to prosecute high-level suspects or dispose of seized assets. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras's primary drug problem stems from the movement of drugs, particularly, cocaine, via air, land, and maritime routes through its territory. There are direct air and maritime links to U.S. cities and the Pan-American Highway crosses southern Honduras. While the Honduran police and Honduran Navy lack sufficient maritime assets to comprehensively attack drug trafficking along its north coast, there was nonetheless a significant increase in drug seizures this year. Despite the recent passage of a broader money laundering law, money laundering in Honduras remains a serious concern. Honduras is not a significant producer of drugs.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In April 2003, the Government of Honduras launched a joint police and military counternarcotics effort to thwart the transit of drugs along its north coast and southern borders. The effort included increased interdiction and other law enforcement initiatives to discourage traffickers from using Honduras as a transit point. A new Pan-American Highway checkpoint, manned by the Honduran Frontier Police, provided a deterrent to the flow of narcotics into Honduras from its southern border with Nicaragua.

The money laundering law now allows cases to be investigated that are not directly linked to narcotics, including corruption, terrorism, and other crimes. The GOH formed a Financial Investigation Unit and assigned prosecutors and investigators to special money laundering units to ensure that suspected narcotics traffickers were fully investigated.

The Honduran Congress is reviewing a new counternarcotics law that would expand the authority of law enforcement to initiate undercover operations. The current law, as written, prohibits these types of narcotics operations and mandates that anyone participating in the purchase or sale of narcotics, including police participating in sting operations, be arrested.

The Criminal Procedures Code took effect on February 20, 2002. This code changed the Honduran criminal legal system from an inquisitorial system to an accusatorial one. The code's primary goal was to decrease opportunities for criminals to manipulate the justice system.

Accomplishments. As of December 15, 2003 Honduran authorities seized 5,738 kilograms of cocaine and 13 kilograms of heroin, destroyed over 364,592 marijuana plants and made 1,000 narcotics-related arrests. The Honduran Frontier Police have been largely responsible for these seizures, drawing on intensive counternarcotics training, U.S. technical assistance, and equipment. Law enforcement agencies also confiscated \$1,119,130 in cash and boats and other vehicles worth approximately \$1,000,000.

Law Enforcement Efforts. Counternarcotics efforts are a priority for the Maduro Government, however the Directorate for the Fight Against Narcotrafficking (DLCN), one of the principal counternarcotics organizations, suffers from weak leadership, inadequate funding, and unqualified personnel. The DLCN has not established working relationships with other Honduran law enforcement agencies or U.S. counterparts. Despite the ineffectiveness of the DLCN, the Frontier Police, military, and other GOH agencies have had successes, such as the increase in seizures in 2003.

Corruption. While the GOH has taken some steps to address internal corruption, corruption within the judicial system continues to be a significant impediment to effective law enforcement. The Ministry of Public Security has taken significant steps to investigate corrupt personnel; a new Internal Affairs Unit was formed and several cases were brought to trial. However, corruption in the Public Ministry and the judiciary provided significant roadblocks in the prosecution of alleged narcotics traffickers and money launderers and corrupt officials. Two members of Congress were arrested for participating in drug-related activities. In response, the Honduran legislature has made efforts to narrow the use of the immunity privilege for elected officials.

Agreements and Treaties. Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela and Spain. Further, Honduras is a party to the 1988 UN Drug Convention. The Ministry of Public Security and the taxing authority for Honduras (DEI) have signed an agreement that provides the Ministry of Public Security the authority to open sealed containers with probable cause, an authority that was formerly held solely by the DEI. The Honduran government is an active member of the Inter-American Drug Abuse Control Commission (CICAD) and hosted a regional training session on port security in 2003. Honduras also hosts the Regional Center for Counternarcotics Development and Judicial Cooperation in Central America and has funded the Secretariat for the regional Central American Drug Commission (CCP). Honduras ratified the UN Convention on Organized Crime in December 2003. A U.S.-Honduras maritime counternarcotics agreement entered into force in 2001. A bilateral extradition treaty is in force between the U.S. and Honduras. Honduras is one of ten nations to sign the Caribbean Maritime Counterdrug Agreement, but has not yet ratified it.

Cultivation/Production. Cannabis remains the only illegal drug known to be cultivated in Honduras. Over 300,000 marijuana plants were manually destroyed in 2003. The GOH does not permit the use of aerial eradication. Upon detection, marijuana plants are cut down and destroyed.

Drug Flow/Transit. There was a noticeable increase in the number of detected suspect air-tracks and maritime vessels through Honduran territory en route to southern Mexico and the United States. Cocaine and heroin are smuggled overland by commercial and private vehicles. Approximately 90 percent of drugs transiting Honduras is destined for the United States. Honduras has pursued an aggressive interdiction strategy, which included the interception of a drug trafficking plane from Colombia in April which was transporting 998 kilos of cocaine. Youth gang members are increasingly used to distribute drugs in urban areas and along Honduras's north coast. There is evidence of the existence of an illicit trade of "arms for drugs," with arms from these deals presumably destined for use by terrorist groups in Colombia. The GOH has made a concerted effort to implement a port security program with the goal of having it in place and functional by July 2004.

Domestic Programs/Demand Reduction. The Maduro Administration has launched two pilot programs 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 not only a national security threat, but a major public policy problem as well.

Drug use continues to increase among youth in Honduras, which is particularly worrisome since 49 percent of the population is under 18 years of age. Drug abuse by gang members is a growing issue of public safety as well. It is viewed as one of many public health and social problems linked to unemployment, poverty and economic under-development. Cannabis is the most widely abused illegal drug in Honduras, followed by inhalants, and, to a much lesser extent, cocaine and designer drugs.

The National Council's program and the Ministry of Public Security's program link the efforts of the government's demand reduction entity, the Institute for the Prevention of Alcoholism and Drug Addiction (IHADFA), with an umbrella group (CIHSA) of NGOs working in demand reduction and drug rehabilitation efforts. The new programs combine those formerly 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 provide alternatives in the form of sports, the arts, and after school projects. The U.S. Embassy is working with the National Council and the Ministry of Public Security to support this approach.

IV. U.S. Policy Initiatives and Programs

U.S. 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 Maduro Administration has worked hard to support implementation of bilateral counternarcotics projects and has expressed interest in expanding program cooperation, though GOH resources continue to be extremely limited. The Machine Readable Passport Program, part of the June 2000 U.S.–GOH Letter of Agreement Amendment, is nearing completion and should be implemented by the beginning of 2004.

Bilateral Cooperation. The United States is funding efforts through the Ministry of Public Security to enhance Honduran police reform efforts by providing the services of a full-time law enforcement development advisor and other technical assistance, training, and materials to improve the organization's effectiveness and implement key criminal laws. The U.S. Government funded additional training and equipment to the Frontier Police, continued to support existing canine units, maritime training and projects, and demand reduction projects, as well as the checkpoint project along the Pan-American Highway, which was implemented in March 2003.

The Road Ahead. The Honduran government has demonstrated a strong renewed commitment, backed by concrete action, to attack drug trafficking through its national territory. It is organizing police, military, social services, and national security policy to more effectively respond to this challenge on a limited budget. We expect to see an increased level of maritime and land interdiction operations during the next year. The National Council for the Fight Against Drug Trafficking has taken a revitalized leadership role within the government. The U.S. expects to work closely with the Council to support the implementation of its national counternarcotics plan. Corruption, threats, and violence continue to pose a major challenge to effective law enforcement.

Mexico

I. Summary

The Government of Mexico (GOM) recognizes the serious threat that drug trafficking poses to national security and public safety. Mexican authorities sustained an intensive counternarcotics effort throughout 2003, including the capture of major drug cartel figures and the seizure of large quantities of illicit drugs. The Office of the Attorney General (PGR) and the Mexican Secretariat of National Defense (SEDENA) reinforced the capabilities of their institutions and identified and rooted out many instances of corruption. They conducted robust eradication of cannabis and opium poppy crops, sustaining the net reductions achieved over the past several years. Despite crop eradication, Mexico continued to produce about one-third of the heroin consumed in the United States and exported about 5,000 metric tons of marijuana to the United States. In August, Attorney General Rafael Macedo de la Concha implemented a major reorganization to enable PGR personnel to work more effectively against organized criminal groups, including the consolidation of drug and organized crime investigative units under one Special Deputy Attorney General. The Federal Investigative Agency (AFI) and the National Center for Analysis, Planning, and Intelligence (CENAPI) of the PGR continued to achieve significant law enforcement successes, and to develop first-rate cadres of investigators and analysts to collect and analyze information on drug trafficking and other serious crimes. Mexico is a Party to the 1988 United Nations (UN) Drug Convention.

The United States and Mexico achieved unprecedented levels of cooperation in fighting drug trafficking and other transnational crimes in 2003. Special vetted units in AFI and DEA conducted successful bilateral investigations and increased intelligence sharing. Bilateral teams met regularly to plan operations, exchange information and conduct investigations. Mexico extradited a record 31 fugitives to the United States in 2003. Opportunities exist for enhancing bilateral cooperation, particularly in the areas of eradication, interdiction and capacity building during the remaining three years of the Fox administration.

II. Status of Country

Mexico is the principal transit country for South American cocaine entering the United States; an estimated 70 percent of the U.S.-bound cocaine shipments pass through its territory. Mexico is by far the leading foreign source of marijuana consumed in the United States and, together with Colombia, one of the principal sources of heroin. Mexico is also a major producing and transit point for methamphetamine and other synthetic drugs. Recorded seizures for all but methamphetamine suggested that traffickers attempted to introduce most of these drugs through Texas. Arizona and California appeared to be the primary points of entry for methamphetamine, with many synthetic drug production laboratories located in Mexico's northwest.

While Mexico's Pacific littoral remains a preferred transit route for the smuggling of cocaine from Colombia, trafficking activity has resurged in the western Caribbean in response to the success of Mexican and regional interdiction operations in the Pacific. Mexican traffickers have steadily increased their operations in the United States, coming to dominate most of the distribution centers. U.S. and Mexican authorities have worked closely to attempt to dismantle these drug organizations on both sides of the border.

Drug use has grown considerably in Mexico in recent years. Mexican drug traffickers have expanded domestic distribution in Mexico, particularly in major cities, along the northern border, and in tourist areas. Prices of cocaine, heroin, methamphetamine, and marijuana in Mexico City have remained at:

\$12-16,000 per kilogram of cocaine; \$2-3,000 per ounce of heroin; \$3-4,000 per pound of methamphetamine; and \$100-250 per pound of marijuana.

Traffickers transport most cocaine to Mexico by sea for smuggling over land to the United States. Ocean-going vessels plying routes in the Gulf of California reportedly move large quantities close to the U.S. border, while “go-fast” vessels in the eastern Pacific deliver 1-2 metric tons loads of illegal drugs to coastal areas between Guatemala and the state of Guerrero. Traffickers also use air cargo, couriers, and mail parcels throughout the Mexico and Central America. U.S. and Mexican interdiction authorities have noted a resurgence in air trafficking from Colombia via Central America. Traffickers continue to rely on land routes to transfer large marijuana loads to the United States.

While Mexico produces less than five percent of the world's opium poppy, its geographical proximity to the United States makes it the supplier of some 30 to 40 percent of the U.S. heroin market—especially in states west of the Mississippi. Mexican cultivators represent the largest foreign source of marijuana in the United States, providing a significant supplement to cannabis produced by domestic growers. Cannabis and opium poppy growers continued to employ small, widely dispersed plots in remote, inaccessible regions, such as the western Sierra Madre mountains. Cultivators used the dispersion and remoteness of the fields to evade aerial and manual eradication programs. Given the favorable climate and terrain, cultivators produce two to three opium poppy harvests and two cannabis harvests yearly in the primary growing regions.

Mexican-based trafficking groups have a strong presence in most of the primary distribution centers in the United States, directing distribution of cocaine, heroin, methamphetamine, and marijuana. U.S. investigations have revealed the involvement of Mexico-based organizations beyond the western states into the east, e.g., Operation Trifecta, resulted in over 85 separate, but related, DEA, BICE, and FBI investigations in New York City, Miami, Newark, Baltimore, the District of Columbia, Charlotte, and Philadelphia.

Drug trafficking groups exploited Mexican banks and other financial institutions to transfer significant amounts of currency derived from illegal drug sales in the United States through the global financial system. The smuggling of shipments of U.S. currency into Mexico and the movement of the cash back into the United States via couriers and armored vehicles, as well as through wire transfers, remain favored methods for laundering drug proceeds.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In November 2002, the Fox Administration launched a comprehensive six-year drug strategy that called upon Mexican society and institutions to engage in a frontal assault against illicit drugs. The strategy recognizes the need to address all aspects of the drug problem, including production, consumption, money laundering, and diversion of precursor chemicals. During 2003, Mexican agencies actively pursued the leadership of the main drug cartels, prompting violent struggles among rival groups for control of border crossing points and markets. In July, President Fox reiterated his intention to send to the Mexican Congress 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.

President Fox and Attorney General Macedo directed the creation of new investigative entities manned by skilled professionals to fight drug trafficking, organized crime, and terrorism. The GOM has invested considerable human, financial, and material resources into counternarcotics and anticrime efforts. The PGR has embarked on a program of major infrastructure improvements at offices nationwide. Under a reorganization that occurred in August, it consolidated all offices involved in fighting drug trafficking and organized crime under a single Deputy Attorney General (SIEDO). New

offices responsible for ensuring respect for human rights of defendants and to oversee training and governmental innovation were also created.

Accomplishments. During 2003, AFI personnel figured prominently in investigations resulting in the arrests of drug traffickers, violent kidnappers, and corrupt officials. AFI has become the centerpiece of Fox Administration efforts to transform Mexican federal law enforcement entities into honest, effective institutions. AFI leaders have focused on recruitment and development of young, professional, investigators. Unlike earlier forces, AFI has established a career service for its personnel, characterized by greater job stability, upward mobility, improved pay and benefits, and promotions based on time-in-grade and performance. As part of the PGR reorganization, AFI assumed the interdiction and eradication planning, coordination and execution.

During 2003, the former Drug Control Planning Center (CENDRO) was reorganized as the National Center for Analysis, Planning and Intelligence (CENAPI). CENAPI assumed a broader mandate to gather and analyze strategic intelligence on organized criminal organizations in Mexico involved in several categories of 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. CENAPI's analytical capabilities were also enhanced, particularly in the exploitation of seized documents. CENAPI analysts used advanced software and training to make investigative and prosecutorial advances in unsolved crimes.

AFI and CENAPI were both equipped with state-of-the-art computer networks for collecting, storing, and analyzing crime-related information to support prosecutions and to dismantle organized crime syndicates.

Law Enforcement Efforts. Mexico's counternarcotics enforcement actions included increasingly-sophisticated organized crime investigations, arrests of major drug traffickers, active money laundering investigations, robust marijuana and poppy eradication, and bilateral cooperation on air, land, and maritime drug interdiction. The PGR, other law enforcement entities, and the military services targeted all major drug-trafficking organizations in Mexico. They continued to achieve impressive results against the upper leadership of these cartels.

Interdiction. Mexico's interdiction efforts focused on maritime and air drug movement on both coasts as traffickers responded with smaller load sizes. According to GOM reports, maritime interdiction—primarily in international waters—resulted in a number of important cocaine seizures. While most of the maritime seizures occurred along the west coast of Mexico, there were significant seizures in the Gulf of Mexico as well. Detection and monitoring assets continued to identify suspicious aircraft flying along the United States-Mexico border and near the Mexico-Guatemala and Mexico-Belize borders. Suspicious flights detected in northwestern Mexico generally involved internal, short-duration flights originating in Mexico, with the overwhelming majority of seizures involving marijuana. Suspicious flights in southeastern Mexico generally involved cocaine flights from South America, with a noticeable surge in mid-2003.

Mexican authorities remained committed to interdicting air trafficking incursions in the southern border region; the GOM is seeking a bilateral agreement with the Guatemalan Government to allow for a more coordinated effort between the two nations. The United States and Mexico shared information in some 47 air and maritime events entering Southern and Western Mexico. The resulting interdiction coordination efforts yielded the seizure of over 13 metric tons of cocaine from several vessels and another 3.3 metric tons of cocaine from general aviation aircraft. The increased aerial threat to southern Mexico has forced the GOM to move more personnel and scarce assets into this area. Bilateral cooperation along Mexico's northern border, meanwhile, accounted for the interdiction of 58 air events, netting 1.1 metric tons of cocaine and 16.5 metric tons of marijuana.

Seizures. Mexican authorities seized over 20 metric tons of cocaine hydrochloride (HCl) during 2003. Marijuana interdiction continued at an impressive pace, with authorities confiscating over 2,019 metric tons, over 27 percent of the potential marijuana production in 2002 (7,900 metric tons). In addition, authorities confiscated 165 kilograms of heroin, 189 kilograms of opium gum, and 652 kilograms of methamphetamines. They seized 1,688 vehicles, 63 boats, and 13 aircraft. In March and June 2003, authorities discovered four kilograms of Colombian heroin and a cocaine-processing laboratory as a result of an investigation of Mexican and Colombian traffickers operating in Mexico City. At year's end, this investigation resulted in the arrest of 11 suspects in Mexico City.

Arrests. Authorities arrested 7,792 persons on drug-related charges in 2003, including 7,653 Mexicans and 139 non-Mexicans, according to GOM statistics. Some notable arrests included: Osiel Cardenas Guillen, Armando Valencia Cornelio, Arturo Hernandez Gonzalez, Jose Ramon Laija and Rigoberto Glaxiola. Cumulatively, Mexican officials arrested over 26,300 drug traffickers during the first three years of the Fox Administration (2001-3).

Organizational Takedown. During 2003, U.S. and Mexican officials developed a common targeting plan against major drug trafficking organizations in Mexico and the United States at meetings of the Bilateral Southwest Collective Targeting Group. Sensitive Investigative Units (SIUs) have served as effective mechanisms for sharing sensitive intelligence data in both directions—without compromise. As a result, SIUs have played important roles in successful investigations against drug trafficking organizations. Among the most prominent arrests in 2003:

- In March, military units brought the violent narcotics activities of Osiel Cardenas Guillen to an end with his arrest in Matamoros, Tamaulipas, following fierce gun battles. Before his arrest, Cardenas headed a drug trafficking organization that controlled large-scale marijuana and cocaine trafficking through the smuggling corridor between Matamoros and Brownsville, Texas.
- Mexican officials arrested potential Osiel Cardenas successor Victor Manuel “El Meme Loco” Vasquez Mireles.
- In April, AFI agents arrested Juarez drug cartel senior enforcer Arturo “El Chaky” Hernandez, suspected of killing dozens of persons—including the doctors who allegedly mishandled the 1997 plastic surgery of the late cartel boss Amado Carrillo Fuentes.
- In July, AFI agents in Guadalajara arrested three traffickers during “Operation Trifecta,” including Manuel Medina Campas, a high-ranking member of the Ismael “El Mayo” Zambada Garcia organization. To date, the operation has resulted in the arrests of over 240 individuals in the United States, a principal source of supply in Mexico, and a major distributor in New York. Drug and money seizures included 11,759 kilograms of cocaine, one kilogram of heroin, 24,409 pounds of marijuana, 107 pounds of methamphetamine, and \$8,354,217.
- In August, Nayarit state police arrested Jose “El Coloche” Laija Serron, the principal Juarez Cartel operator in Jalisco, Nayarit, and Colima. Laija, the cousin of incarcerated drug trafficker Hector “El Guero” Palma, nearly gained his release via a suspicious court order, which a higher court later overturned.
- In mid-August, the military arrested Armando Valencia Cornelio, head of the Valencia or “Milenio” Cartel based in Michoacan. Authorities detained Valencia along with various associates, including Eloy Trevino Garcia, chief operator and hit man of the group. Valencia's dispute of the important Nuevo Laredo border crossing with Cardenas, camp fueled a wave of violence that left a record number of murders in the city.

- In September, AFI arrested Rigoberto Glaxiola, a major Juarez Cartel drug trafficker and money launderer whom police had tried to capture for years. U.S. officials want Glaxiola for drug trafficking and money laundering. Authorities detained six others during the operation, including the AFI regional commander for Sonora.

Convictions. Mexican courts convicted a number of major traffickers in 2003. A civilian court sentenced senior Arellano Felix Organization hit-man Humberto Rodriguez to 21 years in prison for drug trafficking and illegal weapons possession. A military tribunal sentenced former Army generals Francisco Quiroz Hermosillo (16 years) and Arturo Acosta Chaparro (15 years), respectively, for protecting the activities of drug traffickers.

Chemical Diversion remained a serious threat in 2003. An internal reorganization and personnel changes at the Federal Commission for the Protection Against Sanitary Risks (COFEPRIS) significantly bolstered efforts against the diversion of precursor and essential chemicals in 2003. The Commission began conducting unannounced inspections at the premises of importers of precursor chemicals and preparing pre-notification messages on exports to other countries.

In addition, the AFI created a Chemical Sensitive Investigative Unit (SIU) and assigned one of its members to an ad-hoc group to investigate cases of chemical and pharmaceutical diversion. Members of this special unit investigated information on illegal pseudoephedrine shipments from the Far East; they also collected and analyzed information on past shipments to determine common links and to identify those responsible for illegal drug shipments. International information sharing on chemical control resulted in the identification of 75 illegal shipments of pseudoephedrine products destined to bogus firms in Mexico, totaling over 420 million 60-milligram tablets. From September-December, authorities conducted surveillance and seized four pseudoephedrine shipments totaling 12.6 million tablets—including one seizure of 1,256 kilograms and the closure of a customs broker. The chemical SIU has begun to collect information from seized clandestine laboratories, to find investigative leads regarding the sources of the listed chemicals.

Corruption. Combating corruption remained a top priority of the Fox Administration in 2003. Mexican leaders worked energetically to detect and punish corruption among federal 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. The new Organic Law for the Attorney General's Office outlined requirements for employment within the PGR, standards of conduct, and procedures for dismissal from service. Provision of better pay and benefits, as well as dismissal and prosecution of corrupt officials, have served as deterrents to engaging in corrupt behavior.

Successes included entry into force of the freedom of information law in July—of which the local press has made energetic use—and civil service administration legislation. The Secretariat of Public Administration (SFP), formerly known as the Secretariat of the Comptroller and Administrative Development (SECODAM) coordinated anticorruption policy implementation government-wide. The SFP mandate includes all Mexican public institutions, embraces civil society, and emphasizes preventive measures, while fighting impunity at every turn. As the Mexican Government incorporates innovative transparency tools, such as a widely-accepted federal employee Code of Conduct and agency websites, a number of Mexican states have begun to replicate federal efforts.

The Anti-Corruption and Human Rights Offices of the PGR worked closely with the SFP in the identification and punishment of suspect government employees. The PGR levied more than 2,500 sanctions in the first half of 2003, to include 514 suspensions, 395 fines, and 146 firings; some 90 employees faced criminal proceedings, resulting in 15 convictions. AFI leaders have enacted stricter entrance and performance standards for new investigators and continue to investigate and remove former Federal Judicial Police personnel suspected of compromise.

The Fox Administration faces many challenges as it attacks the culture of corruption at many levels of government and society. It is deeply entrenched. By September, for example, nine customs positions along the U.S. border had reportedly undergone 26 changes in directors since 2000, including six swaps in Reynosa alone. Several changes apparently occurred because of improper conduct, such as aiding smugglers. Local police forces increased their use of surprise drug tests, often identifying abusers. Nevertheless, the GOM is making very significant changes that, if sustained and institutionalized, will make meaningful inroads against the problem.

Illicit Cultivation, Production, and Eradication. Military and PGR personnel maintained robust eradication efforts throughout the year. The Mexican Secretariat of National Defense (SDN) reported deployed from 20,000 to 30,000 troops in the field at peak times to eradicate drug crops manually, while the PGR employed helicopters to apply herbicides in inaccessible areas. The military accounted for about 80 percent of the eradication results. During 2003, the PGR Air Fleet suffered the loss of two aircraft and crews engaged in aerial eradication activities, one as the result of hostile fire.

Eradication data for 2003 were not available at the time of publication.

Demand Reduction. Mexican leaders have expressed concern over a rise in domestic demand for illicit drugs during the past decade. Such recognition of drug trafficking and consumption as a serious threat to Mexico's national security became an important factor in creating the positive climate of cooperation. According to the 2002 National Survey on Addictions (released in mid-2003), drug use within the previous year of nearly all major illicit drugs generally held steady compared to the 1998 survey. Even so, the age of initiation of drug use dropped, with children as young as ten reporting first use; this poses serious concerns for the future. In addition, drug use among women has risen dramatically. Illegal drug consumption remained highest among people in regions along the United States-Mexico border and in major urban areas in Mexico's central region, including Mexico City. Surveys showed that drug use among prison inmates was rampant.

The National Council Against Addictions (CONADIC) of the Secretariat of Health has coordinated prevention, treatment, and rehabilitation programs through the use of state organizations and ancillary federal entities, such as the Social Service and Child Welfare Agency and private foundations. Increased drug availability and consumption near schools has elicited concern among officials and civic leaders. CONADIC officials and a private foundation have initiated a media campaign to enhance awareness of the dangers of drug use and to exhort parents to monitor their children's activities more closely. In March, Health Secretariat and CONADIC officials inaugurated a real-time, interactive network for drug awareness groups. The United

States collaborated to complement CONADIC's efforts by continuing to support various non-governmental organizations (NGOs) and youth councils involved in discouraging drug use and treating drug addicts. Such assistance generally involved small grants to serve as "seed money" and support efforts of these important groups. In late 2003, President Fox ordered the dismissal of the Director of Mexico's National Council Against Addictions (CONADIC) for alleged influence peddling. By year's end, the GOM had not named a permanent replacement.

Extradition and Mutual Legal Assistance. Mexico extradited 31 fugitives to the United States in 2003 (up from a record 25 on 2002), including 18 Mexican citizens and 19 narcotics defendants (both new records). In addition, the Mexican National Migration Institute (INM), the International Police Organization (INTERPOL), the U.S. Marshal's Service, and the Embassy Legal Attaché coordinated closely in the expulsion of over 70 fugitives who were in Mexico illegally. Officials of the PGR, U.S. Department of Justice, and the U.S. Embassy sponsored a bilateral conference of prosecutors in March in Mexico City to improve understanding of each other's justice systems and to identify practical methods to improve extradition procedures. Denials of U.S. extradition requests fell from 25 in 2002 to ten in 2003. However, denials included some major drug fugitives, including trafficker Juan Jose Quintero Payan. GOM officials were very helpful in processing new formal requests in various denied

cases. In other cases, the PGR proceeded with Article 4 prosecutions (domestic prosecution of fugitives from foreign jurisdictions), and the PGR strengthened its Article 4 Section with new prosecutors in 2003. According to the PGR, it achieved 178 convictions in 194 Article 4 prosecutions between 2001-2003.

The U.S. and Mexican Governments worked hard to narrow the impact of the Mexican Supreme Court's 2001 life imprisonment decision. Both PGR and Foreign Relations Secretariat (SRE) officials petitioned the Court to reconsider its decision. The SRE also asserted its prerogative to judge the adequacy of U.S. assurances and pressed the position that, as long as U.S. authorities provide assurances before the SRE opinion is due, they are timely. U.S. officials honed language on "life assurances" so that those facing life terms with eligibility for parole could face extradition. Despite its commitment to legal assistance cooperation and implementation of the mutual legal assistance treaty (MLAT), there are difficulties in informal exchange of information in criminal cases and timely provision of evidence under the MLAT. Officials of both countries experience backlogs of requests. Moreover, the GOM does not yet possess centralized record keeping for access to court docketing records, criminal records, and publicly filed documents. The 2004 joint prosecutors' conference will examine ways to reduce the backlog in MLAT requests and to focus on priority cases.

Agreements and Treaties. Mexico 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. Mexico also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere, which committed signatories to take strong actions against drug trafficking, including controlling money laundering and preventing diversion of precursor chemicals. Mexico is a party to the UN Convention against Transnational Organized Crime and two of its Protocols. In October, Mexican officials signed a Memorandum of Understanding with Colombia on Judicial-Technical Cooperation that will enable the two governments to exchange legal, scientific, and operational information against organized crimes.

Mexico is also party to the Inter-American Convention Against Corruption. Mexico has been a driving force behind the negotiation of the new UN Convention Against Corruption and, in December, it hosted the international signing ceremony. The Convention obligates signatories to criminalize corrupt acts such as bribery, to extend mutual legal assistance in the prosecution of suspected offenders, and to aid in the identification and recovery of assets resulting from corruption. The Convention encourages signatories to establish due diligence and transparency programs to aid in the detection and prevention of financial crimes.

Mexican officials continued to participate actively in the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States. Attorney General Macedo served as President of CICAD from December 2002 to November 2003; during this period, CICAD approved the first full round of national counternarcotics assessments under the OAS' Multilateral Evaluation Mechanism (MEM) process. In October, Mexico also hosted the First Meeting on Cooperation to Fight Organized Crime, at which delegates discussed expansion of the OAS' focus beyond counternarcotics cooperation.

The United States-Mexico Extradition Treaty entered into force in 1980. A U.S. 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 implementing the Protocol. The United States and Mexico continue to improve implementation of the Mutual Legal Assistance Treaty.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral counternarcotics cooperation remains close and represents one of the most positive aspects of relations between the United States and Mexico. U.S. and Mexican law enforcement personnel routinely share sensitive information to aid in the capture and prosecution of drug traffickers and the seizure of cocaine, heroin, marijuana, and methamphetamine shipments. While bilateral law enforcement cooperation often depends upon cultivation of close interpersonal relationships among key officials, significant progress has been made in establishing bilateral frameworks for promoting continued cooperation well into the future. The United States and Mexico continued to participate in numerous bilateral counternarcotics and law enforcement fora.

The most senior, on-going bilateral entity involves the annual Binational Commission (BNC), at which the Attorneys General of both nations lead discussions at the Law Enforcement Working Group. The Senior Law Enforcement Plenary (SLEP) meets several times per year 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. To promote cooperation against trans-border criminal organizations, U.S. and Mexican officials developed joint threat assessments to enhance mutual understanding of major drug trafficking threats and to improve joint targeting efforts.

In 2003, the U.S. Interdiction Coordinator participated in the Bilateral Interdiction Working Group (BIWG) for the first time. The Directors of JIATF-South and JIATF-West also participated in several meetings. The BIWG acted as the catalyst for the creation and testing of a ship-to-ship communications plan. The plan will assist ships and aircraft of both countries to communicate better and respond more effectively to suspicious maritime vessels. The plan was successfully tested in early December. Technical sub-groups also developed lists of suspect maritime vessels and prepared an analysis of drug trafficking flows and assets needed to enhance drug interdiction. In 2003, the BIWG agreed to establish a sub-group on precursor chemicals to complement efforts of the SLEP working group. Post-seizure analysis improved in selected drug cases but remained infrequent.

Mexico continued to expand and solidify the professionalization of its law enforcement institutions. Rigorous training programs, important acquisitions of equipment, renovation and construction of new offices, and improvement of benefits, including salaries and job security, contributed to the ongoing professionalization of Mexican law enforcement personnel. Indeed, 2003 saw progress at the federal, state, and local levels, demonstrated most notably in the increasing number of requests to the United States for training and equipment donations. The newly-created PGR training and professionalization office cooperated closely with USG agencies in these areas. At the state level, the National Public Security System (NPSS), serving the entire country through a system of five Regional Training Academies, developed aggressive programs, providing training to state, local and federal preventive uniformed police personnel.

The USG supported Mexico's professionalization efforts in 2003 by sponsoring over 140 training courses for 6,484 Mexican police officers, prosecutors, and investigators at the federal, state, and local levels. Courses include a broad spectrum of skills, including crisis management, ethics, corruption investigations, supervision and management, basic investigative techniques, crime scene investigations, land interdiction, money laundering investigations, counterterrorism, collection and analysis of intelligence, and handling of cyber-crimes. U.S. Embassy-sponsored training placed increased emphasis in Counter-Terrorism, Airport Security, and Crisis Management. The National Public Security System (NPSS) of the Secretariat of Public Security helped coordinate training for state and local officials at five regional academies. To ensure proper coordination on course delivery, the Embassy prepared a comprehensive Master Training Plan.

While primarily designed to deter terrorists from using Mexican territory as a springboard for entry into the United States, implementation of security projects along the United States-Mexico border played a role in enhancing interdiction of illicit drugs and other types of contraband. Mexican officials collaborated closely with U.S. counterparts to implement these vital projects, including installation of Non-Intrusive Inspection Equipment (NIIE) at border crossing points, establishment of an Advanced Passenger Information System (APIS) to review passenger manifests of commercial airlines, training and equipping of Mexican officials involved in the rescue of migrants stranded in remote desert regions, and deployment of planning software to enhance infrastructure and staffing at ports of entry.

The Road Ahead. President Fox and Attorney General Macedo have striven to reform, reorganize and modernize Mexico's criminal justice sector, including rigorous steps to root out corruption among federal police officials. The creation of AFI and SIEDO and expansion of CENAPI represent major undertakings at criminal justice sector reform and institution building. Improving interagency cooperation is essential to fight money laundering, stop diversion of precursor chemicals, and ensure successful prosecutions.

With clear GOM commitment, improving capabilities, and enhanced information management, Mexico is well positioned to begin to stem the flow of drugs through its territory en route to the U.S., and the USG is committed to supporting that effort. Many opportunities exist to enhance further the unprecedented level of cooperation of cooperation between U.S. and Mexican law enforcement. As law enforcement capacity, professionalism, and integrity increase, so too will mutual confidence. Progress is being made to institutionalize relationships to harness this cooperative spirit for the future.

Innovative and targeted investment of additional USG resources for justice sector development and operational support in Mexico will pay considerable dividends in stemming the production and flow of drugs through Mexico to the United States as well enable the GOM to work effectively with us to dismantle trans-border criminal cartels. Vigorous bilateral cooperation in administering our common border will also help to prevent terrorist exploitation of legitimate flows of bona-fide travelers and commercial goods between our two nations, thus preventing terrorists from using Mexican territory to stage attacks on the United States.

Mexico Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	—	2,700	4,400	1,900	3,600	5,500	4,000	5,100	5,050	5,795
USG Estimated Impact (ha)	—		7,400	7,600	7,900	9,500	8,000	7,900	8,450	6,620
Eradication (ha)	—	19,157	19,115	15,300	15,469	17,449	17,732	14,671	15,389	11,036
Cultivation (ha)	—		11,800	9,500	11,500	15,000	12,000	13,000	13,500	12,415
Potential Yield (mt)	—	47	71	25	43	60	46	54	53	60
Cannabis										
Potential Harvest (ha)	—	7,900	4,100	3,900	3,700	4,600	4,800	6,500	6,900	10,550
USG Estimated Impact (ha)	—	7,900	7,400	13,000	19,400	9,500	10,500	12,200	11,750	8,495
Eradication (ha)	—	30,775	28,699	33,000	33,583	23,928	23,576	22,961	21,573	14,227
Cultivation (ha)	—	7,900	4,100	16,900	23,100	14,100	15,300	18,700	18,650	19,045
Potential Yield (mt)	—	7,900	7,400	7,000	6,700	8,300	8,600	11,700	12,400	5,908
Seizures										
Opium (kg)	189	310	516	270	800	150	340	220	220	150
Heroin (kg)	165	282	269	268	258	120	115	363	203	297
Cocaine (mt)	20	12.6	30.0	18.3	33.5	22.6	34.9	23.6	22.2	22.1
Cannabis (mt)	2,019	1,633	1,839	1,619	1,459	1,062	1,038	1,015	780	528
Methamphetamine (kg)	652	457	400	555	358	96	39	172	496	265
Arrests										
Nationals	7,653	6,930	9,784		10,261	10,034	10,572	11,038	9,728	6,860
Foreigners	139	125	189		203	255	170	207	173	146
<i>Total Arrests</i>	7,792	7,055	9,973		10,464	10,289	10,742	11,245	9,901	7,006
Labs Destroyed	—	13	28			7	8	19	19	9

Nicaragua

I. Summary

Nicaragua is not a major drug producing country. However, the country is a transit zone for narcotics trafficked from South America to the United States and Europe. Major trafficking routes are found on both coasts as well as through the country on the Pan American Highway. The isolation of the country's Atlantic Coast, its vulnerable banking system, its endemic poverty, and the fact that many in the population remain well-armed from years of civil war during the 1980s all make Nicaragua a rich target for drug traffickers. Consequently, the U.S. Government is working to help Nicaragua fight against illegal drugs. Narcotics consumption in Nicaragua is a growing problem, particularly along the Atlantic Coast. The Nicaraguan Government (GON) is making a determined effort to fight both the domestic use of illegal drugs and the international narcotics trade. However, lacking resources, the Nicaraguan National Police (NNP) and the Nicaraguan Armed Forces require U.S. help to make significant gains against well-financed and well-armed drug traffickers.

In 2001, Nicaragua ratified a six-part bilateral maritime counternarcotics agreement with the United States. On the basis of this treaty, Nicaraguan and U.S. law enforcement authorities engaged in several joint maritime counternarcotics operations in 2003, including seven high seas prisoner transfers. The United States also continued to assist the Nicaraguan National Police's (NNP) counternarcotics efforts during the year. Working with the DEA office in Managua, the NNP seized significant amounts of cocaine and heroin in 2003. The Nicaraguan National Assembly is currently considering illegal money laundering legislation to set up an operational and technical Commission of Financial Analysis to help the banking sector identify and track suspicious deposits over USD 10,000. 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, 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 vulnerable banking sector. DEA and the NNP have noted continued movements of illegal drugs by air that the GON is powerless to intercept.

The NNP is a relatively capable law enforcement organization. In 2003, the DEA office in Managua and the NNP conducted joint investigations that resulted in the capture of 75.9 kilograms of heroin and 1,199 kilograms of cocaine, representing a 50 percent increase in heroin seizures but nearly a 60 percent decrease in cocaine seizures over last year. 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 2003

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 GON prosecutors, with USAID training, are learning to use this new system effectively. The National Assembly is currently stalled on passing reforms to the major statute that

covers illegal drugs. This draft law includes important provisions related to money laundering. If approved, the amended statute would clearly establish money laundering as an autonomous crime as opposed to only being a component of drug trafficking cases.

Accomplishments. Nicaraguan authorities continued to destroy domestically grown marijuana plants in increased numbers during 2003. 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. The Nicaraguan Navy has also assisted with three prisoner transfers wherein crews of U.S. seized drug boats were landed in Nicaragua for transfer to the U.S. The NNP has conducted operations against local drug distribution centers, gathering intelligence on their locations and making arrests.

Law Enforcement Efforts. During 2003, the NNP arrested over 900 persons on drug-related charges, including 22 foreigners. During the same time, Nicaraguan authorities seized 1,199 kilograms of cocaine; 75.9 kilograms of heroin; 127,564 marijuana plants and 811 pounds of cleaned marijuana, plus 10,430 crack "rocks." Whereas in CY 2002, 19,860 tablets of ecstasy were seized, in CY 2003 the NNP did not make a single ecstasy seizure. The Nicaraguan Navy seized 121 kilograms of cocaine and one kilogram of heroin. They also seized 14 fast boats that had already jettisoned/delivered their cargo. In addition, the Navy broke up affiliated alien smuggling and arms smuggling rings. Despite this record, resource limits continue to plague the NNP. The Narcotics Unit has only 116 officers, including administrative support, to cover all of Nicaragua. The Nicaraguan Navy, with INL help, is only now developing a long range patrol capability that will be able to maintain a presence at sea for days at a time.

Corruption. The GON does not engage in, encourage, or facilitate the illicit production or distribution of narcotics, or the laundering of proceeds from illegal drug transactions. 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. DEA and INL have begun developing an elite drug unit within the Narcotics unit.

Low salaries make it hard to eliminate corruption. A new Nicaraguan Police Officer earns about \$120 a month. Judges' official salaries run about \$500 month. Corrupt judges often let detained drug suspects go free after a short detention, a practice that puts drug traffickers back on the streets, undercutting police morale.

Starting in CY 2000, with funding provided by INL and using expertise provided by the 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. ICITAP programs will terminate at the end of CY2003, but INL plans to maintain support, under a new multi-agency anticorruption initiative for both the anticorruption unit and the various training programs at the police academy.

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 a member of the Caribbean Financial Action Task Force (CFATF). The United States and Nicaragua signed a bilateral counternarcotics maritime agreement in November 2001. Nicaragua has ratified 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 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 marijuana, illegal drugs are not cultivated in Nicaragua. The marijuana 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 farther north.

Many Atlantic Coast residents, the majority of whom are ethnically and culturally distinct from residents of the rest of Nicaragua, support the traffickers by refueling their vessels, storing drugs, and serving as lookouts. 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. Multiple unidentified small aircraft transit Nicaraguan airspace at night. A number of drug shipments have been "dropped" on the Atlantic coast for further surface transshipment. The GON has no capability to intercept these flights. At this time the GON has little capability to monitor or prevent the diversion of precursor chemicals, which are utilized in drug manufacturing in neighboring countries. DEA suspects that drug-processing labs are now being set up within Nicaragua.

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, a practice that augments the number of addicts in the local population. In addition, drug shippers threatened by interdiction in the Caribbean Sea toss their cargoes overboard. Drug packages wash ashore in communities where residents divide up the captures among village members to sell. Both trends reinforce local use.

The GON has responded to its growing domestic drug problem. The Ministries of Education and Health, the NNP, and the Nicaraguan Fund for Children and Family (FONIF) have all undertaken limited demand reduction campaigns. In February 2001, the USG established the D.A.R.E. Program in Nicaragua and, since its inception, approximately 150 NNP officers have received training as D.A.R.E. instructors. During 2001-2002, over 8,200 Nicaraguan schoolchildren were awarded certificates of participation in the D.A.R.E. program. During 2003, 5,975 students received D.A.R.E. training.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Nicaragua and the United States are strong allies in counternarcotics activities. The police have done much to professionalize their force since Nicaragua returned to the democratic fold in 1990. The NNP established formal relations with the DEA in 1997. From that time, cooperation between the two agencies has been ongoing and effective. During 2003, the U.S. continued to provide significant counternarcotics and law enforcement assistance to the National Police through the DEA, State/INL, and the U.S. Department of Justice. In FY 2003, the USG will fund the creation of an elite narcotics investigative unit.

A new bilateral anticorruption initiative will bring additional USG resources to bear in improving the judicial system and the customs service. 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. INL is refurbishing several large and numerous smaller patrol boats to carry out interdiction activities on both the Atlantic and Pacific coasts. Nicaragua is cooperating with the U.S. 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 and its people recognize the threat that 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 wage this war alone. The country requires continued assistance. Nicaragua also requires urgent internal reforms, particularly the professionalization of justice sector personnel and the application of stronger statutes to combat crimes like corruption and money laundering, if the country is to become a successful partner with the United States in fighting the narcotics trade.

Panama

I. Summary

Panama serves as a major transshipment point for narcotics from South America to the United States and Europe. In 2003, the GOP seized increased quantities of illicit drugs, including a significant amount of heroin. The Government of Panama (GOP) fully cooperates with the U.S. Government (USG) and the international community in combating drug trafficking, money laundering, and other transnational crimes. The GOP expanded the capacity of its law enforcement agencies to combat international narcotics-related crimes with the augmentation of resources in the Darien region; the maturation of a Public Ministry, Technical Judicial Police (PTJ) Vetted Unit; and the development of a Panama National Police (PNP) mobile inspection unit. Panama is taking steps to strengthen its precursor chemical control regime, including the drafting of improved legislation and strengthening of interagency cooperation. 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. Strengthened interdiction efforts in the Caribbean and Eastern Pacific have increased the importance of the Central American corridor for drug traffickers. Domestic drug abuse, particularly among juveniles, continued to be a significant problem in 2003. The results of national household and student drug abuse surveys will help to quantify the extent of the problem. 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 has been reported in Panama's remote Darien Province that borders Colombia.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In 2003, 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, began implementation of its second five-year National Drug Control Strategy. The report, released in 2002, proposes 81 projects to combat all aspects of drug supply and demand.

Accomplishments. During 2003, the Drug Prosecutor's office held the third national seminar for counter narcotics authorities. Panama also chaired and hosted the Central American Permanent Commission on Narcotics (CCP) annual meeting in October 2003.

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 2003 indicate seizures of 9.92 metric tons of cocaine (9,487 kilograms), 1.44 metric tons of cannabis (1,478 kilograms), .21 metric tons of heroin (205 kilograms), 2,609 tablets of Ecstasy, 9,753 amphetamine tablets and 226 arrests for international drug-related offenses, as well as \$6,058,091 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 2003 resulted from intelligence-driven operations and cooperation among Panama's public forces and with USG counterparts.

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. It complements three other institution-building, counter narcotics 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 37 drug courier arrests this year.

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' counter narcotics 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 2003. The PNP responded aggressively to new trafficking patterns in 2003, 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 2003, the SMN conducted boardings and interdiction operations in response to USG requests. 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 SMN participated in two exercises (CONJUNTOS) organized by the U.S. Coast Guard and JIATF-S during 2003.

The National Air Section (SAN) continued to provide excellent support for counter narcotics operations despite limited air assets. The SAN acquired four new helicopters during 2003, which will improve its ability to respond to future requests for assistance from USG and GOP law enforcement entities. 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 as well as verification of suspected clandestine airfields. 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.

Cultivation and Production. Joint DEA-SAN aerial reconnaissance efforts 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 Perlas Islands. The SMN, SAN, and PNP cooperate 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 2003, new legislation to create an effective regulatory system and enforcement regime was presented to the National Assembly for approval. The legislation clearly defines criminal conduct pertaining to chemical diversion and imposes adequate penalties. Early legislative assembly action on the measure is hoped for in 2004. DEA collaborated with GOP law enforcement agencies to conduct inspections and audits of businesses dealing in precursor chemicals. Seizures of pseudoephedrine in 2003 totaled 9.6 million tablets. The GOP also took steps during 2003 to strengthen the interagency chemical control center, including providing it with new permanent

offices. Panama also recently created an inter-institutional chemical control commission to ensure more efficient coordination and cooperation between government agencies.

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 2003.

Domestic Programs (Demand Reduction). CONAPRED's new five-year counter narcotics 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 and information programs. In August 2003, a new law came into force that created a national drug prevention education program, which mandates inclusion of drug prevention in school curriculum. CONAPRED and the Embassy's NAS also supported the Ministry of Education's National Drug Information Center (CENAID) in 2003. The PNP Juvenile Police, with Embassy NAS funding, implemented the DARE Program in Panama City public schools in 2003.

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 received increasing attention during 2003 as preparations began for the 2004 Presidential campaign. 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 Colon Free Zone multimodal center—fighting corruption has gained societal momentum among nongovernmental organizations, the private sector, and the Catholic Church. The United States launched a new anticorruption initiative in September 2003.

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 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 counter narcotics, public force, and law enforcement institutions in 2003. 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 2003, the USCG worked closely with the SMN, enhancing its effectiveness as a maritime interdiction force. In 2002, under a Memorandum of Understanding (MOU), the United States provided the SMN the 180-foot buoy tender "Sweetgum." In 2003, the United States, through the Embassy's NAS, continued to procure repair parts for this and other boats transferred by the USG and to fund additional training in fleet maintenance and boarding 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. In 2003, Panama was selected to participate in the Department of Homeland Security's Container Security Initiative (CSI).

During 2003, the USG, through the NAS, donated four trucks and four boats to the PNP, which will enhance its logistic and support capabilities for units in the Darien province. Funds from the 2002 Andean Counter drug Initiative (ACI) supported the growth of the PTJ Counter narcotics Vetted Unit. Other NAS projects funded in 2003 included construction of an x-ray room at Tocumen Airport; passport readers and stamps for the Immigration Department; communications equipment for the PTJ; refurbishing "go fast" boats for the SMN; and equipping forensic laboratories in Panama City and the interior. The NAS continued to support the Ministry of Education's teacher training programs in demand reduction, development of Panama's Joint Intelligence Coordination Center, and joint counter narcotics 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 counter narcotics efforts with the DEA and by strengthening national law enforcement institutions. The new maritime interdiction agreement has facilitated enhanced cooperation in maritime interdiction efforts.

The GOP has remained one of the United States' principal partners in counter narcotics missions. During 2003, under the authority of Panama's Attorney General and Ministry of Government and Justice, there were 13 instances in which drugs and 103 prisoners seized on the high seas were transferred through Panama's territory for prosecution in the United States. The GOP has cooperated with U.S. requests to board and search Panamanian-flagged vessels suspected of drug smuggling in international waters. In 2003, 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 GOP is ready to cooperate with the USG on port security, which will be advanced by the implementation of the Container Security Initiative. 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 them 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 anticrime and anticorruption

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 continues its role as a major transit country for cocaine and marijuana bound to the U.S. from South America and the Caribbean. The Government of The Bahamas (GCOB) cooperates with the United States Government (USG) to stop the flow of illegal drugs through its territory, to target Bahamian drug trafficking organizations and to reduce the domestic demand for drugs within the Bahamian population.

In the legislative arena, the Bahamian cabinet did not approve the National Anti-Drug Plan because it was unable to identify funding for the five year plan. There has been no legislation proposed to implement recommendations of an OAS/CICAD assessment of the Bahamas precursor chemical control system. The Bahamas is a party to the 1988 United Nations Drug Convention.

II. Status of Country

The Bahamas is a country of an estimated 310,000 inhabitants and 700 islands and cays distributed over an area similar in size to that of the state of California. The Bahamas' strategic location on the maritime and aerial routes between Colombia and the U.S. makes it an attractive location for drug transshipments of Colombian cocaine and Jamaican marijuana. It is estimated that some 12 percent of the cocaine trafficked to the U.S. passes through the Jamaica-Cuba-Bahamas vector. Although small plots of marijuana plants have been found in Grand Bahamas, Abaco, Eleuthera, Andros and Cat Island, The Bahamas is considered neither a significant drug producer nor a producer or transit point for drug precursor chemicals.

The Bahamas participates actively in Operation Bahamas and Turks and Caicos (OPBAT)—a multi-agency international drug interdiction cooperative effort established in 1982. OPBAT is the largest and longest-established cooperative effort overseas by any government involved in drug enforcement. OPBAT brings together on the U.S. side, the Drug Enforcement Administration (DEA), the U.S. Army (DOD), U.S. Coast Guard, the Bureau of Customs and Border Protection (BCBP), and the Department of State (DOS) and, on the Bahamian and Turks and Caicos side, counterparts from the Royal Bahamas and Turks and Caicos Police Forces. During 2003, OPBAT seized 6.8 metric tons of cocaine and 13 metric tons of marijuana.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In August 2003, the long-awaited Bahamas Integrated Justice Information System (BIJIS), a judicial case management software program was inaugurated in the Bahamian court system. The system will streamline and accelerate the administrative process in Bahamian courts by making it virtually paperless. The installation and training of the Attorney General Office's personnel will be completed in the first half of 2004.

However, the completion of important counternarcotics initiatives faced numerous delays and financial constraints throughout 2003. The completion of a National Anti-Drug Plan (NADP), a process that began in 2001 with the assistance of the OAS/CICAD, was again delayed. Although the Plan was drafted and reviewed by the Cabinet, it awaits the identification of resources to implement the ambitious five-year plan. Similarly, there was no legislative movement to implement the recommendations of an OAS/CICAD assessment of the Bahamas precursor chemical control legislation.

Accomplishments. The Drug Enforcement Unit (DEU) of the Royal Bahamas Police Force (RBPF) cooperated closely with the U.S. and foreign law enforcement agencies on drug investigations in 2003. DEU's enhanced investigative and interdicting capabilities resulted in 1,434 drug-related arrests. Several indictments have been issued and more than 15 requests for extradition on drug related charges are pending action from the courts. On November 2003, a Bahamian magistrate approved the U.S. extradition request for Austin Knowles, Jr. and four members of his criminal organization. Knowles led one of the most prolific drug trafficking network in the Caribbean prior to his arrest in December 2002. Knowles is appealing the extradition ruling.

Law Enforcement Efforts. The RBPF continued to participate actively in OPBAT, a tripartite drug interdiction effort aimed at eliminating the flow of cocaine and marijuana en route to the United States. Alerted by U.S. Customs and Border Protection surveillance aircraft, and in some occasions by members of the Cuban Coast Guard, U.S. Army and Coast Guard helicopters intercept maritime drug smugglers and seize airdrops of drugs into Bahamian territory. OPBAT assets are located in three bases strategically placed on Andros, Great Exuma, and Great Inagua. Officers of the DEU and the Royal Turks and Caicos Islands Police fly on all OPBAT missions and are responsible for making arrests and seizures. A DEA agent accompanies the crew to provide assistance and coordination. RBPF personnel use three USG-donated interceptor boats to interdict the drug smuggling go-fast vessels detected by OPBAT helicopters. Seizures of drugs and traffickers captured by OPBAT assets in international waters are taken to the U.S., while those taken in Bahamian or Turks and Caicos territory are turned over to those nations.

The DEU is an elite group of 94 officers that works closely with the USG on drug investigations and interdictions. The DEU staff includes a 21-member strike force which participates in OPBAT missions, a 14-member marine unit which crews and services the fast-response interceptor boats, a 23-member general investigation unit, a 9-member technical and surveillance unit, with a 5 member unit in Freeport and 3 commanders. The drug canine units in Nassau (4 officers) and Freeport (2 officers) are also attached to the DEU.

During 2003, the DEU seized 4 metric tons of cocaine and 6 metric tons of marijuana. (Note: DEU seizures are included in OPBAT's total). The DEU arrested 1,434 persons on drug related offenses and DEU seized drug-related assets valued at \$2.9 million in addition to two aircraft and 10 boats.

The GCOB plans to have the Royal Bahamas Defence Force (RBDF) take a greater role in interdicting maritime drug smugglers remained unfulfilled in 2003. RBDF's participation in drug interdiction events was minimal since their vessels were either out of service or not available to participate in OPBAT's requests for assistance in pursuits. The RBDF continues to assign three marines to the Caribbean Support Tender (the U.S. Coast Guard cutter "Gentian").

Corruption. As a matter of government policy, The Bahamas does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The GCOB is a party to the 1996 Inter American Convention Against Corruption. No senior official in the GCOB was convicted of drug-related offenses in 2003.

The RBPF proactive approach to educating the public and providing more supervision to newer officers seemed to bear fruit during this year. Police reported a 24 percent drop in the number of corruption allegations brought against police officers last year. There were 20 corruption related matters reported in 2003 compared to 31 in 2002. The RBPF created in August an internal committee to investigate allegations of corruption against police officers. In September 2003, the committee investigated the theft of 11 kilos of cocaine from the Drug Enforcement Unit office. Although the probe is ongoing, at least one officer was transferred out of his position.

Outside observers consider the RBDF lagging in its ability to conduct internal investigations into allegations of corruption amongst its members. High-level leadership in the force has declined USG suggestions for establishing an administrative mechanism or an internal affairs unit to deal with corrupt members of the RBDF since by statute, the only way to remove such officers is through a conviction in a civilian court of law. In addition, a long-promised investigation into the suspicious disappearance over eleven years ago of confiscated drugs in the custody of the RBDF has not yet begun.

Agreements and Treaties. The Bahamas is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 Convention on Psychotropic Substances, 1988 UN Drug Convention, and the 1990 U.S.-Bahamas-Turks and Caicos Island Memorandum of Understanding concerning Cooperation in the Fight Against Illicit Trafficking of Narcotic Drugs. As noted, the GCOB is also a party to the 1996 Inter-American Convention Against Corruption. The GCOB works with the USG to achieve 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 demand reduction.

The US-Bahamas mutual legal assistance treaty facilitates the bilateral exchange of information and evidence for use in criminal proceedings. U.S. MLAT requests seek to secure financial information and evidence for use in criminal investigations and prosecutions in U.S. courts. A separate unit was created within the Attorney General's Office to process international requests for assistance, including MLAT requests. However, the Office for International Affairs of the Attorney General—charged with managing multilateral information exchange requests—faced growing criticism by its international partners for foot-dragging on requests for financial information on suspected money launders and drug traffickers. Such criticism was echoed in October 2003 by the Americas Review Group of the Financial Action Task Force (FATF). The Government of the Bahamas has since re-doubled efforts to reduce the backlog of pending information requests.

A 1994 U.S.-Bahamas extradition treaty permits the extradition of Bahamian nationals to the U.S. GCOB prosecutors pursue USG extradition requests vigorously and, at times, at considerable expense in resources. However, in the Bahamian justice system, defendants can appeal a magistrate's decision, first on local court level, and subsequently to the Privy Council in London. This process often adds years to an extradition procedure. In the case against the notorious Bahamian drug trafficker Samuel "Ninety" Knowles and his co-defendants, detained in prison since 2001, a Supreme Court justice in February 2002 reversed an earlier magistrate's decision granting his extradition. Then in January 2003, the Court of Appeal reversed that decision and restored the order granting their extradition. Knowles and his co-defendants then appealed this ruling to the Privy Council which is expected to issue its decision in 2004.

In 1985, the USG and the GCOB informally established a shiprider and overflight program for joint operations. Formalized as the "Cooperative Shiprider and Overflight Drug Programme" in an exchange of diplomatic notes in 1986, the program was extended by another such exchange in 1996. The agreement permits The Bahamas to deploy law enforcement officers on USG vessels operating in Bahamians waters. A Bahamian shiprider may grant a USG vessel authority to board and search any suspicious drug-smuggling vessel in Bahamian waters (and Bahamian vessels in the high seas) and to assist the shiprider executing arrests, as well as drug or vessel seizures. The agreement also authorizes USG law enforcement aircraft to overfly Bahamian territory.

Drug Flow/Transit. The USG estimates that up to 12 percent of the cocaine heading to the United States from South America and the Caribbean travels through the Jamaica-Cuba-Bahamas vector. Most of the cocaine flow originates in Colombia and arrives in The Bahamas via "go-fast" boats from Jamaica. The "go-fast" boats are the vehicles of choice for traffickers as they are a more elusive means of transportation, and the reduced load size keeps the losses due to interdiction or otherwise to a

minimum. During 2003, law enforcement officials identified on average, a suspicious “go-fast” type boat on Bahamian waters every 3.5 days. In addition, there were 61 drug smuggling aircraft detected over Bahamian territory. Small amounts of drugs were found on individuals transiting through the international airports in Nassau and Grand Bahama Island and the transatlantic cruise ship ports. In 2003 Bahamian law enforcement officials identified shipments of drugs in Haitian sloops, fishing boats and pleasure vessels. Also significant amounts of illegal drugs have been found in transiting cargo containers stationed at the Port Container facility in Freeport. DEA/OPBAT estimates that there are a dozen major Bahamian drug trafficking organizations.

Demand Reduction. The GCOB continues to make a modest monetary and “in kind” contribution to demand reduction initiatives, especially in prevention and education. The quasi-governmental National Drug Council, coordinates the demand reduction programs of the various governmental entities such as Sandilands Rehabilitation Center, and of NGO's such as the Drug Action Service and the Bahamas Association for Social Health. Its counternarcotics mascot “Saino” (pronounced “Say No!”) has been particularly well received among the younger population. Other drug prevention programs and presentations have been organized by RBPF's Community Relations Section, Canine Unit and DEU in schools and churches in Nassau.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The goals of USG assistance to The Bahamas are to dismantle drug trafficking organizations, stem the flow of illegal drugs through The Bahamas to the United States and strengthen Bahamian law enforcement and judicial institutions to make them more effective and self sufficient in combating drug trafficking and money laundering. In March, the USG and the GCOB initiated negotiations on a Comprehensive Maritime Agreement designed to consolidate and update a patchwork of cooperative arrangements—including the shiprider and overflight agreements—dating back to 1964. The negotiations will continue in 2004.

Bilateral Cooperation. During 2003, the U.S. State Department's Bureau of International Narcotics and Law Enforcement Affairs' Bahamas Country Program, administered by the U.S. Embassy's Narcotics Affairs Section (NAS), funded training, equipment, travel and technical assistance for a number of law enforcement and drug demand reduction officials. The NAS has continued to provide support to the Bahamian Customs Department's canine unit at the Freeport Container Port. The NAS procured computer and other equipment to improve Bahamian law enforcement capacity to target trafficking organizations through better intelligence collection and more efficient interdiction operations. In recent years, NAS donated three interceptor boats to the GCOB. These boats have been deployed around Bahamian waters and have participated in a number of significant seizures of “go-fast” drug smuggling vessels. This year, NAS assisted in providing them with vital maintenance and parts not available in the country. In addition, NAS funds continued to be used to cover important operational expenses, such as utilities, repairs and maintenance for three OPBAT bases in George Town, Great Exuma; Matthew Town, Great Inagua; and at the Atlantic Undersea Test and Evaluation Center (AUTEC), Andros Island. NAS also provided funding to The National Drug Council and the Drug Action Service to extend their demand reduction activities to the Family Islands.

Road Ahead. The Bahamas' location and the expanse of its territorial area, guarantees that it will continue to be targeted for drug transshipment and other criminal activity. The Bahamian Government is expected to continue its strong commitment to our joint counternarcotics efforts. The U.S. looks forward to the finalization of important legislation implementing the National Drug Plan, and a precursor chemical control system, as well as the signing of a Maritime Agreement that would further assist the counternarcotics efforts of The Bahamas. However, due to the growing drug trade and the nation's small population and its relatively limited budgetary base, the GCOB will continue to depend upon significant USG assistance to fight international narcotics trafficking and crime. Given the

importance of maintaining an effective interceptor fleet, NAS will work closely with RBPF to study the feasibility of converting some of the seized boats into interdiction boats. NAS plans to assist the Bahamians in identifying innovative technologies to obtain important intelligence to thwart the flow of drugs.

The Bahamas Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Seizures										
Cocaine (mt)	4	2.45	0.94	2.74	1.86	4.39	2.58	0.12	0.39	0.49
Marijuana (harvested) (mt)	6	11.49	4.06	3.80	3.60	2.30	3.76	2.61	3.53	1.42
Amphetamines (kg)	—	0.036	0.014	63.4	—	—	—	—	—	—
Arrests	1,434	1,899	1,629	1,811	1,969	1,650	1,894	1,576	1,565	1,025

British Caribbean

The five British Overseas Territories in the Caribbean (Anguilla, British Virgin Islands, Cayman Islands, Montserrat, and Turks & Caicos Islands) each have their own drug strategies focused on interdiction, prevention, health, and education. The interdiction effort is focused on preventing drugs from entering each territory and its territorial waters being used as a transit route to the United States and Europe. In support of the UK Drug Strategy, HMG Customs and Excise have two officers based in Miami who are the Drug Liaison Officers covering the United States and the Overseas Territories.

All the Overseas Territories cooperate regularly with the U.S. DEA and the U.S. Coast Guard on counternarcotics initiatives and operations, and on other drug-related crimes, such as money laundering. Since March 18, 1982, the Turks and Caicos Islands have been a signatory to a tripartite Memorandum of Understanding with the United States and The Bahamas to combat drug trafficking. Known as OPBAT, this permanent operation has seized over 75,000 kilograms of cocaine and 375,000 kilograms of marijuana, according to UK official statistics. In addition to providing police personnel to OPBAT, the Turks and Caicos Islands has a police fixed-wing aircraft and sea vessels to support the operation as required. The British Virgin Islands also has a fixed-wing aircraft and all the other Overseas Territories have police marine vessels to support combined operations. The British Virgin Islands works closely with the U.S. DEA in the U.S. Virgin Islands and with the Coast Guard based in Puerto Rico. The Cayman Islands works closely with Jamaica and the U.S. DEA on joint counternarcotics operations.

In addition to the individual territories' aircraft and vessels, the Royal Navy deploys a destroyer or frigate guard ship, with support vessel, in the Caribbean for most of the year. Much of the time is spent on counternarcotics operations coordinated by the U.K.S. Joint Interagency Task Force South (JIATF-S).

Cuba

I. Summary

The priority attention of the Cuban regime is on political control of the Cuban people. Regime security officials did take a much more aggressive posture with respect to all activities deemed “illegal,” including narcotics trafficking, beginning in the first quarter of 2003. However, the primary focus of this stepped-up activity was the arrest of hundreds of civil society activists, 75 of whom were quickly given prison terms averaging 20 years. The regime appears to have taken advantage of its broad crackdown on drug trafficking to repress illegal economic activities permissible in most normal societies. Later, the regime extended the crackdown to political activities permissible in democratic societies. Cuban territorial waters and airspace continue to serve as an inviting corridor for smugglers transiting from South America and the Caribbean to the U.S., Mexico, Haiti, and the Bahamas. The country's geographic proximity to the U.S., 3,500 nautical miles of coastline and more than 4,000 sparsely populated islets and cays provide a favorable environment for both air and maritime smuggling.

Cuban authorities have chosen not to provide an effective use of force policy and adequate resources to counternarcotics authorities to give them more than a limited ability to interdict go-fast vessels or aircraft. As a consequence, a favorable corridor inside the Cuban territorial waters and airspace exists for smugglers transiting northbound from South America and the Caribbean. Absent an effective use of force policy and decisions to direct state resources to other security areas, the current GOC inventory of decaying patrol boats and aircraft do not constitute a credible interdiction force. Other security forces are given greater resources; the Cuban government in particular provides substantial budgets to other police authorities, especially the General Directorate of State Security, Cuba's political police. Given the limited resources devoted to counternarcotics activities, Cuba's drug interdiction efforts focus on recovering washed-up narcotics and providing information to the U.S. Coast Guard on suspect vessels and aircraft transiting their airspace and territorial waters.

The Government of Cuba (GOC) issued Decree 232 in January 2003, initiating a nationwide crack down on domestic narcotics trafficking and possession. The decree authorized arrests and confiscation of property of drug producers, traffickers, and users. Though over 2000 arrests were made, mainly for small-scale narcotics trafficking, the regime also arrested political opposition members and harassed hundreds more.. Therefore, the timing of the counternarcotics crackdown indicates that it was intended at least in part as a prelude to a wider repressive campaign. The GOC also implemented Operation Hatchet III, a multi-agency counternarcotics interdiction operation in March 2003. The GOC claims to have seized or recovered 5,673 kilos of illicit narcotics in 2003, mostly marijuana, of which 89 percent washed up on the Cuban shoreline.

Limited, case-by-case coordination between the GOC and the USG on international drug trafficking issues has taken place during the past year. After the establishment of the U.S. Coast Guard Drug Interdiction Specialist (DIS) position at the U.S. Interests Section (USINT) in Havana in September 2000, Cuban authorities rarely took advantage of the access provided, instead cutting out the DIS on most occasions. The officer was also subjected to diplomatically unacceptable harassment.. Following our insistence that the DIS be effectively used or he would be withdrawn, Cuban authorities have permitted some useful, albeit limited, interchanges. Cuban drug enforcement authorities have provided the U.S. Coast Guard and the U.S. Drug Enforcement Administration (DEA) information on specific investigative cases and actionable information on suspect northbound aircraft and go-fast vessels that has resulted in U.S. drug seizures and arrests. Both the U.S. Coast Guard and the DEA have been able to reciprocate information sharing on a limited number of cases. Cuba has not signed the Caribbean

Maritime Counternarcotics Cooperation agreement, despite participating in the negotiations. Cuba is a party to the 1988 UN Drug Convention.

II. Status of Country

The island does not appear to be a significant producer of drugs or precursor chemicals, although Cuban officials indicate that marijuana is being cultivated in small amounts for a growing domestic market. The GOC reported that Cuban law enforcement officials have seized 54 tons of illicit narcotics since 1997, of which 71 percent washed up from failed air drops and go-fasts that jettisoned their narcotics following detection by U.S. law enforcement aircraft and vessels. Cuban officials 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 their interdiction efforts are improving. The GOC claims its improved recovery of washed-up narcotics stems from the increased presence of Cuban Border Guard troops and coastal watch stations along the Cuban coastline. Some upgrades to patrol boats and equipment are being made, including the addition of a newly refurbished 110-ft patrol boat and a newly built 52-ft fast coastal interceptor for the Border Guard, but not at a rate commensurate with the growing narcotics threat to Cuban territory.

According to Cuban Government statistics, the 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 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 involving the conviction and execution of an Army major general, a Ministry of Interior colonel, and several other officials for purported 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 2003

Policy Initiatives. Fidel Castro signed Decree 232 on January 23, 2003, "On the Confiscation for Deeds Related with Drugs, Acts of Corruption and Other Illicit Behavior." As a result, the GOC launched a nationwide crackdown and a pledge to "battle against international drug trafficking and the incipient internal market." The decree authorizes arrests and confiscation of property of drug producers, traffickers or users, and those guilty of "corruption, pimping, pornography, corruption of minors, human trafficking and other similar crimes."

Law Enforcement Efforts. The GOC implemented "Operation Hatchet III", an ongoing counternarcotics interdiction operation focused on disrupting maritime and air trafficking routes, recovering washed-up narcotics, and a nation-wide public affairs campaign to encourage citizens to report any drug trafficking or drug wash-ups to Cuban law enforcement authorities, in 2003. Operation Hatchet III includes vessels, aircraft and radar surveillance from the Ministry of the Revolutionary Armed Forces (Navy and Air Force), coastal patrol vessels and radar surveillance from the Ministry of Interior Border Guard, and participants from the DNA, National Police, and the National Park Rangers.

The GOC reported an expansion of its coastal watch station program and reported the existence of 239 coastal watch stations with 7,344 personnel assigned around the island of Cuba. The GOC also claimed to establish counternarcotics units equipped with drug detection dogs and x-ray equipment at each international airport to prevent visiting foreigners from bringing drugs in for their personal use.

The extent to which the coastal watch program and the airport teams are deployed cannot be verified and neither can their effectiveness when they are deployed.

The GOC implemented Operation “Coraza Popular” as a result of Decree 232 to detain, sanction, or confiscate any items linked to narcotics trafficking. Led by the Ministry of Interior, they increased investigations of suspected narcotics traffickers, and created a nationwide public awareness campaign to eliminate drug trafficking and its associated crimes. The ongoing operation focuses on investigation of internal drug trafficking and domestic marijuana production. Following the decree, Cuban police rounded up suspects, raided homes and seized 93 kilos of illicit narcotics and arrested over 2000 people, mostly small time dealers involved in drug trafficking.

Drug Seizures/Arrests. According to the GOC, 89 percent of all drugs “seized” were wash-ups, not from enforcement actions. Of this total, 89 percent was marijuana and 11 percent was cocaine. The GOC reported the seizure of 5,673 kilos of illicit narcotics in 2003, which included 5,160 kilos of marijuana, 506 kilos of cocaine, and 6.8 kilos of heroin and other synthetic drugs. Operation Hatchet III alone is reportedly responsible for the recovery of 5,119 4 kilos of illicit narcotics in Cuba in 2003.

The Cuban Border Guard seized one go-fast boat with 437 kilos of marijuana onboard, after the vessel had mechanical problems while navigating in Cuban territorial waters in May 2003. The Cuban Border Guard also provided flight information to the U.S. Coast Guard that led to the interdiction of an aircraft and the seizure of 400 kilos of cocaine by U.S. and Bahamian law enforcement authorities in September 2003. The DNA provided information to the DEA that resulted in the dismantlement of a New York-based heroin smuggling ring. Cuban law enforcement authorities also broke up a Cuba-Curacao cocaine smuggling ring that resulted in the sentencing of nine Cuban and five Curacao nationals to 13 years to life in prison for narcotics trafficking. The GOC reported that 18 foreigners were arrested for narcotics trafficking in six separate cases with a total seizure of 17 kilos of cocaine and 6.8 kilos of heroin at Jose Marti International Airport in Havana. The GOC also reported more than 200 foreign tourists were detained for possession of narcotics for personal consumption at Cuban international airports in 2003.

Corruption. The United States does not have direct evidence of narcotics-related corruption among senior GOC officials, although regular anecdotal reports of corruption throughout all levels of Cuban society and government continue to circulate. No mention of GOC complicity in narcotics trafficking nor narcotics-related corruption was made in the media in 2003; the media in Cuba are completely controlled by the state. Cuba has not signed the Inter-American Convention Against Corruption.

Agreements and Treaties. Cuba 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 GOC maintains bilateral narcotics agreements with 32 countries and less formal agreements with 16 others. The GOC signed a counternarcotics agreement on asset forfeiture sharing with Canada on July 09, 2003. Counternarcotics coordination between the U.S. and Cuba occurs only on a case-by-case basis. The Cuban government has not signed the regional Caribbean counternarcotics and cooperation agreement despite its participation in the agreement negotiations. Cuba 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.

Drug Flow/Transit. Narcotics trafficking from Jamaica to Mexico, the Bahamas, Haiti, and to the U.S. normally occurs through Cuban territorial seas and airspace, with a majority of the narcotics trafficked via maritime routes inside the territorial waters of Cuba around the eastern and western tips and via air routes over the eastern side of the island. Cuban law enforcement authorities reported sightings of 69 suspect vessels (22 aircraft and 47 go-fast) in 2003 transiting their airspace or

territorial waters, an increase from the 56 sightings in 2002. Small quantities of narcotics, carried by drug couriers or “mules”, were trafficked via Cuba's international airports to and from Europe.

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 2003.

Domestic Programs. 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. Prevention programs focus on education and outreach to groups most at risk of being introduced to illegal drug use. There is a counternarcotics action plan that encompasses the Ministries of Health, Justice, Education and Interior among others in coordination with the United Nations, to implement their long-term prevention strategy that is included as part of the educational curriculum at all grade levels.

The GOC continues to blame the growing domestic drug consumption problem on increased foreign tourism and “washed-up” drugs that are jettisoned from go-fast vessels and not reported by their finders, who sell them for hard currency or consume them. The GOC has initiated a major public affairs campaign to encourage citizens to report drug “wash-ups” and suspect drug dealers as well as a public awareness campaign at all international airport terminals. The airport posters state the GOC does not allow the possession or importation of narcotics by tourists.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Narcotics cooperation occurs only on a case-by-case basis, and Cuban interest in engaging with the DIS ebbs and flows based on the regime's political priorities. Since the arrival of the new DIS in June 2003, responding to U.S. commitment to withdraw the DIS unless properly used, the Cuban DNA and Border Guard have provided some increased exposure to Cuban counternarcotics efforts, including an Operations Hatchet III familiarization trip to the eastern provinces of Cuba, attendance to observe a CND narcotics burn, and a tour of two new Border Guard patrol boats at Base Havana. Whether this attitude will persist is a matter of speculation. In addition, the Cuban DNA provided useful investigative case information on narcotics trafficking and the Border Guard provided timely information on suspect vessels and aircraft to the U.S. Coast Guard on over 35 events. As noted, the increased interaction is a result of the USG's insistence that the DIS be effectively used or he would be withdrawn from Cuba. The GOC allowed a DEA team to meet with the DNA in Havana to discuss two drug investigative cases of mutual interest that furthered their investigations on several international drug traffickers.

The Road Ahead Cuba's strategic geographic position and the regime's refusal to implement an effective use of force policy consistent with its interdiction and intelligence capabilities have created a favorable corridor inside the Cuban territorial waters and airspace for smugglers transiting northbound from South America and the Caribbean. Cuba's non-use of warning and disabling fire against suspected drug trafficking vessels and non-participation in the Caribbean Regional Maritime Counterdrug and Cooperation Agreement have added to the attractiveness of smuggling routes through Cuban waters and airspace. Cuba recently indicated that it had no interest in signing the Caribbean Regional Maritime Counterdrug and Cooperation Agreement, suggesting that it will not participate in the regional coordination necessary to combat narcotics trafficking in the regional context. The failure to assume that responsibility will increase the attractiveness of Cuban waters and airspace to narcotics traffickers.

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 and Europe. The Government of the Dominican Republic (GODR) continued to cooperate closely with the U.S. in counternarcotics matters. Last year (2003) saw a decrease in heroin and MDMA (ecstasy) seizures, an increase in cocaine interceptions, and continued good results of the extradition process. Negligible cooperation between the GODR and the Haitian police, and attempts to apply a strong anti-money laundering law to a notorious bank fraud case presented challenges to U.S. law enforcement assistance to the GODR. Although the GODR continued its efforts to combat corruption in 2003, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics through the DR. In 2003, an estimated eight percent of the cocaine directed toward the U.S. flowed through Hispaniola, and nearly half 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. Dominican criminal organizations are increasingly involved in command and control of international drug trafficking operations, but the country's primary role in regional drug trafficking is as a transshipment hub.

Seizures in 2003 continued to indicate that cocaine, heroin, and marijuana destined for the U.S. 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 U.S. Puerto Rican authorities noted a decrease in drug smuggling via the ferries operating between Puerto Rico and the DR, probably due to the presence of a newly established counternarcotics canine unit at the Santo Domingo ferry terminal. However, USG authorities noted a new trend toward use of illegal migrant boats (yolas) to smuggle drugs to Puerto Rico.

Dominican nationals play a major role in the 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 2003

Policy Initiatives. The DR-initiated bilateral intelligence-sharing and interdiction efforts with Haiti, begun after Operation Hurricane in 2001, were not continued in 2003. The DR has continued to participate in annual Caribbean-wide counternarcotics operations.

The National Directorate for Drug Control (DNCD), the law enforcement arm responsible for counternarcotics measures, and the National Drug Council (CND), the GODR's policy and planning organ, have adopted a computerized tracking system and are able to track seizures of assets in connection with drug-related offenses.

Following the collapse of BANINTER, the third-largest Dominican bank, the Dominican Government struggled to implement anti-money laundering legislation passed in 2002. (See the Money Laundering section of this report.)

In 2003, the GODR instituted training, with U.S. and other international support, that will help with implementation of the criminal procedures code, revised in 2003. The training will continue into 2004. This code changed the Dominican criminal system from a Napoleonic system, with a dossier of evidence evaluated by a judge, to an adversarial system of verbal process before a judge or a jury.

Law Enforcement Efforts. The Mejia Administration and law enforcement leaders place importance on security and counternarcotics efforts. The DNCD increased its canine program to 30 dogs and handlers. All canine teams were recertified, and unit commanders were certified as dog team trainers. Security at the ferry terminal between the DR and Puerto Rico was upgraded.

The DNCD led a multi-year, U.S. Government-supported effort to share data among Dominican law enforcement agencies and to make information available on demand by field officers. No multinational counternarcotics exercises were conducted during 2003.

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's investigations into possible in-country manufacture of MDMA (Ecstasy) have produced no definitive evidence of such activity.

Drug Flow/Transit. The DNCD maintained its seizure rate, interdicting body-carried heroin and cocaine in the DR's international airports and larger quantities from vehicles and buildings. Through December 2003, with cooperation and assistance of the U.S. DEA, the DNCD seized 1,338 kilograms of cocaine, 59 kilograms of heroin, 51,965 units of MDMA (Ecstasy), and 1174 pounds of marijuana. Puerto Rican authorities seized 2,039 kilograms of cocaine as a direct result of intelligence supplied by the DNCD and the Santo Domingo DEA office. The DNCD continued to focus interdiction operations on the drug-transit routes in the DR's territorial waters along the northern border and on its land border crossings with Haiti, while attempting to prevent airdrops and sea delivery of illicit narcotics to remote areas. The DNCD and their DEA counterparts concentrated increasingly on investigations leading to takedown of large criminal organizations operating on an international level, and several rings were broken up as a result.

In 2003, drugs were easily accessible for local consumption in most metropolitan areas. Growing numbers of tourists from Europe, the United States, and Canada provided a customer base for local drug sales, especially at beachfront vacation resorts. Traffickers often used drugs to pay low-level couriers and distributors. Increased local consumption has strained treatment resources for drug-related addition and HIV.

The DNCD made 3929 drug-related arrests in 2003; of these, 3692 were Dominican nationals and 237 were foreigners. There were 227 fewer drug-related arrests in 2003 than in 2002 and 62 fewer foreigners were among those arrested on drug charges than in 2002.

Most significant seizures were made on land, in the big cities. There were some seizures made at the Haitian border in 2003, but quantities seized were limited. While the number of seizures made in Dominican airports was high, the actual amount of drugs seized was small. Only 9 percent of the total cocaine and 61 percent of the total heroin seized in the Dominican Republic was seized in the airports. Seizures of Ecstasy were more successful in airports, resulting in 77 percent of all Ecstasy pills seized in the DR. Maritime seizures remain a challenge for the DR, especially drugs hidden in commercial vessels for shipment to the U.S. and/or Europe.

Extradition. The U.S.-Dominican Extradition Treaty dates from 1909. Extradition of nationals is not mandated under the treaty, and for many years Dominican legislation barred the extradition of Dominican nationals. Former President Fernandez signed legislation in 1998 allowing the extradition

of Dominican nationals. In March 2000, the U.S. Marshals Service assigned two marshals temporarily to the DR. They received excellent cooperation from the DNCD's special Section for Fugitive Surveillance and other relevant Dominican authorities in locating fugitives and returning them to the U.S. to face justice. The marshals were withdrawn in 2002, then returned permanently during 2003.

President Mejia's administration maintained its record of cooperation in 2003, and the GODR extradited 17 Dominicans to the U.S. during the year. The DNCD arrested 20 fugitives in 2003 in response to U.S. extradition requests. The National Police, working with the FBI, arrested and extradited two drug-related subjects. Eight individuals are now in custody pending extradition to the U.S.

In December 2003, with no fanfare, one of six persons arrested in the "Joselito.com" case and awaiting deportation to the U.S. was released on orders of the Dominican Attorney General. In response to Embassy protests, the Attorney General cited supposed inadequacies in the extradition request package. At year's end, President Mejia was aware of USG concerns, but no further action had been taken.

Mutual Legal Assistance. The GODR cooperates with USG agencies, including the DEA, FBI, U.S. Customs Service, and U.S. Marshals Service on counternarcotics and fugitive matters.

The DNCD housed and manned the DEA-sponsored Caribbean Center for Drug Information (CDI) at its facilities in Santo Domingo. An increasing number of Caribbean countries have found the CDI's intelligence analysis services useful and are now frequent contributors of new information.

The Dominican Navy received six renovated patrol craft and two newly constructed 115-foot patrol ships, supplied under a U.S. \$25 million commercial contract with a U.S. company, and plans were made to incorporate these vessels into multilateral counternarcotics and antimigration patrol activities.

Corruption. The GODR does not, as a matter of government policy, encourage or facilitate the illicit production or distribution of narcotics, psychotropic drugs, and other controlled substances, nor does it contribute to drug-related money laundering.

Dominican institutions remain vulnerable to influence by interest groups or individuals with money to spend, including narcotics traffickers. The GODR has not convicted any senior government official for engaging in, encouraging, or in any way facilitating the illicit production or distribution of illicit drugs or controlled substances, or the laundering of proceeds from illegal drug transactions.

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. In what may be a regional model for transparency and an indication of the seriousness of the Dominican judiciary to uphold the ethical quality of employees, the sworn financial disclosure statements for all Dominican judges can be found online. Nonetheless, an effective system to verify these statements has not yet been implemented and there are no sanctions for false statements.

The GODR is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

Domestic Programs (Demand Reduction). The DNCD conducted 79 youth events in various cities and neighborhoods, from basketball tournaments to chess matches, reaching over 200,000 young people to encourage competitive and recreational activities as better choices than drug abuse. A non-governmental organization, Foundation for Life (FUNVIDA), published with USG assistance a book entitled "Schools Without Drugs" and distributed it gratis at several neighborhood meetings in the capital area.

Agreements and Treaties. The DR and the U.S. have a bilateral agreement on international narcotics control cooperation. In May 2003, the DR entered into three comprehensive bilateral agreements, on Cooperation in Maritime Migration Law Enforcement, Maritime Counter-Drug Operations, and

Search and Rescue, granting permanent overflight provisions in all three agreements for the respective operations. The three agreements concluded a long bilateral effort to secure permanent overflight provisions; previous agreements provided only annual provisions. In addition, the Maritime Counter-Drug Agreement broadened the scope of operations agreed to by the parties. The DR was an active participant in the negotiations that resulted in a Caribbean regional maritime counternarcotics agreement.

In 2002, the DR became the first country in the Western Hemisphere to sign an Article 98 agreement exempting U.S. military personnel in the DR from the jurisdiction of the International Criminal Court. In 2001, the U.S. and the DR exchanged instruments of ratification of the Treaty for the Return of Stolen or Embezzled Vehicles. Attempts to implement the treaty have been hampered by organizational weaknesses within the Dominican bureaucracy, and in 2003 no vehicles were repatriated under this treaty.

The DR has signed but not ratified the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, the Protocol against the Smuggling of Migrants, and the Protocol against the Illicit Manufacturing of and Trafficking in Firearms.

IV. U.S. Policy Initiatives and Programs

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 2003, the U.S. 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 to facilitate communications along the DR's border with Haiti, and funded assessments of airport and port security against narcotics trafficking and terrorism. The U.S. delivered three harbor patrol craft and a fully refurbished go-fast boat, previously captured from drug smugglers, to the Dominican Navy. The U.S. 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 Navy's training and maintenance school, closed in 1997. The first step, establishment of a Navy maintenance command, was completed in 2003.

The U.S. has funded training to 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 a direct communications agreement with the U.S. Coast Guard's regional operations center (GANTSEC) in San Juan, Puerto Rico. Dominican Navy vessels have participated in numerous maritime drug seizures.

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's Office of Overseas Prosecutorial Development, Assistance and Training (DOJ/OPDAT) provided two weeks of training to prosecutors and investigators on basics of money laundering.

The U.S. Department of Homeland Security worked closely with Dominican business associations to establish a Dominican chapter of the Business Anti-Smuggling Coalition (BASC). This voluntary alliance of manufacturers, transport companies, and related private sector entities has agreed to meet stringent security standards to prevent smuggling by means of their operations and to receive surprise inspections at any time. The BASC approach has proven successful in other Latin countries in minimizing contraband and promoting honest business activity.

A third privately owned airport, at La Romana, joined those at Punta Cana and Santiago in upgrading counternarcotics measures, including co-funding with the USG a DNCD canine unit.

The U.S. is planning to deploy a mobile training team for the DNCD's border units and provide increased support for Dominican naval patrols of the Mona Passage.

With U.S. Customs leadership and DEA support, the Port Authority improved security at the formerly 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 the new Caucedo container terminal, which began limited operations in December.

The DEA-funded CDI at DNCD headquarters now permits real-time sharing and analysis of narcotics-related intelligence among all the nations of the Caribbean Basin. Similar centers are 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. Two military officers received counternarcotics training at Fort Benning, Georgia.

The Road Ahead. The immediate U.S. goal remains helping to institutionalize judicial reform and good governance. The DR and U.S. are working to build coherent counternarcotics programs that can resist the pressures of corruption and can address new challenges brought by innovative narcotics trafficking organizations.

The USG and the GODR will continue strengthening drug control cooperation through sharing of information and developing closer working relations among principal agencies. The United States will continue to provide training and equipment for the DNCD, focusing its attention on the information technology and intelligence exchange necessary to disrupt narcotics smuggling at Dominican land and sea borders and at airports. 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 seeking 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 DOJ/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 civil society's and the Mejia administration's efforts to curb corruption will continue, regardless of the outcome of 2004 presidential elections, through U.S.-funded programs to strengthen the Attorney General's Anticorruption Prosecution Department and through monitoring and reporting compliance with the Inter-American Convention Against Corruption.

The USG will continue to work closely with the Anti-Money Laundering Commission to ensure full implementation of the Anti-Money Laundering Law.

Dominican Republic Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Seizures										
Cocaine (mt)	1.3	1.1	1.8	1.27	1.01	2.34	1.35	2.14	3.60	2.80
Heroin (mt)	0.059	0.115	0.017	0.020	0.012	0.069	0.008	0.005	—	—
Marijuana (mt)	0.5	01.7	3.794	2.90	0.18	0.11	0.78	1.01	1.00	6.81
Arrests/Detentions										
Nationals	3,692	3,857	3,496	4,454	3,918	1,676	1,431	3,097	3,388	2,810
Foreigners	237	299	212	161	111	—	50	69	11	158
Total Arrests	3,929	4,156	3,708	4,615	4,029	1,676	1,481	3,166	3,399	2,968

Dutch Caribbean

I. Summary

Aruba, the Netherlands Antilles, and the Netherlands together form 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. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF). The Kingdom of the Netherlands is a party to the 1988 UN Drug Convention, and all three jurisdictions are subject to the Convention.

II. Status

Netherlands Antilles. The islands of the Netherlands Antilles (N.A.) (Curacao 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, pleasure craft, 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 2003 did not support a finding that drugs now entering the U. S. from the N.A. 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 continued go-fast traffic this year, much of which moved to Sint Maarten en route to Puerto Rico or the U.S. Virgin Islands. Additionally, there was a marked increase in sailing craft and larger vessels used to move multi-hundred kilogram shipments of cocaine clandestinely under the guise of recreational maritime traffic.

The 2002 crack-down on “mules”—those who ingest or conceal illegal drugs on their bodies—at Curacao's Hato International Airport continued during 2003 as part of the 'Zero Tolerance' anticrime campaign. Still, most of the traffic (estimated at 95 percent) is destined for Europe. Since the inception of the “Hato Team” concept of interagency cooperation in April 2002, at least 10,000 persons have been denied boarding based on suspicion of drug trafficking under the GONA's legal authority to prevent disruption on air carriers. The GONA estimates that by the end of the year, drug-related arrests at the airport will have doubled to 2,400 from 1200 in 2002. During 2003 there were at least seven assaults by gunfire on the airport “Hato Team.”

In February 2003, a judge determined that the use of a body scanner at the airport was not a human rights violation when used as an instrument of administrative law and the GONA authorized its use. Suspected traffickers may decline to pass through the body scanner, but they will be denied boarding without refund. Between 5-20 passengers are denied boarding daily and it is not unusual to deny 80-100 during a weekend. Over the weekend of June 6-8, 157 suspects were denied boarding. Ringleaders increasingly seek to overwhelm the inspectors with volume, expecting that at least a few will get through. Smugglers are increasingly turning from ingesting or concealing drugs on their bodies to secreting smaller amounts of drugs in luggage. Air Holland has joined the transatlantic companies supporting 17 weekly flights to Amsterdam; all carriers cooperate in prescreening. Other trafficking routes are also of concern; in March N.A. Customs seized 76 kilos of cocaine at the Free Zone.

Consistent with the increased smuggling, arrests were frequent in 2003, filling Curacao's central prison to capacity. The detention facility nearest the airport will receive 20 refurbished cells and special facilities by late December to deal with ingestors. Curacao courts now typically handle 30-40 drug cases in a morning. To relieve overcrowding and the burden on the judicial system, authorities increasingly issue citations with fines calibrated to the amount and type of drug.

As Hato airport maintained tightened control, traffickers began to move to other Antillean airports, challenging law enforcement control at those locations. Bonaire, which now hosts 28 KLM flights per week and approximately 500,000 passengers per year, expected to process 250-300 drug cases in 2003; it processed 131 in 2002, and 30 in 2001. In January, an airport investigation resulted in the seizure of 50 kilos of cocaine and revealed the involvement of a security guard and a snack bar employee. The island has no detention space left.

Sint Maarten continued to detect increasing numbers of mules, mostly from Curacao, and improved its drug detection technology with Dutch assistance. There is almost a 100 percent check on arrivals from Curacao resulting in 106 arrests from January through September of 2003. In September plans were announced to move forward with an interagency 'Juliana Team' at the airport. On September 24, 29 mules carrying a total of 410 kilos of cocaine were arrested on a single flight for Europe; several were central Europeans.

Throughout the Antilles, ecstasy from the Netherlands is increasingly used to pay for cocaine. Sint Maarten seized 11,500 tablets on March 22; 11,500 tables on May 15; and in July, 70,600 tablets. In addition to go-fast activity and smuggling via commercial airlines, large quantities of narcotics moved through in shipping containers, as indicated by seizures from containers in 2003. Statistics on significant seizures in 2003 indicate that Dutch Sint Maarten poses a serious threat as a staging ground for moving cocaine and heroin into the U.S. market. There are no customs controls between the Dutch and French sides of the island and the international airport serving both is on the Dutch side.

The crime and homelessness stemming from drug abuse remained important concerns for the GONA and were major concerns for the voters in the May Curacao elections. Curacao continues to suffer an increase in homicides. As of November 30, 51 homicides had occurred, of which 33 are suspected of being drug-related. During 2002, 43 homicides were recorded with 33 suspected to be have been drug-related. While often third-country nationals, victims and perpetrators are increasingly Antillean. Beginning early in 2003, the GONA required visas of Colombians wishing to enter its territory as a response to increased Colombian involvement in homicides. The rise in drug abuse is attributed to payment for drug trafficking services in cocaine or ECSTACY rather than in cash, as well as to a weakened economy and un- or underemployment. The increasing availability of weapons is also cited; from January to April, 57 firearms were seized; 25 were seized during the equivalent period in 2002; 64 were seized in all of 01.

The N.A. Government that took office in July 2003 has yet to articulate a clear counternarcotics strategy, but cooperation continues unabated. The new government has announced its opposition to the continued use of the body scanner, citing it as discriminatory and demeaning, and it is in a heated dispute with the Kingdom regarding appropriate technology and the division of counternarcotics responsibility.

Elected officials and all elements of the law enforcement and judicial communities recognize that the N.A., 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. Rigorous legal standards required to prosecute cases constrain the effectiveness of the police; nevertheless, local police made significant progress in 2003 in initiating complex, sensitive cases targeting upper-echelon traffickers. In November 2003, law enforcement made its largest seizure ever, involving 2,345 kilograms of cocaine, 15 kilograms of heroin, and 15 kilograms of amphetamine after a sophisticated, lengthy investigation. One month earlier, police

working with the Joint Coast Guard of the Netherlands Antilles and Aruba (JCGNAA) seized 802 kilos of cocaine. These efforts, and other significant seizures, demonstrated the effectiveness of cooperation among law enforcement entities in the region. The local community supports the GONA's offensive against drugs.

The far-reaching restructuring of the N.A. police, started in 2000, continued to show limited results. During 2003, the police chief made improvement of the Criminal Investigative Service (CID) his top priority. His second priority continues to be improving the expertise of the financial investigation team. It is estimated that Curacao requires 900 police officers, but has a force of 420. Of the 26 additional officers now in training, 11 will go to the Windward Islands and Bonaire, and 15 to **Curacao**. From a previous class of seven, all went to Bonaire to stem the increasing problems there. 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 Dutch Police Information network 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 2003 and continued, 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 Curacao'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 and civilian aircraft conduct counternarcotics detection and monitoring flights over source and transit zones from commercial ramp space provided free of charge. A major airport expansion project, completed in September 2003, adds to the FOL's capacity.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) scored a number of impressive successes in 2003, although an intense debate is underway within the Kingdom regarding its composition, structure, and mission. The CGNAA was responsible for several significant seizures of cocaine, heroin, and marijuana. The RST unit in Curacao also accounted for the initiation of an investigation of a substantial international conspiracy. 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 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. During July 2003 the CGNAA in Sint Maarten boarded a sailing vessel and found approximately 1,150 kilograms of cocaine destined for Europe. In August it seized 822 kilograms of cocaine. Under the leadership of the current Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2003. 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. While the transshipment of heroin through the eastern and southern Caribbean is a growing concern to the U.S., evidence in 2003 did not support a finding that drugs entering from Aruba were in an amount sufficient to have a significant effect on 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 concern to the GOA is the involvement of Aruban students in transporting drugs, mostly 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.

Drug abuse in Aruba remains a cause for concern. As in the Antilles, the most visible evidence of a drug abuse problem is the homeless addicts, called “chollars”, often publicly linked to the increase in crime. The expanding use of ecstasy in clubs by young people attracts increasing attention. With almost one million American citizen tourists alone, the market is considerably larger than the population. Private foundations on the island work on drug education and prevention and GOA’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 GOA has established an interagency commission to develop plans and programs to discourage youth from trafficking between the Netherlands and the U.S. The GOA has stated clearly that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2003, Aruban law enforcement officials continued to investigate and prosecute mid-level drug traffickers who supply drugs to the endless parade of “mules”, often third-country nationals. During 2003, the police cooperated closely with DEA in a complex investigation leading to the arrest of twelve defendants and the seizure of 14 kilograms of heroin, 9 kilograms of cocaine, \$100,000, and two vessels.

The police were reorganized in 2002 into four autonomous districts, each with its own detective division and led by a District Commissioner. Officers rotate periodically through the police functions. The aim was 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 were established. A new police unit was created for the tourist areas to provide focused coverage, including counternarcotics. The Attorney General remains committed to international cooperation. The GOA now employs a helicopter to provide approximately 30 hours monthly of coastal coverage. In 2003, the GOA acquired four additional trained dogs to double its canine team.

The GOA continues to demonstrate its commitment to the international effort to combat drug trafficking by hosting a USAF Forward Operating Location (FOL) at Reina Beatrix airport. The GOA continued to make valuable commercial ramp space available to USG aircraft conducting aerial counternarcotics detection and monitoring missions.

The GOA hosts the Department of Homeland Security (DHS) Bureau of Customs and Border Protection pre-clearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. DHS personnel, cooperating with their Aruban counterparts, continue to contribute to seizures of cocaine, heroin, and ecstasy in 2003. Arrested drug smugglers are either prosecuted in Aruba or returned to the U.S. for prosecution, as appropriate. Aruban jails remain critically overcrowded. While additional space is now available at the prison, the Director believes that at least 30 new guards will be needed. To cope with the volume, the Aruban authorities increasingly cite and fine, rather than arrest, low-level traffickers. The fine is linked to the amount and type of drug. Aruban officials actively and creatively explored ways to capitalize on the presence of the FOL and pre-clearance personnel, seeking to use resident U.S. law enforcement expertise to improve local law enforcement capabilities.

Aruba also continued to participate in the Coast Guard of the Netherlands Antilles and Aruba. Aruban participation, however, was disrupted for much of the year due to disputes with the Kingdom regarding personnel policies and employment benefits.

III. Actions Against Drugs in 2003

Agreements and Treaties. The Netherlands extended the 1988 UN Drug Convention to the N.A. 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 N.A. and Aruban criminal legislation and policy on criminal matters. The N.A. and Aruba subsequently enacted revised, uniform legislation to resolve a lack of uniformity between the asset forfeiture laws of the N.A. 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' mutual legal assistance treaty (MLAT) and extradition treaty with the United States apply to the N.A. and Aruba. Both Aruba and the N.A. routinely honor requests made under the MLAT and cooperate extensively with the United States on law enforcement matters at less formal levels. In March, it was determined that subjects of extradition requests can now appeal to the Supreme Court in the Hague; previously, the appeals process ended with the intermediate Joint Court of the Netherlands Antilles and Aruba. In November 2003, the GOA signed a Tax Information Exchange Agreement with the U.S. In the same month, it signed an MOU with the Inter-American Drug Abuse Control Commission (CICAD), an instrument of the Organization of American States. While the Kingdom holds observer status, Aruba elected to pursue membership in its own right. 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 whether bill 2381, pending in parliament, relating to precursors, will become law, 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 2003 are as follows: TO BE SUPPLIED.

Corruption. In 2003, the GONA identified certain links from prominent traffickers in the region to law enforcement officials, which prompted additional investigations. The GONA has been quick to address these issues through criminal investigations and prosecutions, internal investigations, new hiring practices, and continued monitoring of law enforcement officials who hold sensitive positions. 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 an independent Public Prosecutors' Office and a judiciary that enjoys a well-deserved reputation for integrity. Both jurisdictions maintain close ties with the Dutch legal system, including extensive seconding of Dutch prosecutors and judges to fill positions for which there are insufficient qualified candidates among the small Antillean and Aruban populations.

Domestic Programs (Demand Reduction). Both the N.A. and Aruba have ongoing demand reduction programs, but need additional resources. For example, in February, the GOA formed an interagency task force to combat trafficking in schools. The Curacao police department is completing the training of a Demand Reduction staff to do more sophisticated school presentations.

IV. U.S. Policy Initiatives and Programs

In 2002 the Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) departed from its prior policy of not funding the component governments of the Kingdom of the Netherlands and offered limited counternarcotics assistance to the GOA. The bilateral counternarcotics agreement was concluded this year to provide training for border and port inspectors. Through the DEA, the United States is able to provide limited assistance to enhance technical capabilities as well as some targeted training. The FBI has also been active in including Antillean and Aruban police in

programs designed to enhance professional capacity at the multi-jurisdictional level, while the USCG has provided maritime law enforcement and boarding courses for CGNAA officials. The U.S. also exploits opportunities by which locally assigned U.S. law enforcement personnel can share their expertise with host country counterparts.

The Road Ahead. 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 30-35 metric tons of cocaine originate from, are destined for, or transit through the Eastern Caribbean (from Puerto Rico east and south) annually to the United States. Eight to nine times that amount transit the Eastern Caribbean to Europe annually. Illicit narcotics transit the Eastern Caribbean mostly by sea, in small go-fast vessels, larger fishing vessels, yachts and freight carriers. South American traffickers deliver drug loads either over the beach or offload their illicit cargo to smaller local vessels for delivery ashore. Marijuana shipments from St. Vincent often come ashore via swimmer delivery. Smugglers also attempt to transport cocaine and marijuana by commercial air. In one 2003 incident, a UK national “cocaine swallower” died from cocaine poisoning onboard a commercial aircraft that had not yet departed St. Lucia. An Organization of American States (OAS) study on maritime trafficking in the Western Hemisphere indicated that cocaine trafficked to Europe primarily is transported in commercial containerized cargo. There is little narcotics airdrop activity in the region.

The level of cocaine and marijuana trafficked through any individual Eastern Caribbean country 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”).

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 (DTO's) 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 DTO's to be given narcotics on consignment. There are reports that Colombian nationals are residing in some Eastern Caribbean countries and organizing drug trafficking operations. Some of the Eastern Caribbean DTO's 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 assume that terrorist organizations could tap into the infrastructure built by DTO's operating in the region and otherwise take advantage of the vulnerabilities that exist 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. One has ratified and four have signed the UN Convention Against Transnational Organized Crime. Two of the Eastern Caribbean states have signed that Convention's protocols on trafficking in persons and migrant smuggling; one has signed the firearms protocol.

Three of the seven states have ratified the Inter-American Convention against Corruption; one has signed but not ratified. Two have ratified the Inter-American Convention on Extradition. Three Eastern Caribbean states have signed and three have ratified the Inter-American Firearms Convention. One has ratified the Inter-American Convention on Mutual Assistance in Criminal Matters. Several Eastern Caribbean states have mutual legal assistance statutes that permit the exchange of mutual legal

assistance with Commonwealth countries and states-parties to the 1988 UN Drug Convention. 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 the maritime agreements was submitted to each country in April 2003. The Protocol would permit hot pursuit of maritime drug traffickers into the territorial waters of an Eastern Caribbean state by U.S. Coast Guard (USCG) law enforcement detachments aboard third country ships (e.g., UK). The Protocol also would permit a law enforcement shiprider from any Regional Security System (RSS) member state (The seven Eastern Caribbean states comprise the RSS.) aboard a USCG or third country vessel to authorize drug law enforcement operations in the territorial waters of any RSS member state. Only Antigua and Barbuda has signed the Protocol. To date, none of these countries has signed the Caribbean Maritime Counterdrug Agreement, which would facilitate cooperation among themselves.

Marijuana crops are grown in the greatest amounts in Dominica, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines, 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 and in Grenada. 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. They work closely with U.S. and UK law enforcement counterparts, who also collaborate closely with each other in the region. Eastern Caribbean maritime units also participated in joint operations during 2003 with French, Dutch and Belgian naval and coast guard vessels. Maritime interdiction in some of the islands has improved significantly as a result of two U.S.-provided and supported C-26 airborne maritime surveillance aircraft.

This interdiction program, which is operated entirely by Eastern Caribbean RSS personnel, coupled with a recent significant interagency U.S. investment in maritime equipment and operational support, and a similar USCG-UK investment in maritime training, intelligence support, and joint operations command and control training, are beginning to reap increasing dividends. By the end of 2003, each of the Eastern Caribbean countries had received from the U.S. and was operating a high-speed pursuit boat as its principal maritime counternarcotics interceptor. Eastern Caribbean coast guards endorsed standard operating procedures for the boats. All but one of the Eastern Caribbean states have functioning interagency operations centers, called National Joint Coordination Centers (NJCCs). The NJCCs 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. Both the U.S. and the UK are encouraging and assisting efforts to improve NJCC effectiveness.

Aircraft, maritime interceptor, and operations center personnel in the region all have been vetted for security reliability. With the aircraft providing over-the-horizon detection and surveillance, and the pursuit boats engaged in interdiction, the traffickers' ability to outrun and outmaneuver Eastern Caribbean maritime law enforcement is diminishing.

Interdiction challenges remain, however. Few Eastern Caribbean maritime law enforcement entities venture beyond territorial waters. Interdiction of ocean-going drug loads generally is left to any UK, French, Dutch or U.S. law enforcement units that may be in the region at the time. Eastern Caribbean maritime states often are under-resourced, routine drug law enforcement patrolling, particularly at night, is intermittent and the drug enforcement agencies as a whole do not have a reputation for

aggressiveness or effectiveness. After-action reviews for the purpose of improving operations are infrequent. However, there have been several operations during the past year when maritime units were required to defend themselves against ramming by traffickers' vessels, and successfully effected arrests and seizures. (Most maritime traffickers jettison their drug loads and weapons when approached by law enforcement vessels.)

Coordination between air and maritime units during operations, although inconsistent, has improved steadily and the C-26 aircraft have been able to guide maritime and land force units to successful interdictions. Barbados has developed standard operating procedures for joint maritime interdiction operations that resulted in several significant interdictions in 2003. The U.S. and UK will continue to partner closely with the airborne, maritime and land drug law enforcement units with the aim of improving interdiction coordination and effectiveness.

The U.S. continues to provide equipment, vehicles and operational support to regional drug law enforcement personnel. With the support of police commissioners, these personnel cooperate with U.S. and UK counterparts to develop drug intelligence and build cases against trafficking organizations. With assistance from the UK, several Eastern Caribbean countries have installed ion scan equipment at airports, thus strengthening their ability to seize narcotics entering or leaving the country.

Where the Eastern Caribbean states have had the least success is in the prosecution of organized drug crime. Conspiracy cases against DTO ringleaders, prosecutions for complex finance crimes and money laundering cases and significant asset forfeitures connected to cases developed within Eastern Caribbean jurisdictions remain almost non-existent. Statutory authority 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 and practices that would allow law enforcement agencies to effectively penetrate or disrupt organized criminal groups, such as civil forfeiture, wiretapping, undercover buys, paying informants, controlled deliveries, witness protection, and plea agreements have not been enacted or implemented. Moreover, light sentences for drug possession or trafficking do not appear to act as a deterrent.

The U.S. and UK, and organizations such as the Caribbean Office of the UN Office on Drugs and Crime, the Association of Caribbean Commissioners of Police (ACCP), and the Caribbean Anti-Money Laundering Program (CALP) all are providing encouragement and assistance to Eastern Caribbean states to improve the prosecutorial environment. The U.S. sponsored in 2003 a conference for prosecutors and police to discuss these issues and initiated a peer-to-peer judicial exchange between a U.S. District Judge and the Barbados Supreme Court. Both the U.S. and UK have encouraged the adoption of wiretapping legislation. CALP has circulated model civil forfeiture legislation and the ACCP President called in 2003 for civil forfeiture, plea bargaining, electronic surveillance and rackets legislation. 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 many of these areas.

There have been some advances. Antigua and Barbuda has adopted civil forfeiture legislation. Several Eastern Caribbean states are considering wiretap legislation. There appears to be a growing recognition in the region among police and prosecutors that without such tools, trafficking organization leaders will remain immune from arrest and prosecution.

In most Eastern Caribbean states, an apparent lack of political will or leadership, and in others, resource shortages (e.g., of funds for informants or witness relocation, etc.), have effectively weakened such legal initiatives. Some prosecutors do not have sufficient experience with complex conspiracy or financial crime cases. Other prosecutors believe that the judiciary is ill prepared to handle such cases. Without a serious, broad-based prosecution and law enforcement modernization effort, and a greater

share of national resources allocated to drug law enforcement and prosecution, it is unlikely that the region will develop significant defenses against DTO's, money launderers and other international and regional criminals and criminal groups.

In 2003, the seven Eastern Caribbean countries continued to support the treaty-based RSS. Barbados pays 40 per cent of the RSS's budget. The RSS includes marijuana eradication exercises in its twice-yearly 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 primarily by resident British Royal Navy trainers, with some supplementary training provided by U.S. Coast Guard trainers, have provided various law enforcement and seamanship courses for several years. The C-26 program operates under the aegis of the RSS.

With high volumes of narcotics transiting the region and the presence in each of the Eastern Caribbean states of offshore financial institutions, the Eastern Caribbean has been vulnerable to money laundering for some time. By the end of 2003, the Eastern Caribbean states had met international standards for anti-money laundering legislation, regulations and law enforcement infrastructure (in the form of financial intelligence units). The need for effective and consistent implementation of anti-money laundering efforts remains. (See 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. Unscrupulous individuals, including suspected members of criminal organizations, can take advantage of economic citizenship programs to ease border police checks 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 that, combined with the lack of automated immigration records in the region, facilitates the cross border movement for criminals. In 2003, a number of Eastern Caribbean states decided to undertake immigration automation efforts. Grenada is the first Eastern Caribbean state to have automated its immigration system.

In 2003, the Eastern Caribbean countries' continued their participation in the work of the Caribbean Community's (CARICOM) Regional Task Force on Crime and Security. In some respects, the Regional Task Force is a successor to the efforts undertaken in the region in connection with the 1996 Barbados Plan of Action and its follow-up 2001 high-level meeting on drugs and crime, and with the 1997 Caribbean-U.S. Summit Action Plan. 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 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. The recommendations would have the effect of improving drug law enforcement and prosecution efforts, if implemented. Eastern Caribbean countries are now considering the recommendations prioritized for implementation by the CARICOM Heads of Government in 2003, including establishing a regional fingerprint and criminal record database, development of a regional anticrime plan, and conducting a drug policy review.

II. Status of Countries and Actions Against Drugs

Antigua and Barbuda. The islands of Antigua and Barbuda are transit sites for cocaine moving from South America to the U.S. and global markets. Some law enforcement officials believe that improved airport enforcement in Jamaica has prompted traffickers to seek other outbound locations in the

Caribbean for transit by commercial air carrier. An increase in airport arrests in Antigua following installment of ion-scan equipment and implementation of modern profiling techniques indicates that this may be so. Reportedly, there are Colombian nationals in Antigua participating in trafficking operations. Narcotics entering Antigua and Barbuda are transferred mostly from go-fast boats, fishing vessels or yachts to other go-fasts, powerboats or local fishing vessels for delivery into Antigua and Barbuda. Secluded beaches and uncontrolled marinas provide excellent areas to conduct drug transfer operations. Marijuana cultivation on the islands is not significant. Marijuana imported for domestic consumption primarily comes from St. Vincent.

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 signed and ratified (January 2004) the Inter-American Convention against Corruption. It has not signed the Inter-American Convention on Mutual Assistance in Criminal Matters. The GOAB ratified in 2003 the Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and Other Related Materials (Inter-American Firearms Convention) and the Inter-American Convention on Extradition. 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. This agreement was amended in 2003 to facilitate broadened maritime law enforcement efforts. In 1999, the GOAB was the first Eastern Caribbean government to bring into force extradition and mutual legal assistance treaties with the U.S. In most cases, the GOAB is responsive to USG-initiated mutual legal assistance requests. The U.S. has made two extradition requests to Antigua and Barbuda since the treaty entered into force. One individual was extradited in 2003. The USG is particularly disappointed, however, about an Antigua appellate court decision denying the extradition of William Cooper, an indicted money launderer. The GOAB has indicated it would seek USG assistance in building arguments to overturn the decision by the appellate court, but has not yet done so.

GOAB drug law enforcement efforts are shared by the police drug squad and the Office of National Drug Control and Money Laundering Policy (ONDCP), which received police powers in 2003. The ONDCP comprises the National Joint Coordination Center, the Financial Intelligence Unit, the Financial Investigations Unit, the Drug Intelligence Unit, the Drug Control Policy Unit coordinator and two attorneys. In 2003, a national drug kingpin task force began operating out of the ONDCP under the leadership of a UK Customs and Excise drug liaison officer. In 2003, GOAB forces seized 62 kilograms of cocaine and 339 kilograms of marijuana, arrested 102 persons on drug-related charges and eradicated 1,316 marijuana plants. Antigua and Barbuda has both conviction-based forfeiture and civil forfeiture legislation; it is the only Caribbean country with the latter. It has received funds via asset seizure/sharing agreements with Canada and received asset seizure shared funds from the U.S. in 2003. With assistance from the OAS, the GOAB drafted a master drug control plan that was approved in 2002.

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 schools. The police also conduct Drug Awareness (DARE) Programs in the schools.

Barbados. Barbados is a transit country for cocaine and marijuana products entering by sea and by air from South America and elsewhere in the region. Smaller vessels or go-fasts transport marijuana from St. Vincent and the Grenadines and cocaine from South America. There have been several instances in which passengers on flights originating in Jamaica were found with marijuana on arrival in Barbados.

Barbados 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. 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. The Mutual Assistance in Criminal Matters Act allows Barbados to provide mutual legal assistance to countries with which it has a bilateral mutual legal assistance treaty, Commonwealth countries, and states-parties to the 1988 UN Drug Convention. Barbados has signed the UN Convention against Transnational Organized Crime and its three protocols.

The Government of Barbados (GOB) and the USG have brought into force three important agreements that facilitate counternarcotics cooperation: a maritime agreement with overflight authority, an extradition treaty and a mutual legal assistance treaty. GOB agencies reported seizing 97 kilograms of cocaine and 3,000 kilograms of marijuana through early December 2003. The GOB brought drug charges against 148 persons during that same period. The GOB tried twice in 2003 to convict two brothers accused of cocaine trafficking. Two trials resulted in a hung jury and an acquittal, respectively. One of the brothers was arrested again in 2003 on marijuana trafficking charges.

The GOB's penal system 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, where 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 confiscated approximately \$170,000 under its asset forfeiture laws in 2003 and froze or restrained an additional \$122,000 cash and 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 on the recommendations of the CARICOM Regional Task Force on Crime and Security, the GOB formed a National Commission on Law and Order, which is an advisory body to the Attorney General's office. In the process of developing a National Plan of Action Against Crime drafted by the Attorney General's Office, the Commission held public hearings on the plan in 2003. Among the legislative reforms discussed in the plan are a wiretapping bill and an organized crime prevention bill. The plan also discusses plans to improve police technical capabilities and automation.

The GOB is taking a number of steps to improve its ability to fight crime, including transnational crime such as drug trafficking, money laundering and terrorism. In 2003, it installed ion-scan equipment at the international airport and opened a forensics center. It embarked on an ambitious program to upgrade police communications. The ruling party announced plans to develop a National Prosecution Service and a port police unit. Ground was broken in 2003 for the construction of a \$35

million judicial center. The Barbados Port Authority stated that it would meet the July 2004 IMO deadline to implement the International Shipping and Port Facilities Security Code.

Barbados is executing a national plan concerning supply and demand reduction for the period 2002-2006. The GOB's National Council on Substance Abuse (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. NCSA in 2003 sponsored a "Drugs Decisions" program in 45 primary schools and continued its sponsorship of prison drug and rehabilitation counseling. Barbados's excellent D.A.R.E. and Parents' Resource for Drug Education (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. The largest drug rehabilitation facility in Barbados, Verdun House, has 40 beds for in-patient treatment and 35 spaces for halfway care. Eighty-five percent of the facility's clients are there because of cocaine addiction. In 2003, the Ministry of Health announced that it had drafted revised regulations designed to enhance drug treatment options.

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.

In 2003, Dominican law enforcement agencies reported seizing 2.1 kilograms of cocaine and 44 kilograms of marijuana. They eradicated 160,000 marijuana plants (trees and seedlings), of which 32,000 were destroyed by the RSS in March 2003 as part of its basic training course. Dominica police arrested 284 person on drug-related charges. Dominican law permits the forfeiture of drug traffickers' assets. Police resource shortages and Dominica's difficult terrain make drug law enforcement investigations difficult. Based on the recommendation of the CARICOM Regional Task Force on Crime and Security, the Government of Dominica (GCOD) announced plans in 2003 to form a National Commission on Crime and Security.

The Ministry of Health oversees drug demand reduction efforts. The Ministry and its National Drug Abuse 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. However, since 2000, Dominica has taken no action on an extradition request for a Dominican national, Randy Isidore, who was caught in New Mexico

transporting over one ton of marijuana. Isidore was released from jail in Dominica in August 2001 pending a decision on the extradition.

Grenada. South American cocaine traffickers pass through or stop in Grenada's coastal waters and its often unpoliced islands and beaches to transship cocaine en route to U.S. and other markets, including by drug couriers on commercial aircraft and via yachts. The traffickers often transfer cocaine to Grenadian vessels to execute deliveries ashore, as the Grenadian police have had some success in disrupting over-the-beach deliveries. Grenada's police drug squad dismantled a Trinidadian cocaine trafficking operation that used Grenada as a transshipment point in 2003. Relatively small amounts of marijuana are grown in Grenada. Marijuana is smuggled from St. Vincent for domestic use.

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. The Government of Grenada (GOG) also is a party to the Inter-American Convention against Corruption, Inter-American Firearms Convention and the Inter-American Convention on Mutual Assistance in Criminal Matters.

The GOG has not signed the UN Convention on Transnational Organized Crime. 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 GOG's 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 2004-2009. The Council effectively keeps drug prevention themes before the public. Drug use prevention education is incorporated into all levels of the educational curriculum.

In 2002, the GOG issued a National Schools' Policy on Drugs.

The D.A.R.E. program continues to function well. The Department of State and the Florida Association of Volunteer Agencies/Caribbean Action (FAVA/CA) have contributed to the development of self-sustaining, peer-to-peer drug prevention and "Safe Summer" programs for youth in Grenada since 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 Coordination Center for law enforcement in 2001. Through August 2003, Grenadian authorities reported seizing approximately 40 kilograms of cocaine and 155 kilograms of marijuana. During that period, they arrested 456 persons (21 non-nationals) on drug-related charges and eradicated 3,434 marijuana plants. Grenadian law enforcement authorities seized nearly ECD 300,000 (\$115,000) in connection with drug-related cases. The police drug squad has collaborated closely with DEA officials in the targeting and investigation of a local cocaine trafficking organization, which has associations with South American and other Caribbean traffickers.

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, some of whom reportedly are residing in St. Kitts, and to other organized crime groups. Marijuana is grown locally.

Since 1996, the USG has sought 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 and remanded the case to the High Court for expeditious action. In 2003, both the High Court and subsequently the Eastern Caribbean Supreme Court upheld the extradition. The defendants are appealing once again to the UK Privy Council. 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 Government of St. Kitts and Nevis (GOSKN) is not a party to the Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Convention against Corruption, or the UN Convention against Transnational Organized Crime. It has signed, but not ratified, the Inter-American Firearms Convention. The GOSKN signed a maritime law enforcement cooperation agreement with the U.S. in 1995 and an overflight amendment to the maritime agreement in 1996. In 2000, the USG and the GOSKN brought into force extradition and mutual legal assistance treaties. The GOSKN is extremely responsive to U.S. MLAT requests.

St. Kitts and Nevis developed a five-year master plan for drug control in 1996, which was refined and its implementation initiated in November 2000. The National Council on Drug Abuse Prevention coordinates implementation. 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. Supported by the State Departments Bureau of International Narcotics and Law Enforcement (INL), the Florida Association of Volunteer Agencies/Caribbean Action (FAVA/CA) carried out in 2002-2003 a successful demand reduction and prevention sustainability program in St. Kitts.

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 Coordination Center in 2000. GOSKN officials reported seizing 36 kilograms of cocaine and approximately 17,000 kilograms of marijuana through November 2003. They arrested 56 people on drug charges and eradicated approximately 22,000 marijuana plants. In 2003, the SKN Coast Guard exercised with a U.S. Coast Guard (USCG) cutter and has operated its new Rigid Hull Inflatable Boat counternarcotics interceptor effectively.

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.

St. Lucia. St. Lucia is a well-used transshipment site for cocaine from South America to the U.S. and Europe. Cocaine arrives in St. Lucia in go-fast boats, primarily from Venezuela, and is delivered over the beach or offloaded to smaller local vessels for delivery along the island's south or southwest coasts. Marijuana is smuggled from St. Vincent and the Grenadines and grown locally. Foreign and local narcotics traffickers are active in St. Lucia and have been known to stockpile cocaine and marijuana for onward shipment.

The Government of St. Lucia (GOSL) police reported seizing 433 kilograms of cocaine and 583 kilograms of marijuana through November 2003. They arrested 495 persons on drug charges and

eradicated approximately 46,000 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.

In 2003, St. Lucia revised its criminal code. This revision modernized existing legislation to deal with wire-fraud and other modern financial crimes. In 2003, the GOSL announced plans to adopt wiretap legislation and civil forfeiture. It has also taken steps to strengthen its border controls and plans to automate its immigration control systems. St. Lucia does not have an operational National Joint Coordination Center.

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 in 1996. An MLAT and an extradition treaty are in force between St. Lucia and the United States. In 2003, St. Lucia ratified the Inter-American Convention against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives and other Related Materials, and acceded to the Inter-American Convention against Corruption and to the Inter-American Convention on Extradition.

St. Lucia has instituted a centralized authority, the Substance Abuse 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. 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.

However, cultivation does not reach the minimum 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.

Through November 2003, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing 1.5 kilograms of cocaine and approximately 1700 kilograms of marijuana. They arrested 340 persons on drug-related charges and eradicated approximately 36,000 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. Their reaction capability is limited, but the SVG Coast Guard performance should improve as a result of receiving from INL two new go-fast interceptors.

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 as well as 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 a proposed 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 received good cooperation from the GOSVG in 2003.

An advisory council on drug abuse and prevention, mandated by statute, has been largely inactive for several years. A draft national counternarcotics plan remains unadopted. 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. The OAS is assisting the GOSVG develop a drug demand reduction program for St. Vincent's prison.

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 may move through the French Caribbean and from French Guiana to Europe and, to a lesser extent, to the U.S.

Although evidence in 2003 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 February, a Canadian sailboat was detained by French customs authorities in St Martin (Guadeloupe). Cocaine (204 kilograms) and heroin (15 kilograms) were hidden in coolers and suitcases scattered throughout the boat. In addition to the drugs, police also found cash and weapons onboard. The four Dominican nationals (three men and one woman) on board were arrested.

In March, customs officials at Orly Airport, Paris seized 60 kilograms of cocaine from unaccompanied luggage arriving from Martinique. The cocaine was placed in luggage allegedly containing fruit, books and alcohol and was estimated to have a street value of 6 million euros. This was the largest cocaine seizure on record for Orly Airport.

In April, authorities seized more than a metric ton of cocaine from a Belgian sailboat in Martinique waters. The suspicious boat was first spotted by a French customs plane, and was later boarded by a customs boat as it was heading for open waters. This represents the third largest "at sea" drug seizure for French customs.

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 Navy liaison officer to the U.S. Joint Interagency Task Force-South (JIATF-S) 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 July, Minister of Interior Sarkozy signed a quadrilateral agreement aimed at curbing the back-haul shipments of cocaine from South America via the French Antilles into Europe. This agreement includes the participation of France, Colombia, Spain and the UK. Among a variety of cooperative tools and measures put in place, France has decided to establish a liaison platform and drugs task force of the OCTRIS (French counternarcotics department within the Ministry of Interior). This initiative will bring together French National Police, Gendarmerie and customs officers alongside colleagues from Spain, the UK and Colombia. The French have asked the United States to take part in this program; the USG is studying the proposal. The four main objectives of this task force are to re-enforce operational capabilities, ensure real coordination between all parties, improve understanding

of the project to foreign counterparts and put to use the new law enforcement mandates provided to the French Navy. This task force will direct investigations from Martinique rather than require French police officers to travel from Paris each time a matter requires their attention.

In Martinique, the French Inter-Ministerial 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 UNDCP, the Organization of American States/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 in the region and through regular bilateral and multilateral discussions. The GOF participates actively in the Caribbean Financial Action Task Force (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, however, 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 distracted in the first half of 2003 by a political stalemate and a critical crime threat, some of which was reportedly linked to drug-trafficking activities. In 2003, the GOG established a Financial Intelligence Unit and requested assistance from the Inter-American Drug Abuse Control Commission of the Organization of American States (OAS/CICAD) to revise its national drug strategy. The GOG cooperated with DEA investigations, and GOG law enforcement officers participated in U.S.-funded training. Guyana is a party to the 1988 UN Drug Convention, but needs to pass and implement additional legislation to meet its obligations under the Convention.

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 volume of traffic passing through Guyana appears to be significant in local terms, but evidence available in 2003 did not support a finding that drugs entering the U.S. from Guyana were in an amount to have a significant effect on the U.S. The country's remote geographic location and limited transportation infrastructure have thus far limited exploitation of its territory by drug traffickers on a large scale. Guyana is not a producer of cocaine or precursor chemicals. The GOG's counternarcotics efforts are undermined by the lack of adequate resources for law enforcement, poor coordination among law enforcement agencies, corruption, and a weak legal and judicial infrastructure. Continued high levels of violent crime in the first half of 2003 preoccupied Guyana's government and law enforcement agencies. Lack of political cooperation prevented the implementation of needed reforms to the Guyana Police Force (GPF), including the appointment of a permanent commissioner.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOG continues to express commitment to counternarcotics efforts, domestically and internationally. Guyana supported the work of the CARICOM Regional Task Force on Crime and Security. In the spring, at the invitation of the GOG, OAS/CICAD personnel visited Guyana to assist the GOG in the preparation of an updated national drug strategy. By the end of 2003, however, work on the project was still pending GOG action. With material support from the USG, Guyana established a Financial Intelligence Unit in late 2003.

Law Enforcement Efforts. GOG counternarcotics efforts are hindered by the lack of adequate resources for law enforcement. The Customs Anti-Narcotics Unit (CANU) is supposed to be one of the main agencies responsible for drug-related law enforcement, but it has no real authority under the law. Officially, the CANU is still a department of Customs, although it operates with considerable autonomy. It is unclear who holds ultimate control over the unit. The scope of the CANU's operation is largely believed to be politically regulated and directed. Many CANU officers are afraid to take independent action for fear of losing their jobs, with the result that little effective investigation is done. There is also a great deal of mistrust between CANU officers and the GPF, resulting in unsatisfactory

intelligence/information sharing. Guyana's inefficient and antiquated legal system continues to hinder prosecution of drug offenses.

In 2003, law enforcement activity was limited to numerous arrests of individuals with small amounts of marijuana, crack cocaine or powder cocaine on charges of possession of drugs or possession with intent to distribute drugs. The GPF Narcotics Branch and CANU continued to arrest drug couriers at Guyana's international airport en route to the U.S. or Europe. It is noteworthy that the great majority of such arrests have been of foreigners, although most travelers are Guyanese. GOG officials believe that GOG counternarcotics agencies interdict only a small percentage of the cocaine and coca paste that transits Guyana. The Guyana Defence Force Coast Guard (GDFCG) continued to conduct patrols with the 44-foot Motor Life Boats acquired from the U.S. and seized several boats for engaging in illegal activities. There have not yet been any narcotics interdictions at sea.

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, and reach to high levels of government, but continue to go uninvestigated. The swearing-in by the GPF of a reputed drug lord and several of his cohorts as special constables raises serious questions about the integrity of the force. In May, 120 kilograms of marijuana were seized aboard the GDFCG flagship "Essequibo" which was in Barbados for the international "Tradewinds" exercise. The drugs had been smuggled aboard by an off-duty GDFCG crewman, who is in custody pending completion of a Preliminary Inquiry. Available evidence suggests that the case may go to trial in the High Court. There were no other arrests or prosecutions for drug-related corruption in 2003.

Agreements and Treaties. Guyana is a party to the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. Guyana acceded to the 1931 U.S.-U.K. extradition treaty upon independence from Britain, and it is still in force between Guyana and the U.S. Guyana has an agreement to share narcotics intelligence with the U.K. Guyana is a member of OAS/CICAD. In 2003, Guyana passed the necessary implementing legislation for the bilateral maritime counternarcotics cooperation agreement signed by Guyana and the U.S. in 2000. The agreement is not yet in force pending the exchange of instruments.

Cultivation/Production. Cannabis cultivation takes place in Guyana's interior, but the volume is believed to be small. 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 and Colombia. 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. In 2003, high-profile seizures in the UK, Canada, Ghana, Trinidad and Tobago, and the U.S. involved drugs originating in Guyana.

Domestic Programs. Some marijuana is consumed domestically. The consumption of cocaine powder, crack cocaine, ecstasy and heroin is increasing, with cocaine use, in particular, becoming widespread. Social workers report that marijuana and cocaine are being sold almost openly.

Guyana has a national demand reduction strategy, developed in cooperation with the Pan-American Health Organization, the World Health Organization, and the UNDCP, but implementation has been minimal. As noted earlier, OAS/CICAD is assisting the GOG to revise its national drug strategy, which also covers demand reduction efforts. Prevention programs operated in the prisons and a few urban areas, but lack of resources limited the scope of these efforts. Guyana has no national drug rehabilitation program.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. efforts continued to focus on strengthening the capacity of Guyana's law enforcement agencies through U.S.-funded training and the procurement of equipment. In 2003, the U.S. sought to strengthen the capability of Guyanese customs inspectors through the provision of an anticorruption course and training in regional drug trafficking patterns, risk assessment, and targeting and search techniques conducted by the U.S. Bureau of Customs and Border Protection (CBP). The U.S. supported the establishment of a Financial Investigations Unit to counter money laundering through the provision of office equipment and computers and technical assistance from the U.S./EU/UK-funded Caribbean Anti-Money Laundering Programme. The USCG provided training for the GDFCG in maritime law enforcement, joint counternarcotics operations and boarding officer procedures. U.S. officials continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives.

Bilateral Cooperation. Both the CANU and GPF continued to work closely with the DEA, and representatives from Guyana's counternarcotics agencies participated in numerous DEA-sponsored training seminars during the year. Since the assassination of the CANU Deputy in August 2002, and the lack of any arrests in the case, DEA efforts in Guyana have been significantly slowed. Personnel from the GDFCG, GPF, and CANU participated in three U.S. Coast Guard (USCG) courses during the year. In July, 20 members of the GDF participated in an intelligence subject matter exchange. The GOG provided two GDFCG crew members for the Caribbean Support Tender, a USCG vessel with a multinational crew that provides training and assistance in ship maintenance and repairs to Caribbean coast guards.

The Road Ahead. Guyana's contentious and inefficient political environment and lack of resources significantly hamper its ability to effectively pursue a counternarcotics campaign. 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 U.S.-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, training for prosecutors and increased court efficiencies. Serious doubts remain concerning the integrity of Guyana's law enforcement structures. The U.S. must continue to press for thorough reform, in cooperation with other international stakeholders. The U.S. will continue to encourage participation in bilateral and multilateral initiatives, to include taking the necessary legislative and administrative actions to fully implement international conventions and agreements.

Haiti

I. Summary

Haiti's geographical position, weak institutions, and subsistence 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) lacks discipline and is riddled with corruption. The judicial system is equally weak, its prosecutors and judges susceptible to bribes and intimidation.

The Government of Haiti (GOH) made slow progress toward implementation of the May 2002 counternarcotics Letter of Agreement with the United States. A new facility for the Haitian Coast Guard (HCG) in Cap Haitien was completed and staffed. However, operational funding remained inadequate. The Bureau de Lutte contre le Trafic Illicite de Stupefiants (BLTS), the counternarcotics unit of the HNP, restricted to the capital by lack of transport resources, did little without DEA leadership and involvement.

Corruption, weak law enforcement capability, and lack of GOH commitment combined to limit cooperation in general, although Haitian officials have cooperated in some specific cases. The GOH's major achievement was its expulsion of four drug traffickers, including the notorious Jacques Beaudoin Ketant, to the U.S. for prosecution. Haiti's ongoing political and economic crises continued to grip the country in 2003, eclipsing the fight against drug trafficking. Serious allegations persisted that high-level government and police officials are involved in drug trafficking.

Haiti remains highly susceptible to money laundering due to its weak legal system and pervasive corruption. The money laundering law passed in 2002 has not been implemented. The anti-money laundering commission finally submitted candidate lists for Director General and deputy DG to the President and the Minister of Justice. On December 11, 2003, the GOH inaugurated the Financial Intelligence Unit (FIU) to serve as a clearinghouse for information relating to money laundering and other misuses of the financial system. The FIU will simultaneously serve as a conduit for the transfer of seized assets to the Ministry of Finance. Haiti is a party to the 1988 UN Drug Convention.

II. Status of Country

The political disconnect between supporters and opponents of President Aristide deepened in 2003 and took on violent overtones. The economy remained stalled and attracted little foreign investment, and trafficking in drugs and aliens remained one of the few reliable avenues to wealth. The currency fluctuated around 40 to one against the dollar. Fuel price controls were lifted just before January 2003, doubling prices overnight and affecting law enforcement's ability to conduct operations. In December 2003, months of unrest erupted in demonstrations by the political opposition and by Lavalas supporters, the latter strengthened by roving gangs of "chimeres" (thugs).

The HNP continued to lose mid-level and senior officers but retained overall membership levels with the graduation of about 850 new agents in 2003. Under Lavalas pressure, unqualified Aristide loyalists were placed in key HNP positions, which relegated U.S.-trained officers to secondary positions. For instance, the 14th police academy class is almost entirely composed of Aristide loyalists, including many who are totally illiterate. The government does not provide adequate resources to the police. The GOH routinely pays HNP officials late or not at all, and new recruits are often assigned without uniforms, firearms, training, or supervision. Severely limited international assistance has damaged both the HNP and the judiciary and contributed to their erosion in numbers and effectiveness. The

Organization of American States assigned 24 foreign police advisors mid-year, but a lack of GOH support for their mission limited its impact.

III. Country Actions Against Drugs in 2003

During the year, the GOH moved cautiously toward fulfillment of its commitments made in the Letter of Agreement of May 15, 2002. A National Drug Control Strategy Bill, developed with OAS support, is still being debated in Congress. The GOH has not yet ratified the 1971 UN Convention on Psychotropic Substances. The GOH occasionally permitted U.S. hot pursuit into territorial waters and assisted in one pursuit in January 2003. A few investigations of official drug-related corruption were started, but none were carried through. Seizures remained low. No major drug trafficker was prosecuted or extradited, but four well-known traffickers were expelled to the U.S. Haitian law enforcement remained starved for resources. The GOH did increase the number of HNP agents assigned to the BLTS and the HCG, and the new Coast Guard station at Cap-Haitien is staffed and operating.

DEA provided a basic drug enforcement seminar for 32 BLTS agents in March 2003. DEA polygraphed 26 BLTS agents in August 2003, and the four who failed were reassigned. The Embassy proposed establishment of a special drug court to the Prime Minister and Minister of Justice, but GOH officials took no action.

On February 3, leading daily *Le Nouvelliste* published a list of ten officials who allegedly had their U.S. visas canceled. On the list were two highly placed HNP officials, National Police Superior Council member Carel Alexandre and BLTS commander Evintz Brillant. Both were soon relieved of their posts. Brillant's supervisor, Jeannot Jean-Francois, sought asylum in the French embassy and eventually fled to Miami. In March, Jean-Claude Jean Baptiste, unofficial liaison between the Palace and violent gangs, was named head of the HNP, and soon was linked to a previous political murder and criminal activity. International protests led to his replacement in June by Jean-Robert Faveur, an uncorrupted, professional officer who fled the country within ten days of his appointment following political pressure that undermined his authority. The current head of the HNP is Jocelyn Pierre, a senior judge with no prior law enforcement experience, known for having bowed to political pressure in a high profile case.

Corruption. There was no effort to curb drug-related corruption, and no prosecutions or convictions of major traffickers took place in Haiti. Involvement of government and HNP officials in drug trafficking continued to hamper cooperation and erode trust between Haitian and foreign law enforcement agencies. There is strong evidence of interference by Haitian law enforcement officials, particularly leaking information on planned operations, as well as considerable involvement in trafficking.

On October 5, 2003, a twin-engine Aztec aircraft landed near Cap-Haitien and offloaded 500 kilograms of cocaine. The Secretary of Public Security refused to take action to apprehend three traffickers lodged at the Continental Hotel until DEA pressure forced their arrest. Witnesses have often observed light aircraft landing with drug cargoes on Route 9 in Port-au-Prince. Typically, HNP officers will block traffic and help with off-loading and ground transport.

Law Enforcement Efforts. On June 18, Jacques Ketant, one of Haiti's most notorious drug traffickers, was expelled by the GOH. The GOH subsequently expelled three other traffickers in similar fashion. With Haitian cooperation, DEA has seized several large houses belonging to Ketant. Haitian citizen Salim Jean Batrony, arrested in 2002 with 58 kilograms of cocaine, was released, causing a scandal in which the judge was dismissed, but Mr. Batrony was not re-arrested.

There were no joint large-scale U.S.-Haiti law enforcement counternarcotics operations in 2003 in part because of the disappointing results of Operation Hurricane in 2002.

The HCG was involved in three significant law enforcement cases during the year. On September 18, Cap-Haitien officers seized \$400,000 from the M/V NIKLAS II. On October 13, the Cap-Haitien detachment stopped a boatload of migrants who reportedly intended to smuggle drugs to Miami. In November, the Coast Guard intercepted a boat carrying 40 pounds of marijuana.

During 2003, the U.S. invoked the 2002 Bilateral Agreement to Suppress Illicit Maritime Drug Traffic eight times, pursuing suspect vessels into territorial waters and sometimes boarding them. In all cases, Haitian authorities have permitted search of Haitian-flag vessels, sometimes without the presence of a Haitian law enforcement official.

Haitian drug trafficking organizations continue to 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. Haiti's roads are very poor, and the HNP has no air assets. The HCG has no presence on the south coast and, even with assistance from the U.S. Coast Guard, its ability to patrol in other areas is limited by frequent vessel breakdowns. The BLTS has no permanent presence outside Port-au-Prince and no effective means of transport. The GOH does not provide the HCG or BLTS with necessary equipment, maintenance, or logistical support.

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. Extradition is carried out under the 1905 U.S.-Haiti extradition treaty. Haitian law prohibits the extradition of its nationals. The GOH has cooperated with specific requests for expulsion of non-Haitians, and this year for the first time expelled Haitian drug traffickers. The GOH has not yet ratified the OAS mutual legal assistance treaty. Haiti has signed, but not yet ratified, the Inter-American Convention Against Corruption.

Cultivation/Production. Illicit cultivation in Haiti is limited to minor amounts of marijuana. There is no information on drug 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, while low, continues to rise.

Drug Flow/Transit. Embassy Port-au-Prince estimates that the flow of cocaine through Haiti has continued to increase, with some cocaine going to the U.S. through the Dominican Republic, whose 225-mile (360 km) border with Haiti is largely uncontrolled. Approximately 8 percent of the cocaine destined for the U.S. transited Haiti and/or the Dominican Republic. Cocaine arrives in the country by maritime or air conveyances. Traffickers forward these shipments onward using maritime vessels or over land to the Dominican Republic. During 2003, United States authorities seized drugs concealed on five different commercial vessels arriving in Miami from Haitian ports, totaling 1,214 pounds of cocaine.

IV. U.S. Policy Initiatives and Programs

The U.S. plan for combating illegal drug trafficking via Haiti remains one of interdiction along with police and judicial institution-building. However, several factors work against successful implementation of that plan—forewarned smugglers elude the HNP, and low or no response by the HNP to DEA intelligence allows suspected air and sea deliveries to be completed without challenge. The GOH's slow implementation of the bilateral counternarcotics assistance agreement also hinders significant achievement, and lack of resources and lack of political will are equally to blame.

The Road Ahead. Stemming the flow of illegal narcotics through Haiti remains a cornerstone of U.S. counternarcotics policy. Key preconditions 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. The new HCG base at Cap-Haitien must be supplemented with a small BLTS detachment and eventually replicated on the south coast. The road ahead is obstructed by the politicization and corruption of the police and judiciary, and further obscured at this time by social disorder and political violence.

Jamaica

I. Summary

Jamaica is the preferred Caribbean transshipment point for South American cocaine en route to the United States and the largest Caribbean producer and exporter of cannabis. The Government of Jamaica (GOJ) continues to implement its National Drug Control Abuse Prevention and Control Master Plan and, during 2003, prepared an updated Plan for 2003-2008.

During 2003, the GOJ maintained existing counternarcotics law enforcement programs and took several steps to strengthen its counternarcotics capability. The GOJ established a new National Intelligence Bureau to coordinate and control the Jamaica Constabulary Force's (JCF) intelligence function. The JCF vetted unit continued to work with DEA on investigations targeting major traffickers. Although no major trafficker was arrested in 2003, vetted unit operations led to the arrest of several mid-level traffickers. The GOJ introduced a new Customs arrival form that requires the declaration of currency or monetary instruments over \$10,000. To strengthen security at Jamaica's seaports, the Port Authority of Jamaica (PAJ) purchased closed-circuit television systems and non-intrusive inspection equipment. The GOJ established the Commission for the Prevention of Corruption, as called for in its Corruption (Prevention) Act. The GOJ continued its cannabis eradication program during the year, although the amount eradicated fell far short of the amount agreed to by the U.S. and GOJ. Cooperation between the JCF, Jamaica Defence Force (JDF) and Customs Contraband Enforcement Team (CET) resulted in several large seizures of drugs, but the amount of cocaine seized was less than that seized in the previous two years. U.S. law enforcement agencies note that cooperation with the GOJ is generally good and is steadily improving.

The GOJ has taken steps to protect Jamaica 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 through Jamaica and its territorial waters. Needed actions include arresting and prosecuting major 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 2003 made progress towards meeting the goals and objectives of the Convention.

II. Status of Country

Jamaica is the leading 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, primarily through the purchase of real assets, such as houses and cars. Cash couriers are also a significant concern. (See money laundering section of this report.) Jamaica is neither a source of precursor or essential chemicals used in the production of illicit narcotics nor a significant conduit for the transit of precursor chemicals. The GOJ lacks a control program that would enable it to detect the illegal diversion of such chemicals, as it has not yet drafted implementing regulations for the 2000 Precursor Chemicals Act.

III. Country Actions Against Drugs in 2003

Jamaica's economy shows only limited signs of recovering from the 1996 banking/financial crisis followed by several years of negative economic growth. Without continued international assistance,

the GOJ is unlikely to fund adequately initiatives 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. To stem Jamaica's rising tide of crime and violence, in late 2002, the GOJ unveiled a broad-based anticrime program that explicitly identified drug trafficking as the primary revenue source and the basis of organized crime in Jamaica. One component of the program is a package of legislative reforms to enhance law enforcement and judicial powers. The first part of this package to be enacted was the requirement, effective August 2003, to declare cross-border movements of currency or monetary instruments in excess of \$10,000. The Fingerprint Act and a comprehensive counterterrorism package were presented to Parliament in October 2003. A new Port Security Act has reportedly been drafted, but has not yet been presented to Parliament. Reforms in the areas of firearms, forfeiture of the proceeds of crime (including civil asset forfeiture) and plea-bargaining have yet to be drafted. Technical amendments to the 2002 Interception of Communications (Wiretap) Act are also needed to make it more effective. In October, the JCF established a National Intelligence Bureau (NIB) that is charged with the collection, analysis and dissemination of police intelligence. The NIB, which replaces the National Firearms and Drugs Intelligence Unit, will include liaison personnel from the JDF, Customs, Immigration and Correction Services. The NIB, however, has not yet been fully funded. The GOJ continues to work with international partners to modernize its law enforcement agencies, in particular the JCF. In addition to U.S. assistance, the UK is assisting the JCF in a five-year modernization program.

Accomplishments. During 2003, the GOJ continued to take steps to strengthen its capability to identify, apprehend and prosecute drug traffickers and dismantle drug trafficking organizations. The GOJ operates under severe resource constraints, however, as well over 60 percent of the country's annual budget is expended for debt service. Nonetheless, the GOJ spent substantial amounts in 2003 to maintain an interdiction capability consisting of helicopters and patrol vessels. In a major effort to overhaul security at the nation's seaports, the PAJ signed a \$21 million contract for non-intrusive inspection equipment, procured closed-circuit television surveillance systems for the Kingston and Montego Bay ports and hired an expert to provide technical assistance and oversight. The PAJ has also hired 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. In December, the GOJ hired 24 additional Customs officers for the CET, bringing staffing to 45 Customs officers and four narcotics police. In February 2003, Jamaica's Business Anti-Smuggling Coalition chapter was launched. The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center. The GOJ in 2003 finalized its third National Drug Control Abuse Prevention and Control Master Plan (2003-2008), which at year's end was with the Cabinet for review.

Law Enforcement Efforts. Both the JCF and JDF assign a high priority to counternarcotics missions. The JDF Air Wing and Coast Guard are actively involved in maritime drug interdiction efforts. The JDF worked with the USG's Joint Inter-Agency Task Force/South throughout the year to successfully disrupt a number of planned go-fast drug deliveries. The JCF Narcotics Division, a competent and respected unit, is undergoing a multi-year restructuring and expansion program that will increase its staffing to 250 officers over the medium term. Intelligence-driven operations coordinated by DEA and the JCF vetted unit continue to target major drug trafficking organizations and led to the arrest of several mid-level traffickers.

Cooperation between the JCF, JDF and CET resulted in several large seizures of drugs, including multi-ton shipments of cannabis in containers at the ports. Cocaine seizures, however, were lower than in 2001 and 2002. In April, the JCF located a clandestine laboratory, seizing approximately 44 kilograms of cocaine along with chemicals used in its production, the first such discovery by Jamaican law enforcement. The JCF also made the largest hashish oil seizure in Jamaica's history, seizing a

record 1.620 metric tons secreted in a concrete bunker. In 2003, the GOJ seized 1.586 metric tons of cocaine, 36.6 metric tons of cannabis and 1.897 metric tons of hashish oil. The GOJ eradicated 444.6 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. Nonetheless, the JCF Narcotics Division destroyed 3.7 million cannabis seedlings at 279 nurseries. The JCF arrested 6,042 persons on drug charges, including 303 foreigners, in 2003. Almost 400 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.

Corruption. Corruption continues to undermine law enforcement and judicial efforts against drug-related crime and is a major barrier to more effective counternarcotics actions.

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 drug-related activities. In December 2002, Parliament approved the implementing regulations for the Corruption (Prevention) Act, and, in March 2003, the Commission for the Prevention of Corruption was established. The Commission is responsible for reviewing declarations of income, assets and liabilities from all public servants earning \$40,000 and above, all members of the JCF and JDF and those working in immigration, Customs, and revenue collection. Review of the declarations, which were due April 30, is ongoing. 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 JDF has a “zero tolerance” policy on involvement in drug-related activity by its members. 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. There are a number of on-going investigations into alleged drug-related corruption involving police personnel.

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. 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 is 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. On October 15, Jamaica signed the Caribbean Regional Maritime Agreement. In September, Jamaica ratified the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons, migrant smuggling and firearms. 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.

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. The lack of crop survey data and baseline figures makes it impossible to quantify the effect of GOJ eradication efforts on the total crop. JCF Narcotics Division staff state, however, that the absence of a sustained eradication effort for several years, owing to a lack of manpower and equipment, has resulted in an increase in cannabis cultivation. 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 110 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. Smugglers use a variety of means to transport cocaine from Jamaica to the U.S. and other markets, including light aircraft, go-fast boats, commercial shipping containers, 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 known to have established command and control centers in Jamaica 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. 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. Jamaica has several active demand reduction programs. The U.S. continued to provide assistance for a Ministry of Health/National Council on Drug Abuse program that uses printed materials to discourage drug use among Jamaica’s youth and to support the NGO Addiction Alert’s activities. The UNODC works directly with the GOJ and NGOs to improve demand reduction efforts.

In November 2003, a joint select committee of Parliament voted to accept the recommendations of the National Commission on Ganja’s 2001 report that call for the 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. The recommendations have been sent to the full Parliament for consideration.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Jamaica cooperate in a variety of areas, including maritime drug interdiction, the apprehension of fugitives, and community-police relations. U.S. law enforcement agencies note that cooperation with the GOJ is generally good and is steadily improving. 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 2003, 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 2003. In July, the U.S. and Jamaica negotiated a protocol to the bilateral agreement that adds provisions for shiprider operations from third party platforms, enhancement of safety for civil aircraft in flight, contiguous zone jurisdiction, and expedited delivery of technical assistance. The Protocol entered into force on February 6, 2004.

The JDF currently lacks the force projection capabilities (fixed-wing aircraft and off-shore patrol boats) required to make continuous joint operations with the U.S. a practical activity. To augment JDFCG assets, the U.S. in March 2003 donated to the JDFCG three 42-foot fast patrol boats capable of intercepting go-fast boats. The boats have had only limited operational effect due to a combination of design and maintenance issues. In 2002, the GOJ assigned for two years 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 maritime forces.

In 2003, 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 NIB 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 over 200 cases, the majority involving drug or homicide charges. Ten fugitives were extradited to the U.S. in 2003. 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 November 2002, the U.S. and GOJ signed an agreement under which the U.S. provided \$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, which will modernize the computer infrastructure at the ports of entry and provide training and technical assistance, is currently being implemented. USAID has undertaken 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 its law enforcement efforts and enhance international cooperation. The U.S. will continue to provide equipment, technical assistance and training to assist the GOJ to improve its drug interdiction, cannabis eradication, and demand reduction efforts. Through the provision of vessels, equipment and training for the JDFCG, the U.S. will work to strengthen Jamaica's maritime interdiction efforts. The U.S. is also committed to continued support for the JCF's Narcotics Division, vetted unit, NIB, and JFAT as well as the CET with specialized training and equipment. In addition, the U.S. will work closely with the police and public prosecutors to enhance the GOJ's ability to identify, investigate, and successfully prosecute significant drug traffickers.

Modern anticrime 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 could 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. The USG is willing to provide technical assistance to the GOJ as it works to strengthen existing laws and draft new legislation..

Jamaica Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Cannabis										
Potential Harvest (ha)	—	—	—	—	—	—	317	527	305	308
Eradication (ha)	444.6	80	332	517	894	705	743	473	695	692
Cultivation (ha)	—	—	—	—	—	—	1,060	1,000	1,000	1,000
Potential Yield ¹ (mt)	—	—	—	—	—	—	214	356	206	208
Seizures²										
Cocaine (mt)	1.586	3.39	2.947	1.625	4.601	1.160	0.414	0.236	0.571	0.179
Cannabis (mt)	36.6	26.63	68.46	55.87	56.22	35.91	24.00	52.99	37.20	46.00
Hashish Oil (kg)	1.897	497.00	211.00	578.00	371.49	144.05	383.00	263.41	278.00	47.00
Heroin (mt)	—	—	.001	0.019	0.000	0.000	0.001	0.001	—	0.001
Arrests										
Nationals	5,739	7,657	6,023	8,238	6,385	7,093	3,143	2,996	3,325	788
Foreigners	303	447	420	421	—	—	221	267	380	98
Total Arrests	6,042	8,104	6,443	8,659	6,385	7,093	3,364	3,263	3,705	886

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. MDMA is also produced in Suriname, as evidenced by the discovery in 2003 of a drug laboratory, along with chemicals used to produce MDMA. Evidence is insufficient, however, to establish that the quantity of drugs transiting Suriname has a significant effect on the U.S. The Government of Suriname's (GOS) inability to control its borders and the lack of a law enforcement presence in the largely unmonitored interior allow traffickers to move drug shipments via sea, river, and air with little, if any, resistance. Nevertheless, GOS law enforcement had some success in interdicting cocaine shipments. In 2003, GOS law enforcement also took steps to expand cooperation with international partners, and a high level of cooperation exists between U.S. and GOS law enforcement officials. Domestic drug abuse reportedly continued to increase. The principal obstacles to effective counternarcotics law enforcement efforts are inadequate resources and limited training for law enforcement. These problems are compounded by inadequate legislation, with complicated and often time-consuming bureaucratic requirements; drug-related corruption; relative geographic isolation; lack of government control of the interior and borders; 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 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. In May 2003, Surinamese law enforcement for the first time seized an MDMA lab, along with considerable amounts of precursor chemicals, indicating that MDMA is also being produced in Suriname. However, evidence available in 2003 did not support a finding that drugs entering the U.S. from Suriname were in an amount sufficient to have a significant effect on the U.S. The GOS is unable to detect the diversion of precursor chemicals for drug production, as it has no legislation controlling precursor chemicals. The lack of resources, limited 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 2003

Policy Initiatives. Suriname's current administration and GOS law enforcement officials consistently express concern regarding the extent of drugs transiting Suriname and point to the lack of resources as the primary obstacle to Suriname's counternarcotics efforts. In August 2002, the National Assembly passed a package of legislation aimed at criminalizing money laundering (see money laundering chapter) and amended Suriname's criminal code, code of criminal proceedings, and law on economic crimes. While certain amendments address the confiscation of illegally obtained assets, filing of criminal offenses against corporate entities, conspiracy, witness intimidation, and international requests for legal assistance, the GOS has not taken advantage of these provisions to assist law enforcement. Suriname has a Strategic Drugs Master Plan (2000-2005) that covers both supply and demand reduction but needs to update the plan and take steps to fully implement its provisions. The National Anti-Drug Council is the national coordinating authority.

Law Enforcement Efforts. The Narcotics Brigade of Suriname's police force (KPS) benefits from high visibility within the police department, primarily due to the high-profile nature of counternarcotics issues both within the region and internationally. The Customs Service, despite its active and successful role in drug interdiction, does not consider itself a law enforcement body and receives fewer resources and less formal training. The Military Police, which is responsible for border control and immigration, has the primary role in drug interdiction efforts at ports of entry, particularly at the international airport. In 2003, GOS law enforcement made numerous arrests at the international airport of passengers, primarily on the five weekly flights to Amsterdam, who had either ingested or were carrying drugs on their bodies or in luggage. Many who evade detection in Suriname are arrested at the airport in Amsterdam.

As GOS Customs agents and Military Police have no investigative function, they tend to focus on individual smugglers and couriers rather than the organized trafficking kingpins and their networks, relying primarily on profiling and tips from informants. In March, however, the KPS established a special unit within the police force to investigate, in cooperation with Dutch law enforcement, drug organizations that actively smuggle drugs between Suriname and Holland.

In May, the KPS Narcotics Brigade discovered the first-ever MDMA-producing lab in Suriname, along with 80 kilograms of MDMA and considerable amounts of precursor chemicals. The seizure resulted from a one-year joint investigation conducted by the KPS and Dutch authorities. The lab reportedly was capable of producing 500,000 tablets per day, which preliminary evidence suggests were destined for the U.S. Five Surinamese and two Dutch nationals were arrested in connection with the seizure. In November, the KPS vetted unit seized 341 kilograms of cocaine from a clandestine airstrip in western Suriname. Six of the twelve suspects arrested in connection with the seizure were subsequently released, however, due to insufficient evidence. In December, the KPS developed and passed to European authorities information regarding a cocaine shipment concealed in a container freighter that had departed Suriname for Europe, which resulted in the seizure of the drugs by Portuguese law enforcement. In 2003, the GOS seized 814.25 kilograms of cocaine and 119.345 kilograms of cannabis, and arrested 479 people for drug-related offenses.

According to a GOS official, members of the Colombian terrorist group, the Revolutionary Armed Forces of Colombia (FARC), are present in Suriname to coordinate arms-for-drugs activities. KPS officials confirmed that weapons that had been stolen from a Surinamese police training center in 1998 were retrieved by Colombian police during a 2003 raid on FARC operatives. In October, the KPS seized approximately 40,000 rounds of AK-47 ammunition suspected to be connected to an arms-for-drugs deal. Seven people were arrested, including three Colombians who were in Suriname illegally.

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 circulate. In 2003, members of the Military Police and Armed Forces were arrested for drug-related corruption, and in August, a Customs officer was convicted for helping a drug courier evade detection at the international airport. Former military strongman Desi Bouterse continued to serve in the National Assembly despite his 1999 conviction in the Netherlands for narcotics trafficking. Bouterse's son, Dino, was arrested in June for his alleged involvement in the theft of weapons from a police armory, but was subsequently released when several witnesses either recanted previous testimony implicating him or refused to testify. In November, a former Minister of Finance and Natural Resources was convicted of corruption and sentenced to one year in prison for forging minutes of a meeting in which the Council of Ministers purportedly granted approval for the purchase of a building for \$300,000 more than its appraised value. Suriname ratified the Inter-American Convention Against Corruption in 2002 but has not developed a comprehensive national anticorruption 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. Since 1976, the GOS has been sharing narcotics information with the Netherlands pursuant to a Mutual Legal Assistance Agreement. 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. While cannabis is cultivated in Suriname, there is no specific data on the number of hectares under cultivation or evidence that it is exported in significant quantities. As noted above, the discovery of an MDMA lab indicates that MDMA production is taking place in Suriname.

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 resources, infrastructure, law enforcement personnel and equipment makes detection and interdiction difficult. Following drug drops along interior roads and clandestine airstrips, the drugs are shipped to the ports 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 drug couriers or secreted in planes) and by commercial sea cargo. European-produced MDMA 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). In April, Suriname's National Anti-Drug Council (NAR) completed its study of drug use among the youth in Suriname, which found that there was a significant increase in drug use. The study, for which the U.S. provided limited funding, is a part of a larger Caribbean-wide research study of youth drug use that was undertaken by OAS/CICAD. 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. A high level of cooperation exists between U.S. and GOS law enforcement officials. Following the discovery of the MDMA lab, the DEA assisted local law enforcement officials in analyzing the product and in discerning trafficking patterns. In 2003, the U.S. 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 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 USG and GOS continued to cooperate on counternarcotics matters, using USG funding provided in 2003 under an amended Letter of Agreement (LOA). In 2003, the U.S. Bureau of Customs and Border Protection conducted integrity/anti-corruption training in Suriname as well as a course for Surinamese and Guyanese front-line Customs officers in regional drug trafficking

patterns, risk assessment, and targeting and search techniques. Suriname currently has one crewman serving 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 U.S. will continue to encourage the GOS to pursue large narcotics traffickers rather than focusing primarily upon swallowers and body carriers. The U.S. will also encourage the GOS to focus on port security, specifically seaports, which are seen as the primary conduits for large shipments of narcotics exiting Suriname. The U.S. intends to build on the training provided to GOS Customs in 2003 to strengthen its capabilities to detect drug shipments. In 2004, DEA plans to provide the KPS and other law enforcement agencies with basic drug enforcement training. 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 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. Cannabis is grown in Trinidad and Tobago, but production falls 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 has a vibrant petrochemical economy with the potential for the diversion of precursor chemicals for drug production. Trinidad and Tobago's growing economy, with a well-developed banking sector, 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. The GOTT provided significant resources in support of counternarcotics/crime law enforcement efforts. GOTT counternarcotics units, including the Police Service's Organized Crime and Narcotics Unit (OCNU), the Counter-Drug/Crime Task Force (CDCTF), the Defence Force Coast Guard and Customs Marine Interdiction Unit, carried out numerous drug interdiction and cannabis eradication operations during 2003. These units remained very cooperative with their U.S. counterparts throughout the year. Through the provision of technical assistance, training, and materiel, the U.S. in 2003 sought to help the GOTT strengthen all facets of its counternarcotics efforts. As a result of U.S. assistance, at year's end, the GOTT had an operational maritime surveillance/interdiction capability. 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

Trinidad and Tobago is situated seven miles off the coast of Venezuela, making it 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. While cannabis is grown in the country, primarily for domestic use, the amount of cultivation is not on a scale to make Trinidad and Tobago a major drug-producing country. Trinidad and Tobago has an advanced petrochemical sector, which requires the import/export of precursor chemicals that can be diverted for use in the manufacturing of cocaine hydrochloride. Precursor chemicals originating from Trinidad and Tobago have been found in illegal drug labs in Colombia. Computers provided by the U.S. to the Ministry of Health will enable the GOTT to track chemical shipments.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOTT continued to support counternarcotics efforts through public statements by senior GOTT officials and the provision of resources for ongoing programs. GOTT law enforcement units were successful throughout the year in disrupting shipments of drugs transiting Trinidad and Tobago and eradicating cannabis cultivation. The GOTT continued to fund a three-person U.S. Customs Advisory Team that provides technical assistance to the 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 Tax Assistance and Advisory Team that is working with the Bureau of Inland Revenue (BIR) to strengthen penalties for

financial crimes and to establish a criminal tax investigations unit, which was formally launched in November 2003.

The GOTT maintained its support for the Trinidad and Tobago Defence Force (TTDF) Coast Guard Air Wing and, in 2003, contracted for additional pilots for the two U.S.-donated C-26 aircraft. These aircraft, upgraded with sensor packages in 2002 at GOTT expense, provide the GOTT with a counternarcotics maritime surveillance/interdiction capability. To enhance its coastal radar net, the GOTT is also taking steps to procure replacements for the USG-donated radars that, because of their age, have been increasingly difficult to maintain. The GOTT provided support for the Caribbean Financial Action Task Force, which has its secretariat in Port of Spain. The GOTT continued to comply with U.S. requests under the extradition and mutual legal assistance treaties. 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. The TTDF Coast Guard, OCNU, CDCTF, and specialized policy/army task forces continued to carry out drug interdiction and eradication operations throughout the year, sometimes in cooperation with DEA and U.S. Customs. Numerous GOTT eradication operations resulted in the eradication of 2.1 million cannabis plants and seedlings. In 2003, the GOTT seized 149 kilograms of cocaine, 31 kilograms of heroin, and 560 kilograms of cannabis. The Trinidad and Tobago Police Service (TTPS), with DEA assistance, was able to interdict several shipments of cocaine being transported via commercial flights, either in transit from Guyana or originating in Trinidad and Tobago. In mid-summer, Canadian and GOTT law enforcement interdicted two cocaine shipments, reportedly facilitated by airport workers, destined for Canada. One shipment of 42 kilograms was secreted in a container that arrived at the Toronto airport from Port of Spain; another shipment of 60 kilograms was seized by GOTT law enforcement in a similar container. In an October operation, 25 kilograms of cocaine were seized by the OCNU at Piarco International Airport in a mailbag bound for New York, and two airport employees were arrested. In addition, U.S.-funded drug detection dogs were used to search passenger luggage and cargo at the airport and on one occasion detected cocaine concealed in two FedEx boxes. In August, the GOTT recovered an additional 200 kilograms of cocaine that washed ashore, along with two corpses, in what was suspected to be part of a larger shipment from Venezuela that may have been disrupted. The TTDF Coast Guard and Customs Marine Interdiction Unit continued to undertake maritime drug interdiction operations, although on a limited scale in the absence of vessels fast enough to interdict high-speed boats.

Corruption. During 2003, 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 responsibility 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.

Countering public corruption is a high priority for the GOTT. In early 2003, with funding assistance from the UN Development Program, the GOTT hired an independent consultant to conduct a study of ways the GOTT can strengthen its anticorruption legislation and mechanisms. The consultant's report was delivered to the Attorney General in November. At GOTT request, the USG has polygraphed police, and mid- and high-level officials going for training or entering elite units to ensure that reputable and reliable personnel were chosen. Trinidad and Tobago is a party to the Inter-American Convention Against Corruption and signed the UN 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, but it has not yet ratified those instruments. 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 cultivation 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.

Drug Flow/Transit. Illicit drugs arrive from the South American mainland, particularly Venezuela because of its proximity, primarily on small, fast fishing boats. Drugs also arrive on pleasure craft and commercial aircraft. The drugs are then smuggled out on yachts, in air cargo, and by couriers. Cocaine has been found on airline flights from Guyana transiting Trinidad and Tobago en route to North America. Narcotics seizures reported by U.S. law enforcement officials at JFK International Airport and intelligence indicate that Guyanese-based smuggling organizations are increasingly using Trinidad and Tobago as a transshipment point for cocaine. DEA believes there has been a slight increase in the amount of heroin transiting Trinidad and Tobago. 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.

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. In addition, the U.S. has provided funding to enable the NGO Servol to expand its program of early childhood education. 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 to eliminate the flow of narcotics through Trinidad and Tobago to the U.S. by strengthening the GOTT's ability to detect and interdict drug shipments, bring traffickers and other criminals to trial, attack money laundering, and counter drug-related corruption. The U.S. also seeks to strengthen the administration of justice through the provision of assistance to streamline Trinidad and Tobago's judicial process, reduce court backlogs, and protect witnesses from intimidation and murder.

Bilateral Cooperation. The USG has a cooperative relationship with the GOTT, which has been responsive to mutually beneficial counternarcotics efforts. U.S. law enforcement enjoys excellent cooperation from GOTT law enforcement agencies. The U.S. provides training, technical assistance, equipment and vehicles in support of GOTT counternarcotics/crime efforts. The U.S. provided equipment to the OCNU, and is procuring several vehicles for the Unit. At a March ceremony, kennels for drug-detection dogs, constructed/refurbished with USG funding, were officially turned over to the TTPS Canine and Mounted Branch. The U.S. also provided an antikidnapping course to strengthen the GOTT's ability to deal with the increasing incidence of kidnappings in the country. To augment the GOTT's counternarcotics maritime surveillance capability, the U.S. in 2003 provided substantial support for the TTDF Coast Guard Air Wing's two C-26 aircraft. As a result of USG-funded training,

the Air Wing at year's end had three crews (pilots/sensor operators) capable of conducting maritime surveillance/interdiction missions using the sensor equipment on the C-26 aircraft. The U.S. is in the process of procuring two fast interceptor vessels for the Coast Guard to provide an effective response capability to maritime drug trafficking activities detected by the aircraft.

The GOTT-funded U.S. Customs Advisory Team provides technical assistance to Customs and Excise in tracking and intercepting marine vessels, including cargo container ships, and improving narcotics detection. The team continued to work with the Customs Marine Interdiction Unit and Canine Unit to strengthen their counternarcotics capabilities. In 2003, the U.S. provided the Canine Unit with vehicles to transport drug detection dogs. Technical assistance provided by the GOTT-funded Internal Revenue Service Tax Assistance and Advisory Team, along with U.S.-funded equipment and training, enabled the GOTT to establish, in November 2003, a Criminal Investigation Division within the BIR. The U.S. is also procuring audio-recording equipment for five courtrooms in order to reduce court backlogs and providing training and computers to the Ministry of Health in support of the GOTT's precursor chemical program.

The GOTT, as a founding subscriber to the International Criminal Court, has not signed an Article 98 agreement. This has caused a suspension of International Military Education grant funds and all Foreign Military Financing effective July 1, 2003. Nonetheless, the GOTT continues to exhibit political and operational will to stem the flow of drugs through existing agreements.

The Road Ahead. The U.S. will continue to work closely with the GOTT's law enforcement agencies to strengthen their counternarcotics/crime capabilities. The U.S. will continue to provide training and operational support to the TTDF Coast Guard to enhance the GOTT's air surveillance and maritime interdiction capabilities. The GOTT and U.S. envision that the intelligence collection and analysis capability of the TTDF Coast Guard Air Wing will increase as training proceeds through 2004, and that the inter-agency Joint Operations Command Center will be capable of disseminating the data collected by the C-26 aircraft to the appropriate counternarcotics units for an effective end-game. The U.S. will continue efforts to improve the rule of law by encouraging legal reforms, including improving evidentiary laws, and providing assistance aimed at reducing judicial delays. In addition, the U.S. will seek to engage GOTT officials, the Caribbean Financial Action Task Force, and Caribbean Anti-Money Laundering Programme in the enactment and implementation of effective asset forfeiture and anti-money laundering laws.

SOUTHWEST ASIA

Afghanistan

I. Summary

General political and economic circumstances in Afghanistan have improved since October 2002, but the narcotics situation remains serious, despite positive actions by both the government and international donors. Dangerous security conditions make implementing counternarcotics (CN) programs difficult and present a substantial obstacle to both poppy eradication efforts by the central government and to international efforts to provide related assistance. Given the profound destruction brought about by more than 20 years of conflict, the lack of many viable alternative crops to opium, and the limited enforcement capacity of the central government, poppy cultivation this year approached the highest levels ever registered. Despite the many obstacles, the Transitional Islamic Government of Afghanistan (TISA) has instituted major institutional and policy changes in its governmental machinery that directly benefit its counternarcotics objectives, and has established a sound structural basis to attack the problem. President Karzai has continually spoken out against the drug trade and has issued decrees banning it, an important statement of political will to combat cultivation and trafficking in illicit narcotics. International CN activities, following the overthrow of the Taliban and the installation of an interim government, remain under a multilateral mandate, with the United Kingdom as lead nation. The international community was hard at work at year's end planning with Afghan officials how best to attack Afghanistan's drug problem in a more aggressive manner, including more widespread eradication. Afghanistan is a party to the 1988 UN Drug Convention.

II. Status of Country

International and U.S. surveys indicate that in 2003 Afghanistan again produced three-quarters of the world's illicit opium. To a lesser extent, the country remains a significant location for the production and transit of all forms of unrefined (opium), refined (heroin) and semi-refined (morphine base) opiate products. While it is a large consumer of precursor chemicals, it is not a significant producer or transshipper of precursors. The drug economy in Afghanistan is deeply embedded, the product of more than a century of Afghan history. At present, criminal financiers and narcotics traffickers in and outside of Afghanistan have taken advantage of the on-going conflict and fragile security situation and have exploited poor farmers in a rural economy decimated by years of war and drought. The process of reconstruction which began in 2002 is accelerating and expanding, and is expected to improve the situation for successful counternarcotics programs in the future. Planning to change the current opium economy of many regions of Afghanistan is now well-launched.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The U.S. and the international community, especially the UK as lead nation on CN and the local office of the UN Office on Drugs and Crime (UNODC), have maintained a dialogue with President Karzai and the Afghanistan National Security Council throughout the year on the subject of combating narcotics. The TISA has made significant structural, policy and institutional commitments to combating narcotics in Afghanistan, including the following:

- In March 2003, the TISA's CND (Counternarcotics Directorate) created the Counter-Narcotics Working Group, an inter-agency body that meets continuously (and publicly every two months) to formulate and coordinate the government's counternarcotics policy.

- On 19 May 2003, President Karzai signed a comprehensive, in- depth National Drug Control Strategy, in which all appropriate aspects of combating narcotics in Afghanistan are addressed. This National Strategy was created with participation of all elements of the TISA, as well as wide participation by international organizations, non-governmental organizations, and the public.
- On 3 June 2003, President Karzai signed a decree abolishing the former State High Commission for Drug Control and merged its regional offices into CND, taking a major step toward unification of national counternarcotics policy.
- In October 2003, the TISA made a formal request to the United States for assistance in creation of a central government-run, nationwide poppy eradication campaign. This request is under consideration and the TISA has committed to poppy eradication as a key element of its overall counternarcotics campaign.

These structural reforms have laid the foundation for a sound national government CN apparatus, and the addition in January 2004 of a new constitution further strengthened the government's hand. The country's first national elections since the fall of the Taliban government are planned for 2004, and establishment of a national government legitimized through democratic elections, and an improvement in the security situation, are expected to lead to greater adherence to the national CN strategy. Establishment of rule of law throughout the country, with a functioning police, judiciary, and prison system, will also permit further elements of a CN strategy to be put in place.

Law Enforcement Efforts. The most immediate concern of the TISA is to strengthen its national legitimacy by establishing security and rule of law throughout the country. In such an environment, significant drug enforcement work has not been possible outside limited areas. Efforts have rather been focused on planning for the near term future when a serious law enforcement effort will be mounted against illicit growing and trafficking of narcotics.

A new basic draft drug law has been proposed and is being reviewed by TISA officials. This draft law comports with international norms for counternarcotics laws. General training and expansion of the national police has been hampered by lack of donor commitments to the Law Enforcement Trust Fund for Afghanistan, which will support the police, including salaries, until the government of Afghanistan can raise revenue locally to fund this function. In this context, the national police, whose numbers are being augmented through an accelerated training program, have been more occupied with trying to improve the general security situation throughout the country, than with narcotics interdiction and enforcement.

The Ministry of Interior is eager to establish a fully operational, national counternarcotics unit. Germany, which has the lead on police assistance to Afghanistan, has written a plan for a narcotics enforcement unit. The U.S. has agreed to provide initial funding for such a unit and work is continuing on its establishment and deployment in the field. The U.S. is also providing funding for judicial reform and training in judicial and prosecutorial enforcement of counternarcotics laws.

The same limitations that adversely affect interdiction of narcotics and enforcement of the ban on narcotics cultivation and trafficking hamper the interdiction of precursor substances and processing equipment. The TISA has a sophisticated understanding of this issue, but action in this regard is dependent upon establishment of the necessary specialized police units. There are currently no registries or legal requirements for tracking, storing or owning such chemicals.

Corruption. In general, officials at the national level are believed to be free of direct criminal connection to the drug trade. At the provincial and district levels, however, drug-related corruption is believed to be pervasive. This ranges from direct participation in the criminal enterprise, to benefiting financially from taxation or other revenue streams generated by the drug trade. The central

government has officially condemned the drug trade, but its incomplete power throughout the national territory gives it limited abilities to control it.

Agreements and Treaties. Afghanistan is a party to the 1961 UN Single Convention, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. The TISA has no extradition or legal assistance arrangements with the U.S. Afghanistan is not a party to any treaties providing for mutual legal assistance between itself and any of its neighbors, the U.S., or any other major CN nation. Afghanistan has signed and ratified the UN Convention against Transnational Organized Crime.

Illicit Cultivation/Production. Afghanistan contains the largest area of illicit opium poppy cultivation in the world. Poppy is grown commercially in 28 of its 32 provinces. With limited national enforcement reach, the TISA has simply not been able to enforce its decree banning opium production; only marginal crop destruction in a few locations has been undertaken. This eradication has had no material effect on the quantity of opium gum produced in Afghanistan. The aftermath of a quarter-century of warfare, multiple changes of government, and an embedded tradition of poppy cultivation have made it very difficult to implement well-designed plans for eradication.

Drug Flow/Transit. Drug cultivation in Afghanistan is facilitated by both domestic and foreign individuals who lend money and/or provide agricultural inputs to poor Afghan farmers, and then buy their crop at previously-set prices, or accept repayment of loans “in kind”, i.e., with deliveries of raw opium. In many provinces there also are opium markets, under effective protection of regional strongmen, where opium is traded freely to the highest bidder and is subject to taxation by those strongmen. An increasingly large portion of Afghanistan's raw opium crop is processed into heroin and morphine base by drug labs inside Afghanistan, reducing its bulk by a factor of 10 to 1, and thereby facilitating its movement to markets in Europe and Asia. Many lab owners also organize trafficking of the opiates to markets in Iran, Pakistan and Central Asia. Local Afghan financing of opium/heroin production and trafficking predominates. In the South, Southeast and Northeast border regions however, Pakistani nationals play a very prominent role in all aspects of the drug trade. Distribution networks are frequently organized along regional and ethnic lines (i.e., Baluch tribesmen on both sides of Afghanistan's border with Iran). Other organized criminal groups are also involved in transportation onwards to Turkey, Russia and the rest of Europe. The trend is towards increasing domestic refining of opiates in border regions of Afghanistan, due to financial and transportation incentives.

Demand Reduction/Domestic Programs. The TISA recognizes that it has a domestic drug use problem, particularly with opium. Its National Strategy includes demand reduction and rehabilitation programs for existing and potential drug abusers. However, in the context of the overall shortage of general medical services, very limited TISA resources are being directed to these programs. The U.S. and the U.K. have taken the lead in funding specific demand reduction and rehabilitation programs. The TISA (the Counter Narcotics Directorate) has been very receptive and cooperative in establishing public outreach campaigns in these areas.

IV. U.S. Policy Initiatives and Programs

The United Kingdom has been designated as international lead country on CN activities in Afghanistan. However, the U.S. has taken, and continues to take, a very prominent role in CN policy. The U.S. is promoting a tripartite counternarcotics campaign integrating law enforcement, poppy eradication, and alternative economic development as a substitute for poppy cultivation. The U.S. is integrating CN work into our more general law enforcement/police work as well.

The Road Ahead. The key element affecting CN activities in Afghanistan is limited security and stability. While the U.S. continues to push, along with the U.K., for increased CN efforts, all work in

this regard must be judged in the context of the need for political and institutional stability, economic reconstruction, and the establishment of basic law and order. In the meantime, poppy cultivation is likely to continue until rural poverty levels can be reduced via provision of alternative livelihoods and increased rural incomes. Sustained assistance to poppy-growing areas, 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. However, drug processing and trafficking can be expected to continue until security is established and drug law enforcement capabilities can be increased. Political stability and assistance by the donor community over many years will be required to help an Afghan government fully dedicated to countering its drug problem succeed.

Afghanistan Statistics

(1993–2002)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	—	30,750	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180
Eradication (ha)	—	—	—	—	—	—	—	—	—	—
Cultivation (ha)	—	30,750	1,685	64,510	51,500	41,720	39,150	37,950	38,740	29,180
Potential Yield ¹ (mt)	—	1,278	74	3,656	2,861	2,340	2,184	2,099	1,250	950

¹ Note: Potential production estimates for 1996-1999 have been revised upward from previous INC SRs, 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, phensidyl (a codeine-based, highly addictive cough syrup produced in India), and pathedine point to growing narcotic use in Bangladesh. Phensidyl is popular because of its low price and widespread availability. While unconfirmed reports of opium cultivation along the border with Burma exist, there is no evidence that Bangladesh is a significant producer or exporter of narcotics. The government's Department of Narcotics Control (DNC) lacks training, equipment, continuity of leadership, and other resources to detect and interdict the flow of drugs in country. Moreover, there is minimal coordination among 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 government, and in particular law enforcement, hamper the country's drug interdiction efforts. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of Country

Reports of opium production in the Bandarban District along the Burmese border have not been substantiated. The country's largely porous borders make Bangladesh an attractive transfer point for drugs transiting the region.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The DNC's counternarcotics activities are seriously hampered by the ineffectiveness of the National Narcotics Control Board (NNCB), the highest governmental body to fulfill the objectives of the Narcotics Control Act (NCA). The 19-member NNCB, made of up of 12 ministers, six elected members, and the DNC Director General, is charged to meet quarterly, but held only one meeting in 2003. Article 5 of the NCA directs the Board to formulate policies and monitor the production, supply, and use of illegal drugs in Bangladesh.

The BDG and USG signed a Letter of Agreement (LOA) in September 2002 to provide \$140,000 in equipment to the DNC and its central chemical laboratory. The LOA also provided for \$338,922 in training, via ICITAP, to law enforcement personnel involved in counternarcotics activities. A preliminary assessment team from ICITAP visited Bangladesh in spring 2003 to meet the interested parties and draft a working plan. As a result of this visit, an amendment to the LOA was drafted detailing the project, including an additional \$250,000 in USG-funded training and equipment. The Amendment is under review by the BDG.

Accomplishments. The DNC is under the leadership of its sixth Director General since 2002. It is chronically under-funded, understaffed, and under-trained. Although there were some widely publicized police raids and seizures, the DNC's level of support from the BDG seems to be declining.

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 2003 are as follows: 34.265 kilograms of heroin (approximately 6 percent of the amount seized during the same period last year); 8,117.898 kilograms of marijuana; 2898 ampules of T.D. jasicck injection (over three times the amount seized during the same period last year); 28,288.71 liters of phensidyl (25 percent of the amount seized during the same period last year); and 1,276 ampules of pathedine

(approximately 9 percent of the amount seized during the same period last year). This overall reduction in seizures does not necessarily mean a decrease in drug use or trafficking, but instead may reflect a deterioration in Bangladeshi law enforcement units' ability or commitment to combat narcotics-trafficking.

Corruption. Corruption is a major problem at all levels of society and government in Bangladesh. Authorities involved in jobs that have an affect on 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. The BDG does not, as a matter of government policy, encourage or facilitate illicit production or distribution of drugs or controlled substances or launder proceeds from their transactions. No senior official has been identified as engaging in, encouraging, or facilitating the production or distribution of such drugs or substances.

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. The DNC strongly denies unsubstantiated reports that opium production takes place in the Bandarban district along the border with Burma. However, it does acknowledge that a limited amount of cannabis is cultivated in the hill tracts near Chittagong and in the northeastern region, reportedly for local consumption. It has no plan to address this problem.

Drug Flow/Transit. There is some evidence that Bangladesh is used as a transit country for heroin to Europe. There were seven seizures of heroin hidden in fresh vegetable shipments from Dhaka in the UK in 2003. Bangladesh's air, sea, and land ports are guarded by officials who have little, if any, training on counternarcotics operations or equipment to carry out their job. Although the DNC is authorized 1,277 positions, only 932 are filled. There is no DNC presence at the country's second largest airport in Chittagong, which has direct flights to Burma and Thailand. Customs officers are untrained in detecting and interdicting drugs. To date, no random searches of crews, ships, boats, vehicles, or containers are being performed at the country'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 Bangladesh.

Domestic Programs (Demand Reduction). The drug addicts rehabilitation organization, APON, and its affiliates, founded by a Catholic missionary, operates four long-term residential rehabilitation centers, the only such facilities in Bangladesh. The BDG outpatient and detoxification centers are not successful in dealing with the addiction problem in Bangladesh. The BDG sponsors rudimentary educational programs aimed at youth in schools and mosques, but there is little funding for these programs and no clear indication of their impact. A recent DNC study estimated the addict population at two million and growing.

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. Pursuant to the 2002 LOA, equipment and law enforcement courses will be provided in 2004, primarily to the police, but with the possibility of expanding these efforts to DNC officers, and members of the BDR. Other initiatives under consideration include the modernization of law enforcement training facilities in Bangladesh, and further development of anticorruption programs within the government.

The Road Ahead. The USG will continue to provide law enforcement training for BDG officials and work with the BDG to construct a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh counternarcotics efforts.

India

I. Summary

India is the only country authorized by the international community to produce licit opium gum for pharmaceutical use; other licit producers use different methods. India's strategic location, between the two main sources of illicit opium Southeast and Southwest Asia make it a heroin transshipment area. Although most cannabis and hashish trafficked in India is smuggled from Nepal for export, the northwestern Indian state of Himachal Pradesh increasingly appears to be a center of for growing international hashish trafficking. India is a modest, but growing, producer of heroin destined for the international market. The Government of India (GOI) continually tightens licit opium diversion controls, but an unknown quantity of licit opium is diverted into illicit markets. In 2001, the GOI and the United States conducted a Joint Licit Opium Poppy Survey (JLOPS) to develop a methodology to estimate opium gum yield. The survey results confirmed the validity of a yield prediction methodology under study by the GOI, but lacked key data to apply the study's conclusions to India's 2002/03 licit opium crop. A second, more rigorous, JLOPS was conducted in 2003. The data revealed that Indian poppies have a low opium yield.

India's large and fairly advanced chemical industry manufactures a wide range of chemicals, including the precursor chemicals acetic anhydride (AA) and pseudoephedrine, which can be diverted for the manufacture of illicit narcotics. The GOI, working with the Indian Chemical Manufacturing Association, imposes strict access controls on AA, a chemical used to process opium into heroin. The GOI also fully controls other chemicals, including chemicals that can be used to manufacture methamphetamines. The GOI reviews its chemical controls annually and updates its list of "controlled substances" as necessary, recently adding a chemical the U.S. had requested be controlled. India is a party to the 1988 UN Drug Convention.

II. Status of Country

Licit opium poppy is grown in the states of Madhya Pradesh, Rajasthan, and Uttar Pradesh under a stringent licensing policy controlled by the Ministry of Finance's Central Bureau of Narcotics (CBN). India is the only country that produces raw opium gum for pharmaceutical use. U.S. pharmaceutical companies that process narcotic raw materials find opium gum is difficult to use because a residue remains after the narcotic alkaloids have been extracted, which must be disposed of with appropriate environmental safeguards. The GOI has supported this traditional opium production method as more suitable to India's agricultural and cultural circumstances than the more capital-intensive—and less diversion prone—concentrate of poppy straw (CPS) process. However, the GOI is examining possible CPS alternatives on a small scale to study their applicability to India's agricultural sector.

It is inherently difficult to control diversion of opium gum collection. Since poppies harvested through Concentrated Poppy Straw (CPS) are not lanced and since the dried poppy heads cannot be readily converted into a usable narcotics substance, diversion opportunities are minimal. However, in India, the sheer numbers of farmers and farm workers (over one million yearly) who come into contact with the poppy plants and their lucrative gum make diversion appealing and hard to monitor. Policing these farmers on privately held land scattered throughout three of India's largest states is a considerable challenge for the CBN.

All other legal producers of opium alkaloids, including Turkey, France, and Australia, produce concentrate of poppy straw (CPS), harvesting unlanced poppy capsules and using a chemical extraction process. India is exploring the possibility of conversion of some of its opium crop to the CPS method. The Ministry of Finance visited several countries that produce CPS in 2003 to observe

CPS extraction methods. However, regardless of the GOI's interest in CPS, the costs of the transfer, both in financial and social terms and the difficulty of purchasing the appropriate technology, are daunting. Since alkaloid extraction requires highly specialized equipment, the only places where such equipment and technologies would be available are in the other countries licensed to produce legal opiate alkaloids and thus in countries in direct competition with India.

Under the terms of international agreements, supervised by the International Narcotics Control Board, India must maintain licit opium production and carry-over stocks at levels no higher than those consistent with world demand to avoid excessive production and stockpiling, which could be diverted into illicit markets. India has complied with this requirement and succeeded in rebuilding stocks over the past three years from below-recommended levels. After failed crops caused low stocks, opium stocks now exceed minimum requirements, almost tripling between 1999 and 2003.

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). "Opium years" straddle two calendar years. All farmers must deliver all the opium they produce to the government alone, meeting a minimum qualifying yield (MQY) specifying the number kilos of opium to be produced per HA, established by the CBN prior to licensing. At the time CBN establishes the MQY, it also publishes the price per kilo the farmer will receive for opium produced that meets the MQY as well as significantly higher prices for all opium turned into the CBN that exceeds the MQY. The MQYs are based on historical yield levels from licensed farmers during previous crops. Increasing the annual MQY has proven effective in increasing average yields, while deterring diversion, since, if the MQY is too low, farmers could clandestinely divert excess opium into illicit channels, where traffickers often pay up to ten times what the GOI can offer. Thus, an accurate estimate of the MQY is crucial to the success of the Indian licit production control regime.

During the 2002/03 crop year, CBN began to estimate the actual acreage under licit opium poppy cultivation by using satellite imagery, and then comparing it with exact field measurements. The survey was also used in conjunction with satellite imagery of weather conditions and to compare cultivation in similar geo-climatic zones to estimate potential crop yields and determine whether opium was being diverted. The satellite results were then confirmed by on-ground visits mentioned above.

In 2003, CBN again tightened its controls against diversion, conducting 100 percent measurement of each cultivated area. Any cultivation in excess of five percent of the allotted cultivation area was not only uprooted, but the cultivator was also deemed subject to prosecution. During the lancing period, the CBN appointed a village headman for each village to record the daily yield of opium from the cultivators under his charge. CBN regularly checked the register and physically verified the yield tendered at harvest.

The CBN is a significant player in India's overall control regime. The CBN conducts preventive checks and targeted raids based on intelligence to search for opium that might have been concealed by the cultivators. In the past during these raids, CBN officers discovered metric ton quantities (One year, 11 metric tons; the next, 7 metric tons) of concealed opium.

The GOI periodically raises the official price its offices pay to farmers for opium, but illicit market prices are four to five times higher than the base government price. Farmers who submit opium at levels above the MQY are paid a premium, but India's vigorous controls are crucial to avoid significant diversion, and premium prices can only act as a modest positive incentive.

There is no reliable estimate of diversion from India's licit opium industry. The GOI energetically denies that licit opium is diverted on a large scale. Clearly, some diversion does take place; however, it is not possible to pinpoint the amount accurately.

Heroin base (“brown sugar” heroin) is India's most popularly- abused heroin derivative. Indian “brown sugar” heroin is also 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. Beginning in January 1999, Indian authorities have seized increasing amounts of refined (“white”) heroin, at least part of which was produced in India, destined for Sri Lanka and Europe.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The amendment of India's stringent Narcotic Drugs and Psychotropic Substances (NDPS) Act of 1985 in October, 2001, brought significant flexibility to the sentencing structure for narcotics offenses in India. It removed obstacles faced by investigation officers related to search, seizure, and forfeiture of illegally acquired property and provided for controlled deliveries to facilitate investigation both within and outside the country. The amended NDPS Act also made it more likely that drug traffickers would be refused bail, particularly those serious offenders who are more likely to flee before trial. It also permitted the freezing of assets of the drug offender prior to a conviction. Penalties are low, however, discouraging full utilization of this provision, based on the argument that the proceduralism is not worth the trouble. In 2002, the value of property forfeited under the NDPS amounted to Rs. 23,636,425 (about \$525,253) and the value of property frozen under the NDPS was Rs. 5,233,300 (about \$104,000). No figures are available yet for 2003. Further amendments enacted in 2002, expanded entry, search, and seizure provisions in cases relating to financial investigations and controlled substances, giving investigating officers the same powers of investigation in cases related to precursor diversion as they have in other drug investigations.

The amended Act now provides for punishment in three categories, depending on the quantity of drugs seized (small, greater than small but lesser than commercial quantity, and commercial quantity). Punishments range from six months imprisonment and/or a fine of Rs.10,000 (\$213) for small quantities; to up to ten years imprisonment and/or a fine of Rs.100,000 (\$2,128) for the second category; and from ten to twenty years imprisonment and/or a fine of Rs.100,000- 200,000 (\$2,128-\$4,256) for commercial quantities.

Prior to the amendment, an individual found in possession of small quantities of a controlled substance was subjected to the same penalties as someone found trafficking in large quantities of narcotics. Judges were reluctant to find small-time traffickers and addicts guilty, as the mandatory sentence was ten years imprisonment. Defendants were frequently released on minor technicalities. The amended Act is expected to increase the conviction rate significantly for future violators of the NDPS. In September 2003, the conviction rate of 34 percent (4826 persons prosecuted, 1644 convictions) will likely reach or surpass the 42.5 percent conviction rate for all of 2002.

In April, 2003, GOI moved the NCB from under the control of the Ministry of Finance to the Ministry of Home Affairs. The Ministry of Finance remains the GOI's central coordinating ministry for counternarcotics and continues to cooperate with the NCB. 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.

Accomplishments. In 2003, Indian Customs eradicated over 130 hectares of illicit poppy in the state of Himachal Pradesh. Indian authorities have established a continuous aerial/satellite-based system for monitoring licit and illicit opium cultivation nationwide, which became operational in early 2002 and was enhanced in 2003. During April 2003, pursuant to an ongoing investigation conducted by DEA and NCB, a major Indian heroin and hashish source of supply (SOS) was arrested in Mumbai, based on information obtained in a year long joint investigation for his involvement in the October 2002 seizure of over 1,200 pounds of hashish in Newark, New Jersey. As a result of this investigation, a number of the SOS's co-conspirators were arrested in the U.S. and Europe.

In May, 2003, NCB, working closely with DEA to develop the necessary intelligence, raided a residence in Calcutta and seized a significant quantity of laboratory equipment, some precursor chemicals used in the production of amphetamine, and incriminating documents. In addition, NCB arrested five individuals. This investigation was significant, as it was one of the first documented cases of large Chinese drug trafficking organizations attempting to utilize India as a manufacturing point for controlled substances and the first seizure of an amphetamine production facility in India. The CBN also launched a website to educate and assist importers and exporters on licit opium and precursor chemical requirements.

Law Enforcement Efforts. Through November 2003, NCB seized 668 kilograms of heroin in 3,246 cases. The majority of this heroin was seized in South India. Indian law enforcement agencies also seized 1,403 kilograms of opium in 589 cases and 49 kilograms of morphine in 131 cases through November 2003. The trends so far also show a steep decline in AA seizures, but a steep increase in ephedrine seizures. Cocaine debuted with several small seizures, confirming what news reports and law enforcement agencies said for several years, that cocaine is available in India on the wealthy “party circuit,” particularly in Mumbai and New Delhi. Methamphetamine seizures are down sharply.

During 2003, reflecting cooperation with drug abuse rehabilitation NGOs, the Delhi Police and Customs began raiding drug stores and wholesalers selling licit opiate pharmaceuticals for illicit use. The Delhi Police seized 40 cartons of buprenorphine with 72,000 injections in India's largest drug wholesale market as well as 25 kilograms of bulk diazepam.

Corruption. The Indian media regularly reports allegations of corruption against 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 those reports and the means to assess the overall scope of drug corruption in India. It is a reasonable assumption in a poor country like India that corruption does play some role in narcotics trafficking, despite the government's best efforts. Both the CBN and the NCB periodically take steps to arrest, convict, and punish corrupt officials within their ranks. The CBN frequently transfers officials in key drug producing areas. The CBN has increased the transparency of paying licensed opium farmers to prevent corruption and appointing village coordinators to monitor opium cultivation and harvest. These coordinators receive 10 percent of the total paid to the village for its crops, in addition to what they receive for their own crops, so it is advantageous to them to ensure that each farmer under their jurisdiction turns in the largest possible crop.

Agreements and Treaties. India is a party to the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances and the 1988 UN Drug Convention. The United States and India signed a Mutual Legal Assistance Treaty on October 17, 2001, which was ratified by the U.S. Senate, but is awaiting GOI ratification. The United States-India extradition treaty, which entered into force July 21 1999, replaced the 1931 U.S.-UK Extradition Treaty. Two drug-related extradition requests made under the Treaty are pending in Indian courts.

Illicit Cultivation/Production. Small-scale illicit cultivation of opium has existed for years in parts of India's northeast, along the region's border with Burma and China. There is also some illicit cultivation in the states of Himachal Pradesh and Jammu and Kashmir. Customs officials eradicated about 130 ha in Himachal Pradesh in 2003. 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 terrain is mountainous, isolated jungle, requiring significant commodity and personnel resources. The need to combat the many insurgencies in the Northeast states has limited the number of personnel available for such time-consuming, labor-intensive campaigns and the GOI was unable to conduct such a campaign in 2003.

The CBN, however, is concerned that illicit opium 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. There are no accurate estimates of opium gum yields, but CBN officials claim that the yields from illicit production in Arunachal Pradesh are very low—between two to six kilograms per hectare.

Drug Flow/Transit. Although trafficking patterns appear to be changing, India historically has been an important transit area for Southwest Asia heroin from Afghanistan and Pakistan and, to a 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 Southern India, particularly in Tamil Nadu, confirm that smuggling of heroin from India to Sri Lanka continues unabated.

Trafficking groups operating in India fall into four categories: West African traffickers and trafficking groups; traffickers who maintain familial and/or tribal ties to Pakistan and Afghanistan; ethnic Tamil traffickers, centered primarily in Southern India, who are alleged to be involved in trafficking between India and Sri Lanka; and indigenous tribal groups in the northeastern states adjacent to Burma who maintain ties to Burmese trafficking organizations.

Indian-produced methamphetamine (mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methamphetamine production, India is still believed to be among the world's largest known clandestine methamphetamine producers. Seizures of methamphetamine, which is trafficked in both pill and bulk form have varied significantly, from a high of 11,130 kilograms in 2002 to a low of 195 kilograms through September 2003. Cannabis smuggled from Nepal is mainly consumed within India, but some makes its way to western destinations.

Domestic Programs (Demand Reduction). Newspapers frequently refer to Ecstasy and cocaine use on the Mumbai and New Delhi “party circuit,” but there is no information on the extent of their use. While “brown sugar” and cannabis remain India's principal recreational drugs, intravenous drug use (IDU) of pharmaceutical opiates is rising in India, replacing to a large extent injectible heroin. Various licitly produced opiate pain killers, cough medicines, and codeine are just some of the substances that have emerged as the new drugs of choice. A recent study found that licit opiate abuse accounted for 43 percent of drug abuse. According to the study, drug users are largely young and predominantly male. More than a quarter are homeless, nearly half are unmarried, and 40 percent had less than a primary school education. Itinerant populations (e.g., truck drivers) are extremely susceptible to drug use. The number of women drug abusers is increasing rapidly. Most women IDUs exchange sex for drugs; many are commercial sex workers. Frequently, their children become drug users. India has just one residential treatment program for women IDUs. Widespread needle sharing has led to high rates of HIV/AIDS and overdoses.

The popularity of injecting licitly available medicines can be attributed to four factors. First, they are far less expensive than their illegal counterparts. Second, they provide quick, intense “highs” that many users prefer to the slower, longer-lasting highs resulting from heroin. Third, many IDUs believe that they experience fewer and milder withdrawal symptoms with pharmaceutical drug use. Finally, licit opiate pharmaceuticals are widely available and easy to obtain, since virtually any drug retail outlet will sell them without a prescription.

Because licit opiate pharmaceutical drugs produce shorter periods of intoxication, users must inject them more often, leading to more opportunities to spread diseases associated with IDU, such as HIV/AIDS and hepatitis. It is not uncommon for IDUs to share needles with as many as eight to 15 people a day. Estimates of HIV/AIDS prevalence among injecting drug users by India's National

AIDS Control Organization and by NGOs range from 39 percent in the Northeast to 15 percent in Chennai to 40 percent in New Delhi. The MSJE/UNODC study found that intravenous drug users often engaged in unprotected sexual intercourse, often with sex workers.

The GOI is promoting greater community participation and reaching out to high-risk population groups with an on-going community-based program for prevention, treatment and rehabilitation through some 400 NGOs throughout the country.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States has a close and cooperative relationship with the GOI on counternarcotics issues. In September 2003, the United States and India signed Letter of Agreement amendments to provide State Department drug assistance funding worth \$2.184 million for counternarcotics law enforcement. A separate grant of \$50,000 directly to NGO Navjyoti funds a drug rehabilitation project to train medical personnel to treat drug abusers and to provide community-based prevention services to slum areas, which have the highest rates of drug abuse in New Delhi.

The Letter of Agreement amendments will enhance the drug enforcement capacities of India's three major drug law enforcement agencies: NCB, CBN and Customs. The projects will provide equipment and training to help NCB, Customs and CBN to interdict illicit trafficked drugs and precursor chemicals and to help CBN better regulate the licit opium crop and eradicate illicit opium. Several projects focus on providing assistance to India's Northeast. 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. Establishment of the U.S. Customs Office in New Delhi has opened up another important avenue of communication and cooperation on drug and transnational crime cases. 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 and will take the lead in developing India's Financial Intelligence Unit to combat money laundering.

While the Finance Ministry will continue to coordinate counternarcotics cooperation, NCB's move to the Ministry of Home Affairs, will enhance the U.S. relationship with the Ministry's training division as well, in particular by streamlining law enforcement training to India's police and to the NCB. 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 producer of narcotics or precursor chemicals. There is no evidence to suggest that the Maldives is a transit point for narcotics.

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 with a growing societal impact. The Maldivian government and the U.S. maintain a good working relationship on counternarcotics issues. The Maldivian government is very sensitive to the illicit drug issue and is taking steps to address the problem. Government officials say that the magnitude of the problem may be exacerbated by the fact that 50 percent of the population is under 16 and that there are challenges in creating employment opportunities. Police remain actively committed, however, to fighting the illicit drug trade to the fullest extent possible. Officials point to the large number of foreign workers, mainly Indians and Sri Lankans who work in the country's resorts, as the source of the majority of drug trafficking. Following the September 2003 civil unrest in Male', blamed in part on former convicts, including those involved in cases involving drugs, the President called for a national campaign against narcotics.

Although there is no evidence at this time suggesting that the Maldives is a transshipment point for narcotics, international observers and some government officials remain wary about the country's potential to become a transshipment point for smugglers. As the country has a large amount of commerce and traffic via the sea, Customs Service and police find it difficult to search all ships. Officials believe, however, that most drugs enter the country by sea. In late 2002, Maldivian and Sri Lankan officials jointly participated in training to use drug sniffing dogs to help search vessels.

The U.S. has assisted the Maldives in counternarcotics activities, including via direct training and through the Colombo Plan. In 2004, the Colombo Plan is scheduled to conduct U.S.-funded regional narcotics officer training in the Maldives. Previous U.S. government funding to the Maldivian government in 1993 created a computerized immigration record-keeping system, in part to track the movements of alleged drug traffickers. This was followed by additional U.S. funding in 1996 to enhance the system.

In November 1997, the Maldivian government established a Narcotics Control Board (NCB) under the Executive Office of the President. The NCB principally oversees rehabilitation of addicts, and coordinates the efforts of NGOs and other individuals engaged in counternarcotics activities. The Board's Commissioner, a military officer, has concurrent duties in the Maldivian National Security Service. He also coordinates drug interdiction activities. In November 2003, the President, in a renewed focus on counternarcotics, placed the Narcotics Control Board under the Ministry of Gender, Family Development, and Social Security. In further steps in November 2003, the Department of Corrections was renamed the Department of Penitentiary and Rehabilitation Services, with a focus on rehabilitating offenders.

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 continues to be inundated by the large number of people ordered to undergo rehabilitation, however. The waiting list for the center, at times, exceeds the number of individuals currently being treated. The NCB maintains an ongoing program designed to prevent relapse.

The Republic of the Maldives has no extradition treaty with the United States. In 1994, however, the Maldives cooperated with the U.S. in rendering a Nigerian national to the United States to face narcotics trafficking charges. The Maldivian government is a party to the 1988 UN Drug Convention..

Nepal

I. Summary

Although Nepal is neither 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. Seizures of heroin quadrupled in 2003 compared to the year before. An increase in the use 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. 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 grown 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 are involved in drug smuggling to finance their insurgency. The NDCLEU reports that the Maoists levy a 40 percent tax on cannabis production in their controlled areas. 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 2003

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 are 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 United Nations Office of Drugs and Crime (UNODC), a Master Plan for Drug Abuse Control (MPDAC), and has been implementing it actively.

Legislative action on mutual legal assistance and witness protection, developed as part of the MPDAC, remained stalled for a second year due to the Maoist insurgency and the dissolution of parliament. 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) continues to coordinate its counternarcotics efforts regionally, 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.

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. 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 2002 and data through October 2003 indicate that destruction of cannabis plants declined

while opium in cultivation increased. Also during the first 10 months of 2003, the Nepal Police arrested 91 foreigners under drug trafficking charges, the highest number of foreigners ever. Additionally, the NDCLEU seized four times the amount of heroin in 2003 as compared with 2002. Cannabis seizures nearly doubled from 2,875 kilograms in 2002 to 4,458 kilograms in 2003. NDCLEU reported that it seized 101 kilograms of hashish, but no cannabis, at Kathmandu's Tribhuvan International Airport (TIA) in 2003. No opium was seized in 2003. Seizures of heroin increased dramatically, although the absolute quantity (a total of approximately 22 kilograms) remained small. Most seizures of heroin, hashish, and opium in 2003 occurred within Kathmandu or at TIA as passengers departed Nepal.

Corruption. Nepal continues to have no laws to 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 South Asian Association for Regional Cooperation (SAARC) Convention on Narcotics Drugs and Psychotropic Substances. Nepal has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

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 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 from the east and west in equal proportions. Media reports claim that most narcotics are bound for India, and law enforcement sources indicate that most seizures occur at the India/Nepal border. 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 Government of Nepal (GON), along with other governments, is working to increase the level of security at the international airport, and the Royal Nepal Army is detailed to assist with airport security.

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 South East Asia, as well as Europe (Spain, the Netherlands and Switzerland). The NDCLEU has also identified the United States as a final destination for some drugs transiting Nepal, typically routed through Bangkok.

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, donor agencies, and NGOs. However, resource constraints limit significant progress.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. policy is to strengthen Nepal's law enforcement capacity to combat narcotics trafficking and related crimes, to maintain positive bilateral cooperation, and to encourage Nepal to enact and implement appropriate laws and regulations to meet all objectives of the 1988 UN Drug

Convention. The United States, NDCLEU, and other donor nations work together through regional drug liaison offices and through the Kathmandu Mini-Dublin Group of Countries Offering Narcotics Related Assistance.

Bilateral Cooperation. The United States works with GON agencies to implement Nepal's master plan for drug abuse control and to provide expertise and training in enforcement. 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 information exchanges, training, and enforcement cooperation; will work with the UNODC to strengthen the NDCLEU; and will support improvements in the Nepali customs service. The United States will encourage the GON to enact stalled drug legislation.

Pakistan

I. Summary

While not nearly as significant a producer of illicit narcotics as neighboring Afghanistan, Pakistan is the site of some opium poppy cultivation as well as an important transit country for Afghan opiates and hashish. Pakistani traffickers may also play an important role in financing and organizing opium production in Afghanistan. In 2003, the USG estimated through aerial and ground surveys that Pakistan's opium poppy crop rose to approximately 2,500-3,000 hectares from 622 hectares in 2002. 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 several law enforcement agencies as well as the Home Departments of Northwest Frontier Province (NWFP) and Baluchistan Province. DEA has evidence that there are some small heroin production facilities in Pakistan.

There was modest progress in 2003 on extraditions, with one individual extradited to the United States and three other cases pending. Efforts underway since 2001 to enhance border security as a measure against terrorism have improved the ability of law enforcement forces to enter into previously inaccessible tribal areas on the border where some of the drug trafficking takes place. Pakistan is a party to the 1988 UN Drug Convention.

II. Status of Country

After being declared a "poppy-free nation" by the United Nations in 2001, opium poppy cultivation in Pakistan increased in 2003. Ground and aerial surveys conducted by NAS (U.S. Embassy Narcotics Affairs Section), the NWFP Home Department, and the ANF indicated that the opium poppy crop remaining in NWFP was in the range of 2,000-2,600 hectares after eradication of some 1893 hectares. The ANF estimated that approximately 500 hectares in Baluchistan remained after eradication of 2,289 hectares, but as NAS was unable to independently verify survey results, due to the security situation, this figure could prove to be inaccurate. While insignificant compared to neighboring Afghanistan (and to the many thousands of hectares under cultivation in Pakistan in the 1990s), the increase is troubling, not only because cultivation increased overall (from 622 hectares in 2002), but also because it expanded into new areas in Orakzai, Kurram, and North and South Waziristan in NWFP and Gulistan and Qila Abdullah in Baluchistan. The increase may have been due to any number of factors: high opium prices, spillover from Afghanistan, lack of alternative development programs, a desire on the part of farmers for cash payments as in Afghanistan, underreporting by GOP-appointed political authorities in the cultivation regions (resulting in less effort in negotiation with growers), and possibly that the GOP's post-9/11 focus on counter terrorism in the same regions as poppy cultivation resulted in farmers' expectations of a diminished effort to contain poppy cultivation. This cultivation takes place in rugged, isolated areas, where tribal populations harbor little sympathy or support for GOP law enforcement programs, and where alternative sources of income are few. Thus, the effort necessary to eliminate it completely would be quite significant.

Pakistan remains a substantial trafficking country for heroin, morphine, and hashish from Afghanistan. Pakistani traffickers also play an important role in financing and organizing opium production in Afghanistan. Control of narcotics trafficking along the remote 1,450-mile border has presented a major challenge for the GOP. Interdiction operations on the border 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. An ambitious Border Security Project begun in 2002, however, significantly improved GOP capacity

on the border in 2003, and continuing USG assistance should result in even greater advances in 2004 and beyond.

The steady flow of drugs transiting Pakistan has taken a social toll, fueling domestic addiction and contributing to persistent 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 believed to be a major precursor transit country. DEA has evidence that there are some heroin production laboratories in Pakistan, but that they are generally small family-run entities producing only 10-20 kilograms of heroin. This paucity of Pakistani labs may be because Pakistani criminal elements have relocated labs to Afghanistan, nearer their sources of raw opium gum, and even less likely to face enforcement action than in Pakistan.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOP's USG-supported Border Security Project (begun in 2002) made significant progress in 2003. The project is aimed at strengthening security along Pakistan's western border by training border forces; providing vehicles and surveillance and communications equipment to enhance the GOP's ability to patrol the remote border areas; and an aviation program to enable aerial surveillance and interdiction missions along the border. A key component is the Ministry of Interior's U.S.-supported Air Wing, based in Quetta, which now includes five U.S.-supplied Huey II helicopters (delivered in 2002) and three fixed-wing reconnaissance aircraft (delivered in September, 2003). Basic training of pilots, gunners, and mechanics for the helicopters was largely completed in 2003 and training for the fixed-wing pilots and crews began in 2003 with a projected completion date of mid-2004. The ANF has conducted initial aerial poppy surveys with the helicopters and is planning a series of such surveys—using both their own and USG-supplied MOI Air Wing helicopters—during the 2003-2004 growing season. 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. Border security will be further enhanced by construction of some 400 kilometers of roads in the remote Federally Administered Tribal Areas (FATA) adjacent to Northwest Frontier Province (NWFP).

The GOP was taken by surprise by the increase in opium poppy cultivation in 2002-2003, but took positive steps to address it in 2003. In Baluchistan Province, where poppy was reported for the first time, the ANF took a proactive approach, delivering a strong antipoppy message to growers before and during the October-November sowing season via warnings in the local media and in person by provincial and tribal authorities. Shortly after the sowing season in Baluchistan, ANF carried out some eradication and arrested fourteen growers, six of whom were sentenced to prison terms. In the FATA, the traditional cultivation region, the ANF has very limited jurisdiction, but NAS and GOP officials have met regularly during the pre-sowing and early growing season with political authorities who do have authority there to ensure that the tribal residents understand that if the ban on cultivation is not complied with, the GOP will undertake forced eradication and, if necessary, impose fines, arrest growers, and take other measures provided for under special law applicable to the FATA. Through U.S.-funded crop control programs in Mohmand and Bajaur tribal agencies, the GOP's Communications and Works Department continues its maintenance and upkeep of roads constructed in previous years, which enhance the movement of legitimate commerce and the efficacy of law enforcement. The GOP also continued the construction of USG-funded roads in previously inaccessible areas within Khyber Agency to implement alternate development programs and to strengthen law enforcement.

Accomplishments. In 2003, the GOP took important steps to prevent the level of opium poppy cultivation from increasing further while strengthening border controls to cut back on trafficking in the face of increased opium availability in Afghanistan. The special narcotics courts established in 2001

continued to produce commendable results despite limited resources. As of October 31, 2003, the ANF had registered 530 narcotics cases in the GOP's court system, 83 of which were decided with a 94 percent conviction rate.

Law Enforcement Efforts. The ANF is Pakistan's leading narcotics law enforcement agency. In 2003, the ANF addressed staffing shortfalls by hiring 115 officers at all rank levels. The performance of the Special Investigative Cell (SIC) of the ANF (established in 2000), which targets major trafficking organizations, continued to improve. This DEA-trained and vetted unit arrested 106 persons during 2003, a 43 percent increase over 2002. It added seven members, bringing its total strength to 59 personnel. During 2003, the SIC assisted DEA Islamabad and DEA Los Angeles in arresting nine members of a large Pakistan based heroin-trafficking organization. These arrests led to the arrests of additional U.S. criminals and provided law enforcement officials with leads to other criminal suspects alleged to be involved in trafficking.

In 2003, GOP security forces seized 34 metric tons of heroin, 5.4 metric tons of opium, and 87.8 metric tons of hashish, and arrested 46,346 individuals on drug-related charges. Compared to 2002, heroin seizures in 2003 increased by 283 percent; opium by 125 percent; and hashish by 24 percent. ANF and Frontier Corps Baluchistan, which cover the major trafficking routes from Afghanistan, were responsible for 63 percent of the seizures. The GOP has attributed the increase, especially in Baluchistan, to sharply increased opium production in Afghanistan and to USG-supplied Border Security Project equipment, which improved their capacity to access remote areas. The United States continues to encourage better interagency coordination among these agencies, with limited success to date. ANF has, however, established excellent cooperation with customs and airport security forces in the major cities. ANF and Customs have interdicted heroin couriers of all nationalities, many from West Africa to destinations in Africa and Thailand. Preferred methods of shipment were via hard-side luggage, narcotics strapped to the body and concealed from drug sniffing dogs with special sprays, 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 15, 2003, the amount of drug traffickers' frozen assets stood at \$5.4 million and \$1.2 million in property was forfeited.

The 2002 conviction and death sentence of Munawar Hussain Manj, a former Member of the National Assembly, was reversed on appeal by the Lahore High Court, and the death sentence against his codefendants was reduced to life imprisonment. ANF has been granted leave to appeal the result. Two separate cases against Rehmat Shah Afridi, editor of the Peshawar-based independent daily "The Frontier Post," were consolidated and tried in the Lahore Special Court, which returned convictions and imposed the death sentence. He has appealed. Five major forfeiture cases involving some \$19 million were initiated and are pending in the Special Courts.

The new narcotics courts have improved the handling of drug cases, but only the major cases are tried there, and other prosecutions still languish in the system for years. Corruption in the judiciary is rampant. ANF retains its own special prosecutors who have achieved some admirable results, but who all too often see their cases reversed on appeal by corrupt judges.

Corruption. The United States has no evidence that the GOP or any of 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 societal and government corruption endemic; however, one cannot rule out some narcotics-related corruption. The government's National Accountability Bureau (NAB) has taken some important steps to address official corruption. In 2003 (through December 6) the NAB investigated 104 corruption cases. 101 were decided, of which 59 were convictions, 18 acquittals, and 13 plea bargains. Through this process, the NAB recovered a total of nearly two billion U.S. dollars from politicians, businessmen, and civil servants found guilty in special accountability courts.

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. One extradition occurred in 2003, but GOP lack of action on several other pending requests continues to be of concern.

Cultivation/Production. The NAS and ANF estimated that approximately 6,000-6,500 hectares of opium poppy were cultivated in Pakistan in 2003 (between 3,400-3,800 hectares in the FATA and approximately 2,800 in Baluchistan). Slightly over half of the crop was eradicated, leaving some 2500-3000 hectares remaining, up from 622 hectares after eradication in 2002. Cultivation took place both in the traditional growing area, the Bara River Valley of Khyber Agency, and in new areas where it had not been seen before—Orakzai, Kurram, and North and South Waziristan in the FATA and Gulistan and Qila Abdullah in Baluchistan. The GOP estimates potential opium production for 2003 at approximately 62-75 metric tons. This is based on an estimated yield of 25 kilograms per hectare of opium poppy, although the GOP has no real scientific basis for this estimate.

Drug Flow/Transit. Both Afghan-origin hashish and opiates transit through Pakistan. Afghanistan opium poppy cultivation has skyrocketed since 2001, and Pakistan's importance as a transit country has increased proportionately, 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.

Available evidence indicates that traffickers are transporting smaller quantities of illicit drugs in an attempt to reduce the size of seizures and protect their 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.

Pakistan is a major consumer of Afghan opium/heroin, 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 shortfalls in opiates in that region. Couriers intercepted in Pakistan this year were en route to Africa, Nepal, Europe, Thailand, Bangladesh, Sri Lanka, and the Middle East (especially the United Arab Emirates).

Domestic Programs (Demand Reduction). Drug abuse is significant in Pakistan and is increasing everywhere, especially in the FATA, where lack of economic opportunity and physical isolation create the conditions in which addiction thrives. Reliable data are hard to come by, but the GOP's best estimate is that there are some 3.5 million users, with hashish and heroin the most commonly abused drugs. Users are increasingly injecting narcotics, which has raised the concern that HIV infection rates may rise as well. The GOP views addicts as victims, not criminals. Although resources for domestic programs are very limited, the GOP took important steps in 2003 to address the problem. The most significant was approval of a \$500,000 program to establish two model addiction and rehabilitation centers in Islamabad and Quetta. There was a considerable mass awareness campaign as well, involving newspaper, TV, and radio spots, puppet shows and lectures in the schools, distribution of calendars and pins with counternarcotics messages, and a commemorative postage stamp. While the GOP has the will to do more, it lacks the resources.

IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics policy objectives for 2003 are: to urge the GOP to develop a new counternarcotics master plan; to continue to help the GOP strengthen the security of its western border; to encourage the GOP to eliminate remaining opium poppy cultivation and discourage any spread of cultivation; to increase interdiction of opiates from Afghanistan; to help dismantle major trafficking organizations; to expand demand reduction efforts; to enhance cooperation regarding the extradition of narcotics fugitives; to encourage efforts against white collar crime such as money laundering; to press for reform of the law enforcement forces operating in Pakistan's tribal regions; and to encourage cooperation and coordination among GOP agencies with counternarcotics responsibilities.

Bilateral Cooperation. The United States provided \$1.4 million in operational and commodity assistance to the Anti-narcotics Force in the GOP's 2002-2003 fiscal year (including Border Security Project funding for counternarcotics efforts), and \$9.4 million in counternarcotics roads and crop control programs, including \$3.5 million for the Khyber Area Project. In addition, the USG provided \$8.8 million in commodity assistance to Frontier Corps NWFP and Baluchistan, who perform many counternarcotics missions along the border. The \$37.5 million NAS-supported MOI Air Wing program will provide significant benefits to counternarcotics efforts as well. DEA provided \$98,000 in 2003 for the ANF's Special Investigative Cell.

The ANF continues to work effectively with DEA to conduct more effective investigations. The creation of the SIC, trained and equipped by the United States, represents an important milestone in improving GOP counternarcotics efforts. The unit continues to perform work throughout Pakistan, and their DEA-supported expansion has begun, which will include obtaining and equipping a facility and vetting an additional 31 members. Plans include additional support with intelligence and interdiction operations.

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 and USG will need to work together to develop a strategy to utilize new resources wisely, increase 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.

Pakistan Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	3,000	622	213	515	1,570	3,030	4,100	3,400	6,950	7,270
Eradication (ha)	3,000	—	1,484	1,704	1,197	2,194	654	867	0	463
Cultivation (ha)	6,000	—	1,697	2,219	2,767	5,224	4,754	4,267	6,950	7,733
Potential Yield (mt)	62	5	5	11	37	65	85	75	155	160
Seizures										
Opium (mt)	5.4	2.4	5.2	7.84	16.32	5.02	8.54	8.08	215.52	14.36
Heroin (mt)	34	8.9	6.0	7.41	4.98	3.33	5.07	4.05	18.04	6.20
Hashish/Marijuana (mt)	87.8	70.7	53	108.16	81.46	65.33	108.50	201.55	543.58	178.29
Labs Destroyed	—	0	0	0	2	0	4	10	15	18
Acetic Anhydride (ltr)	—	0	0	43	422	10,000	5,383	—	—	—
Arrests	46,346	—	—	35,969	45,175	37,745	50,565	51,119	59,081	48,296

Sri Lanka

I. Summary

Sri Lanka has a relatively small-scale drug problem. The Sri Lankan government (SLG) has a solid record of targeting drug traffickers and implementing nation-wide demand reduction programs. In 2003, the U.S. Government (USG) continued its strong relationship with the Sri Lankan Government (SLG) on counternarcotics issues and Sri Lanka took an active role in regional counternarcotics efforts. The continued ceasefire with the Liberation Tigers of Tamil Eelam (LTTE) has allowed the government to commit more resources to counternarcotics efforts. The resulting change in the country's security situation, however, has also created additional avenues for drug traffickers, which government officials are working to address. The government continued to make available to other nations in the South Asian Association for Regional Cooperation (SAARC) a USG-funded database on narcotics arrests and related information. Although Sri Lanka has signed the 1988 UN Drug Convention, Parliament had not enacted implementing legislation for the Convention as of the end of 2003.

II. Status of Country

Sri Lanka is not a significant producer of narcotics or precursor chemicals. SLG officials remain on guard against efforts by traffickers to use Sri Lanka as a transit point for narcotics smuggling. With respect to domestic illicit drug use, Sri Lanka has a modest drug problem with some consumption of heroin, cannabis, and, more recently, Ecstasy (MDMA).

III. Country Actions Against Drugs in 2003

Policy Initiatives. In 2003, the SLG continued to implement its counternarcotics programs. The lead agency in these efforts was the Police Narcotics Bureau (PNB), which remained guided by the Sri Lankan counternarcotics master plan, originally developed in 1994. The PNB's efforts have not been affected by President Kumaratunga's sudden assumption of control of the Interior Ministry (which controls police functions) in November 2003.

Accomplishments. Sri Lanka continued to work with SAARC and the United Nations Organization for Drug Control (UNODC) on regional narcotics issues. The Colombo Plan continues as a major resource for research and assistance on drug abuse issues in South Asia.

Law Enforcement Efforts. The PNB, the Customs Service, and the Department of Excise remained jointly responsible for discouraging cannabis production. The PNB estimates that the level of narcotics entering the country is comparable to previous years, but that the bureau is having more success with interdiction and thus netting a higher quantity of drugs seized. In November 2003, for example, police arrested an alleged major drug dealer in the capital city of Colombo. In the operation, police reportedly seized 23 kilograms of heroin, valued locally at around \$460,000. There were a number of other small-scale seizures of heroin and other drugs by the PNB in 2003.

Corruption. In 1994, the SLG established a permanent commission to investigate charges of bribery and corruption against public officials. The commission has contributed to vigorous anticorruption enforcement, including several important drug-related cases. Three PNB officers were arrested in June 2003 and remain in custody at the end of the year under charges of possessing heroin. In December 2003, six police officers and a retired police deputy inspector general were arrested in connection with the apprehension of an alleged large-scale drug trafficker.

Agreements and Treaties. Sri Lanka has signed the 1988 UN Drug Convention and the 1990 SAARC convention on Narcotic Drugs and Psychotropic Substances. Implementing 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 has reviewed the legislation and anticipates submitting it to Parliament in the early part of 2004. Sri Lanka is also a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 Convention on Psychotropic Substances. Sri Lanka has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. An extradition treaty is in force between the U.S. and Sri Lanka.

Cultivation and Production. With respect to the production of illicit narcotic substances, small amounts of cannabis are locally cultivated, with little, if any, impact on the United States. The majority of cannabis cultivation occurs in the jungles of southeast Sri Lanka. The police are actively engaged in locating and eradicating cannabis crops.

Drug Flow/Transit. Some heroin reportedly transits Sri Lanka. Customs officials and the PNB report that seizures occur both at Colombo's international airport and along the island's western coast, where narcotics are transported by ship from India. In 2003, the PNB continued receiving reports from India of large-scale seizures of heroin in Chennai, Tamil Nadu, which were allegedly headed for Sri Lanka. Due to the ceasefire between the government and the LTTE, the northwestern coastal waters have reopened to fishing and other commercial vessels, resulting in increased traffic in the area. The PNB reports that narcotics traffickers have taken advantage of this new situation, transiting the short distance across the Palk Strait from India and then to points in Sri Lanka. The PNB has said that this additional trafficking route, without additional police resources, has challenged the bureau's interdiction efforts. With no coast guard, Sri Lanka's coast remains highly vulnerable to transshipment of heroin from India.

The PNB also reports some evidence that Ecstasy has appeared, in limited quantity, in social venues in the capital city. The drug is most likely trafficked from India. Investigations of this very small-scale problem reportedly did not result in any seizures during 2003.

Domestic Programs. The government maintains an excellent record on drug awareness programs and on demand reduction. The NDDCB, through international and local funding, provides training on prevention techniques and operates four free treatment and rehabilitation centers in Sri Lanka. Both the PNB and NDDCB offer courses to judicial officials, police officers, military personnel, students, teachers, and parents. In June 2003, the PNB devoted an entire week to a public drug awareness campaign, reaching out to schools and communities from police stations around the island. The Colombo Plan also continued extensive rehabilitation and prevention training programs. Until 2002, the Colombo Plan worked primarily with NGOs in Sri Lanka. In light of the continuing ceasefire, the PNB and Colombo Plan have joined together to provide additional narcotics prevention training for PNB's own officers, as well as more interdiction support.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The USG continued its strong relationship with the SLG on counternarcotics issues. The USG remains committed to fostering increased capacity and co-operation among law enforcement and other government officials working on narcotics issues in Sri Lanka and the region. The USG, as the main contributor to the Colombo Plan's Drug Advisory Program (DAP), provided over \$920,000 to the program in 2003. 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.

The Road Ahead. The USG will continue to work with Sri Lankan counternarcotics organizations, whenever possible, particularly by speaking at or otherwise participating in seminars addressing the

drug problem. The overall level of U.S. counternarcotics assistance to Sri Lanka is expected to increase in 2004 with the implementation of USG-sponsored community policing and management training programs for the PNB. The U.S. expects to continue its support of the Colombo Plan, and already has agreements to conduct narcotics officer training with regional government officials through the Colombo Plan organization.

SOUTHEAST ASIA

Australia

I. Summary

Australia is a committed partner in international efforts to combat illicit drugs. Australia accords high priority to drug-related issues, both internationally and domestically. Australia manages the diverse legal, health, social and economic consequences of drug use through comprehensive and consistent policies of demand reduction, supply reduction, and harm reduction in certain Australian states. Australia is party to all three UN drug conventions, including the 1988 UN Drug Convention.

II. Status of Country

Australia is a consumer country for illicit drugs. There is no evidence of narcotics destined for the U.S. transiting Australia. U.S. and Australian law enforcement agencies have excellent cooperation on narcotics matters. Cannabis (marijuana) and ecstasy (MDMA) continue to be the most abused drugs in Australia. The use of methamphetamine, crystal methamphetamine, and other amphetamine type substances has risen dramatically in the past few years. Heroin, however, remains at the forefront of concern for the law enforcement, social services, and healthcare communities in Australia.

III. Country Action Against Drugs in 2003

Policy Initiatives. The Federal Government continues to vigorously pursue policies that attempt to both prevent and treat illegal drug use. Launched in 1997, Prime Minister Howard's National Illicit Drug Strategy "Tough on Drugs" outlines a program to address drug issues. Australia has committed more than \$740 million to the Strategy. (NOTE: Throughout this report, figures are in U.S. dollars, calculated at an exchange rate of U.S. \$1 = \$1.27 Australian). The Federal Government has recently committed an additional \$187.4 million to the "Tough on Drugs" Strategy to reduce the supply of, and demand for, illicit drugs. In 2001, the Prime Minister committed an additional U.S. \$76.25 million over four years to fund comprehensive national law enforcement initiatives. In 2002, the Federal Government brought together state and federal officials at a Leaders' Summit on Transnational Crime and Terrorism. The Summit resulted in the creation of 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 implement extensive programs to combat drug trafficking and use, as well as target the drug trade at all levels of production, distribution and consumption. In late 2002 and throughout 2003, Australian law enforcement officials seized record amounts of ecstasy (MDMA) originating in Western Europe and crystal methamphetamine from Southeast Asia. These seizures were consistent with the reported increase in use of these drugs throughout the country. In April and May 2003, Australian law enforcement officials seized 125 kilograms of heroin from the MV Pong Su, a North Korean cargo vessel. State police agencies have reported an increase in the number of clandestine methamphetamine laboratories seized throughout the country and the seizure of several large-scale MDMA production labs. These laboratory seizures, coupled with the seizures of 750 kilograms of the precursor pseudoephedrine indicate that criminal organizations are attempting to move their production facilities into Australia.

Law Enforcement Efforts. Law enforcement agencies continued their aggressive counternarcotics law enforcement activities in 2003. Responsibility for these efforts is divided among the federal government—primarily the Australian Federal Police (AFP), the Australian Customs Service (ACS), and the Australian Crime Commission (ACC)—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, including the DEA and the FBI. Recently, the AFP doubled its overseas presence to 58 agents in 30 locations, which has allowed it to focus more on transnational drug trafficking as well as counterterrorism investigations. Australia has also budgeted \$11 million to develop a South Pacific Regional Police Initiative in Fiji. This center aims to enhance the level of law enforcement in the Pacific Region.

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 officers have been investigated for drug-related corruption, corruption is not common or widespread.

Agreements and Treaties. The U.S. and Australia cooperate extensively in law enforcement matters, including drug prevention and prosecution, under a bilateral mutual legal assistance treaty and an extradition treaty. Australia is a party to all three UN drug conventions. The USG has a Customs Mutual Assistance Agreement (CMAA) with Australia. Australia signed the UN Convention Against Transnational Organized Crime in December 2000.

Cultivation/Production. Cannabis is the only significant illicit drug cultivated in Australia. There is no evidence that illicit Australian marijuana reaches the U.S. in quantities sufficient to have a significant effect. Australia has a significant licit opium crop (12,853 hectares) 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 sources of heroin trafficked into Australia. Law enforcement authorities estimate that eighty percent of imported heroin comes from Burma. Improved travel links between Australia and South America have facilitated a record number of border cocaine seizures of one kilogram or more. South Africa is increasingly being used as a transit point for drugs (mostly cocaine) transported from South America to Australia. There has been an increase in detected amounts of amphetamine-type substances (ATS, a category which includes ecstasy and methamphetamines) imported from Asia. Ecstasy is mainly imported from Europe. To date there has been no evidence suggesting that drugs are transiting Australia to the United States.

Domestic Programs. The Federal Government has continued to pursue an aggressive policy to prevent and treat drug use. The Prime Minister's National Illicit Drug Campaign committed the equivalent of \$3.9 million to drug prevention programs in schools and \$40.1 million for compulsory education and treatment system of drug offenders. Under Australian law, 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 Federal, State and Territory Ministers responsible for health and law enforcement to determine national policies and programs to reduce the impact of 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 permit the licensing and operation of an injecting center for a trial period of 18 months. This trial period has been since extended to October 2007. The center, which is now in operation, provides for medically supervised heroin injections. The Australian Capital Territory has passed similar legislation, but has not opened an injection center.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics activities in Australia feature strong ongoing US-Australian collaboration in investigating, disrupting, and dismantling international illicit drug trafficking organizations. In mid-2002, the U.S. and Australia signed a Memorandum of Understanding to codify these objectives.

The Road Ahead. Australia shows no sign of lessening its commitment to the international fight against drug trafficking, particularly in Southeast Asia. The U.S. can expect excellent ongoing bilateral relations with Australia on the counternarcotics front, and the two countries should continue to work well together in the UN Drugs and Crime Program and other multilateral forums.

Burma

I. Summary

Burma is the world's second largest producer of illicit opium and the second largest cultivator of opium poppy. The gap between Burma and the number one producer of illicit opium and number one cultivator of poppy, Afghanistan, increased considerably in 2003. 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 2003 declined substantially for the seventh straight year. According to the joint U.S./Burma opium yield survey, opium production in Burma totaled no more than 484 metric tons in 2003, down more than 23 percent from a year earlier, and a fraction 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 cease-fire group and, as these pledges have come due, has stepped up law enforcement activities in areas controlled by these groups. The ethnic Wa group in northeastern Shan State has pledged to end opium production and trafficking at the end of the 2005 poppy harvest, but the government has been unable to curb the Wa's current cultivation and production activities. Wa cultivators now account for approximately 52 percent of Burma's total poppy crop. Major Wa traffickers continue to operate with apparent impunity, and United Wa State Army (UWSA) involvement in methamphetamine production and trafficking remains a serious concern. During the 2003 drug certification process, the USG determined that Burma had "failed demonstrably" to meet its international counternarcotics obligations.

Over the past several years, the Burmese government has extended significantly its counternarcotics cooperation with other countries. In 2001, it signed counternarcotics Memoranda of Understanding (MOUs) with both China and Thailand, and has joined with China in annual joint operations in the northern and eastern Shan State, which resulted in the destruction of several major drug trafficking rings, including a group that the Chinese called one of the largest "armed drug smuggling groups in the Golden Triangle area." Cooperation with Thailand increased considerably in 2003 as the Thai government pursued an aggressive domestic "drug-free" policy. The Thai Prime Minister and other cabinet-level officials visited Burma in 2003 to discuss counternarcotics cooperation with senior leaders of the Burmese military government. 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. However, eradication efforts, enforcement of poppy-free zones, alternative development, and a sharp shift towards synthetic drugs in consumer countries have combined to depress cultivation levels for the past three years. 2003 was the first year that weather was not a major factor in the declining poppy cultivation trend. According to the joint U.S./Burma opium yield survey, the total land area under poppy cultivation in Burma was 47,130 hectares in 2003, a 39 percent decrease from the 77,700 hectares under cultivation in 2002. Estimated opium production in Burma totaled approximately 484 metric tons in 2003, a 23 percent decrease from 630 metric tons in 2002, and less than one fifth of the 2,560 metric tons produced in Burma in 1996 (an 81 percent decline in seven years). Although climate was not a factor in declining cultivation in 2003, improved weather conditions during critical growth periods did improve yields for the region's poppy farmers. In 2003, yields rose to 10.3 kilograms/hectare, a substantial increase from the previous year (estimated at 8.1 kilograms/hectare) and a return to the robust yields of the early and mid-1990s, though still below the peak level recorded in 1996.

Burma plays a leading role in the regional traffic in 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 India 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. In 2003 there were troubling signs that a nascent domestic market for ATS began to emerge in Burma, although deteriorating economic conditions will likely stifle significant growth in consumption. During the first ten months of 2003, ATS seizures totaled fewer than 4 million tablets, a decline from previous modest levels of approximately 10 million tablets seized per year. Aside from these seizures, 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 individual cease-fire agreements, allowing each group 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, reflecting, in many cases, the Burmese government's lack any other option in the short run. Since the mid-1990s, however, the Burmese government has elicited "opium-free" pledges from each cease-fire group and, as these pledges have come due, has stepped up law-enforcement activities against opium/heroin in the respective cease-fire territories. Although virtually the entire opium crop is cultivated in the eastern Shan State, there is also minor and widely scattered cultivation in the States of Chin, Kachin, and Kayah and in Sagaing Division. This cease-fire process has not had an impact on Burma's status as the major regional producer of ATS tablets, the current drug of abuse of choice in most regional markets.

In 2003, the Burmese government continued its counternarcotics activities, primarily poppy crop eradication, in the Kokang region of northeastern Shan State controlled by Peng Jiaoheng's Myanmar National Democratic Alliance Army (MNDAA). The MNDAA had pledged to be opium-free by 2000. The government applied only modest pressure on the Wa in 2003, claiming it cannot crack down faster because the Wa's opium-free pledge does not come due until the end of the 2005 poppy harvest. Premature action against the Wa, the government claims, 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. Burmese troops cannot enter Wa territory without permission from the UWSA and the GOB is unwilling to risk confronting the Wa, a potent organization with a well-manned and well-trained military force. However, the government continued a more aggressive stance on the travel of officials in Wa territory, merely informing UWSA officials of such visits rather than seeking advance permission. Nevertheless, the government has yet to put significant pressure on the Wa to stop illicit drug production or trafficking, and the Wa are the major manufacturers and traffickers of ATS pills.

UNODC and joint USG/GOB 2003 opium poppy survey results demonstrated partially effective enforcement of poppy-free zones, but may also indicate a shift toward synthetic drugs. Substitute crops and alternative development projects that seek to provide farmers economically viable alternatives to poppy cultivation have not, on their own, truly "replaced" opium production and its profitability, as a source of income for growers.

A domestic market for the consumption of ATS also emerged in Burma, a disturbing trend that, although less significant than other societal woes, could prove to be a destabilizing factor in the long-term. The UNODC estimated that in 2003 there were at least 15,000 regular ATS users in Burma. No ATS labs were reported destroyed in 2003.

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 (135,000 regular users of heroin, including up to 30,000 intravenous drug users). Recreational use of illicit drugs, including ATS, is on the rise. 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. Infection rates are highest in Burma's ethnic regions, and specifically among mining communities in those areas, where opium, heroin, and ATS are readily available.

Money laundering is also an area of concern. In November 2003 the Financial Action Task Force (FATF) called upon member countries to impose countermeasures against Burma for its failure to pass a mutual legal assistance law and its failure to issue regulations to accompany the "Control of Money Laundering Law" passed in 2002. Burma responded by releasing new money laundering regulations on December 5, 2003, but has yet to address the mutual legal assistance law issue.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Burma's official 15-year counternarcotics plan calls for the eradication of all narcotics production and trafficking by 2014, one year ahead of an ASEAN-wide plan of action that calls for the region to be drug-free by 2015. The plan is to proceed by stages, with eradication efforts coupled to alternative development programs in individual townships, predominantly in Shan State. Altogether, the GOB identified 54 townships for the programs and targeted 25 of them during the first five years of the program.

The government has received limited international assistance in support of these efforts. The most significant multilateral effort is the UNODC's Wa Alternative Development Project (WADP), which is financed by the United States, Japan, and Germany. A five-year, \$12.1 million program, this supply-reduction project encourages alternative development in a small portion of the territory controlled by the United Wa State Army. UNODC extended the project from 2003 until 2005 and expanded the number of villages targeted for community development work from 4 to 16. Also in 2003, the UNODC and the Japanese government announced plans to establish an intervention in the Wa and Kokang areas (dubbed "KOWI"), aimed at supporting the humanitarian needs of farmers who have abandoned poppy cultivation. A joint humanitarian assessment team, consisting of UN agencies and NGOs, traveled to the Kokang and Wa areas earlier in the year and concluded that farmers who had abandoned poppy cultivation had lost up to 70 percent of their income and were increasingly susceptible to disease, internal displacement, and food insecurity. Several international NGOs have partnered with the UNODC to develop an assistance response to this problem; Japan and Italy were early donors.

Bilateral counternarcotics projects include a small, U.S.-financed project in northern Shan State (Project Old Soldier) and a substantial Japanese effort to establish buckwheat as a cash crop in the Kokang and Mong Ko regions of northeastern Shan State. No U.S. counternarcotics funding directly benefits or passes through the GOB. The Thai government has since 2001 extended its own alternative development projects across the border into the Wa-controlled Southern Military Region of Shan State. Burma, India, China, Laos, and Thailand agreed on cross-border cooperation targeted on the flow of narcotics precursor chemicals among the countries of the Mekong river sub-region.

The GOB supported a UNODC effort in 2001 to form a "Civil Society Initiative" (CSI) to conduct awareness activities and programs regarding the dangers of drug abuse and HIV/AIDS. The CSI, which partnered with NGOs and local celebrities, held a successful counternarcotics concert and marathon in 2002. However, to avoid large concentrations of young people at a single event the GOB failed to support a two-day counternarcotics music festival in 2003, which was subsequently canceled.

Law Enforcement Measures. 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—leads drug-enforcement efforts in Burma. 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.

Narcotics Seizures. Summary statistics provided by Burmese drug officials indicate that during the first ten months of 2003 Burmese police, army, and the Customs Service together seized approximately 1,247 kilograms of raw opium, 488 kilograms of heroin, 78 kilograms of marijuana, 102 kilograms of methamphetamine powder, 156 kilograms of morphine, and 4.5 million methamphetamine pills. Opiates seized during 2003 represent less than 2 percent of this year's opium harvest. This compares with seizures during all of 2002 of 1,631 kilograms of raw opium, 285 kilograms of heroin, and 8.8 million methamphetamine pills. Heroin seizures, almost double the previous year's seizures, were at the highest levels since 1997. Seizures of ATS in 2003 continued a downward trend and may be related to adjustments in trafficking patterns or to Thailand's aggressive 2003 “drug free” policy, which greatly reduced the market for Burma-produced ATS, at least in the short-term. The relatively tiny amount of ATS seized (less than 4 million tablets) had no effect on the scope of the growing problem.

The Ministry of Health identifies 25 substances as precursor chemicals and prohibits their import, sale, or use in Burma. Seizures of precursor chemicals declined substantially during the first ten months of 2003 and included 266 kilos of ephedrine, 2,540 liters of acetic anhydride, and 37,557 liters of other precursor chemicals. There has been a substantial decline in ephedrine seizures. In 2001, the first year the GOB issued a notification identifying illegal precursor chemicals, the totals were substantially higher: 1.723 metric tons, compared with .266 metric tons for 2003.

Arrests and Prosecutions. In 2003, Burma arrested 3,336 suspects on drug related charges, according to official statistics. In addition, the GOB arrested nine United Wa State Army (UWSA) officers in 2003.

Refineries. The government dismantled 7 heroin labs through the first ten months of 2003, compared to 17 from the entire previous year, although slow reports from remote areas of the country might account for the magnitude of the change. To date, the GOB has not reported the destruction of any meth labs in 2003, although 6 were destroyed in 2002.

Eradication. The government eradicated more than 21,000 hectares (51,892 acres) of opium poppy over the past three crop years. However, only 683 hectares were destroyed during the 2002/03 crop year, a mere fraction of the 10,466 hectares (25,862 acres) destroyed during the 2001/02 crop year and the 10,568 hectares (26,113 acres) destroyed during the 2000/01 crop year. Nonetheless, overall eradication accounts for almost one-third of the reduction in area under poppy cultivation since 2001. In addition, during the first ten months of 2003 the government burned 164,000 kilos of poppy seeds capable of seeding more than 40,570 hectares (100,250 acres). The destruction of those seeds, together with law enforcement actions, reduced the area under opium cultivation by more than one third in 2003.

In 2002, the government, having established a police and military intelligence presence in the ethnic Wa territories, demanded that the Wa, the Kokang Chinese, and other cease-fire groups issue new counternarcotics decrees. Those decrees outlawed participation in any aspect of the narcotics trade. The GOB also demanded and received cooperation from the UWSA in bringing to heel several major fugitives wanted by China. In addition, it has closed down the liaison offices of armed groups like the UWSA, and of companies associated with those groups in Tachileik, Myawaddy, and other towns on the Thai/Burmese border. In December 2003, the GOB announced an investigation of two private banks associated with the Wa (Asia Wealth and Myanmar Mayflower), identified by the United States as entities of “primary money laundering concern.”

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 claim they are maintaining their pledge to eliminate opium by the end of the 2005 harvest. However, according to the 2003 joint U.S./Burma opium yield survey, poppy cultivation increased in the Wa Special Region by over 5,500 hectares and the area now accounts for 52 percent of Burma's total poppy crop. The Kokang Chinese missed their opium-free target (scheduled for the year 2000), and extended their deadline to 2003 resulting in increased attention from both the Burmese and the Chinese police. Several of the ethnic trafficking armies, especially the Wa, also control amphetamine production labs and extensive trafficking operations, raising questions whether their gradual departure from opium cultivation is not just a business decision to concentrate on ATS. These ATS operations 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 reliable 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, are widely believed to be involved in facilitating the drug trade; and some officials 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 were punished for narcotics-related corruption or drug abuse between 1995 and 2003. Of the 200 police officers, 130 were imprisoned, 16 were dismissed from the service, 7 were forced to retire, and 47 were demoted. No Burma Army officer over the rank of full colonel has ever been prosecuted for drug offenses in Burma.

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 September 2003 the 1971 UN Protocol on Psychotropic Substances took effect in Burma. In addition, Burma is also one of six nations (Burma, Cambodia, China, Laos, Thailand, Vietnam) that are parties to UNODC's sub-regional action plan for controlling precursor chemicals and reducing illicit narcotics production and trafficking in the highlands of Southeast Asia.

In 2003, the Chinese and Thai governments stepped up bilateral counternarcotics cooperation efforts with Burma and, with the GOB, established joint Border Liaison Offices (BLO) along their respective borders to facilitate the sharing of intelligence. Cooperation with Thailand in particular increased considerably in 2003 as the Thai government pursued an aggressive domestic "drug-free" policy. Thai cabinet-level officials visited Burma several times during the year to discuss counternarcotics cooperation with senior leaders of the Burmese military government. Burma's 2001 MOU with Thailand commits both countries to closer police cooperation in narcotics control and they subsequently established joint "narcotics suppression coordination stations" in the Chiang Rai/Tachileik, Mae Sot/Myawaddy, and Ranong/Kawthoung border areas. In addition, Thailand implemented a 20 million baht (about \$440,000) new alternative development program in the Southern Military Region of Shan State, which is now occupied by the United Wa State Army. While not formally funding alternative development programs, the Chinese government has encouraged investment in many projects in the Wa area, particularly in commercial enterprises such as tea plantations and pig farms and has assisted in marketing those products in China through relaxation of duty taxes.

Cultivation and Production. According to the 2003 U.S./Burma Joint Opium Yield Survey, opium production declined in Burma for the seventh straight year. The survey found that the maximum potential yield for opium in Burma in 2003 totaled 484 metric tons, down 146 metric tons (or approximately 23 percent) from 2002. Over the past seven years, opium production in Burma has declined by more than 81 percent, from an estimated 2,560 metric tons in the peak year of 1996 to 484 metric tons in 2003. The area under cultivation has dropped by almost two-thirds, from 163,100 hectares in 1996 to approximately 47,130 hectares in 2003. Yields have also declined from an estimated 17 kilograms per hectare in 1996 to about 10.3 kilograms per hectare in 2003. However, the 2003 opium/hectare yield rate increased by about 18 percent from the previous year, reflecting favorable weather and more intense cultivation in Wa areas.

Results from a UNODC-sponsored census survey throughout Shan State in 2003 largely corroborated the results of the U.S./Burma Joint Opium Yield Survey. According to UNODC, the area under poppy cultivation in 2003 declined by 23 percent from the previous year and by 62 percent since 1996.

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 (UWSA), the Kokang Chinese, and the Shan State Army-South (SSA-S). Heroin and methamphetamine produced by these groups are trafficked primarily through China, Thailand, India, and, to a lesser extent, Laos, Bangladesh, and Burma itself.

Precursors for refining these narcotic drugs are primarily produced in India, China, and Thailand. 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. However, there were signs in 2003 that Burma's small domestic market for drug consumption grew, especially the consumption of ATS.

Demand Reduction. The overall level of drug abuse is low in Burma compared with neighboring countries, in part because many Burmese are too poor to afford a drug habit. According to the GOB, there are only about 70,000 "officially registered" drug abusers in Burma. This is undoubtedly an underestimate, and even the UNODC estimates that there may be no more than 300,000 people 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. NGOs and community leaders reported growing numbers of disaffected youth using heroin and ATS, particularly in ethnic minority areas.

Burmese demand reduction programs are in part coercive and in part voluntary. Addicts are required to register with the GOB and can be prosecuted if they fail to register and accept treatment. Altogether, more than 21,000 addicts were prosecuted for failing to register between 1994 and 2002. The GOB has not provided 2003 data. 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 ten 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 (PSI), 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. The USG suspended direct counternarcotics assistance to Burma in 1988, when the Burmese military began its suppression of 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. The U.S. also conducted opium yield surveys in the mountainous regions of the Shan State in 1993 and 1995 and annually from 1997 through 2003 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 Road Ahead. The Burmese government has in recent years made significant gains in reducing opium poppy cultivation and opium production. The GOB has cooperated with major regional allies (particularly China and Thailand) in this fight, and has built up the capacity to take action against 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—is necessary to help curb drug production and trafficking in Burma. However, ongoing political repression has limited international support of all kinds to Burma, including support for Burma's law enforcement efforts.

For regions to become truly drug free, the government must make a considerable commitment beyond simple crop replacement, assisted where possible by the international community. A true opium replacement strategy must undertake an extensive range of counternarcotics actions, including crop eradication, effective law enforcement, and alternative development. The government must either foster cooperation between itself and the ethnic groups involved in drug production and trafficking, especially the Wa, and/or forcefully enforce counternarcotics laws to eliminate poppy cultivation and opium production.

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 to date 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 GOB must also address the explosion of ATS that has flooded Thailand and is trafficked to other countries in the region. The GOB must make a firm commitment and a concerted effort to stop production of ATS by gaining support and cooperation from the ethnic groups, especially the Wa, involved in manufacturing and distributing ATS, as well as through closing production labs and preventing the diversion of precursor chemicals needed to produce synthetic drugs. The USG also urges the GOB to stem the growth of a domestic market for the consumption of ATS before this problem becomes more significant. Burma should 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. Continuing and intensifying 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

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	100,257	78,000	105,000	108,700	89,500	130,300	155,150	163,100	154,070	146,600
Eradication (ha)	683	25,862	9,317	0	9,800	16,194	10,501	0	0	3,345
Cultivation (ha)	47,1300	103,862	114,317	108,700	99,300	146,494	165,651	163,100	154,070	149,945
Potential Yield (mt)	484	630	865	1,085	1,090	1,750	2,365	2,560	2,340	2,030
Seizures										
Opium (mt)	1.481	1.863	1.629	1.528	1.445	5.200	7.884	1.300	1.060	2.265
Heroin (mt)	0.568	0.334	0.097	0.171	0.273	0.386	1.401	0.505	0.070	0.347
Marijuana (mt)	0.085	0.282	0.284	—	0.274	0.160	0.288	0.259	0.239	0.290
Ephedrine (mt)	0.307	3.9220	1.723	2.671	6.485	3.819	—	—	—	—
Acetic Anhydride (gal)	2,534	12,318	2,953	3,945	1,620	424	2,137	5,082	1,159	1,191
Other Precursor Chemicals (ltr)	37,557	174,191								
Other Data										
Heroin Labs Destroyed	7	17	14	—	23	32	33	11	3	4
Meth Labs Destroyed	—	6	3	—	6	—	—	—	—	—
Narcotics Arrests	3,336	4,148	—	4,881	6,413	4,845	4,522	4,522	5,541	7,134
Arrests	4,848	—	4,811	6,413	4,456	—	—	—	—	—

Cambodia

I. Summary

The number of drug-related investigations, arrests and seizures in Cambodia increased in 2003. However, it is unclear whether this reflects increased effectiveness of law enforcement or simply an escalation in drug activity. The government is concerned at the increasing use of amphetamine-type stimulants (ATS) among middle-class youth. The government's principal counternarcotics body, the National Authority for Combating Drugs (NACD), cooperates closely with DEA, regional counterparts, and the United Nations Office on Drugs and Crime (UNODC). Cambodia is not a party to any of the major UN drug conventions but is studying all of them preparatory to becoming a party.

II. Status of Country

Cambodia has experienced a significant increase in recent years in the amount of amphetamine-type stimulants (ATS) transiting from the Golden Triangle. The UNODC estimates that 100,000 methamphetamine tablets enter Cambodia each day, some 75 percent of which are thought to be exported to Thailand. In addition, Cambodian authorities believe that foreign crime syndicates, working in concert with Cambodian nationals, have set up mobile laboratories within Cambodia that produce ATS for local distribution and export to Thailand. There is some evidence that precursor chemicals imported from Vietnam and Thailand for industrial use in Cambodia—including methanol, sulfuric acid, toluene, and ephedrine—are being diverted for illicit drug production.

Cambodia is not a producer of opiates or coca-based drugs; however, it serves as a transit route for heroin from Burma and Laos to international drug markets. The UNODC estimates that 10 to 20 kilograms of heroin are trafficked through Cambodia daily. The amount of heroin seized in the United States in recent years that is traceable to Cambodia is small.

There are no reliable figures available from either the Cambodian government or the UNODC on the current amount of marijuana produced in Cambodia, although some estimates place total production at more than 1,000 tons annually, most of which is cultivated for export. Much of the production occurs in Cambodia's northwest provinces and is reputed to be “contract cultivation” with Cambodians operating under the control or influence of foreign criminal syndicates. Analysis of seizures in recent years indicates that Europe is the major destination for Cambodian cannabis, with other destinations including the United States, Australia and Africa. Quantities coming to the United States are not sufficient to have a significant impact on the United States.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Cambodian law enforcement agencies suffer from limited resources, lack of training, and poor coordination. The National Authority for Combating Drugs (NADC), 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, the UNODC launched in April 2001 a four-year \$3.2 million project (revised in mid-2003 to \$2 million) entitled “Strengthening the Secretariat of the National Authority for Combating Drugs (NADC) and the National Drug Control Program for Cambodia”. This project seeks, inter alia, to establish the NACD as a functional government body able to undertake drug control planning, coordination, and operations.

In 2003, the NACD received a drug-testing laboratory, drug testing kits, vehicles, computers for data collection, and office equipment from the UN and other donors. In addition, the Royal Canadian Mounted Police (RCMP) donated 4 computers to establish a computer-based law enforcement training

center in Battambang that became operational in September 2003. The German Agency for Technical Cooperation (GTZ) provided a technical assistant to work within the NACD for at least two years to help increase the organization's capacity and to develop demand reduction and treatment programs.

Accomplishments. In May 2003, the NACD held its first National Workshop on Drugs which focused on the need to increase drug awareness, counseling and treatment; the dangers of drug use, and the associated risk of HIV/AIDS transmission. The workshop resulted in 26 planned activities that have been incorporated into a 5-year master plan (2004-2008) focused on demand reduction, supply reduction, drug law enforcement, and expansion of international cooperation. A draft of the master plan is awaiting review by the National Assembly. During 2003, the Government of Cambodia (RGC) prepared the 1961, 1971 and 1988 UN Drug Conventions for review. It is expected that the three conventions will be ratified in the coming year.

Law Enforcement Efforts. In the first 11 months of 2003, 305 people were arrested for various drug-related offenses, compared with 240 arrests in 2002. Among those arrested in 2003 were 243 Cambodians, 44 Vietnamese, and 18 other nationals. Police arrested 22 people in heroin-related cases in 2003 and seized more than 46 kilograms of heroin, a considerable increase over 2002 seizures, which totaled just 1.9 kilograms. One particularly significant case occurred in October 2003 when police arrested seven people, including two high level military officers, and confiscated 35 kilograms of heroin, some precursor chemicals and drug-making equipment. Police arrested 297 people in methamphetamine-related cases in 2003 and seized over 210,000 methamphetamine pills. This is a significant increase over 2002 seizures, which totaled 130,000 pills. The NACD has drafted an amendment to the drug law that would stiffen sentences for drug traffickers.

Corruption. Corruption remains pervasive in Cambodia, making Cambodia highly vulnerable to penetration by drug traffickers and foreign crime syndicates. Senior Cambodian government officials assert that they want to combat trafficking and production; however, corruption, abysmally low salaries for civil servants, and an acute shortage of trained personnel severely limit sustained advances in effective law enforcement. The judicial system is weak, and there have been numerous cases of defendants in important criminal cases having charges against them dropped after paying relatively small fines.

Agreements and Treaties. Cambodia has signed but not ratified the 1961 UN Convention on Narcotic Drugs. It has not signed the 1971 UN Convention on Psychotropic Substances or the 1988 UN Drug Convention. However, the RGC has prepared all three UN Drug Conventions for National Assembly review and it is expected that the conventions will be ratified in the coming year.

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 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.

Cultivation/Production. During 2003, over six hectares of cannabis plantations were destroyed and 66 growers were instructed not to plant marijuana.

Drug Flow/Transit. Cambodia shares porous borders with Thailand, Laos, and Vietnam and lies near the major trafficking routes for Southeast Asian heroin. The UNODC has reported that drugs enter Cambodia via the northern border. Some heroin and marijuana are believed to enter and exit Cambodia via locations along the gulf—including the deep water port of Sihanoukville—as well as the river port of Phnom Penh. The country's main international airport, Pochentong International Airport in Phnom Penh, and the regional airport in Siem Riep suffer from lax customs and immigration controls. Some illegal narcotics are believed to transit these airports en route to foreign destinations.

Domestic Programs (Demand Reduction). With the assistance of the UNODC, the World Health Organization (WHO), the Japanese International Cooperation Agency (JICA), and 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 NACD and the National Aids Authority are establishing a working group to focus on harm reduction strategies.

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 harm reduction and demand reduction. A Japanese-funded treatment and rehabilitation project is being developed to establish centers in Phnom Penh, Battambang and Poipet to provide services to addicts and to help develop the capacity of health and human services to deal effectively with drug treatment issues. The project will link Cambodia with international treatment groups, including the National Institute for Drug Abuse (NIDA).

IV. U.S. Policy Initiatives and Programs

Cambodia is a fragile, flawed democracy. For the first time in over three decades, there has been relative political stability since the formation of a democratically-elected coalition government and National Assembly in 1998, which were followed in 2003 by national elections that were relatively free of violence. However, Cambodia is plagued by many of the institutional weaknesses that are common to the world's most vulnerable developing countries. The challenges for Cambodia include: 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 of Cambodia 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. Cambodia is making progress toward more effective institutional law enforcement against illegal narcotics trafficking; however, its capacity to implement an effective, systematic approach to counternarcotics operations remains low. Efforts to develop effective counternarcotics strategies are further limited by the lack of comprehensive data on the extent and nature of illicit drug use in Cambodia. The UNODC has proposed a survey to collect such data.

Instruction for mid-level Cambodia law enforcement officers at the International Law Enforcement Academy in Bangkok (ILEA) 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, coordination of operations and intelligence gathering. However, after 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.

China

I. Summary

The People's Republic of China (PRC) remains a major drug-transit country. In addition to its continuing domestic heroin problem, China has seen a surge in the consumption of synthetic drugs, particularly Ecstasy (MDMA) and crystal methamphetamine, known locally as “ice.” PRC authorities clearly understand the threat posed by drug trafficking within the PRC and in the region, and they continue vigorous law-enforcement activities to stem the production, abuse, and trafficking of narcotics within the PRC, as well as efforts to integrate the PRC into regional and global counternarcotics initiatives. The PRC is a party to the 1988 UN Drug Convention.

Cooperation with United States counternarcotics officials has strengthened over the past year. A joint U.S.-PRC investigation culminated in May 2003 with the breakup of a major heroin trafficking operation in Fujian Province. In 2003, the Chinese government also continued to provide U.S. counternarcotics officials with samples of drugs seized, including drugs destined for the United States.

II. Status of Country

China is situated adjacent to the major narcotics producing areas in Asia, the “Golden Triangle” and the “Golden Crescent.” While the availability of illicit narcotics produced in the “Golden Triangle” has been a long-standing problem, Chinese officials report that the amount of illicit drugs from the “Golden Crescent” trafficked into western China, particularly Xinjiang Province, is steadily growing. According to the Chinese Government, drug abuse in China continues to rise. As of June 2003, China had one million registered drug addicts, an 11 percent increase from 2001, the majority of which are heroin users. Youths made up 74 percent of the registered drug addicts. Illegal drug use was recorded in 2,148 cities, counties, and districts across China.

As China's economy has expanded in recent years, many Chinese youths have found themselves with increased levels of discretionary income. As a result, China's major metropolitan areas have begun to develop a “rave” culture similar to several Western countries, and young Chinese are increasingly using recreational drugs, such as Ecstasy and amphetamine-type stimulants (ATS), at local nightclubs. Chinese authorities have attempted to combat this trend by placing increased scrutiny on entertainment venues, but results have been limited.

With a large and developed chemical industry, China is a major producer of precursor chemicals, including acetic anhydride, potassium permanganate, piperonylmethylketone (PMK), and ephedrine. China monitors all 22 of the chemicals on the 1988 UN Drug Convention watch list, and, according to statistics released in June 2003, Chinese authorities seized over 300 tons of precursor chemicals diverted into illegal markets. China continues to be a strong partner of the United States and other concerned countries in implementing a system of pre-export notification of dual-use precursor chemicals. Despite these efforts, China is an important source of precursor chemicals, especially ephedrine, used in heroin and ATS production in the region.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In June 2000, the PRC issued a “White Paper” on drugs, which set out China's strategy for combating drug use and trafficking and addresses all the major goals of the UN Convention. It emphasizes education, rehabilitation, eradication, precursor chemical control, and interdiction. In 2003, the PRC continued to follow this strategy. The national budget for counternarcotics efforts has steadily increased. Whereas the MPS's National Narcotics Control

Commission (NNCC), China's counternarcotics coordinating body, had an annual budget of less than \$1 million in the mid-1990's, by 1998 this amount had increased to approximately \$4.5 million and to about \$17.5 million in 2003. The total national counternarcotics budget, however, is significantly higher, since each province establishes and administers its own counternarcotics budget.

Accomplishments. The May 2003 dismantlement of a major heroin trafficking ring in Fujian Province is illustrative of strengthened bilateral cooperation with U.S. law enforcement agencies (see below under law enforcement cooperation). China also continued to cooperate with regional and international partners to stem drug trafficking. China has eradicated opium poppy cultivation, and PRC authorities continue efforts to destroy illicit ATS laboratories within China's borders.

Law Enforcement Efforts. The Chinese Government has continued its aggressive counternarcotics campaign. The relationship between China's Beijing-based counternarcotics efforts and those at the provincial level has grown substantially with increased training and exchange programs. In June 2003, the Guangdong Public Security Bureau arrested ten suspects involved in a large-scale methamphetamine distribution organization and reportedly seized four tons of methamphetamine.

In order to increase its effectiveness in law enforcement, the NNCC reorganized its enforcement operations, establishing separate heroin and ATS enforcement groups at both the ministerial and provincial level. Prior to 2003, enforcement was handled by one organization and focused primarily on heroin. The reorganization enables the NNCC to specifically address ATS enforcement. The NNCC is also conducting a program in which officers from different parts of the PRC are seconded to major counternarcotics offices in China. This experience allows officers to deal more quickly and effectively with fast-breaking developments in drug investigations involving their home jurisdictions.

In 2003, PRC authorities advanced and strengthened cooperation with U.S. law enforcement entities. As an example, MPS and the U.S. Drug Enforcement Administration (DEA) conducted a joint investigation that resulted in May 2003 in the dismantling of a major heroin ring in Fujian Province that was involved in smuggling drugs to the United States. This case, known as the "125 case," involved unprecedented cooperation between MPS and DEA. MPS also continues to provide strategic and operational information to its DEA counterparts to actively target drug trafficking rings. In addition, the MPS routinely facilitates travel of U.S. law enforcement personnel based at the U.S. Embassy in Beijing.

The Chinese government has also conducted drug operations with neighboring countries. In April 2003, cooperation with Burma led to closure of a drug processing plant in Burma. The joint operation netted 466 kilograms of drugs and resulted in the confiscation of weapons, ammunition, and the materials for preparing and processing drugs, as well as the apprehension of 37 trafficking suspects.

The MPS reported that China uncovered 93,990 drug-related cases, seizing 9,535 kilograms of heroin, 905 kilograms of opium and 5,827 kilograms of crystal methamphetamine or "ice". Police arrested 63,000 suspects in connection with these drug offenses, and also seized 225,000 Ecstasy tablets, through June 2003.

Corruption. Official corruption in China is a serious problem. Anti-corruption campaigns have led to arrests of many lower-level government personnel and some more senior-level officials. Most corruption cases in the PRC, however, involve abuse of power, embezzlement, and misappropriation of funds. While narcotics-related official corruption exists in China, it is seldom reported in the press. MPS takes allegations of drug-related corruption seriously and, if warranted, will launch investigations. Most drug-related cases appear to involve lower-level district and county officials. There is no evidence indicating senior-level or central government officials are involved in or supportive of drug trafficking. Nevertheless, the quantity of drugs trafficked within the PRC raise suspicions that official corruption is a factor in trafficking in certain provinces bordering drug producing regions, such as Yunnan, and in Guangdong and Fujian, where narcotics trafficking and

other forms of transnational crimes are prevalent. Official corruption can not be discounted among the factors enabling organized criminal networks to operate in certain regions of China, despite the best efforts of authorities at the central government level. As a matter of government policy or practice, China does not encourage or facilitate the laundering of proceeds from official drug transactions, nor have any senior PRC officials been known to engage in laundering the proceeds from illegal drug transactions. Narcotics-related corruption does not appear to have had an adverse impact on law enforcement investigations or prosecutions.

Agreements and Treaties. China actively cooperates with a number of countries to combat illicit drug production and trafficking. In 2000, China and the United States signed a Mutual Legal Assistance Agreement (MLAA), which entered into force March 8, 2001. China is a party to the 1988 UN Drug Convention, as well as to the 1961 UN Single Convention and its 1972 Protocol, and the 1971 Convention on Psychotropic Substances. In January 2003, China and the United States reached agreement on the Customs Mutual Assistance Agreement (CMAA). As of September 2003, China has signed over 30 mutual legal assistance agreements with 24 countries. China has signed, but has not yet ratified, the UN Convention Against Transnational Organized Crime.

Cultivation/Production. The PRC has effectively eradicated cultivation of drug-related crops within China. The government continues to target small-scale opium poppy cultivation in remote areas of the country's northwest regions. The PRC is, however, an important source for natural ephedra, which is used in the production of methamphetamine, as well as one of the world's largest producers of synthetic ephedra. ATS is produced in China, and the government has made locating and closing illicit drug laboratories a top priority. In Guangdong and Fujian provinces, MPS seized eleven laboratories during the course of 2002.

Drug Flow/Transit. China continues to be used as a transit route for drugs produced in the "Golden Triangle" and distributed to the international market. Drug trafficking within and through Yunnan and Guangdong provinces has been especially pervasive. While China's southern and southwestern provinces constitute the PRC's major drug transit areas, Chinese authorities report that western China is experiencing significant problems as well. Drugs such as heroin, methamphetamine, and ketamine (a pain reliever for animals) are being smuggled into Xinjiang Province and then distributed throughout China.

Domestic Programs (Demand Reduction). According to the MPS, China had 1.053 million illegal drug users registered by law enforcement departments including 220,000 involved in compulsory rehabilitation. A total of 60,000 drug abusers were sent to reform-through-labor facilities for narcotics rehabilitation last year. Education and rehabilitation play a significant role in China's counternarcotics efforts. The majority of registered drug abusers are addicted to heroin. The Ministry of Education (MOE) has expanded drug education and prevention programs, its goal being to prevent children from ages 12 to 18 from getting involved in drugs. The MOE also uses public service announcements to discourage drug abuse. Chinese officials distributed over 1.16 million drug education posters and 580,000 leaflets in 2002, reaching out to an estimated 300 million people. Reflecting the seriousness of the Chinese government's commitment to drug prevention, in November 2003, a song praising opium sung by a major pop star was forced off the singer's latest album. China's counternarcotics community worked with the Ministry of Health (MOH) to warn of the health risks attributed both to drug use and to the impact drug abuse has on a person's health, for example, intensifying SARS (Severe Acute Respiratory Syndrome). China has also focused new attention on controlling the spread of HIV/AIDS. The MPS also stepped up publicity campaigns targeting young people in its fight against banned narcotics, and created more drug-free residence communities and villages for reforming addicts.

IV. U.S. Policy Initiatives and Programs

Counternarcotics cooperation between China and the United States is making excellent progress and is yielding significant results, including several successful joint operations against drug-smuggling rings. Chinese authorities also share drug samples with U.S. colleagues when cases have a link with the U.S.

The Road Ahead. The most significant problem in bilateral counternarcotics cooperation remains the lack of progress toward concluding a bilateral Letter of Agreement (LOA) enabling the U.S. to extend counternarcotics assistance. Reaching agreement on the LOA is a major U.S. goal, one that, if successful, will greatly enhance counternarcotics cooperation between the two countries. While China has on occasion provided DEA with samples of drugs seized in the PRC intended for U.S. markets, the U.S. would welcome routinely receiving samples of all drugs seized by Chinese authorities. Despite these issues, bilateral cooperation remains on track and should steadily improve over the coming years.

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's Attorney General submitted a bill to Parliament in April 2003 that would stiffen penalties for the possession and sale of illegal narcotics. The Illicit Drug Bill was designed to replace the Dangerous Drugs Act, which dealt with both medicinal narcotics and illegal substances. The bill is still under consideration.

Fiji does have a law providing for the confiscation of the proceeds earned from the commission of serious offenses. The Fiji police have never used this authority. 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 2003

Policy Initiatives. Both Fiji and Tonga are taking steps to try to modernize their narcotics laws and criminal investigative procedures. Fiji and Tonga established Combined Law Agency Groups (CLAGs) in 2002, and they remained active in 2003. 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 between the two countries counternarcotics officials.

Cultivation/Production. Fiji has a growing internal problem from 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 agricultural sector of the economy continues to experience difficulties, an increasing number of farmers are switching to cannabis. There are no known incidents

of exports of cannabis from Fiji. Cannabis is the illicit 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 increased in 2003 from 2002's extremely low level of 1.15 kilograms to at least 30 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. For example, the number of whole plants seized increased from 2,010 in 2002 to at least 4,000 in 2003.

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. Both the political instability caused by the coup d'etat in 2000 and poverty make Fiji highly vulnerable to corruption, and poverty also 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 alien smuggling, narcotics trafficking, and, potentially, transiting terrorists. However, as a matter of government policy and practice, Fiji and Tonga do not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Law Enforcement Efforts. According to Tongan officials, Tonga faces an increased threat from the large number of criminal deportees sent from the United States. Officials note that an average of more than 20 criminals have been deported from the U.S. to Tonga every year since 2000. Many of these deportees had been convicted for drug-related crimes and other serious offenses, such as armed assault, armed robbery, and sexual assault. In 2001, for example, Tongan police identified at least three deportees who were members of the "Tonnage Crip Gang" while they were in the United States. Tongan authorities say that they are now faced with sophisticated criminals whose skills and knowledge exceed those of the local authorities. Authorities in Tonga have stated that crime is increasing 40 percent each year in Tonga. Tongan police do not have the training or equipment to deal with the increase in either the number of crimes or the sophistication of criminals.

Police in Fiji mounted a major offensive against marijuana cultivation and sale in 2003. Expecting an increase in production to coincide with the South Pacific Games in July 2003, the acting Police Commissioner organized sweeps of known cultivation areas on both of Fiji's main islands, and set up interception teams at choke-points leading to major urban markets. The result was a 100 percent increase in whole plants seized, and eradication results that were 25 times higher than in 2002. There were consequences, however. Villagers in the northern island of Vanua Levu who cooperated with the police in pinpointing cultivation areas received death threats from growers, according to media reports.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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. In 2003, the U.S. Government helped fund seminars in Fiji by the Pacific Islands Forum Secretariat on drug interdiction, and by the UN Development Program on narcotics—risk assessment, profiling and search methodologies. These seminars were open to police and customs officials from the region, including Tonga and Fiji. Further cooperation in the fields of airport and port security is planned with both Fiji and Tonga.

Hong Kong

I: Summary

Hong Kong is not a major transit/transshipment point for illicit drugs 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 via Hong Kong to the international market, including to the United States. 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 People's Republic of China (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 has made it a natural transit/transshipment point for drugs moving from Southeast Asia to the international market, including to the United States. 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. Despite this diminished role, some drugs continue to transit Hong Kong to the United States and the international market. Some drug-traffickers continue to use Hong Kong as their base of operation.

Hong Kong law enforcement officials continue to maintain an excellent cooperative liaison relationship with their U.S. law-enforcement counterparts in the fight against drugs. According to Hong Kong authorities, 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 2003. According to the Hong Kong Central Registry of Drug Abuse (CRDA), drug abuse in the first half of 2003 (January-June 2003) decreased by 15.9 percent compared to the same period in 2002. For young persons under 21, there was a 37.9 percent decrease in drug abuse in the first half of 2003. Overall use of psychotropic substances, such as ketamine, ecstasy and cannabis also decreased in 2003.

III. Actions Against Drugs in 2003:

Policy Initiatives. A new regulation strengthening the Places of Public Entertainment Ordinance was enacted in 2002 and went into effect in January 2003. The new regulation enabled the HKSARG to control more strictly the issuance of party permits for unlicensed entertainment venues where psychotropic substances abuse is prevalent. To enhance the efficiency and effectiveness of existing legislative provisions on restraint and confiscation of drug proceeds, the Drug Trafficking and Organized Crimes Ordinance was strengthened in January 2003. The amendment lowers the threshold for initiating restraining and confiscation orders against persons or properties suspected of drug trafficking. The Hong Kong government will soon complete a review of the Dangerous Drugs Ordinance to strengthen efforts against psychotropic substance abuse.

Law Enforcement Efforts. Hong Kong's law-enforcement agencies, the Hong Kong police and Hong Kong Customs and Excise Department (HKCED), place high priority on meeting 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 have adopted a three-level approach to combat narcotics distribution. At the 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-level police force. HKCED's chemical control group, in cooperation with the U.S. DEA office in Hong Kong, closely monitors the usage of precursor chemicals and tracks the export of suspicious precursor chemical shipments to worldwide destinations.

In May 2003 officials from the U.S. Department of Homeland Security began assisting HKCED to screen U.S.-bound cargoes from Hong Kong as part of the Container Security Initiative (CSI). While CSI primarily screens for weapons of mass destruction, it is expected to have the residual benefits of identifying narcotics and reducing traffickers' use of containerized cargo to transport drugs. HKCED installed additional fixed x-ray vehicle inspection systems at the Lok Ma Chau control point in 2003. The narcotics canine unit of HKCED has 34 officers and 27 detector dogs for deployment at the airport and land and sea boundary points.

Corruption. There is no known narcotics-related corruption among senior government or law enforcement officials. 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. 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.

Agreements and Treaties. As of October 2003, Hong Kong had mutual legal assistance agreements with the U.S., France, Australia, the United Kingdom, New Zealand, Italy, South Korea, Switzerland, Canada, the Philippines, Portugal, Ireland, the Netherlands, Ukraine, and Singapore. Agreements were concluded with Ukraine and Singapore in 2003. The 1988 UN Drug Convention, to which the PRC is a party, was made applicable to Hong Kong. The U.S. and Hong Kong cooperate in extradition matters under a surrender of fugitive offenders agreement.

Drug Flow/Transit. Some drugs continue to flow through Hong Kong for the overseas market, including the United States. Traffickers use land routes through Mainland China to smuggle heroin into Hong Kong for transit to the overseas market. There were several seizures of drugs in 2003 transiting Hong Kong to the United States. Most notable were seizures of Guam-bound couriers and parcels on direct flights from Hong Kong. Ethnic Chinese drug trafficking organizations used Hong Kong as a transit point to move methamphetamine from Southern China to Guam and Saipan to take advantage of the lucrative market in these areas.

In an effort to eradicate Hong Kong's role as a transit/transshipment point for illicit drugs, the HKSARG maintains 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.

Domestic Programs. The Hong Kong government's primary preventive education efforts continue to focus on youth and young adults. In cooperation with three non-governmental organizations, counternarcotics talks were delivered to over 100,000 students during the 2002/2003 school year. The Narcotics Division of the Hong Kong Security Bureau provides funds to community organizations, schools, and district organizations under the "Beat Drugs Fund" and the "Community Against Drugs" program for counternarcotics projects, some of which target psychotropic substance abusers and high-risk youth. The government also launched a publicity campaign through the media, including the Internet, to better educate youth on dangers of drug use.

Phase II of the Drug InfoCenter—comprising a library, multi-purpose room, and a volunteers room—will be commissioned in early 2004. The Drug InfoCenter will serve as a focal point for drug

education and community counternarcotics programs in Hong Kong. Phase I of the InfoCenter opened in 2000.

Cultivation and Production. Hong Kong is not a producer of illicit drugs.

IV: U.S. Policy Initiatives and Programs.

The U.S. government and the HKSARG continue to promote sharing of proceeds from joint counternarcotics investigations. In May 2003, Hong Kong began participating in the U.S. Container Security Initiative (CSI), which should also help curb the usage of containerized cargo by drug traffickers. In 2003, Hong Kong sent seven 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’s law-enforcement agencies, arguably among the most effective in the region, continue to cooperate with their U.S. counterparts. The U.S. government will encourage Hong Kong to maintain its active role in counternarcotics efforts.

Indonesia

I. Summary

Although by international standards not a major drug producing, consuming, or drug transit country, Indonesia has a growing narcotics problem in all three areas. The Indonesian National Police (INP) have participated in several international donor-initiated training programs and sought to commit increased resources to counternarcotics efforts. The INP has received equipment, including vehicles, computers, safety and tactical equipment to support its efforts against crime and drugs. INP efforts are firmly based on counternarcotics legislation and international agreements. The INP relies heavily on assistance from major international donors, primarily the U.S. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

Synthetic drugs (ATS) remain available in all major cities, including in schools, karaoke lounges, bars, cafes, discotheques, and nightclubs. Certain neighborhoods and villages are known for tolerating drug trafficking, notably of methamphetamine, in its crystalline (“shabu-shabu” or “ice”) and tablet (“yaba”) forms; Ecstasy (MDMA); heroin; cocaine; and marijuana. In 2002, the INP narcotics enforcement section, Narkoba, was reorganized, and now operates as the Narcotics and Organized Crime Directorate, which also addresses criminal syndicates, as well as money laundering. Additionally in 2003, two specialized counternarcotics task forces were created. An airport task force now operates at Jakarta Sukarno Hatta International Airport consisting of 40 officers working in teams of 14-15 officers on one-month shift rotations. Another task force of 61 officers from across Indonesia is designed to improve the capability of the Narcotics and Organized Crime Directorate's enforcement operations.

In response to the threat of terrorism in Indonesia, the Narcotics and Organized Crime Directorate received collateral counter terrorism duties during 2002, and is expected to continue with them until the deployment of an counterterrorist directorate. The counterterrorism duties of INP's narcotics detectives have impacted their ability to conduct complex drug investigations. The dominant role of U.S. trained INP narcotics investigators in counterterrorism duties highlights both the effectiveness of U.S. law enforcement training programs and the limited number of well-trained criminal investigators trained thus far.

The coordinator of the National Anti Narcotics Movement (Granat), the most prominent drug prevention NGO in Indonesia, notes that marijuana use has increased, particularly in Jakarta. Not surprisingly, arrests for distribution and possession of marijuana also have increased. Marijuana is harvested in North Sumatra, especially in Aceh province. The INP alleges that the Free Aceh Movement (GAM), a separatist group, traffics marijuana to support its operations. The INP, however, has produced no convincing evidence to support this charge.

The INP reports that the majority of heroin seized in Indonesia comes from southwest Asia. INP and DEA identify Indonesia as a transit country for West African and Nepalese traffickers, who often use Indonesian and Thai female drug couriers.

While the INP sees a growing problem in domestically produced MDMA and methamphetamine, international trafficking still represents the largest source of narcotics. The Golden Triangle serves as the main source of methamphetamine, in tablet and crystalline form, entering Indonesia via entry points throughout its 17,000-island archipelago. None of these entry points, including Jakarta, has adequate detection or enforcement mechanisms. Europe remains the primary source of Ecstasy.

The INP reports a 38 percent increase in seizures of cocaine during 2003. DEA reports that local arrest, rehabilitation and hospital statistics indicate that cocaine has not yet become a drug of choice among Indonesian drug users. It seems therefore likely that much, if not most, cocaine in Indonesia is transshipped, principally to Australia.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Although Indonesia has not passed any counternarcotics legislation since 1997, its counternarcotics code is sufficiently inclusive to enable police, prosecutors and judiciary to arrest, prosecute and adjudicate narcotics cases. The lack of modern detection, enforcement and investigative methodologies and technology, as well as the presence of pervasive corruption, are the greatest roadblocks to successful interdiction.

Accomplishments/Law Enforcement Efforts. In 2003, INP formed a precursor chemical task force, comprised of officers from BNN, the Ministry of Trade, the Ministry of Health, Customs and INP, to address chemical diversion. INP's Narcotics and Organized Crime Directorate, utilizes dedicated BNN operational funding to sustain its counter narcotics efforts.

The USG has assisted Indonesian drug interdiction efforts at airports, provided safety training to investigators when investigating Clandestine Laboratories, and provided training in Basic Criminal Investigation skills. The U.S. plans to provide additional training in the coming months. U.S. programs focus on management; logistical and tactical considerations; detection; contemporary techniques and equipment to interdict narcotics; promotion of officer safety; and investigations. The Indonesian Navy continues to police Indonesian waters. Efforts to further refine the respective roles of the Navy and the INP's Air and Sea Police to avoid duplicative enforcement initiatives continue as well.

Indonesia increased the number of narcotics investigations by 4.9 percent in 2003 to a total of 3,729. These are broken down by principal drug involved, as follows: 39 percent marijuana/hashish investigations; 27 percent methamphetamine investigations; 19 percent Ecstasy investigations; 14 percent heroin investigations; and less than one percent cocaine investigations.

Under Indonesian Laws No. 22/1997 on narcotics and 5/1997 on psychotropic substances, the Indonesian District Court which handles drug cases has sentenced at least 21 drug traffickers to death since January 2000. None of the condemned has been executed yet.

Agreements and Treaties. Indonesia is a party to the 1988 UN Drug Convention and has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Corruption. Indonesia has laws against official corruption. Likewise, hospitals, health centers, drugstores and physicians who distribute or traffic drugs illegally can face not less than ten years in prison. Directors of scientific institutes who grow, buy, store or possess narcotic plants can be prosecuted. Indonesian law also penalizes anyone who seeks to hamper the investigation or prosecution of a narcotics crime with five years in prison and a fine of Rupiahs 150,000,000 (approximately \$18,000). Despite these laws, corruption in Indonesia is endemic, and seriously limits the effectiveness of all law enforcement, including narcotics law enforcement. As a matter of government policy and practice, the GOI does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the United States maintain excellent law enforcement cooperation on narcotics cases. In 2003, the U.S. sent hundreds of INP officers to training on a mixture of transnational crime topics in the U.S., to the International Law Enforcement Academy (ILEA) in Bangkok, and to ICITAP and DEA-sponsored training in Indonesia. The INP continues to

work closely with the DEA regional office in Singapore in narcotic investigations. DEA Singapore also conducted several training classes in Jakarta covering safety concerns when investigating clandestine laboratories, basic agent training, precursor chemical school and airport interdiction training.

The Road Ahead. The U.S. and Indonesia will continue to cooperate closely on narcotics control.

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 2003, Japanese authorities seized 447 kilograms of methamphetamine and over 341,360 tablets of MDMA (Ecstasy), an increase of nearly 100 percent over 2002 figures.

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.) Through October 2003, law enforcement officials seized 447 kilograms of methamphetamine. Authorities believe the majority of the methamphetamine smuggled into Japan is refined and/or produced in the People's Republic of China (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 decreased significantly in 2003, though seizures of marijuana and hashish increased nearly 100 percent and 75 percent respectively. Heroin, marijuana and hashish use remains significantly lower than use of other illegal drugs in the country.

III. Country Actions Against Drugs in 2003

Policy Initiatives. DEA Tokyo worked closely throughout the year with Japanese officials to add several synthetic drugs of abuse to the list of prohibited drugs in Japan. In addition, DEA-Japanese cooperation also succeeded in closing a loophole in Japanese law, which had permitted the legal sale in Japan of other controlled substances, including a hallucinogen present in certain species of mushrooms.

Accomplishments. On August 5, 2003, U.S. Attorney General John Ashcroft and Japan's Justice Minister Mayumi Moriyama signed the U.S.-Japan Mutual Legal Assistance Treaty (MLAT) in Washington D.C. Ratification of the MLAT is now before the U.S. Senate and the Japanese Diet. The MLAT will pave the way for Japan's Justice Ministry and National Police Agency to directly ask the U.S. Justice Department for cooperation and information and vice versa. Presently, Japanese law stipulates that the Foreign Ministry serves as the intermediary to seek Japanese assistance in investigating criminal cases.

Law Enforcement Efforts. Japanese authorities seized 447 kilograms of methamphetamine in the first eleven months of 2003. 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 financial 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 2003.

Agreements and Treaties. Japan 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. An extradition treaty and a customs mutual assistance agreement are in force between the United States and Japan. As noted above, in 2003 the United States and Japan concluded 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. For example, Japan is one of only a handful of countries that produce ephedrine, a chemical used to treat 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 Attache in Japan, working closely with his Japanese counterparts, closely monitors end users of precursors.

Drug Flow/Transit. With all-but-insignificant exceptions, all drugs illicitly trafficked in island-nation Japan are smuggled from overseas. According to the National Police Agency, the PRC, the Philippines, Taiwan and North Korea are principle sources. 58.2 percent of this year's methamphetamine seizures are thought to have come from China; 33.7 percent from Hong Kong, and 8 percent from unknown sources. Illicit methamphetamine supplies in Japan appear to be down, as prices have increased sharply (25 percent) from the last quarter of 2003, and purity of street methamphetamine is also down sharply, according to Japanese National Police.

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:

- 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

The Road Ahead. The United States and Japan will continue to explore new cooperative counternarcotics initiatives.

Laos

I. Summary

The Government of Laos (GOL) continued to make some counternarcotics progress in 2003, primarily in its efforts to reduce opium poppy cultivation. Specific actions included: A sustained campaign to eradicate illicit opium poppy; better enforcement efforts against drug traffickers, increased counternarcotics cooperation with the U.S. by the GOL's Customs Department; continued counternarcotics cooperation with the United Nations Office of Drugs and Crime (UNODC) and several non-governmental organizations (NGO); continued cooperation and progress with the U.S.-Laos bilateral assistance program; an increased tempo of counternarcotics public awareness activities; and cooperation on HIV/AIDS, an issue related to drug use. In addition, the GOL decided to allocate for the first time a modest budget (\$200,000) to the Lao National Commission for Drug Control and Supervision (LCDC), the GOL agency tasked with coordinating the fight against drugs.

The Ministry of Public Security's (MPS) cooperation with the DEA Vientiane Country Office was for all practical purposes nonexistent, and overall law enforcement cooperation remained unsatisfactory. However, the GOL's Department of Customs did cooperate with DEA on a fugitive case. Corruption remains a severe problem; GOL law enforcement authorities failed to arrest any major drug traffickers; and provincial counternarcotics units (CNU) have shown limited results after several years of USG support. Mainly due to extreme poverty, the GOL devoted few of its own modest resources to fighting drugs, relying overwhelmingly on the donor community. Laos is not yet a party to the 1988 UN Drug Convention; its stated goal is ratification of the Convention in the near future.

II. Status of Country

Laos is landlocked and about 80 percent mountainous. The country borders Burma, Thailand, the People's Republic of China (PRC), Vietnam, and Cambodia. It is among the least developed countries in Asia, with a per capita income of only about \$340 per year. The population is approximately five million and includes 49 distinct ethno-linguistic groups.

In all of the Golden Triangle, including Laos, opium is grown traditionally by these tribal people. These tribes, many living at basic subsistence levels, live in isolated villages, and consume some of the opium they grow as a kind of "medicine."

Over the years, ethnic Chinese and Wa criminals have taken advantage of traditional opium cultivation as a source of raw product for heroin refineries they build in remote trafficking regions in all of the States of the Golden Triangle. The heroin produced in these frequently mobile refineries is then trafficked to regional, and even world markets by these same sophisticated, organized criminal traffickers. Some share of Lao opium production finds its way as heroin in this fashion to regional and world markets.

This trafficked heroin is the reason for international concern about the opium/heroin situation in Laos. The extent of this trafficking is uncertain due to shifting patterns of refining and trafficking in remote, often inaccessible areas of the country. Of late, the same trafficking groups moving heroin have branched out to methamphetamine production—a growing threat throughout East Asia. Increasing pressure from neighboring states threatened by the spread of heroin and methamphetamine from Laos has helped spur the GOL to begin taking successful steps on opium crop eradication.

Nevertheless, while illicit opium cultivation is declining, Laos still ranks as the third largest grower, although cultivation and production of opium lag well behind Burma and Afghanistan. Opium poppy cultivation estimates vary widely, ranging from about 19,000 hectares (USG estimate) to a recent

Government of Laos (GOL) estimate of just over 7,000 hectares. UNODC estimates about 12,000 hectares of cultivation.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOL manages its narcotics policy through a high-level committee called the Lao National Commission for Drug Control and Supervision (LCDC). The Minister to the President's Office and Chairman of LCDC is currently Soubanh Srithirath. Individual provinces have a Provincial Committee for Drug Control that reports to LCDC. The USG bilateral program provides administrative support to all these offices, as well as 10 provincial counternarcotics units, which serve as the primary counternarcotics law enforcement arm in Vientiane and the provinces. While there were no new major policy initiatives during 2003, the GOL leadership regularly emphasized the importance of fighting drugs in a variety of fora.

The 2001 Seventh Party Congress had an important impact on national drug policy. During that congress, the Party decreed that Laos would be "opium free" by 2005. Since 2001, this decree has shifted GOL policy implementation towards eradication and put additional pressure on national and provincial officials to meet this goal. Some international organizations and NGOs view eradication without programs to replace growers' income as both unachievable and cruel. During 2003, the GOL, with assistance from UNODC, moved ahead on developing a national program for demand reduction. UNODC officials expect to see results from this new program by the first quarter of 2004.

In 2003 the GOL, for the first time, took steps on counternarcotics cooperation with assistance from the World Bank. According to a Vientiane-based World Bank official, the heads of UNODC and the World Bank have decided their two organizations should collaborate on counternarcotics assistance to Laos. In addition, the GOL has made a formal request for a \$10 million loan for drug activities. The World Bank is reviewing this request and, if granted, will use UNODC to implement projects with World Bank funding.

Multilaterally, Laos continued to work closely with UNODC, especially in alternative development and opium detoxification. The USG contributes some resources to these activities. In October, Laos and Thailand signed an agreement for joint patrols on the Mekong River. These patrols will take place once a week with two boats, one on either side of the river. Each boat will contain officials from both sides. They promise to be the first serious joint enforcement effort against drug trafficking and smuggling on the Mekong.

Throughout 2003, the Lao Security Ministry (MPS) cooperation with the DEA Vientiane Country Office was for all practical purposes nonexistent. In contrast, Lao Customs cooperated directly with DEA in an active investigation that led to the arrest of a U.S. fugitive after the GOL authorities expelled the fugitive to Thailand.

Accomplishments. Over the past few years, the GOL has shown a more open and sincere interest in dealing with drug problems. The GOL is also increasingly concerned over the domestic implications of drugs, especially ATS (Amphetamine-Type Stimulants) abuse.

In 2003, the GOL and UNODC (with USG support) undertook an opium yield survey. This work was under-funded and did not have access to the best technology available. Discussions are currently underway to improve this opium yield survey, hopefully closing the large gap that exists now between estimates of opium production in Laos between a U.S. study (18,900 hectares and the Lao/UNODC study (12,000 hectares). Recognizing the growing problem of ATS addiction among youth, and in an effort to gain an understanding of the scope of the problem, the GOL, with USG support, has implemented a series of urinalysis tests among high school youth around the country. Also in the law enforcement sector, the U.S. supported the purchase and installation of X-ray machines for detecting drugs and other contraband at the main post office and Vientiane's airport. DEA reports that at the

main postal facility in Oakland, CA, which handles all inbound packages from Laos, there have been almost no drug seizures from packages originating in Laos since the X-ray machines were installed.

The GOL eradication campaign marks a significant new step in counternarcotics efforts. Using questionable figures, LCDC claimed that the GOL had eradicated over 4,000 hectares—or more than a third of the total crop according to GOL figures—through non-coercive eradication. LCDC's Soubanh further claimed that the eradication campaign resulted in six districts being declared “opium free.” In November, USG experts on opium cultivation visited Vientiane and confirmed the GOL's claim regarding those six districts, but estimated a much larger amount of continuing opium cultivation than the GOL was prepared to acknowledge. The GOL is committed to continued eradication efforts in accordance with the 2001 Seventh Party Congress resolution.

The GOL's campaign towards total opium poppy elimination by 2005, while clearly a demonstration that the government takes the drug problem seriously, is not without controversy: some have argued that GOL crop destruction occurs without sufficient arrangements to replace the incomes of the affected hill tribe families, and that this could lead to devastating humanitarian consequences, including deaths. There is also some evidence that the quick pace of eradication is leading to a type of “professional grower,” i.e., farmers contracted by traffickers to specifically grow poppy in the more remote areas. Nevertheless, the USG supports well-planned and well-executed crop destruction as an important tactic to reduce narcotics trafficking.

Along with the eradication campaign, the GOL has also undertaken action to detoxify opium addicts “on an urgent basis.” The GOL is implementing a detoxification campaign in several northern provinces aimed at detoxifying about 4,300 addicts over a 12-month period. Concerning ATS, in 2002, the GOL, with assistance from UNODC and Japan, opened the first drug treatment center in Vientiane. In 2003, the Royal Thai Government agreed to support a similar center in Champassak province and the USG will support a similar facility in Savannakhet province.

Law Enforcement Efforts. Heroin seizures have almost doubled (from almost 20 kilograms in 2002 to 39 kilograms in 2003). Seizures of cannabis collapsed in 2003 (from 3,008 kilograms to 155 kilograms in 2002). While the GOL and foreign observers agree on the growing methamphetamine problem, the seizure rate appears to have declined between 2002 and 2003. In 2002, law enforcement authorities seized about 1.5 million tablets, but in 2003, they seized only about 1.2 million, a 24 percent drop. Seizures of opium increased, from 124 kilograms in 2002 to 209 kilograms in 2003 (up about 68 percent). Seizures of opium should decline over the next year, as more of the crop is either eradicated or not planted at all. Concerning arrests, GOL figures suggest a significant decline compared to 2002. In 2002, there were 258 drug cases resulting in 516 persons arrested; in 2003, there were 226 cases resulting in 445 persons arrested. A senior law enforcement official said that a possible reason for the 2003 decline (as of October) is that provincial reporting is “incomplete.” As a general rule, Lao figures are subject to revision each year, as information from isolated provinces finds its way to officials in Vientiane.

In late October, Lao law enforcement authorities in Champassak Province (southern Laos) seized seven kilograms of heroin in a “buy-bust” operation. Two Laotian citizens were arrested and one car and one truck were seized. The Drug Control Department in Champassak province, in collaboration with the Counternarcotics Unit based in Pakse (the provincial capital), carried out the operation. Since only about 17 kilograms of heroin were seized in all of 2002, this seizure is significant.

Laos' main drug law is Article 135, adopted in 1990. This article prohibits drug trafficking, as well as the manufacture of heroin and other narcotics. In 1996, the GOL modified Article 135 to make opium production illegal. In 2001, penalties under Article 135 became more drastic, including the death penalty for production, trafficking, and the distribution of heroin (more than 500 grams), or amphetamines (more than three kilograms). Other penalties include up to five years imprisonment for possession of less than two grams of heroin. On September 25, “Nhan Dan” newspaper, the newspaper

of the Communist Party of Vietnam, reported that, during the first eight months of 2003, nine drug traffickers had been sentenced to death in Laos. Since then, the Lao press has reported six other death sentences in Luang Namtha and Oudomxai provinces.

Resource constraints within the GOL continued to be a major problem in 2003. While it appears that for the first time, LCDC will receive a modest budget (possibly \$200,000), this will still leave Lao counternarcotics efforts seriously under-funded. While the USG program pays the administrative expenses for 10 Counter Narcotics Units (CNU), Embassy end-use monitoring visits have revealed that much of these units' equipment is outdated and/or inoperable. Most officers have received little training, although some commanders and/or deputy commanders have attended International Law Enforcement Academy (ILEA) courses. Enforcement units are unable to finance any repairs themselves and must wait for USG assistance.

Corruption. The GOL does not encourage or facilitate illegal production of drugs or other substances as a matter of national policy, but corruption is a significant problem. Very low salaries paid to law enforcement officials tempt them to profit from drug trafficking. The GOL is working with international assistance to develop appropriate anticorruption measures. In at least one instance, the GOL demonstrated a willingness in 2003 to take action on narcotics-related corruption. The Bokeo provincial governor was sacked, apparently for his connections to drug trafficking. While firm evidence regarding narcotics related corruption is hard to come by, most foreign observers believe that GOL and military officials facilitate drug trafficking to some extent.

Agreements and Treaties. The USG and GOL 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 in 2002. Both countries have expressed their intention to continue this cooperation. Although the GOL does not have a mutual legal assistance or extradition treaty with the U.S., it has in the past cooperated in rendering drug traffickers to the United States, generally via Thailand.

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. During 2003, opium cultivation and production continued to be a complex and controversial subject. USG and GOL production statistics are far apart. The USG 2003 estimate for poppy cultivation is 18,900 hectares, with a 90 percent confidence level. About 85 percent of the crop is concentrated in Phongsaly, Houaphan, Luang Prabang, and Oudomxai provinces in northern Laos. The GOL admits to only about 7,800 hectares of opium cultivation. The GOL bases this figure on the UNODC/GOL estimate, minus eradication since the survey. As noted elsewhere, the U.S. believes the methodology applied during the UN estimate can be improved, and is working with the UN to do so in the next estimate in 2004.

Potential opium production is also a controversial subject. According to USG figures, 2003 potential production is about 200 metric tons, an increase of about 11 percent over 2002, despite a 19 percent drop in cultivation. According to USG experts, this increase is attributed to a higher yield per hectare brought about by better weather and/or fewer, but better tended fields. The GOL estimates that opium gum production potential fell to 78 metric tons, as of October, while the UNODC survey estimated 120 metric tons of opium gum produced. The GOL is in the midst of an aggressive eradication campaign. While the USG and GOL disagree on the amount of poppy cultivation that still exists, there is no disagreement that there has been a significant decline in opium planted and harvested in each of the past two years.

Drug flow/Transit. While DEA, UNODC, and the GOL agree that significant amounts of drugs are transiting Laos, DEA does not believe that heroin transiting Laos is a significant factor in the U.S. There has been some limited smuggling of opium via the mail between Hmong in Laos and the U.S., but not in great quantities, and new technology which the U.S. has made available to the Lao Postal Service seems to be deterring smuggling by this channel. A major problem faced by the GOL is the inability to control its long borders with Thailand and the PRC, as well as its shorter borders with Burma and Cambodia. The Mekong River is a major conduit for trafficking, and it is only patrolled in a few areas. Lack of human and material resources are problems and will likely continue to be for the foreseeable future, but the formidable isolation of traditional production areas also is important. Many key drug areas, especially in the north, are virtually inaccessible to GOL officials. Ironically, as the country's highway system continues to improve, this also facilitates illegal trafficking of drugs, people, logs, and other contraband, since traffickers can move drugs out to improved highways, but the GOL can reach no further than the highways permit.

Domestic Programs/Demand Reduction. While opium is still generally the drug of abuse of choice in Laos, ATS use is spreading rapidly. During 2003, ATS appeared to get more attention among GOL officials; reportedly, ATS addicts include the children of some prominent party and government officials. While in the recent past, most ATS use appeared confined to the larger urban centers and the more affluent, there is evidence that abuse is spreading into remote areas.

The GOL views demand reduction as an important component of the fight against drugs, as well as an integral part of its effort to fully comply with the 1988 UN Drug Convention. The Ministry of Education maintains a drug unit which implements school-based awareness programs, such as distributing counternarcotics literature in the schools. In October, LCDC, with assistance from the USG, began a nation-wide ATS urinalysis program designed to detect addiction among high school youth. The HIV infection rate in Laos is relatively low compared to its neighbors. The GOL reports 1102 HIV-positive individuals, according to figures published in the state-controlled media in November 2003. In addition, 39 people died from AIDS during the first six months of 2003 and 461 have died from AIDS since the GOL began keeping track. The GOL concedes that the number of cases is under-reported. The GOL has worked with an NGO, Population Services International, to distribute over 13 million condoms to individuals and establishments around the country. UNODC officials believe that the main reason Laos has been spared the higher rates of HIV infection common elsewhere in Southeast Asia is because there is much less intravenous drug use than in Thailand and Vietnam.

IV. U.S. Policy Initiatives and Programs

Since 1989, the United States Government has provided approximately \$38,000,000 in funds to support the Government of Laos' narcotics control program. The USG 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 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.

The U.S. Narcotics Crop Control project is designed to support crop substitution and alternative development within Laos, primarily to the Lao-American projects in Phongsaly and Luang Prabang provinces. The Drug Demand Reduction project supports the establishment of additional amphetamine type stimulant (ATS) clinics and maintains a training/treatment program under the aegis of UNODC. The U.S. Law Enforcement Program project is designed to enhance the GOL's capability to eliminate drug trafficking within its borders. This project provides GOL law enforcement entities with

equipment and training that will enhance Lao capabilities to detect, arrest and prosecute narcotics traffickers. GOL officials continued to be enthusiastic participants in USG-sponsored training at the Bangkok ILEA. Almost 400 GOL officials have participated in ILEA training since 1999, including more than 60 in 2003.

The Road Ahead. The GOL is acutely aware of the threat of drugs and of Laos' growing domestic drug problem, especially regarding ATS. However, there is still reluctance and some suspicion, especially within MPS, in cooperating on a bilateral basis with DEA. On a more positive note, cooperation with the GOL's Customs Department should continue to expand. During 2003 the GOL made progress in opium poppy eradication, and also in enforcement, with an important buy-bust seizure in Champassak. However, it is clear that in order to make significant progress in arresting major traffickers and seizing large quantities of drugs, the GOL will have to upgrade its law enforcement capacity. The USG-GOL bilateral program will continue to focus on crop control and development assistance to northern Laos. However, with the rising ATS issue, the USG would also like to be helpful in that sector. How much progress the GOL makes in battling drugs and drug traffickers is likely to depend on how much the GOL is able to improve its public sector performance. In a country with as few financial resources as Laos, this will continue to present the GOL a major challenge.

Laos Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium¹										
Potential Harvest (ha)	18,900	23,200	22,000	23,150	21,800	26,100	28,150	25,250	19,650	18,520
Cultivation (ha)	18,900	—	—	—	—	—	28,150	25,250	19,650	18,520
Potential Yield (mt)	200	180	200	210	140	140	210	200	180	85
Eradication (ha)	4,000	—	—	—	—	—	—	—	—	—
Seizures										
Opium (mt)	0.209	0.260	.478	0.078	0.226	0.442	0.200	0.216	0.194	0.054
Cannabis (mt)	0.155	3.08	1.96	1.86	2.19	0.41	4.16	1.18	0.64	6.14
Heroin (mt)	0.039	0.019	0.052	0.020	0.015	0.080	0.072	0.016	0.043	0.062
Arrests	445	—	—	—	—	—	—	—	—	—

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 other Southeast Asian countries transit Malaysia, but there is little evidence that significant amounts of illegal drugs reach 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. While arrests of drug users and seizures of opium, Ecstasy (MDMA), and codeine rose dramatically, trafficking-related arrests declined slightly and heroin seizures were down. Increased pressure by the Thai government against narcotics trafficking has likely contributed to the drop in heroin 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 transits Malaysia, but there is little evidence that a significant amount of the heroin reaches the U.S. market. Other drugs, primarily amphetamine type stimulants (ATS), including crystal methamphetamine and Ecstasy, also transit Malaysia. Between January and August 2003, 22,512 cases of drug addiction were detected by the authorities, an increase of 2.3 percent compared to the same period in 2002. Anecdotal reports indicate that abuse of Ecstasy is growing rapidly. Ketamine, a psychedelic anesthetic of growing popularity, was outlawed in 2003. According to the Ministry of Health, there were no known cases of precursor chemical diversion this year. In December 2000 the Ministry of Health's Pharmaceutical Services Division tightened controls on all previously unregulated chemicals cited in the UN Drug Convention. The Ministry of Health and the Attorney-General's office are drafting amendments to the Poisons Act to increase penalties relating to the diversion of precursor chemicals. These amendments are expected to be introduced in the 2004 legislative session.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The National Drugs Agency (NDA) is the policy arm of Malaysia's counternarcotics strategy. The NDA budget was raised 9 percent in 2003 as part of the Government's campaign of "Total War Against Drugs." The NDA coordinates demand reduction efforts with various cabinet ministries to target vulnerable populations, including teenage students, long-haul truckers, impoverished fishing communities and residents of federal land grant settlements in provincial areas. The NDA has expanded its efforts to engage parent-teacher associations and religious institutions. Its workplace programs, once confined to private industry, have been expanded to include government agencies.

Accomplishments. A solid institutional and policy foundation supports Malaysian counternarcotics efforts. Malaysia has improved international cooperation, including interdiction, enforcement and intelligence sharing, with the United States, Australia, and regional states such as Thailand, Singapore, and Brunei. Former Prime Minister Mahathir declared 2003 a "Year of Total War Against Drugs"—the launch of a long-term effort to drive down drug use to negligible levels by 2015. Other senior Malaysian officials, including the new Prime Minister, Abdullah Badawi, frequently speak out strongly against drug use. The Malaysian parliament in 2002 passed legislation establishing a framework for mutual legal assistance.

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. The Royal Malaysian Police (RMP) Narcotics Division benefits from strong leadership. Trends in narcotics arrests and seizures for the first eight months of 2003 were mixed in comparison with 2002. Heroin and psychotropic seizures were down sharply, while opium, Ecstasy and codeine seizures rose dramatically. Marijuana seizures rose 13.7 percent. Between January and August 2003 law enforcement officers seized 127.46 kilograms of heroin, compared to 398.6 kilograms in the first ten months of 2002. Seizures of psychotropics fell sharply from 1,584,360 pills in January-October 2002 to 98,087 pills between January and August 2003. Ecstasy seizures rose from 169,306 pills between January-October 2002 to 203,050 pills between January-August 2003 and opium seizures rose from 0.3 kilogram, to 129.19 kilograms. Drug trafficking-related arrests through August 2003 totaled 17,093 persons, a drop of 1.2 percent from the same period last year, while numbers of drug users arrested rose 52 percent from 61,101 to 93,988. The decline in heroin and psychotropic seizures is likely attributable to the success of the Thai government in combating trafficking. Existing Malaysian law provides for the seizure of assets from the proceeds of narcotics crimes. Malaysian prosecutors successfully used video evidence from a joint DEA-RMP investigation in a trial for the first time in 2003.

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 2003 and there was no evidence that the government tolerates or facilitates the production, distribution, or sale of illegal drugs.

Agreements and Treaties. An extradition treaty is in force between Malaysia and the U.S. Malaysia is a party to the 1988 UN Drug Convention. It has also signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Drug Flow/Transit. Malaysia's geographic proximity to the heroin production areas and methamphetamine labs of the Golden Triangle leads to smuggling across Malaysian borders, primarily destined for Australia. Ecstasy is brought in by air from Amsterdam into Kuala Lumpur International Airport (KLIA) for domestic use and distribution to Thailand, Singapore, and Australia. While heroin and methamphetamines transiting Malaysia do not appear to make a significant impact on the U.S. market, there are indications that third country nationals are using Malaysia as a transit point for modest shipments of U.S.-bound heroin and methamphetamine.

Domestic Programs (Demand Reduction). Demand reduction programs in public schools and a drug-free workplace prevention program initiated in 1999 continued in 2003. The NDA has expanded the scope of its anti-Ecstasy demand reduction drive to include all types of ATS. Government statistics indicate that 11,116 persons were undergoing treatment at Malaysia's 28 public rehabilitation facilities as of August 2003.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. goals and objectives in the coming year are to: urge the government to enact anticonspiracy laws to strengthen Malaysia's counternarcotics efforts; encourage improved coordination of law enforcement entities at Kuala Lumpur International Airport (KLIA).

Bilateral Cooperation. U.S. counternarcotics training continued in 2003 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 a full range of counternarcotics topics. DEA and DOJ conducted a money laundering training seminar for

investigatory officials in August. The United States funded treatment training for local professionals and sponsored a Colombo Plan seminar on family support for recovering addicts.

The Road Ahead. U.S. law enforcement agencies will take advantage of enhanced cooperation with Malaysian authorities to interdict drugs transiting Malaysia, and to follow regional and global leads. U.S.-funded counternarcotics training for local law enforcement will continue. The United States will seek to conclude a bilateral letter of agreement (LOA) with the Malaysian government to make possible additional U.S. resources in fighting illegal drugs in Malaysia.

Micronesia

The Federated States of Micronesia (FSM) is a sovereign state in free association with the United States. The FSM has drug-abuse problems, but of a sort not typically seen in the West. In Pohnpei State, many people consume large quantities of “sakau”—a form of kava squeezed from roots of a tropical pepper plant. The FSM Congress, in its October 2003 session, ratified the 1988 UN Drug Convention, but FSM is still not a party because the instruments of ratification have yet to be deposited with the United Nations. Of the Western drugs, marijuana is reportedly cultivated and used in parts of the FSM. It is not exported in any meaningful quantities. The FSM and State Governments make occasional arrests for marijuana cultivation and usage. If the problem were bigger, the government response would be more intense.

North Korea

I. Summary

For decades North Koreans have been apprehended for trafficking in narcotics and engaging in other forms of criminal behavior, including passing counterfeit U.S. currency. During 2003, there was one major heroin trafficking incident linked to North Korea. The “Pong Su,” a vessel owned by a North Korean enterprise, was seized by Australian Federal Police (AFP) and other Australian security forces in mid-April 2003 after apparently delivering 125 kilograms of heroin to criminals at an isolated beach near Lorne, Australia. Another incident with a connection to North Korea occurred in June in Pusan, South Korea, where customs authorities seized 50 kilograms of methamphetamine from a Chinese vessel that had stopped at the port of Najin, North Korea, before arriving in Pusan. There were no methamphetamine seizures linked to North Korea in Japan in 2003. The “Pong Su” seizure and numerous drug smuggling incidents linked to North Korea over the past several decades, reflect official involvement in the trafficking of illicit narcotics for profit, and make it highly likely, but not certain, that P'yongyang is trading narcotic drugs for profit as state policy.

II. Status of Country

Developments During 2003. Defectors and informants report that large-scale opium poppy cultivation and production of heroin and methamphetamine occurs in the DPRK. A defector identified as a former North Korean high-level government official testified in May 2003 before the U.S. Senate that poppy cultivation and heroin and methamphetamine production were conducted in North Korea by order of the regime. The government then engaged in drug trafficking to earn large sums of foreign currency unavailable to the regime through legal transactions. The testimony and other reports have not been conclusively verified by independent sources. Defector statements; however, are consistent over years, and occur in the context of regular narcotics seizures linked to North Korea. As discussed below, there was one major heroin seizure in 2003 linked to North Korea, and two shipments of methamphetamine were seized in South Korea that had some connection to the DPRK. There is still no evidence that illicit drugs trafficked from the DPRK has had an impact on the United States, directly or indirectly.

Drug Seizures with a DPRK Connection. In April of 2003, the “Pong Su,” a North Korean merchant vessel of about 4000 tons displacement, flying a flag of convenience, was seized by Australian military Special Forces, who boarded the vessel by rope descent from a helicopter after a four-day chase in heavy seas. The vessel, its North Korean master, and its crew were brought into Sydney harbor where all aboard were charged with involvement in narcotics trafficking. In addition to the regular crew of the vessel, those charged included a North Korean identified as a “Political Secretary” of the ruling Communist Workers’ Party in North Korea.

Australian Federal Police had also taken three other individuals into custody, two of whom were found in possession of 50 kilograms of very pure heroin. Investigations revealed that these individuals were part of a shore party that apparently rendezvoused with the “Pong Su” at an isolated surfing beach near Lorne, Australia, to receive the narcotic shipment. The narcotics were apparently dispatched from the “Pong Su” in a dinghy. High seas, not seen for three years in this surfing area, caused the dinghy to capsize, dumping its cargo and the two crew members into the surf. Only one of them made it alive to shore; the other was discovered buried in a crude grave. The survivor was taken into custody by Australian Federal Police and charged with heroin trafficking.

A total of 125 kilograms of pure heroin was eventually seized in connection with the “Pong Su” incident. The vessel remains in Australian custody, and all involved in the incident—the shore party;

the crew, captain, and North Korean “Party Secretary” on board the “Pong Su”—are on trial in Australia.

The “Pong Su” itself is owned by a North Korean trading company of the same name, but was flying a flag of convenience at the time of its seizure. The vessel is known to have serviced a number of ports in Northeast and Southeast Asia before arriving off the coast of Australia. Inspection after its seizure in Australia revealed that the boat had been crudely modified, possibly to conceal its cargo of narcotics. The vessel carried no cargo, and no cargo awaited it in Australia. It did not comply with normal commercial procedures, such as announcing its presence in Australian waters to Australian Customs. And, when challenged repeatedly by police and customs officials to come into port, it refused and led police on a desultory four-day chase in high seas. In the wake of the “Pong Su” incident, several countries in East Asia, notably Japan, where North Korean-linked methamphetamine shipments have been seized regularly since the mid-1990s, increased their scrutiny of North Korean shipping.

In early June, 50 kilograms of methamphetamine concealed in a cargo container were seized by customs officials in Pusan, South Korea. The container had apparently been packed in China, shipped by rail to the North Korean port of Najin, and loaded there aboard the Chinese freighter “ChuXing” before it arrived in Pusan and was seized by South Korean Customs. Initially, the drugs were said to be North Korean in origin. The same vessel involved in this seizure, the “ChuXing,” had carried a container from Najin to Pusan in November 2001 that was found to have 91 kilograms of methamphetamine concealed in noodle packages originating from China. Although the source of the methamphetamine carried by the “ChuXing” in both instances is unclear, the incidents suggest collusion between Chinese drug traffickers and elements in North Korea and indicate that North Korea is a transshipment point for illicit narcotics intended for distribution in the region.

Japan is one of the largest markets for methamphetamine in Asia, with an estimated annual import of 10-20 metric tons. Traffickers from the DPRK have targeted the Japanese market in the past, and there have been regular, large seizures of DPRK methamphetamine in Japan since the mid-1990s. This year Japanese law enforcement seized 447 kilograms of methamphetamine through November of 2003, but none of it can be linked to North Korea. In the past, Japanese authorities expressed the belief that roughly 30 percent of methamphetamine seized in Japan is connected to the DPRK.

North Korea Claims Interest in UN Drug Treaties. North Korean authorities have expressed interest in bringing their domestic narcotics-control legislation into compliance with international norms and eventually becoming a party to the major international narcotics control treaties, especially the 1988 UN Drug Convention. The North Koreans are seeking advice from UN agencies, including the UN Office on Drugs and Crime, on redrafting their narcotics-control legislation. Some UN-member governments have expressed skepticism about the DPRK’s motives, suggesting that the DPRK’s request for advice and expressed interest in international counternarcotics cooperation are designed to divert attention from allegations of DPRK state trading of narcotics.

DPRK Likely State Trading Narcotics. State trading of narcotics is a conspiracy between officials at the highest levels of the ruling party/government and their subordinates to cultivate, manufacture, and/or traffic narcotics with impunity through the use of, but not limited to, state-owned assets. Law enforcement cases over the years have not only clearly established that North Korean diplomats, military officers, and other party/government officials have been involved in the smuggling of narcotics, but also that state-owned assets, particularly ships, have been used to facilitate and support international drug trafficking ventures.

The “Pong Su” narcotics seizure occurred within the context of a range of criminal activities perpetrated by North Korean officials. Those activities include the September 2002 admission by DPRK officials of involvement by state security in the kidnapping of a group of Japanese nationals held captive in North Korea for several decades. North Korean officials have been apprehended for

drug trafficking and other offenses in countries around the world and have used diplomatic pouches to conceal transport of illicit narcotics. Numerous North Korean defectors have publicly stated that opium was grown in North Korea and refined into heroin, which then was trafficked under the direction of an office of the ruling Communist Party of North Korea. Information developed by law enforcement in Japan, on Taiwan, and elsewhere has repeatedly pointed to the involvement of DPRK officials and DPRK state-owned assets in narcotics trafficking. Specific examples of involvement of officials and state assets include calls at North Korean ports by traffickers' boats to pick up drugs, travel by traffickers to North Korea to discuss aspects of the trafficking operation, and suspected drug trafficking by North Korean patrol vessels, which were thought to engage only in espionage.

DPRK-linked drug trafficking has evolved over the years from individual DPRK officials apprehended for trafficking in narcotics in the 1970s and 1980s to the apparent direct involvement of military officials and vessels providing drugs within North Korean territory to trafficking organizations for wider distribution in East Asia. The “Pong Su” incident seemingly signals a further shift in North Korean involvement in drug trafficking. It is the first indication that North Korean enterprises and assets are actively transporting significant quantities of illicit narcotics to a designated destination outside the protection of DPRK territorial boundaries. Information has also been acquired indicating that North Koreans, employed by state-owned enterprises located in various Asian countries, have attempted to arrange large-scale drug transactions with undercover narcotics officers. Informants have reported traveling to North Korea as guests of the government to meet with military officials to arrange drug deals. Although some of the information gathered is incomplete or unverified, the quantity of information and quality of many reports give credence to allegations of state sponsorship of drug production and trafficking that can not be ignored. It appears doubtful that large quantities of illicit narcotics could be produced in and/or trafficked through North Korea without high-level party and/or government involvement, if not state support.

DPRK spokespersons deny any state involvement in criminality, ascribe that criminality to individuals, and threaten punishment under DPRK laws. However, year-after-year, incidents pointing towards increasingly large scale trafficking in narcotics, and other forms of criminality linked to the DPRK, accumulate.

The cumulative impact of these incidents over years, in the context of other publicly acknowledged behavior by the North Korean such as the Japanese kidnappings mentioned above points to the likelihood, not the certainty, of state-directed trafficking by the leadership of North Korea. What we know about North Korean drug trafficking has come largely from investigation of trafficking operations like that of the “Pong Su”, which have gone wrong, and thus come to the attention of authorities. We know much less about the way North Korea is led and administered, thus the continuing uncertainty.

There is also strong reason to believe that methamphetamine and heroin are manufactured in North Korea as a result of the same state directed conspiracy behind trafficking, but we lack reliable information on the scale of such manufacturing. The United States will continue to monitor developments in North Korea to test the validity of the judgment that drugs are probably being trafficked under the guidance of the state, and to see if evidence emerges confirming manufacture of heroin and methamphetamine.

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. Status of Country

The Republic of Palau is an island nation of approximately 19,000 with a constitutional government, whose structure is comparable to that of the United States. Palau is a former trust territory of the United States that became independent on October 1, 1994. There is some crime in Palau, but it is not a major drug trafficking or producing country, 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 2003

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 PPNG 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. PNG 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 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 Convention. Money laundering is not reported to occur in PNG or the Solomon Islands, and no incidents have been reported or prosecuted in Vanuatu, though legislation and enforcement in all three countries could be improved. Better efforts and training for counterterrorism is being supported and promoted in the region primarily by Australia.

II. Status of Country

There is no evidence of significant levels of illicit drug production or transit in PNG, the Solomon Islands, or Vanuatu. Cases of potential narcotics transshipment occasionally come to light in PNG, but there is no persistent pattern. There is evidence of small-scale PNG 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 2003

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

Philippine law enforcement agencies demonstrated continued progress in the war against drugs in 2003. The Philippine government continues to develop a dedicated counternarcotics capability in the newly established Philippine Drug Enforcement Agency (PDEA). However, based on the quantity of seizures in 2003, authorities assess that the Philippines has developed into a major producer of crystal methamphetamine. Evidence suggests links between terrorist organizations and drug trafficking activities. The Philippines is a party to the 1988 UN Drug Convention.

II. Status of Country

Domestic production of methamphetamine, also called “shabu”, exceeds demand, with most of the precursor chemicals smuggled into the Philippines from surrounding countries, primarily from 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 (\$14, 500 to \$18,000). The same methamphetamine sells on the street for twice that amount. The Philippines also serves as a transshipment point for further export of methamphetamine of foreign manufacture to Japan, Australia, Korea, the U.S., Guam, and Saipan.

The Philippines also produces, consumes and exports marijuana. Authorities continue to encounter difficulties stemming production. Marijuana 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 marijuana produced in the Philippines is consumed locally, with the remainder smuggled out to Australia, Japan, Malaysia, Taiwan and Europe. The wholesale price of marijuana is estimated around 11,160 pesos per kilogram (\$203). Street price varies according to the quality of the product.

MDMA, commonly known as ecstasy, is rapidly becoming a popular recreational drug in the Philippines. Philippine government authorities report a surge in ecstasy use among young, prosperous adults, particularly in bars and clubs. The street price for an ecstasy/MDMA tablet is estimated to be 1,500 pesos (\$27).

III. Country Actions Against Drugs in 2003

Policy Initiatives. In her July 2003 State of the Nation Address, President Gloria Macapagal-Arroyo called illegal drugs “the greatest menace facing the country today.” President Arroyo exhorted her administration to intensify what the Government of the Republic of the Philippines (GRP) has labeled an “all-out war against drugs.” After the passage of wide-ranging counternarcotics legislation in 2002, the Arroyo Administration has concentrated on the full and sustained implementation of the law and institution building of PDEA as the lead counternarcotics agency.

On an administrative level, President Arroyo has personally removed bureaucratic obstacles slowing the establishment of a Philippine Drug Enforcement Agency Academy to ensure that the PDEA Academy will begin classes in 2004. PDEA is beginning to conduct investigations and develop a training program for its planned academy. In the interim, President Arroyo named Philippine National Police (PNP) Deputy Director Edgar Aglipay to head a new Philippine Anti-Illegal Drugs Task Force (PAIDTF). The PAIDTF mission is to maintain law enforcement pressure on narcotics traffickers while PDEA builds institutional capacity.

Accomplishments. GRP law enforcement agencies receive and act upon drug shipment intelligence from regional partners. They are less efficient in developing and transmitting intelligence on outbound shipments. While the GRP has chemical controls laws, enforcement of them is uneven. This is due to a perceived unwillingness of prosecutors to pursue cases where only precursor chemicals and no drugs are seized and of judges to accept the seized chemicals as evidence.

Law Enforcement Efforts. Diversion of precursor chemicals from legitimate sources, compounded by the ease of illicit travel and communication, has allowed transnational crime organizations to increase methamphetamine production for both domestic and export shabu markets. Throughout 2003, Philippine authorities drew clear linkages between drug trafficking activities and terrorist organizations. The Abu Sayyaf Group (ASG), a U.S.-designated Foreign Terrorist Organization operating in the extreme southwest of the Philippines, collects money from drug smugglers by acting as protectors for foreign trafficking syndicates. The ASG also controls a thriving marijuana 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. According to the Philippine government and press reports, the Communist New People's Army (NPA), another U.S.-designated Foreign Terrorist Organization operating countrywide, receives money for providing safe haven and security for many of the marijuana growers in the northern Philippines and collects "revolutionary taxes" on the sale of drugs.

Major evidentiary and procedural obstacles exist in the Philippines in building effective narcotics cases. Restrictions on the gathering of evidence hinder narcotics investigations and prosecutions. Philippine laws regarding electronic surveillance and bank secrecy regulations constrain prosecutors' ability to build narcotics cases.

Philippine law prohibits wiretapping and non-consensual monitoring of conversations and use of such information as evidence. There are also no provisions to seal court records to protect confidential sources and methods. Pervasive generic problems in the law enforcement and criminal justice systems (i.e., low morale, inadequate salaries, recruitment and retention difficulties, and lack of cooperation between police and prosecutors) hamper narcotics investigations and prosecutions. The slow pace of justice and perennial backlogs in the judicial system impede further the already slow pace of proceedings in narcotics cases. New tough narcotics sentencing laws that do not allow for sentence reductions in exchange for testimony will only increase the backlog.

Philippine authorities dismantled a record number of 11 clandestine methamphetamine laboratories in 2003, up from 4 in 2002. In one day in November, police raided 2 labs, seizing drugs, chemicals, and equipment with a value of 2.1 billion pesos (\$38 million) while arresting several Chinese nationals. GRP law enforcement officials contend that three factors are behind this explosion in domestic labs: 1) the simplicity of processing ephedrine into methamphetamine on a nearly one-to-one conversion ratio; 2) the crackdown on drug production facilities and processed methamphetamine in other methamphetamine-producing countries; 3) the lesser danger in trafficking in methamphetamine precursors (ephedrine) compared to the finished product.

The GRP arrested a total of 33,150 people for drug related offenses, an increase of 8,074 individuals from the previous year. GRP authorities filed 22,069 drug cases. Authorities seized a total of 3,122 kilograms of methamphetamine, with an estimated street value of 13.61 billion pesos (\$247 million). Authorities also seized 6,417 kilograms of ephedrine, an essential chemical in the production of methamphetamine. Law enforcement agencies dismantled ten of the thirteen identified international drug rings targeted by the GRP. Chinese and Taiwanese traffickers remain the most influential foreign groups operating in the Philippines. According to PDEA officials, Philippine authorities neutralized and cleared 127 out of 295 local drug rings and syndicates.

Corruption. Corruption among the police, judiciary, and elected officials continues to be a significant impediment to Philippine law enforcement efforts. However, the GRP does not encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug actions.

Agreements and Treaties. The Philippines is a party to the 1988 UN Drug Convention. In addition, the Philippines is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The Philippines has ratified the UN Convention against Transnational Organized Crime and its related Protocol to Prevent, Suppress and Punish Trafficking in Persons, and the Protocol against the Smuggling of Migrants. The 1996 U.S.-GRP Extradition and Mutual Legal Assistance treaties also are in force.

Cultivation/Production. There are 98 identified marijuana cultivation 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.

In 2003, law enforcement agencies again joined with units from the Armed Forces of the Philippines (AFP) to launch marijuana eradication operations. Some of the eradication campaigns took place in territory controlled by armed insurgent movements. Using manual techniques to eradicate marijuana, government forces successfully uprooted and destroyed 4,690,000 plants and seedlings. They confiscated 5.09 kilograms of seeds and 860,334 kilograms of dried leaves. The total value of the destroyed marijuana crop is valued at 697.35 million pesos (\$12.68 million).

Drug Flow/Transit. The Philippines is a major source and transshipment country. Illegal drugs enter the country through seaports, economic zones, and airports. With over 36,200 kilometers of coastline and 7,000 islands, the Philippines is a drug smuggler's paradise. 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-kg quantities of methamphetamine and precursor chemicals. Marine interdiction efforts are hamstrung by limited equipment, training, and intelligence coordination between the armed forces and law enforcement.

The country is also a transshipment point for 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.

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, drug-free workplace programs, and other demand-reduction clauses. Abusers who voluntarily enroll in treatment and rehabilitation centers are exempt from prosecution for illegal drug use. While preliminary 2003 figures are not yet available, residential and outpatient rehabilitation centers reported a total of 5,965 admission cases in 2002. Statistics from rehabilitation centers highlight the following: 1) the majority of patients are in the 20-29 age group, 2) the mean age of drug users is 27 years old, 3) methamphetamine and/or marijuana are the drugs of choice, 4) the ratio of male to female users is 11:1. Although the Dangerous Drugs Board (DDB) estimates that the total number of regular drug users in the Philippines is approximately 1.8 million (about 2.2 percent of the population), DDB continues to study the issue to determine the number of addicts or abusers involved in each drug category.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The main goals of the U.S. counternarcotics policy in the Philippines are to: 1) work with local counterparts to provide an effective response to counter the burgeoning clandestine production of methamphetamine and MDMA; 2) work with local authorities to prevent the Philippines from being used as a transit point by trafficking organizations affecting the U.S.; 3) promote the development of PDEA and other criminal justice institutions, including law enforcement, judicial and prosecutorial bodies for effective counternarcotics enforcement efforts in the Philippines.

Bilateral Cooperation. On November 21, 2003, PAIDTF officials served warrants at a number of locations in Metro Manila, leading to the seizure of a huge methamphetamine (ice) lab in Antipolo. The lab and storage sites contained over one metric ton of crystal methamphetamine (ice) and chemicals sufficient to produce six or seven tons more. Officials estimated production capacity at about 500 kilograms/week. This was the biggest shabu seizure in Philippine history, and one of the larger methamphetamine lab seizures in Asia. The leader of the group, Jao Ho, is a DEA International Priority Target whose brother U.S. authorities arrested in August in Los Angeles in the largest ice seizure in U.S. history.

In October and November, the GRP cooperated with U.S. law enforcement agencies to apprehend a U.S. citizen of Philippine birth who was a fugitive from weapons and drug indictments filed in the U.S. A multi-agency task force assisted in the capture and deportation of the American to face charges of trafficking in drugs and weapons from terrorist areas of the Sulu archipelago.

Joint Interagency Task Force-(JIATF)-West, a U.S. military command, has agreed in principle to construct a group of Maritime Intelligence Fusion Centers (MIFCs) in the Philippines. Discussion over the details and staffing of the centers continues between the two countries.

The Road Ahead. 2004 will see the implementation of new resources and strategies in the Philippines' war on drugs. The GRP must sustain PDEA's funding and staffing requirements. The USG plans to continue work with the GRP to promote law enforcement institution building and encourage anticorruption mechanisms via our new JIATF-West presence. 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. Corruption cases involving Singapore's counternarcotics and law enforcement agencies are rare, and their officers regularly attend U.S.-sponsored training programs (as well as regional fora on drug control). Singapore is experiencing a slight increase in drug-related crime. In 2002, more traffickers were arrested, but authorities made fewer arrests for abuse and possession than in 2001. 2002 saw a decrease in heroin and MDMA seizures but a substantial increase in seizures of cannabis and methamphetamine. Ketamine related offenses still constitute a small portion of overall drug offenses; however, documented ketamine abuse is on the rise. Singapore is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2003, 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 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. The CNB also monitors precursor chemicals that are transshipped through Singapore to other regional countries, however, neither Singapore Customs nor the Immigration and Checkpoints Authority (ICA) keeps data on in-transit or transshipped cargo unless there is a Singapore consignee involved in the shipment. Singapore notifies the country of final destination before exporting transshipped precursor chemicals. Abuse of heroin, methamphetamine, and ketamine is on the rise, but the number of arrests during the first half of 2003 for the abuse of heroin, ecstasy, and methamphetamine is less than the corresponding figure for the first half of 2002.

III. Country Actions Against Drugs in 2003

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. The Misuse of Drugs Act (MDA) gives the CNB the authority to commit all drug abusers to drug rehabilitation centers for mandatory treatment and rehabilitation.

Law Enforcement Efforts. According to the latest statistics available, in 2002, arrests for drug-related offenses rose 0.3 percent compared to 2001. The number of persons detained for trafficking offenses rose, while arrests for abuse and possession declined. Arrests of first-time drug abusers rose 16 percent. In 2002, authorities executed 30 major operations during which they made 165 arrests. Seizures of MDMA declined by 34 percent between 2001 and 2002. In 2002, authorities seized nearly 16,000 MDMA tablets, a 34 percent reduction compared to 2001 when they seized approximately 24,000 tablets and 0.26 kilograms of powdered MDMA. CNB operations led to several large seizures, including 12.9 kilograms of heroin and 19.5 kilograms of cannabis (Singapore's largest seizure of cannabis in five years). The following statistics reflect seizures in 2002 of specific drugs and the corresponding percentage increase or decrease as compared to 2001 seizures: 63.3 kilograms heroin (-41 percent), 15,826 MDMA ecstasy tablets (-34 percent), 34.1 kilograms cannabis (+288 percent), 2.1

kilograms “ice” (-5 percent), 67,840 methamphetamine tablets (+240 percent), 8.4 kilograms ketamine (-6 percent), and 38,818 tablets of nimetazepan (-30 percent).

In 2002, authorities also seized approximately 51,000 Thai methamphetamine tablets known as “yaba,” mainly from Thai trafficking organizations operating in Singapore. This is more than twice the number of tablets seized in 2001. “Yaba” is usually smuggled into the country at ports of entry. Anyone caught with more than 250 grams of this form of methamphetamine 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.

Corruption. The CNB is charged with the enforcement of Singapore's counternarcotics laws. The CNB and other elements of the government are effective and there are few cases of corruption. In June 2003, one former junior narcotics officer was found guilty of criminal breach of trust for pocketing approximately \$45,125 (79,000 Singapore Dollars) in cash and other seized assets in 2001. He will serve a 20-month sentence.

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 US-UK extradition treaty. On November 3, 2000, Singapore and the United States signed a Drug Designation Agreement (DDA), strengthening existing cooperation between the two countries on drug cases. In the past, the lack of such a bilateral 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 and Hong Kong have signed a mutual legal assistance agreement and expect to ratify it soon. 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 in 2002 or 2003.

Drug Flow/Transit. Singapore has the busiest (in tonnage) seaport in the world, and approximately 80-90 percent of the goods handled by its port are in transit. Due to the extraordinary volume of cargo that is shipped through the port, it is likely that some of that cargo could contain illicit materials.

Singapore does not require shipping lines to submit data on the declared contents of transshipment cargo, unless there is a Singapore consignee to the transaction. The lack of such information makes enforcement a challenge. Absent specific information about a drug shipment, GOS officials have been reluctant to impose tighter reporting or inspection 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 transshipment port. However, scrutiny of goods at ports has increased. In January 2003, Singapore's new export control law went into effect; while the law seeks to prevent the flow of WMD-related goods, the controls introduce scrutiny of some transshipped cargo. In March, Singapore became the first Asian port to commence operations under the U.S. Container Security Initiative (CSI), under which U.S. Customs personnel prescreen U.S.-bound cargo. While this initiative is aimed at preventing weapons of mass destruction from entering the U.S., the increased information and scrutiny could also aid drug interdiction efforts.

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, although the rehabilitation regime is rigorous. The government may detain addicts for rehabilitation for up to three years. In an effort to discourage drug use during travel abroad, CNB officers may now require urinalysis tests for Singapore citizens and permanent residents 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 society on drug prevention. Drug treatment centers, halfway houses, and job placement programs exist to help addicts reintegrate into 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, regardless of nationality.

IV. U.S. Policy Initiatives and Programs

Singapore and the United States continue to enjoy good law enforcement cooperation. In FY03, 24 GOS law enforcement officials (including 17 from the CNB) attended training courses at the International Law Enforcement Academy (ILEA) in Bangkok on a variety of transnational crime topics.

The GOS has cooperated extensively, with the U.S. and other countries, in drug money laundering cases, including some sharing of recovered assets.

The Road Ahead. The United States will continue to work closely with Singapore authorities on all narcotics trafficking and related matters. Increased customs cooperation under the Container Security Initiative and other initiatives and the prospect of a broad MLAT agreement will help further bolster law enforcement cooperation.

South Korea

I. Summary

Narcotics trafficking or production is not a major problem in South Korea. In 2003 Methamphetamine seizures decreased by 51 percent. Usage of illicit drugs has also decreased by approximately 30 percent (based upon totals from January through October figures in 2003). Ecstasy (MDMA) is abused, especially in metropolitan areas. Because of concern at the spread of SARS (Severe Acute Respiratory Symptoms), border security increased and the number of travelers decreased. This appears to have affected the flow of narcotics. The Republic of Korea (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 of similar population and landmass. But this situation is perhaps changing. Various club drugs, especially MDMA, Yaba (Thai methamphetamine) and LSD are on the rise. MDMA seizures alone grew 600 percent during the first ten months of 2003. 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 is reportedly stable from last year's levels. With 47 million people, Korea reported slightly over 10,000 drug arrests for 2002. But drug arrests for January through October of 2003 have only reached a little more than 7,000.

III. Country Actions Against Drugs in 2003

Policy Initiatives. During 2001 the Supreme Prosecutors Office, in an agreement with the Korea Customs Service, created Korea's very first national narcotics task force, the Joint Narcotics Intelligence Task Force (JNITF). Originally an intelligence-gathering unit, the JNITF is now an operational enforcement unit capable of conducting its own follow-up investigations using the intelligence that it gathers and is recognized as a more long-term, advanced narcotic investigation unit. The Korea Customs Service also continues its own initiatives towards combating narcotics, not only in support of the aforementioned JNITF, but also through its airport and seaport narcotics units.

Law Enforcement Efforts. The Korean National Police Administration has upgraded its narcotic enforcement efforts by the creation of 68 drug investigation units. In 2003, these units were restructured and the number of police officers increased from 221 to 500. The total amount of drugs seized upon entry at Korea's largest international airport has decreased, but these results may have been affected by SARS, as border security increased and the number of travelers decreased. A total of 110 kilograms of drugs were seized, 58.6 kilograms of which were methamphetamine. Seizures of MDMA increased sharply within Korea with 2,575 tablets seized during 2003, up 600 percent over 2002. Use of Yaba, also an Amphetamine Type Stimulant (ATS), is on the increase with 387 tablets seized in 2003 as compared with none in 2002. LSD shows a similar pattern with 900 tablets seized in 2003 with again none seized in 2002.

Corruption. Although isolated reports of official corruption appear in the ROK's press, there is no evidence that official corruption influenced narcotics law enforcement in Korea. As a matter of policy and practice, the ROK does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. In February 2003, the ROK signed a mutual legal assistance treaty (MLAT) and an extradition treaty with Uzbekistan. Both documents are pending ratification. In

September the ROK government signed both an MLAT and an extradition treaty with Vietnam; again, both documents are pending ratification. Additionally, MLATs were signed with the Philippines (June 2003) and Thailand (August 2003). An extradition treaty and MLAT with the U.S. is also in force. Korea is a party to the 1988 UN Drug Convention. Korea also has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Illicit Cultivation and Production. While methamphetamine was previously produced in the ROK, evidence suggests no significant current production. In 2003, the Korean National Anti-Drug Program targeted domestically produced marijuana and poppy. Between January and October, 55,311 poppy plants (almost a 300 percent increase) and 5,599 marijuana plants were seized (a marked decrease by 62 percent). 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 and a portion is diverted for illegal use.

Drug Flow/Transit. Methamphetamine, mostly from China, but also reportedly from the Philippines, North Korea, and Thailand, is used in the ROK and also transits the country. Cocaine and heroin are also used in very small amounts in Korea and have been known to transit to other areas. Transiting methamphetamine is often destined for Japan, Australia and the U.S. Southeast and Southwest Asian heroin have been seized in Korea, but heroin abuse remains a minor problem and tends to be associated with foreigners living in the ROK. Cocaine seems to be used as a kind of club drug in Korea to substitute for methamphetamine. Yaba has also been discovered entering the country. While locally grown marijuana is available, South African marijuana continues to dominate the domestic market and is found transiting the ROK bound for Japan.

Domestic Programs (Demand Reduction). The Supreme Prosecutors Office, as well as a few non-government organizations, have focused on the issue of drug use, reduction and rehabilitation. The Supreme Prosecutors Office continues to actively support a train-the-trainer program to reduce drug demand. The office sends knowledgeable representatives to instruct educators and 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 students about drugs. Additionally, more local communities are becoming active with regional DRUG FREE committees enhancing the work of the Prosecutors Office and that of the National Anti-Drug Association, a civilian foundation, which is continuing a counternarcotics campaign through television and newspaper ads.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. 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.

Bilateral Cooperation. Trafficking information and trends are freely provided to the USG, while investigations, which could always be enhanced through bilateral cooperation, are still for the most part done unilaterally. Competition to maintain on-going investigations (and not have them taken over by a competing agency), along with the unwillingness to share credit for a successful case often leads to investigations which are not as effective as could be achieved through cooperation.

The Road Ahead. U.S. agencies plan to work closely with all Korean narcotics law enforcement and intelligence officials in an effort to offer hands-on training, as well as investigative assistance with precursor chemical and narcotic related investigations.

Taiwan

I. Summary

There continues to be little evidence and limited intelligence that Taiwan is a transit/transshipment point for quantities of drugs that have a significant effect on the United States. Taiwan authorities in 2003 received a budgetary increase in their law enforcement efforts to combat local drug use. This in turn enhanced efforts to intercept heroin and methamphetamine being smuggled from the PRC, North Korea, Hong Kong, and Thailand. The impetus still remains the bilateral law enforcement cooperation with United States Drug Enforcement Administration (DEA). The framework for this cooperation remains the 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 utilize confidential sources in narcotics cases. Although Taiwan is not a UN member and cannot be a party to the 1988 UN Drug Convention, the authorities on Taiwan have amended and passed new laws consistent with the goals and objectives of the Convention.

II. Status of Taiwan

The PRC and North Korea continue to be the primary sources of drugs smuggled into Taiwan, with mainly heroin and methamphetamine being the drugs of choice. Approximately 95 percent of methamphetamine and 80 percent of heroin, the origin of which could be identified, entered Taiwan from the PRC and North Korea. Stringent law enforcement procedures, enhanced coast guard and customs inspection, and surveillance methods have substantially reduced serious flows of heroin from Taiwan to the U.S., however, several Taiwan-based criminal organizations have a direct impact on the United States, including smuggling drugs to the United States (Los Angeles, Hawaii, and Guam) and Canada.

III. Actions Against Drugs in 2003

Policy Initiatives. In May of 2003, the Legislative Yuan amended and passed statutes associated with narcotics enforcement. The amended statutes contain enhanced punishment, stricter prosecutorial guidelines, and the addition of Schedule Four drugs to comply with the UN Drug Convention. The amendments will be implemented January 2004.

Accomplishments. AIT and TECRO signed an MOU on counternarcotics cooperation, which would permit undercover operations and use of confidential sources 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 "drug signature program" (drug origin), is now in effect.

Law Enforcement Efforts. The Ministry of Justice continues to lead Taiwan's drug enforcement efforts with respect to manpower, budget, and legislative responsibilities. The Ministry of Justice Investigation Bureau (MJIB), the National Police Administration's (NPA) Criminal Investigation Bureau (CIB), Foreign Affairs Police Bureau and Aviation Police Bureau, Military Police Command, Coast Guard, and Customs contribute to the counternarcotics efforts on Taiwan. In 2003, Taiwan authorities received a budgetary increase in their law enforcement efforts to combat local drug use.

In 2003, Taiwan authorities seized 201.104 kilograms of heroin, 17.22 kilograms of marijuana, 22.99 kilograms of MDMA, 1.32 kilograms of poppy seed, 18.55.25 kilograms of methamphetamine (finished product), 47.95 kilograms of semi-finished methamphetamine, 77.664 kilograms of ketamine, 478 grams of Tramado, and 10 methamphetamine labs.

Corruption. There were no reported cases of official involvement in narcotics trafficking on Taiwan. The Taiwan administration continues to identify political, economic, and judicial corruption as 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, to include 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 and remains the primary avenue for cooperation.

Drug Flow/Transit. The PRC, North Korea, and Thailand remain the principal sources for heroin and methamphetamine entering Taiwan. The Taiwan island chains of Kinmen, 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 these types of drugs into Taiwan from the PRC. North Korea continues to be a source of heroin for Taiwan. There has been a marked increase in the number of drug couriers transiting Taiwan's international airports. Taiwan has witnessed an increase in 2003 of methamphetamine labs and manufacturing plants, and it reported the seizures of 10 such labs. This increase is attributed to the crackdown on such facilities in the PRC and a relocation of manufacturers to Taiwan.

Domestic Programs. The Ministry of Education and National Health Administration provide training for teachers on how to discourage drug use. They are 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 United States' main counternarcotics policy goal, in cooperation with Taiwan, continues to be a coordinated effort to keep Taiwan from becoming a major transit/transshipment point for U.S.-bound narcotics.

The counternarcotics authorities on Taiwan continue to regularly share intelligence and investigative leads with the DEA and, in turn, enjoy a close working relationship with DEA's Hong Kong country office and AIT's Regional Security Office. In 2003, MJIB, Coast Guard, and NPA police units participated in joint investigations in cooperation with DEA.

The 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 plans to conduct additional training with counternarcotics agencies on Taiwan, to continue to enhance its relationship with these authorities, fully share intelligence in a timely manner, and increase joint investigations and operations in furtherance of agreed upon policy initiatives.

Thailand

I. Summary

Thailand has ceased to be a major source country for heroin, and the U.S. Government did not include Thailand in its annual survey of opium poppy cultivation and heroin production in Southeast Asia for 2003. Thailand is a major importer and consumer of amphetamine-type stimulants (ATS), which are largely manufactured in Burma. The ATS abuse problem in Thailand is the worst in the world. It is recognized by the Thai government and people as a major national security problem, and an important threat to the safety and health of the Thai people. The Thai government has had successes in implementing its comprehensive national strategy to combat illicit drug abuse, trafficking and production by controlling drug demand through prevention and treatment, and reducing drug supply by drug law enforcement, interdiction and drug crop elimination. During 2003, Thai authorities carried out an intensified national campaign to suppress illegal drug sales, which many observers claim led to complicity by some provincial police in killing of suspected drug traffickers. Drugs smuggled into Thailand also transit to other countries including the U.S. No quantified information on the extent of such transit is available. The U.S. as a matter of policy encourages Thailand to continue to implement its national drug control strategy, and to maintain and enhance its regional leadership role and growing status as a donor of drug control assistance to other countries. Thailand is a party to the 1988 UN Drug Convention.

II. Status of Country

Thailand does not produce heroin, ecstasy, ketamine, or cocaine, although all of these drugs were trafficked into Thailand to a greater or lesser extent in 2003. There is limited cultivation of cannabis, and some methamphetamine is reportedly manufactured in Thailand, although such production is considered statistically insignificant when compared to the volumes of methamphetamine smuggled from Burma.

The most commonly abused drugs in Thailand in 2003 were ATS and cannabis. ATS is most frequently encountered in the form of pills or tablets whose purity averages about 25 percent methamphetamine (locally called “yaaba”). Most ATS consumed in Thailand is produced and smuggled from Burma (or, to a lesser extent, from Laos). Many traditional heroin trafficking organizations in Burma, especially the United Wa State Army (UWSA), dominate ATS manufacturing and smuggling. ATS abuse remains prevalent among all age and socio-economic groups and regions throughout Thailand, despite some reductions following a substantially enhanced effort by the Royal Thai Government (RTG) against ATS trafficking and abuse during 2003. The RTG, and Thai society, properly perceive ATS trafficking and abuse as a major national security problem, and an important threat to the safety and health of the Thai people.

Although still limited relative to ATS, the availability and use of ecstasy, ketamine and cocaine has continued to grow. Ecstasy remains an expensive party drug with a largely upper-class or foreign clientele, although its retail price is declining. Most ecstasy is smuggled from Europe, often via intermediate countries, although there is evidence of some ecstasy production in the region. Seizures of ecstasy typically occur at airports while entering Thailand, or at resort areas after successfully passing through the airports. Ketamine is also encountered as a limited “club drug”, most of which appears to originate in Pakistan. There were again a significant number of cocaine seizures in 2003, although the quantities involved in each individual seizure remained modest. West African trafficking organizations, dominated by Nigerians, control the bulk of the cocaine market.

Thailand has ceased to be a source of heroin. Its harvestable opium poppy crop has been below the U.S. statutory definition of a major producer (1000 hectares) every year since 1999. In 2003, the U.S. Government did not include Thailand in its annual opium poppy crop survey for Southeast Asia. No heroin production laboratories have been found in Thailand for years. Heroin seizures have diminished in number and size. As of early November, 422.73 kilograms of heroin had been seized in 2003. Most seizures were modest amounts of less than 30 kilograms. There was one seizure of 86 units (just over 60 kilograms) and another of 86 kilograms. The domestic population of heroin addicts, estimated by ONCB, the Thai Narcotics Control Coordinating Agency, at fewer than 100,000, is dependent on heroin smuggled from abroad. The UN Office on Drugs and Crime (UNODC) considers that most of the diminishing quantity of heroin produced in Burma and Laos now reaches other markets through southern China.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In his birthday address to the nation in early December 2002, His Majesty the King expressed his concern at the extent and damaging effects of illegal drug abuse among the Thai people. In response to this initiative, in January 2003 Prime Minister Thaksin announced that the RTG would undertake a greatly intensified national campaign against smuggling, trafficking, sale and abuse of illegal drugs, with the objective of making Thailand “drug free” by the King's next birthday in 2003. The initial three months of this campaign in February-April were directed primarily against retail dealers of illegal drugs, followed by efforts to identify and eliminate the “dark influences” of major organized crime figures and associated corrupt public officials. There were also efforts to enhance national public awareness and drug prevention measures, and to identify drug addicts and abusers, and bring them into treatment programs. The implementation of this initiative and its results are discussed in greater detail below. In his birthday address in December 2003, the King expressed satisfaction at successes against illegal drug trafficking and abuse during the year, but said he was concerned at the reported number of drug-related murders that remained unsolved, and asked that the government further investigate these cases. This prompted a renewed series of calls in the Thai media by human rights activists for further investigation of unsolved deaths. The government announced a re-examination of unsolved cases, which was not complete as this report was prepared.

Internationally, Thailand continued to expand its role as a donor, as well as a recipient, of drug control assistance. Despite occasional border tensions, Thailand continued efforts to enhance drug control cooperation with Burma, including implementing a Thai-funded alternative development project to reduce poppy cultivation at the Yaung Kha site along Thailand's border with Burma. The RTG announced that it will fund the construction and operation of a drug abuse treatment clinic near the border in south-central Laos, at a cost of approximately \$600,000. Thailand engaged India in discussion of drug control measures with the participants in existing regional initiatives, including China, Burma, Laos and Cambodia; a joint declaration with India addressed the importance of control of precursor chemicals used in methamphetamine production in Burma, of which India is a major source. The RTG hosted several visits by Afghan officials to observe Thai programs and activities that have essentially eliminated illicit opium poppy cultivation in Thailand. During 2003, Thailand has continued to promote the ASEAN and China Cooperative Operations Against Dangerous Drugs (ACCORD) initiative, which is supported by the ASEAN secretariat and the UNODC Regional Office in Bangkok.

Accomplishments. During 2003, ONCB began to employ new legal authorities established late in 2002 that authorize use of wiretap evidence in drug investigations and allow reduction of sentences for convicted drug offenders who cooperate with prosecutors. Parliament continued to consider a more general law on plea bargaining in criminal cases, controlled deliveries, establishment of a witness protection program and other improvements in substantive and procedural criminal law.

Under Thai law, the death penalty may be imposed for drug trafficking in cases that involve relatively small quantities of illegal drugs (e.g. 100 grams of heroin). Since before World War II, executions in Thailand have been carried out by firing squad. In October 2003, the RTG announced that firing squad executions would be ended, and opened a new facility for execution by lethal injection at the central Bangkok prison. To date, the first execution by this means has not yet been announced.

Since its establishment in 1998, the International Law Enforcement Academy (ILEA) in Bangkok, which is operated by Thailand and the United States, has provided training to more than 3,000 criminal justice sector officials from the member countries of ASEAN (except Burma) and China (including Hong Kong and Macao). During 2003, the ILEA curriculum included drug and other law enforcement training, with many courses now addressing law enforcement measures relating to terrorism. On June 29, 2003, the U.S. Ambassador and the Foreign Minister of Thailand jointly presided at a groundbreaking ceremony for the permanent ILEA instructional/office building on land made available by the Thai government. Completion of the new facility is estimated in April 2004.

Law Enforcement. The enhanced law enforcement measures to suppress illicit drug trafficking and retail sales, particularly during February-April 2003, led to the arrest (through July 31) of 73,231 suspects and seizure of over 23 million methamphetamine pills. In an October letter to the Secretary of State, the Foreign Minister stated that during the February-April period, 2,593 homicide cases were recorded (roughly double the normal level of about 400 per month). About half of these deaths were considered by the Royal Thai Police (RTP) to have been probably drug-related. In a small number of cases (55, of which 45 were drug-related), police acknowledged use of firearms that resulted in deaths of suspects or other persons. The RTP Inspector General stated that some of the latter cases have led to disciplinary action or prosecution of the police involved; in others, the police use of force was found to have been justified. Six months after this phase of the campaign ended, a far larger share of other drug-related deaths remained unsolved than was the case for non-drug related murders. RTG officials claimed that these deaths were “cut-out killing” by drug traffickers to silence potential informants. Some commentators, non-governmental organizations and human rights groups contended that most of the unsolved murders were actually perpetrated by, or were committed with the complicity of, RTP members assigned to provincial police. At the end of 2003, the majority of these drug-related murders remained unsolved, and there was little, if any, public progress in their investigations. None of these murder cases involved leading figures in major trafficking organizations who were the targets of investigations in which DEA is cooperating with selected officials of the RTP and ONCB.

Following the intensified enforcement campaign, and simultaneous efforts by Border Patrol Police and the armed forces to enhance interdiction of drug smuggling in border areas, retail prices for ATS reportedly increased substantially in many areas, and there were local reports of limited availability. After the end of this direct campaign against drug sales, there were reports that illegal drug availability was recovering, at least in some areas. Despite a December announcement of great success in the enhanced counternarcotics campaign by the Prime Minister, the intensified enforcement effort from February through the end of 2003 clearly could not make Thailand “drug free”, and he did not make such a claim. However, many drug abusers were forced to resort for lesser or greater periods to alternative substances. Many remain afraid to try to illegally buy methamphetamine tablets. Street-level methamphetamine dealers appear generally more cautious about open retail sale of drugs. Trafficking of methamphetamine continues, seizures of 500,000 to 1.5 million tablets still occur, and Thai officials charge that traffickers have hidden millions of tablets on the Burma side of the border, waiting for Thai drug enforcement efforts to subside. Burma-based major trafficking organizations reportedly blame Prime Minister Thaksin for having considerably disrupted their business this year.

During 2003 (February-November), ONCB reported a total of 89,768 suspects arrested for drug trafficking offenses. Reported seizures include 422.73 kilograms of heroin, 10,098.0 kilograms of opium, 39,461,950 tablets of methamphetamine or other ATS drugs, 10,618 kilograms of cannabis, 28.0 kilograms (112,041 tablets) of ecstasy, and 457 kilograms of inhalants.

Corruption. Public corruption is a serious problem in Thailand, and is recognized as such. Historical and cultural attitudes of deference to individuals of wealth, high social standing or official position have contributed to public acquiescence toward corruption. 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 transnational and organized crime to facilitate or protect illegal activities, including drug trafficking, trafficking in persons, fraudulent document production, migrant smuggling, money laundering and other crime, contribute to corruption in law enforcement and judicial institutions.

As a matter of government policy, the RTG does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. There is no evidence that senior officials of the RTG engage in, encourage or facilitate the illegal production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Following the February-April enforcement effort against retail drug sales, Prime Minister Thaksin announced a new phase of the effort, to act against the “dark influences” of the leaders or influential protectors of major criminal organizations, and corrupt public officials associated with them. Some significant suspects have been arrested, and substantial assets were seized. In December 2003, the RTG announced that 1,257 public officials were arrested for drug offenses or drug-related corruption. In July 2003, a well-known operator of a chain of upscale massage parlors in Bangkok unleashed a barrage of accusations of widespread bribe-taking among Bangkok police, an activity which he alleged extended to senior national-level RTP officials. Senior government and RTP officials reacted angrily to the accusations, but announced that all charges would be investigated, and several senior officers were placed on administrative leave or dismissed.

One non-drug related case originated by the National Counter- Corruption Commission (an autonomous institution established by the 1997 Constitution) demonstrated that political prominence is no longer necessarily a guarantee of impunity. The Supreme Court's special political corruption chamber convicted a politically prominent man, who served at various times in five ministerial positions, of accepting bribes in connection with procurement of hospital supplies while he was Minister of Health in 1998-9. The ex-minister jumped bail and is now a fugitive from a 15-year prison sentence. This is the first time that a former minister has been convicted on such a corruption charge.

Over years, the ONCB and the RTP Narcotics Suppression Bureau have exhibited a high degree of professionalism and honesty. Since the formation of Special Investigative Units in Thailand in 1998, the DEA office in Thailand has relied heavily on those units in investigations of major drug trafficking organizations. Security of these complex investigations against major drug traffickers, including in past years those sought for extradition to the U.S., has been maintained.

Corruption is certainly the most difficult and durable problem faced by Thailand's entire law enforcement and criminal justice system. However, the Thai government has displayed its willingness, backed by growing popular support, to implement effective measures to prevent, or to investigate and punish, such public corruption.

Agreements and Treaties. Thailand is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs and the 1971 UN Convention on Psychotropic Substances. Thailand signed, but has not yet ratified, the UN Convention Against Transnational Organized Crime, and in December 2003, Thailand signed the new UN Convention Against Corruption.

On September 22, 2003, the U.S. Ambassador and the Ministry of Foreign Affairs' Director General for Technical and Economic Cooperation signed a bilateral agreement on narcotics control and law enforcement assistance, with initial funding for U.S. Fiscal Year 2003. Thailand has bilateral treaties with the United States on extradition, mutual legal assistance and exchange of penal sentences. During

2003, the U.S. extradited one fugitive requested by Thailand. There were no extraditions from Thailand to the U.S.; extradition was ordered by a Thai court of one U.S. fugitive for a charge of murder for hire, but the case is awaiting decision on appeal. A number of pending requests include incidents of murder, escape from prison, arms trafficking and other crimes. Thailand routinely responds to requests from the United States for assistance under the mutual legal assistance treaty, and repatriates qualified American prisoners under the prisoner transfer treaty.

During 2003, Thailand concluded bilateral agreements with a number of other countries for cooperation in drug law enforcement or related matters, including efforts to relieve the prison system of foreigners by treaties for exchange of penal sentences. In 2003, Thailand concluded such a treaty with Nigeria, and in March, a group of 339 convicted Nigerian offenders, most of them on drug charges, were repatriated in a single group on an aircraft sent by the Nigerian government to complete their sentences in Nigeria.

Cultivation/Production. Through one of the most successful drug crop control programs in the world, Thailand has ceased to be a source of heroin or of significant quantities of opium. In the 2002-03 season, Thai authorities reported that they identified 842 hectares of attempted poppy cultivation, 33 percent less than in 2001-02. Royal Thai Army (RTA) and RTP eradication teams destroyed 767 hectares of this cultivation. ONCB estimated that the remaining 75 hectares could have produced at most less than two metric tons of opium. ONCB believed that most or all of any harvested opium was probably consumed in unprocessed form by the individuals or tribes that grew it.

The RTG continues to maintain programs under the Royal Projects, which began in the early 1960's, to offer farmers in areas where poppy can be grown legal alternative crops or livelihoods. During the 2003-04 poppy growing season, the RTA and ONCB plan to seek systematically to identify and apprehend "business men" who traditionally promote poppy cultivation and buy harvested product from growers. Eradication workers will, as always, take no measures against individual growers, but will seek to elicit their cooperation to reach the lowest-level representatives of heroin trafficking organizations.

Some cultivation of cannabis occurs on both sides of the Mekong River in Thailand and Laos. ONCB reported that RTG officials found and eradicated just over 22 hectares of cannabis during 2001. ONCB believes most cannabis consumed in Thailand is smuggled over the borders from Laos and Cambodia.

Production in Thailand of refined opiates ceased with elimination of large-scale poppy cultivation. Years ago, several heroin processing laboratories were found and destroyed annually. None have been found in Thailand for several years. There have been reports of some small-scale "kitchen" methamphetamine laboratories, but ONCB considers that the vast bulk of ATS drugs sold in Thailand are produced in Burma. There is no known production of other illicit drugs or controlled substances in Thailand.

Drug Flow/Transit. Methamphetamine, cannabis, opiates and other illegal drugs smuggled into Thailand are largely destined for sale and consumption by Thailand's large and well-documented population of illegal drug users. There is also transit of illegal drugs through Thailand to other countries, although its exact extent cannot be quantified.

Methamphetamine produced in Burma enters Thailand largely across the northern, northwestern and western land borders. Methamphetamine is also smuggled through Laos and Cambodia to destinations in Thailand. Drugs are generally carried across uncontrolled parts of the borders (or carried across the Mekong border by small boat) by individuals or groups of couriers, often associated with organizations such as the UWSA. Armed clashes between drug couriers and the Border Patrol Police or RTA have become common; one or more occurred nearly every month during 2003. A number of police and RTA personnel, and even more couriers, have been killed or wounded. Once within Thailand, drugs are consolidated and smuggled, generally by road, to Bangkok or other metropolitan

markets. Several cases are discovered each year of smuggling of Burmese-origin ATS pills to destinations in the U.S. or other countries, generally by international mail or parcel service. However, ATS used in Thailand is mostly in pill form, while the most common form for abuse of this drug in the U.S. and most other countries is the crystalline form known as “ice”.

Heroin that is sold to Thailand's domestic population of heroin addicts (estimated variously between about 35,000 and 100,000) is generally smuggled by the same routes, and the same groups, as methamphetamine. Beyond traditional overland and maritime smuggling routes from Burma and Laos, since 2001 an additional heroin flow pattern has developed into Thailand involving couriers from Southwest Asia. Individual couriers are often Pakistani, Nepalese or West African, but have included other nationalities. They generally carry small quantities of heroin, either ingested or concealed in luggage. At least one Pakistani courier who arrived on a flight from Pakistan died due to an overdose when ingested heroin packets failed while he was in Thai custody in 2003. In one case, ONCB reports that a Thai female was recruited to travel to Pakistan to carry heroin from there to South Africa. This traffic has reportedly developed due to lower acquisition costs for heroin in Southwest Asia, relative to the cost in Burma. While some Southwest Asian heroin may be destined for sale in Thailand, this flow has mainly included identified instances of continuation of shipments to destinations in the United States. Investigations have been developed by DEA in Thailand of Pakistani, West African and Nepalese trafficking organizations engaged in smuggling heroin to the U.S. Investigations being conducted by DEA Thailand include organizations with links to Los Angeles, the Pacific Northwest, Chicago, New York and the Washington, D.C. area.

Neither Thai nor other law enforcement authorities possess quantifiable information on the volume or destination of heroin, cannabis or other drugs that may transit Thailand destined for markets in other countries. In response to inquiry, the ONDB Deputy Secretary General responsible for law enforcement said that given the long-term decline in poppy cultivation and heroin production in Burma, increase in drug transit through China and through other regional commercial and transportation centers such as Malaysia and Singapore, and the diminution of transit through Thailand, he considered that transit through Thailand is now not much, if at all, more significant than is the case in other comparable countries in this region. DEA considers that while drug transit through Malaysia and Singapore is increasing, transit through Thailand is still more significant. Heroin seizures during 2003 (January-November) in Thailand totaled 422 kilograms. Most seizures were modest amounts of less than 30 kilograms; the largest single seizure was 86 kilograms. ONCB is aware of heroin that transited Thailand in 2003 en route to Indonesia, and believes there is such transit to Australia. One or two drug seizures have involved heroin destined for recipients in Malaysia. There is known transit of cannabis through Thailand to other countries in the region such as Malaysia; seizures of hundreds of kilograms in single lots occur several times annually.

In September 2003, the United Kingdom closed the Drugs Liaison Office previously operated by HM Customs Service at the British Embassy in Bangkok. The Embassy said British authorities concluded that transit of drugs, primarily heroin, through Thailand whose ultimate destination was the UK had diminished to a point where Thailand was no longer a substantial enough priority, relative to other source and transit areas, to justify maintaining the office. The U.S. Government annual survey of opium poppy cultivation in Southeast Asia for 2003 indicates that potential opium production in the region was about one-quarter the production estimated in 1993. Ten years ago, Thailand was the primary transit route for Burmese-origin heroin. UNODC now estimates that sixty percent or more of the steadily diminishing amount of heroin produced in Burma and Laos now reaches world markets through China. Smuggling of heroin by maritime routes that do not involve transit of Thailand has also increased.

Ecstasy, ketamine and cocaine are normally smuggled into Thailand by individual couriers traveling by commercial airlines. In one 2003 case, cocaine smuggled into Thailand transited the U.S. In another, an Indian courier carried cocaine on a flight from Amsterdam. Party drugs are often found on

individual couriers, cocaine is usually carried by individuals of many nationalities working for West African or Nepalese organizations. U.S. and other foreign immigration officials assigned to embassies in Bangkok operate a full-time Immigration Control Experts office at the Bangkok International Airport to assist Thai authorities to identify mala fide international travelers, including drug couriers.

Domestic Programs/Demand Reduction. The enhanced campaign against drug trafficking and sale during 2003 has been accompanied by an intensification of RTG efforts to disseminate public awareness and prevention messages, and to expand substance abuse treatment availability to addicts or abusers who need it.

In 2001-2002, ONCB led and funded a collaboration by seven major Thai universities in all parts of the country to conduct a full-scale national household survey of drug and substance abuse. Based on survey responses, it was estimated that over five and a half million Thais have used at least one illegal drug or substance of abuse at some time in their lives. Nearly three and a half million were estimated as having used some ATS drug, of whom nearly 500,000 had done so within the past 30 days. The survey found that ATS abuse is prevalent in virtually all age groups, socio-economic groups and geographic areas throughout the country.

ONCB and the Ministry of Public Health are responsible for coordinating prevention and treatment programs, with participation by other agencies, and by NGO's through a national NGO's Anti-Narcotics Coordinating Committee. The Ministry of Education has incorporated drug awareness and prevention messages in school curricula at all levels. A permanent epidemiological network supports design of 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 illegal drugs.

The Ministry of Public Health further expanded ATS treatment programs abuse, particularly those based on the Matrix model developed at UCLA. Community-based outpatient treatment centers for ATS abuse now exist throughout the country, and are being further expanded as health care providers receive appropriate training. The RTG has expanded drug abuse treatment in the correctional system, in collaboration with the U.S. NGO Daytop International. The Department of Corrections has implemented therapeutic community programs in juvenile corrections and intake centers. The RTG continued and expanded use of camps operated by the three armed forces, which provide three months of rehabilitation for drug-dependent prisoners within six months of their release date. Thailand continued sentencing drug-dependent first offenders charged with possession of small quantities of drugs to mandatory substance abuse treatment as an alternative to incarceration.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. drug control policy goals expressed to the RTG in 2003 are to encourage the RTG to:

Maintain all elements of its successful opium poppy crop reduction program, and extend that expertise also to other countries such as Burma, Laos and Afghanistan; Develop and implement more effective criminal investigation and prosecutorial laws, procedures and methods; Strengthen enforcement against money laundering; Cooperate with Burma and other countries in measures against cross-border smuggling and trafficking in methamphetamines and precursor chemicals; Investigate killings associated with the February-April 2003 campaign to suppress drug trafficking, and ensure that officials implicated in using unjustified measures are brought to justice; Continue as a leader in regional activities under the "ACCORD" Plan of Action, continue and expand Thailand's leadership in regional and international drug and crime control; Enhance measures against corruption and promote integrity in public institutions.

The International Narcotics Control and Law Enforcement (INCLE) assistance program in Thailand is one of the oldest in the world, and has provided over \$85 million since its inception in the 1970's. Beginning with FY 2001, this program has included increasing assistance to improve the institutional capabilities of the criminal justice system in general, including but not specifically limited to drug crime, and to improve capabilities against non-drug crimes that are also international policy concerns of the U.S. In 2003, the Embassy was informed, and informed concerned RTG authorities, that while the latter aspect of the INCLE program (including support for ILEA/Bangkok) would continue, longstanding INCLE projects for support of drug law enforcement and opium poppy crop control will be substantially reduced in FY 2004. The President's budget request for FY 2005 has not yet been submitted, but the Embassy has been advised that these projects may be terminated in that year. The United States will therefore encourage the RTG to employ its own resources, as it has increasingly done in recent years, to support interdiction and drug law enforcement, opium poppy crop control, and other aspects of its national strategy against the abuse, trafficking and production of illicit drugs.

The U.S. Mission in Thailand includes offices of the Drug Enforcement Administration, the Federal Bureau of Investigation, the U.S. Secret Service, the Department of Homeland Security (Immigration and Customs Enforcement), and the Diplomatic Security Service. Agents of these agencies cooperate closely with Thai authorities in investigations of drug trafficking organizations and related offenses, as well as non-drug crimes. In March, an investigation by DEA in cooperation with the RTP/ONCB Special Investigative Unit (SIU) developed sufficient cause under Thai conspiracy laws to execute 26 search warrants on residences of members of a trafficking organization operating out of the Khlong Toey slum section of Bangkok. The head of the organization was arrested. Search of one condominium yielded several M-16's, ammunition and explosives, as well as 18,000 methamphetamine tablets. Cash, bank accounts, jewelry, gold and other assets were seized, whose total value was about \$25.6-million. The largest single heroin seizure in 2003 (noted above), approximately 86 kilograms packaged in 218 individually wrapped blocks, occurred in March in the northern border area, as a result of a joint and very complex investigation involving the DEA Chiang Mai Resident Office, Border Patrol Police and the Royal Thai Army. In addition to the heroin, approximately 133 kilograms of methamphetamine tablets were seized (some bearing logos not previously encountered), and two ethnic Wa suspects were arrested. The source of the drug supply was identified as the Wa National Army. In November, a case developed by the DEA Resident Offices in Udorn and Songkhla, and the ONCB offices in Khon Kaen and Songkhla, resulted in seizure of a total of 570 kilograms of marijuana that had been moved from the Laos border for delivery in Hat Yai on the southern border. The case resulted in arrest of five suspects who moved the drugs by vehicle. ONCB believed most of the marijuana was destined for delivery in Malaysia.

The Road Ahead. Despite prospective reduction of U.S. financial assistance, RTG agencies concerned with drug law enforcement, opium poppy crop control, and drug abuse prevention and treatment, will continue with their own resources to effectively and successfully implement all aspects of Thailand's comprehensive national strategy against abuse, trafficking and production of illicit drugs. Thailand will further expand its role as a regional leader in drug control and efforts against related forms of transnational crime, will continue to cooperate closely with the international community on these issues, and will continue to increase its participation as a provider of expertise and donor of assistance in these areas.

Close cooperation between Thailand and the U.S. will continue on drug and other crime control issues. Extradition and mutual legal assistance relationships, and investigative cooperation between law enforcement authorities, will remain strong. Regional cooperation against transnational crime will be further promoted through continued effective operation of ILEA/Bangkok.

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 more effectively enlist

public participation and support in measures against official corruption. Thailand should move as promptly as possible to implement the UN Convention Against Transnational Organized Crime and the UN Convention Against Corruption, and should give special attention to designing and implementing specific measures to promote public integrity and prevent official corruption, such as those identified in the UN Convention.

Thailand Statistics

(1994–2003)

	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Opium										
Potential Harvest (ha)	75	750	820	890	835	1,350	1,650	2,170	1,750	2,110
Eradication (ha)	767	507	832	757	808	715	1,050	880	580	0
Cultivation (ha)	842	1,257	1,652	1,647	1,643	2,065	2,700	3,050	2,330	2,110
Potential Yield ¹ (mt)	2	9	6	6	6	16	25	30	25	17
Seizures										
Opium (mt)	10.098	—	2.053	0.630	0.440	1.500	0.720	0.620	0.920	0.600
Heroin (mt)	0.423	0.525	0.417	0.290	0.310	0.530	0.320	0.390	0.690	1.100
Cannabis (mt)	10.618	—	8.08	6.50	45.25	6.00	9.00	44.00	46.00	71.00

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 2003. Specific actions included sustained law enforcement efforts to pursue drug traffickers, increased attention to interagency coordination, continued cooperation with the United Nations Office of Drugs and Crime (UNODC), increased attention to drug treatment and harm reduction, a more aggressive public awareness campaign, and additional bilateral/multilateral cooperation on HIV/AIDS, an issue closely related to intravenous drug use in Vietnam. In December 2003 the GVN and the U.S. government (USG) signed a long-delayed Letter of Agreement (LOA), but cooperation with the Drug Enforcement Administration (DEA) Country Office in Hanoi was minimal. Vietnam 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.

II. Status of Country

Vietnam meets the U.S. legislative criteria (at least 1,000 hectares of opium poppy cultivation) to be designated a “major drug-producing” country. Based on an imagery-based survey conducted in 2000, the USG estimates that 2,300 hectares of poppy are cultivated in the remote mountain areas of the northern and western provinces of Lai Chau, Son La, and Nghe An. The GVN claims that only about 94 hectares are devoted to opium poppy cultivation. Cultivation in Vietnam probably accounts for about one percent of cultivation in Southeast Asia, according to a law enforcement estimate. 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 a transit country for heroin produced in the Golden Triangle. Heroin is trafficked into Vietnam from neighboring countries for wider distribution within the region. Heroin seizures in Taiwan, Hong Kong, Japan, and, increasingly, Australia have been traced to Vietnam. DEA has not yet tied any drug seizures in the U.S. directly to Vietnam, but reports that heroin transiting Vietnam may be entering the U.S. via Canada.

Vietnam has also seen an increase in the availability of amphetamine-type stimulants (ATS), some of which enter the country from Cambodia. GVN authorities are particularly concerned about ATS use among urban youth and, during 2003, increased the tempo of enforcement and awareness programs that they hope will avoid a youth epidemic similar to what has occurred in Thailand. According to the Standing Office of Drug Control (SODC), ATS and ecstasy (MDMA) are increasingly popular among the youth addict population, in addition to the ever-rising demand for heroin.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GVN's counternarcotics efforts are led by the National Committee on AIDS, Drugs, and Prostitution Control (NCADP), chaired by Deputy Prime Minister Pham Gia Khiem. The committee's high-level membership drawn from government ministries and mass organizations gives the drug issue impressive bureaucratic clout. In December 2000, the National Assembly (NA) passed a national basic law on drug suppression and prevention. The law went into effect June 1, 2001. UNODC is assisting the GVN to develop implementing regulations for the new law, which will allow law enforcement authorities to use techniques such as controlled deliveries, informants, and undercover officers. In the meantime, the GVN has issued eight decrees relating to the law. According

to an UNODC analysis, the decrees are inadequate for law enforcement purposes, since implementation of the law requires legal instruments permitting use of sophisticated investigative techniques, international cooperation, extradition, controlled delivery, and maritime cooperation.

The GVN continued working with UNODC to develop its ten-year counternarcotics master plan, supported by assistance from several foreign donors, including the U.S. The current 2001-2005 plan of action includes the following 13 projects: building the national master plan for drug control through 2010; strengthening the capacity of the national coordinating counternarcotics agency; implementing crop substitution programs in Ky Son District, Nghe An Province; strengthening the capacity to collect and use drug information; strengthening the capacity to prevent and arrest drug criminals; building and completing a counternarcotics legal system; educating students on drug awareness and prevention; strengthening drug prevention activities in Vietnam; preventing drug abuse among workers; strengthening the capacity to treat and rehabilitate addicts; preventing drug use among street children; reducing the demand among ethnic people; and, preventing the spread of HIV/AIDS among addicts through demand reduction intervention.

According to SODC officials, the GVN at the national level expended approximately \$6 million for counternarcotics activities in 2003. Provincial and district governments have separate budgets, so the overall investment is higher. Despite increased expenditures at all levels, observers agree that lack of resources continues to be a major constraint on the effectiveness of Vietnam's counternarcotics activities.

In 2003, Vietnam continued to advance regional and multilateral law enforcement coordination. In September 2003, Vietnam hosted the Senior Officials Committee and Ministerial Meeting of the Signatory Countries to the 1993 UNODC Six Country Memorandum of Understanding Conference on Drug Control. As a result of the three-day meeting, the six countries (Burma, Cambodia, China, Laos, Thailand, and Vietnam) agreed to expand the Border Liaison Offices program. Because of procedures established by the program, in April 2003 Vietnamese officers handed over a Chinese drug dealer to Chinese authorities at the Mong Cai border crossing. Vietnam also cooperated with INTERPOL to assist authorities from Canada, Germany, and Australia to investigate drug trafficking cases involving overseas Vietnamese and criminal organizations located in Vietnam.

Cooperation between Vietnamese law enforcement agencies and DEA was limited. DEA agents have not been permitted to work with Vietnamese counternarcotics investigators in an official capacity, and the counternarcotics police have declined to share information with DEA or cooperate operationally. GVN officials claim they are unable to cooperate more fully with DEA because drug information is classified and subject to national security regulations. The scope of investigations undertaken by Vietnamese drug enforcement agencies and officers' ability to exercise initiative remain narrow, limiting the impact of enforcement on the drug trade in Vietnam. Officers target mostly low-level drug distributors who remain within the narrow scope of their authority and investigative capability.

Accomplishments. During 2003, the GVN issued Decree 58 controlling the import, export, and transit of drug substances, precursors, addictive drugs, and psychotropic substances. According to the decree, only businesses authorized by the Ministries of Health, Industry, and Public Security can import/export drug substances, precursors, addictive drugs, and psychotropic substances for specific, licit purposes. The GVN and UNODC signed on December 1, 2003 a project document titled "Interdiction and Seizure Capacity Building with Special Emphasis on ATS and Precursors," which will create counternarcotics task forces in five provinces. The project, supported with U.S. funding, builds on a Vietnamese pilot project begun earlier.

Law Enforcement Efforts. According to the GVN 2003 seizure statistics (January 1 to September 30), heroin seizures increased by about 350 percent; marijuana seizures were up by over 40 percent; and, the amount of land devoted to opium poppy cultivation declined from about 315 hectares to 94 hectares. The total number of registered addicts rose from 131,000 to 152,900, an increase of about 17

percent. According to SODC, the actual number of addicts in the country (including non-registered addicts) is certainly “many times higher.” Seizures of ATS also increased since last year. During the first nine months of 2003, there were 10,000 drug cases with 16,000 suspects arrested. If projected over the entire year, there would be a decline of 8.7 percent in the number of cases and decrease of 9 percent in the number of suspects arrested. Most arrests involve relatively low-level street dealers.

Drug laws are very tough and punishments severe in Vietnam. The death penalty may be imposed for possession of relatively small quantities of heroin, opium, or cannabis. Those convicted of possessing or trafficking 600 grams (1.32 lbs.) or more of heroin receive a mandatory sentence of death by a seven-man firing squad. Despite the tough laws, drug trafficking continues to rise.

Most drug trafficking in Vietnam is conducted by relatively small groups of five-to-fifteen individuals, usually relatives or family members. As Vietnam becomes a more attractive transit country, however, larger trafficking groups could become more prominent, particularly if law enforcement capacity is not improved. Examples of some important recent cases follow:

In Quang Tri province, a drug ring was exposed in June after Quang Tri provincial counternarcotics police seized 40 kilograms of heroin on a truck entering Vietnam from Laos via Lao Bao border gate. In another major case, Ho Chi Minh City counternarcotics police arrested eight people on charges of smuggling a record 462 kilograms of heroin from Laos through Nghe An to southern provinces over the course of the year. Police suspect the eight traffickers, one of whom was the chief of a district counternarcotics police office, had links to other organized criminal syndicates in Asia.

Corruption. GVN officials regularly issue policy statements condemning corruption and threatening severe punishment, including the dismissal and prosecution of corrupt officials. The criminal prosecution of “Mafia” chief “Nam Cam” and 154 other defendants in Ho Chi Minh City included charges of corruption, in addition to crimes such as murder, assault, and gambling. Two defendants, an MPS Vice Minister and a Deputy Supreme Prosecutor, were expelled from the Communist Party of Vietnam's Central Committee in 2002. The 154 defendants, including numerous police officials, were found guilty and six received death sentences. Corruption is endemic in Vietnam, and narcotics trafficking and abuse continue to grow in a society where every small urban neighborhood and every rural village has both government and party officials charged with security duties. The very pervasiveness of the “state” in Vietnam underlies the suspicion that narcotics trafficking is facilitated by corruption among government and Communist Party officials.

Agreements and Treaties. Vietnam is a party to the 1961 UN Single Convention on Narcotic Drugs, the 1971 Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The USG has no extradition, mutual legal assistance, or precursor chemical agreements with Vietnam. In December 2003 Vietnam concluded a bilateral Letter of Agreement on Counternarcotics Cooperation with the U.S. The agreement was signed in Los Angeles during the visit of Deputy Prime Minister Vu Khoan and will provide U.S. training and technical assistance.

Vietnam has counternarcotics agreements and MOUs with seven other countries: Burma (March 1995), Thailand (November 1998), Russia (October 1998), Hungary (June 1998), Cambodia (June 1998), Laos (July 1998), and China (July 2001). Vietnam is currently precluded by statute from extraditing Vietnamese nationals, but the GVN is contemplating legislative changes, according to an MFA official.

Cultivation/Production. The GVN and UNODC confirm that opium is grown in hard-to-reach upland and mountainous regions of some northwestern provinces, especially Son La, Lai Chau, and Nghe An Provinces. According to USG sources, the total number of hectares under opium poppy 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 2003. UNODC and law enforcement sources do not view either cultivation or drug production as significant problems in Vietnam, but there were a few cases

involving domestic drug production. One individual was sentenced to death in Ho Chi Minh City on April 18, 2003, for involvement with a Taiwan-led drug ring that produced hundreds of kilograms of methamphetamine in a clandestine laboratory in Hoc Mon District, a suburb of Ho Chi Minh City. There have been other reports of ATS production, as well as some seizures of equipment (i.e., pill presses). There appears to be small, but persistent cannabis cultivation in Dong Nai, An Giang, Binh Thuan, and Dong Thap provinces in southern Vietnam. Anecdotal evidence also suggests that there may continue to be commercial crops of hemp in remote regions in the south.

The GVN continued to eradicate poppy when found and to introduce alternative 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 traditional medicinal purposes. There is a major ongoing UNODC alternative development/crop substitution project (with significant USG support) ongoing in the Ky Son district of Nghe An province, one of the drug “hotspots” in northern Vietnam. To avoid indirectly encouraging poppy cultivation through subsidies for eradication, the GVN has placed all crop substitution subsidies under national programs to alleviate poverty in poor, mountainous regions.

Drug Flow/Transit. Most drugs, especially heroin and opium, enter Vietnam from the Golden Triangle, making their way to Hanoi or especially to Ho Chi Minh City, where they are transhipped by air, sea, courier, and through the mail to the Philippines, Hong Kong, Taiwan, Japan, and Australia. As an example of trafficking activity, seventeen drug “mules” from Vietnam were arrested in Japan recently. In another case, Ho Chi Minh City Customs Service at Tan Son Nhat Airport discovered nearly 700 grams of heroin hidden under the soles of a pair of sport shoes worn by a Vietnamese female courier, who carried heroin to Taiwan monthly throughout 2003. Her arrest enabled Vietnamese and Taiwan police to apprehend the entire drug ring.

UNODC and DEA also believe that significant amounts of heroin and ATS enter Vietnam from China’s Yunnan province. The GVN has reported ATS shipments entering the country via Malaysia, Hong Kong, Laos, and Cambodia. Australian Federal Police (AFP) reported increased amounts of heroin and methamphetamine arriving in Australia from Vietnam via couriers. An AFP official in Hanoi reported that 18 narcotic drug shipments from Vietnam to Australia were discovered and 30 drug traffickers were arrested in 2003. Two Vietnamese-Australians Nguyen Manh Cuong and Mai Cong Thanh were arrested on June 17 in Ho Chi Minh City for possessing over 2 kilograms of heroin. The heroin was hidden in 76 loudspeakers found at a factory raid in Tan Binh district, packed and ready to be shipped to Australia. Police said Cuong admitted to sending heroin to Australia successfully on many occasions. His latest shipment was carried out in May, when he sent 110 loudspeakers packed with heroin to the U.S. via Australia.

According to the Vietnamese newspaper, *Phap Luat* (Law), ketamine emerged in 2003 in Hanoi and other major cities as a significant drug of abuse. Law enforcement agencies issued warnings of the spreading use of ketamine in nightclubs and discotheques and called for stricter control of diversion from legal sources. According to SODC, the government issued a separate decree in November to include ketamine and other newly emerging drugs in the list of prohibited substances.

Domestic Programs/Demand Reduction. The GVN views demand reduction as a key component of the fight against drugs. The Ministry of Education and Training (MOET) carries out awareness activities in schools. Counternarcotics material is available in all schools, and MOET sponsors workshops and campaigns at all school levels. In November, NCADP announced that authorities had received over 25 million entries for a nationwide contest on “knowing the drug law.” Visiting U.S. embassy officers are told by local citizens that they are aware of drug issues through media campaigns and also of the connection between intravenous drug use and HIV/AIDS. They have also observed counternarcotics billboards in virtually every town visited.

According to UNAIDS and the GVN, just under 70 percent of cumulative HIV/AIDS cases in Vietnam are related to intravenous drug use. Nationwide, 30 percent of injection drug users are HIV-infected; the percentage is much higher (60-80 percent) in Ho Chi Minh City and the northeastern provinces. The GVN in 2003 continued a public information campaign recognizing the close link between intravenous drug use and HIV/AIDS. Vietnamese television and radio have increased the pace and volume of counternarcotics and HIV/AIDS warnings through a continuing series of advertisements featuring popular singers and actors. As of the end of 2003, the GVN estimated that there were 80,000 people infected with HIV; 11,000 cases of full-blown AIDS; and 6,065 deaths from AIDS-related diseases. Because HIV testing in Vietnam is still limited, current numbers of HIV infected persons are greatly underestimated.

Vietnam has a network of drug treatment centers. There are now 74 centers at the provincial level and 7,100 treatment facilities at lower levels. The provincial centers have a capacity of between 100 to 3,000 addicts each. Haiphong and Son La are building centers. In the southern province of Ba Ria Vung Tau, the People's Committee is investing VND 97 billion (\$6.3 million) in a new treatment center, where 2,000 drug addicts, prostitutes, and HIV/AIDS patients will receive vocational training. The center will also house about 478 family members. The treatment center in Haiphong has a total area of 103 hectares with a maximum capacity of 1,000 drug addicts. Initial investment is VND 72.48 billion (\$4.7 million). There are now 12,536 drug addicts in Hanoi, of whom 1,500 are in jails, 3,500 are in treatment centers, and 7,500 are receiving "community treatment."

Over the past two years, Ho Chi Minh City has allocated VND 500 billion (\$32.3 million) for its "Three Reductions" campaign against drug abuse and trafficking, prostitution, and crime. Much of the fund was used to build, repair, and/or upgrade 18 centers for 28,000 drug addicts and sex workers. Another 23,000 drug addicts received treatment at home under the supervision of local authorities. According to Tuoi Tre (Youth) newspaper, Ho Chi Minh City in 2003 had 37,423 addicts, an increase of 7,423 over 2002. Out of that number, 33,577 are in treatment facilities. Drug center conditions range from good (in Ho Chi Minh City) to basic in some rural areas. Community-based drug treatment outside of centers is spotty; counselors are expected to make visits to addicts being treated at home and provide advice and some medicines, if needed, but services are inconsistent. The goal of treatment is to try to reduce the relapse rate (generally estimated at about 80 percent for all categories of drugs, similar to western countries) by providing recovering addicts with more skills that would enable them to assume productive lives after treatment.

According to MOLISA, the nation's rehabilitation center system has undertaken detoxification and rehabilitation for 54,760 drug addicts. Ho Chi Minh City has the largest number of participants, with 8,500, followed by Hanoi with 3,500. Only 46,723 cases were treated last year, accounting for 32.9 percent of registered drug users nationwide. The biggest obstacle for rehabilitation is job creation and post-rehabilitation monitoring. In the last 9 months, only 68 out of 9,068 post-rehab addicts obtained employment. Vocational training in the centers remains uneven, ranging from fairly good to nonexistent.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2003, Vietnam and the U.S. completed and signed a bilateral counternarcotics Letter of Agreement, which included counternarcotics and law enforcement assistance projects totaling \$333,390. The U.S. supports Vietnamese participation in training courses conducted at the International Law Enforcement Academy (ILEA) in Bangkok. During calendar year 2003, 49 Vietnamese participated in ILEA training. The USG also contributes to UNODC programs in Vietnam. During 2003, the USG made contributions to two projects: "Measures to Prevent and Combat Trafficking in Persons in Vietnam," and "Interdiction and Seizure Capacity Building with Special Emphasis on ATS and Precursors."

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 continued suspicion of foreign law enforcement assistance and/or intervention, especially from the U.S., in the counternarcotics arena. This suspicion is one of the factors impeding progress in counternarcotics law enforcement cooperation and, ultimately, in development of better investigative skills among Vietnamese enforcement officials. During 2003, as in previous years, the GVN made progress with ongoing and new initiatives aimed at the law enforcement and social problems that stem from the illegal drug trade. Notwithstanding a lack of meaningful cooperation with DEA, the GVN continued to show a willingness to take unilateral action against drugs and drug trafficking. Vietnam still faces many internal problems that make fighting drugs a challenge. The signing of the U.S.-Vietnam LOA should lead to enhanced bilateral counternarcotics cooperation.

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—though improving—police and judicial systems, and porous borders. The most common illegal drugs are heroin, marijuana, and to a lesser extent, cocaine. Heroin is typically transported through the “Balkans Route” of Turkey-Bulgaria-Macedonia-Albania, and on to Italy and Greece. Cocaine is smuggled from South America, via the United States, Italy, Spain or the Netherlands, and then passes through Albania before distribution throughout Western Europe. Marijuana is produced domestically, and there is evidence that is distributed to other parts of Europe. Although Albania is not a major transit country for drugs coming into the United States, it remains a country of concern to the U.S. Drug abuse in Albania is a growing problem, but remains small scale compared with Western Europe. Statistics on drug trafficking and abuse in Albania continue to be unreliable, 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 confronting criminal elements more aggressively, but is hampered by a lack of resources and endemic corruption. Albania is a party to the major UN drug conventions, including the 1988 UN Drug Convention. Although a 2002 Supreme Court decision questioned the validity of the U.S. government's 1935 extradition treaty with Albania, Albania has recently extradited one individual to the U.S. The GOA has no mutual legal assistance treaty with the U.S.

II. Status of The Country

The government is continuing its efforts to build security and stability throughout Albania. Police professionalism has increased in recent years, especially among units that defend public order. The judiciary is still weak and subject to corruption. However, a judicial code of conduct and a code of disciplinary procedures against judges have been implemented, leading to the dismissal of several judges on corruption charges. The government of Prime Minister Fatos Nano has undertaken a number of measures to combat trafficking of all kinds. Working with Italian law enforcement, the Albanian police and military brought a near halt to clandestine trafficking via speedboat across the Adriatic in August 2002. There have been no reports of renewed human or narcotics trafficking via that route since that time. Moreover, several senior police officials have been arrested for their participation in smuggling. More broadly, in 2003, over 450 police officers were fired, demoted, fined, transferred and/or suspended on the grounds of corruption.

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. No significant government assets are dedicated to tracking the problem and NGOs have neither the capability nor the finances to thoroughly assess the extent of drug use in Albania. However, according to the government, there are an estimated 30,000 drug users in Albania. The country continues to experience 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” cocaine are also available but expensive, keeping use of these drugs more or less stable at a low level. Heroin is imported through Macedonia, but originates in Turkey or Afghanistan; marijuana is produced domestically and smuggled abroad. Cocaine is smuggled from South America, though the route used to get it into Albania is in dispute. Albanian authorities have uncovered cases in which the cocaine was routed through the United States via airplane, while

international law enforcement agencies cite Italy, Spain, and the Netherlands as the main trafficking routes. The UN Office of Drug Control (UNODC) believes that drug use, especially among adolescents in cities, is on the rise. So far in 2003, the Toxicology Clinic at Tirana's Military Hospital—the only facility in the country to deal with overdoses—has treated 1,200 cases. There are no special treatment centers for drug addicts.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Inter-Ministerial Drug Control Committee established under Albania's basic narcotics law met for the first time on July 2, 2003. At this meeting, Committee members established a three-pronged approach to Albania's drug problem: prevention of cultivation of narcotics plants in Albania; identification and prosecution of national and international drug trafficking networks; and greater commitment to combating drug trafficking and abuse from local and central governments. Moreover, the Committee called for legal and operational changes that would enable police and prosecutors to fight drug trafficking more effectively, such as an amendment to the existing asset forfeiture law that would enable the GOA to seize criminals, illegal gains, properties, and proceeds and use them in the fight against crime. The GOA has already taken steps to increase the level of accountability to which its law enforcement officials are held. For example, a high-ranking police officer at the Adriatic seaport of Vlora was investigated and subsequently tried and convicted for cocaine trafficking.

The Albanian State Police continue to increase the number of police officers assigned to the Anti-Narcotics Unit. The current staff includes 146 police officers and agents (up from 100 last year) and a network of 12 regional offices. Nevertheless, the unit remains under-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 of violators. However, this situation will change once the Total Information Management System (TIMS), a U.S.-supported database program, is implemented. Installation is scheduled for March 2004.

Law Enforcement Efforts. Albanian police continue to increase their counternarcotics operations, including a number of large drug seizures at the port of Durres—uncovered by U.S. trained drug-sniffing dogs—and a first-ever bilateral controlled delivery sting operation in cooperation with the DEA. Authorities report that through October 2003 (2002 whole-year figures in parenthesis), police arrested 246 (295) persons for drug trafficking, six (5) of them foreign citizens. The police seized 76 (71) kilograms of heroin, 7,644 (13,717) kilograms of marijuana, 1.4 kilograms (980 grams) of cannabis seeds, 1.285 kilograms (5.6 grams) of cocaine, and 48.5 liters (600 ml) of hashish oil. Police also destroyed 17,937 cannabis plants and five (7) cannabis presses. The destruction of cannabis plants and plantations can be largely attributed to the donations of helicopters and other monitoring equipment from Italian Interforza to the Albanian Anti-Narcotics Unit. Police also confiscated 50 tablets of amphetamines. Although the quantities of narcotics seized seem to be on a trend to increase, compared to previous years, they still represent a tiny fraction of the drugs transiting Albania. The UNODC estimated that from 1997 to 2002, 96 percent of confiscated heroin and cocaine in Italy had passed through Albania. According to the Italian Anti-Narcotics Service, in the first four months of 2003 Italian authorities seized 968 kilograms of heroin, 8,106 kilograms of marijuana, 17 kilograms of hashish, and three kilograms of cocaine that had either originated from or transited through Albania. Moreover, according to the UNODC, this year Greek authorities confiscated 164 kilograms of heroin that had transited through Albania.

During cooperative operations in April 2003, targeted on passenger vehicles and tourist buses, and later cargo trucks, for eleven days between June and August 2003, seizures of 124 kilograms of heroin, 17 kilograms of raw opium, 260 kilograms of marijuana, 63 kilograms of amphetamines, 0.5 kilograms of cocaine, 6,838 tablets of MDMA, 2,566 dosages of steroids, and 1,800 vials of sedatives

were registered. Authorities also noted an apparent increase in the Western Balkan route to smuggle marijuana to Western Europe and to smuggle synthetic drugs from Western Europe to Southeastern Europe and beyond.

Illicit Cultivation and Production. With the exception of cannabis, Albania is not a major producer of illicit drugs. Cannabis is typically sold in Greece, Italy, Turkey, Bulgaria, Slovenia, the United Kingdom, and Germany. Metric ton quantities of Albanian marijuana have been seized in Greece and Italy. Police estimate that planted areas are reduced from previous years, but the regions of Shkodra, Vlora, and Fier remain problematic. As noted, with the assistance of Italian Interforza, the Anti-Narcotics Unit destroyed 17,937 cannabis plants, as well as a number of plantations, in 2003.

Corruption. 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, the GOA does not, as a matter of government policy, encourage or facilitate illicit production or distribution of drugs or controlled substances or launder proceeds from their transactions. With the assistance of the U.S. Embassy's ICITAP program, the Albanian State Police created the Office of Internal Control to investigate police corruption. Continued training and assistance should enable the police in the Anti-Narcotics Unit to weed out corrupt officers and combat narcotics distribution as well as trafficking. In addition, the Embassy's OPDAT program trained prosecutors and judges to enhance their legal and procedural knowledge.

Corruption remains a deeply entrenched problem. Low salaries and social acceptance of graft make it difficult to combat corruption among police, magistrates, and customs and border officials. Police and Customs officials signed a Memorandum of Understanding in December 2002 to foster greater cooperation to help reduce the influence of corruption at Albania's borders. In addition, the Office of Internal Control (created with ICITAP assistance and tasked with investigating police corruption) has been instrumental in bringing about the arrests of several corrupt officers. In 2003, the former Police Chief of the Vlora Regional Commissariat was sentenced to 15 years in jail for cocaine trafficking. For the period January through August 2003, some 183 officers have been fired, 198 have been transferred, 94 have been demoted, and 17 have been convicted and sentenced on corruption-related charges.

Drug flow/Transit. Heroin is the main drug that transits Albania. Authorities report that heroin typically flows through the "Balkan Route." Traffickers also use Albania as a transit point for Europe when smuggling South American cocaine, though the quantity is quite small compared to heroin. Domestically produced marijuana is smuggled to Greece, Italy, Turkey, Bulgaria, Slovenia, the United Kingdom, and Germany. According to some reports, high quality Albanian hashish is shipped to Turkey in exchange for heroin. Police sources, however, dispute this claim, noting that the quantity of hashish required to exchange for a significant amount of heroin makes the transaction cost-prohibitive.

Agreements and Treaties. The U.S. has had an extradition treaty with Albania since November 13, 1935. Despite a 2002 Albanian Supreme Court ruling that questioned the validity of the treaty, the Albanian government has extradited one individual to the U.S.. Albania has no separate mutual legal assistance treaty with the U.S. Albania is a party to the UN Convention Against Transnational Organized Crime, the Protocol against the Smuggling of Migrants and the Protocol to Prevent, Suppress and Punish Trafficking in Persons.. Albania is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, and the 1971 UN Convention on Psychotropic Substances.

Demand Reduction. Drug abuse is a comparatively new problem in Albania. Although local and national authorities collect little data and do not believe the problem is particularly widespread (owing both to the traditional cultural norms and low levels of discretionary income) the GOA has taken steps to address the problem with its National Drug Demand Reduction Strategy. The UNODC 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. Neither estimate is considered accurate by the UNODC, since the GOA and the NGOs have not conducted thorough, nationwide surveys. According to the Tirana Military Hospital, 60 percent of the 1,200 overdose cases treated so far this year resulted from injection drug use and heroin was the drug used in 88 percent of those cases.

The GOA's National Drug Demand Reduction Strategy for 2001-2004 has three foci: school-based programs, community-based programs, and mass media campaigns. The Ministry of Education plans to include drug education as a part of the mandatory curricula in primary and secondary schools, while a local NGO will train a select number of educators who can then share what they have learned with administrators, teachers, and students. In Tirana, the GOA plans to launch a community-based drug prevention program that will include a telephone hotline for parents and family members, an emergency service for street kids, and the distribution of leaflets to raise awareness about the risks of substance abuse. Thus far, mass media contribution to the Drug Demand Reduction Strategy has been sporadic and not well organized.

IV. U.S. Policy Initiatives and Programs

Bilateral And Multilateral Cooperation. The GOA continues to welcome assistance from the United States and Western Europe. The 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 Prosecutor General 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—Mother Teresa Airport and the Adriatic ports of Durres and Vlora—to bring interdiction operations up to international standards and disrupt trafficking through Albania. The GOA has welcomed this initiative, adding it to the National Strategy to Combat Trafficking in Human Beings. In 2003, the U.S. Embassy's ICITAP and OPDAT programs also assisted the GOA in the creation of the Organized Crime Task Force (OCTF). Under the OCTF, police and prosecutors work together to handle high profile and sensitive organized crime and trafficking cases. In addition, ICITAP has provided equipment and training to Albania's drug-sniffing police dogs and their handlers. Other U.S., 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. Embassy's ICITAP program has planned several training and assistance courses for the Albanian State Police in 2004, including additional training for Albania's drug-sniffing dogs and their handlers in January and a course in interdiction and the use of informants in March. Additional course offerings will cover interviewing techniques, money laundering investigation, and covert entry. PAMECA, the Police Assistance Mission of the European Community to Albania, will continue to offer general assistance to the Organized Crime Vice Directorate to enhance its overall performance and status within the Albanian State Police. Moreover, ICITAP and EU programs assist the GOA's overall antitrafficking effort (narcotics, weapons, and humans) by providing integrated and coordinated border management and border control assistance. Finally, the U.S. will continue to encourage the GOA to make progress on illegal drug trafficking, to use law enforcement assistance efficiently, and to support legal reform.

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 Armenia's 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 an ongoing UN-sponsored "Southern Caucasus Anti-Drug Program (SCAD)," which was 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, poor roads and transportation arrangements among the country and neighboring states make 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 Armenia's borders and improvements in transportation options.

ADD experts have accumulated a significant database on drug transit sources, routes and the people engaged in trafficking. 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, cannabis and ephedrine (ATS). 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. In late November 2003, the GOAM began work to create an Interdepartmental Commission on Prevention of Illegal Trade of Drugs. 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.

III. Country Actions Against Drugs in 2003

Policy Initiatives. On May 10, 2003, Armenia enacted a basic law on drugs and drug trafficking, called: the Law on Narcotics and Psychotropic Substances of the Republic of Armenia.

Accomplishments. Continuation of preventive measures to identify and eradicate wild and illicitly cultivated cannabis and poppy by implementation of the annual Poppy-Cannabis Program and production of a draft law on Money Laundering currently in final clearance.

Law Enforcement Efforts. In early December 2003, Armenian law-enforcement bodies arrested six people who attempted to smuggle heroin into Armenia. Two members of the group are former police employees. The group allegedly smuggled 7 kilograms of heroin into the Republic in 2002-2003.

Corruption. Corruption is endemic in Armenia. Although the GOAM has taken some measured steps to develop an anticorruption Program, political will and concrete steps toward implementation have been weak.

Agreements and Treaties. Armenia is party to the 1988 UN Drug Convention, and the other major UN drug conventions.

Cultivation and Production. Hemp and opium poppy grow wild in the northern part of Armenia, particularly in the Lake Sevan basin and some mountainous areas of Armenia.

Drug Flow/Transit. 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.

Demand Reduction. Armenia has adopted a policy of focusing on prevention of drug abuse through awareness campaigns and treatment of drug abusers. These awareness campaigns are being implemented and manuals are being published under the framework of the South Caucasus Anti-Drug (SCAD) Program, funded by UNDP. In the first six months of 2003 approximately 261 drug-addicts were under preventive monitoring, which is 429 less than in the first six months of last year. According to SCAD program statistics for the first 6 months of 2003, there were 197 registered drug addicts receiving treatment, as opposed to 191 in 2002.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. Government continues to work with the Government of Armenia to increase the capacity of Armenian Law Enforcement through development of an independent forensic laboratory, improvement of the law enforcement training infrastructure and establishment of a computer network that will link law enforcement offices within Armenia and the rest of the world.

The Road Ahead. The USG will continue aiding Armenia in its counternarcotics efforts through capacity building of Armenian law enforcement.

Austria

I. Summary

Austria is primarily a transit country for drug trafficking along major trans-European routes. Foreign criminal groups, primarily from former east bloc countries, from Turkey, West Africa, and Central and South America dominate the organized drug trafficking scene. Austrian authorities do not consider consumption of illegal drugs to be a severe problem. In 2003, Austrian authorities registered the largest seizure of ecstasy (MDMA) tablets ever. Production, cultivation and trafficking by Austrian nationals remain insignificant.

Cooperation with U.S. authorities remained excellent during 2003 and was underscored by the September 2003 visit of Interior Minister Strasser to Washington and Miami, as well as by a meeting between Deputy U.S. Drug Czar Barry Crane and Austrian health and justice officials in September 2003. In 2003, Austria continued its efforts to intensify police cooperation with EU candidate countries in central Europe, with Ukraine, Lebanon, and with central Asian countries within the framework of the Central Asian Initiative. Austria is a party to the 1988 UN Drug Convention.

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. There were 179 drug-related deaths in 2002, representing a further decline for the second year from its peak in 2000. Experts point out, however, that the percentage of drug deaths from mixed intoxication has been rising steadily in past years. The 22,422 drug-related offenses in 2002 represent a 2.5 percent increase over 2001. Of these offenses, 566 involved psychotropic substances, four of them precursors.

According to the Federal Institute for Health Affairs' estimates, the number of conventional, illicit drug abusers remains more or less stable and is believed to range between 15,000 to 20,000 persons. By contrast, the number of users of "ecstasy" is on the rise, as reflected in higher number of seizures. A 2001 field study extrapolated that 20 percent of Austrians above 15 had "some experience" with cannabis, and four percent with ecstasy. One percent have tried opiates. One gram of street heroin (purity between 8 percent and 16 percent) sold for Euro 40-50 (\$48-60) in 2002, one ecstasy tablet sold for Euro 15 (\$18).

III. Country Actions Against Drugs in 2003

Domestic Policy Initiatives. In its February 2003 policy program, the new center-right coalition government pledged to (a) continue its "unrelenting" fight against drug trafficking, (b) prevent any liberalization of even soft drugs, (c) maintain the national policy of "therapy instead of punishment" in the case of non-dealing drug offenders, and (d) expand counseling services and facilities for Austria's youth. On December 3, 2003, parliament approved legislation appropriating an additional 70 million Euros for the Interior, Justice and Defense ministries for crime-fighting measures in 2004.

On January 1, 2003, a new law came into force permitting blood tests for individuals suspected of driving under the influence of drugs. Relevant sanctions compare to those concerning drunk driving. However, a positive test result does not lead to a report to the police for violation of the 1998 Narcotic Substances Act (NSA), though the police will inform district health authorities.

Law Enforcement Efforts and Accomplishments. No comprehensive seizure statistics are available for 2003. Seizure statistics for 2002 (latest available figures) show that cocaine seizures (108.2

kilograms in 2001) decreased to 36.9 kilograms in 2002 (black market value is approximately Euro 1.66 million or \$1,992,000). Heroin seizures decreased from 288.3 kilograms in 2001 to 59.5 kilograms in 2002 (black market value: Euro 1.49 million or \$1,788,000). Confiscation of MDMA/“ecstasy” rose sharply, from 256,299 units in 2001 to 383,451 in 2002 (black market value: Euro 1.34 million or \$1,608,000). Seizures of cannabis products rose from 457 kilograms (Corrected data) in 2001 to 743 kilograms in 2002 (black market value: Euro 2.22 million Euro or \$2,664,000). Authorities further registered four charges for crimes related to precursor materials in 2002. The interception of 232,000 ecstasy tablets in 2003 coming from the Netherlands constituted the largest such seizure ever in the country. Austrian authorities also seized four shipments of amphetamines coming from laboratories in Poland. Some experts conclude that the amphetamine usage problem might be somewhat bigger than commonly believed. Law enforcement officials further expect slightly higher amounts of cocaine and cannabis seizures, while heroin confiscation in 2003 is projected to remain below the 2002 level. The ongoing restructuring of the law enforcement bodies, additional financial resources for the Interior Ministry totaling 39 million Euro for 2004, and the streamlining and additional staffing of drug-related units in the Health Ministry are further examples of policy accomplishments in the fight against illicit drugs. Regarding illicit precursor materials, the Interior Ministry conducted several investigations on the national and international level on the basis of provisions in Austria's narcotics substances act which helped prevent the dissemination and use of such substances.

Corruption. The Government of Austria's (GOA) public-corruption laws recognize and punish the abuse of power by a public official. Austria has been a party to the O.E.C.D. Anti-Bribery Convention since 1999. Recent legislation has eliminated tax deductibility of bribes and any gray market payments. No records exist yet to assess the degree of its enforcement. There are no cases pending at the moment which involve any bribery of foreign public officials. The U.S. Government is not aware of any high-level Austrian government officials' involvement in drug-related corruption. As a matter of government policy and practice, the GOA does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. An extradition treaty and mutual legal assistance treaty is in force between Austria and the U.S. The Austrian Federal Ministry of Justice has prepared a draft bill on judicial cooperation in criminal matters among EU member states, which also covers European arrest warrant and extradition procedures. The bill will implement the EU Council framework decision on the European arrest warrant and the surrender procedure between member states. Parliamentary approval could come in early 2004. Austria is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Vienna is the seat of UNODC. Austria has been a “major donor” to the UNODC. In recent years its annual pledge has been approximately \$440,000. Austria has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation. The U.S. Government is not aware of any significant cultivation or production of illicit drugs in Austria. Austria recorded no domestic cultivation of coca, opium, or cannabis in 2003.

Drug Flow/Transit. Austria is not a source country for illicit drugs. Illicit drug trade by Austrian nationals is negligible. Organized drug trafficking is carried out by foreign criminal groups (Kurdish clans from Turkey, Albanians, and members of former Yugoslavia, West African as well as Central and South American gangs) which are well established on major European drug routes, particularly along the Balkan drug paths. The illicit trade increasingly relies on central and east-European airports, including Austria's. Due to increased surveillance as a result of terrorist threats, the number of cocaine body packers and smuggling in luggage decreased significantly at Vienna Airport in 2003, while heroin smuggling by air from Turkey via Vienna to the Netherlands increased. Police estimate that West African (i.e., Nigerian) gangs traffic 90 percent of the heroin that enters Austria. Trafficking and consumption of MDMA (Ecstasy) products, originating in the Netherlands, continued to rise sharply

in 2003. Illicit trade of amphetamines, carried out by criminal groups from Poland and Hungary, as well as of cocaine, also increased.

Domestic Programs (Demand Reduction). Austrian authorities and the public generally view drug addiction as a disease rather than a crime. This is reflected in rather liberal drug legislation and in related court decisions. The center-right government has reaffirmed its more restrictive approach in its policy statement of February 28, 2003. 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 and basic outreach services. Federal guidelines ensure minimum quality standards for drug treatment facilities. The use of heroin for therapeutic purposes is generally not allowed. Demand reduction puts emphasis on primary prevention, drug treatment and counseling, as well as "harm reduction." New challenges in demand reduction are the need for psychological care for drug victims, and greater attention to older victims and to immigrants.

Primary intervention starts at the pre-school level, extends to apprenticeship institutions and includes out-of-school youth programs. Schools place special emphasis on programs that have a multiplier effect. Each of Austria's nine states maintains addiction prevention units, which, inter alia, use the Internet as a venue. The government and local authorities routinely sponsor educational campaigns inside and outside school fora, using techniques such as mass media campaigns. Overall, youths in danger of addiction benefit from new treatment and care policies.

Austria has syringe exchange programs in place for HIV prevention. The most recent available data (for 2002) indicate a stable HIV prevalence rate at a low level (0 percent to 5 percent) while the hepatitis prevalence rates among drug abusers remain high (hepatitis c: 48 percent to 71 percent; hepatitis b: 25 percent to 47 percent). The trend toward diversification in substitution treatment (methadone, prolonged-action morphine and buprenorphine), which has been in place for over a decade, continued in 2003.

IV. U.S. Policy Initiatives and Programs

Bilateral cooperation. Austrian cooperation with U.S. investigative efforts is excellent. In the past, Austrian Interior Ministry officials have consulted the FBI on know-how designed to help update its criminal investigation structures. Austria and the U.S. operate a joint "contact office" in Vienna which serves as a key facilitator for flexible and speedy anticrime cooperation. The U.S. Embassy regularly sponsors speaking tours of U.S. counternarcotics experts in Austria.

The Road Ahead. The U.S. will continue to support Austrian efforts to create more effective tools for law enforcement, and work with Austria within the context of U.S.-EU initiatives, the UN and the OSCE. The U.S. priority will remain promoting a better understanding of U.S. drug policy among Austrian officials.

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 2003, the main drugs seized were cannabis and opium. The United States has funded counternarcotics assistance to Azerbaijan through the FREEDOM Support Act since 2002. 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 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 approximately 18,000 persons registered in hospitals for drug abuse or treatment in Azerbaijan. The actual level of drug abuse is estimated to be many times higher.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Ministry of Internal Affairs has continued its program, which organizes local counternarcotics police officials in several areas of the country to work closely together across local jurisdictions. Two new Customs Committee training facilities, completed in 2003, will provide training in border-interdiction techniques to Customs officers. Azeri law-enforcement and computer experts met with their counterparts from each of the GUUAM countries (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) in Baku for 90 days in the Fall of 2003 to draft and implement an action plan for the GUUAM Virtual Law Enforcement Center. The virtual center will be organized around an encrypted system of information exchange among the law-enforcement agencies in member countries, with the goal of coordinating efforts against terrorism, narcotics trafficking, small arms, and trafficking in persons. In 2003 the State Commission together with the UN's South Caucasus Anti-Drug Program (SCAD), a five-year regional initiative, established a resource center and information network that provides access to a central database of information pertaining to narcotics control. SCAD also conducted an epidemiological survey of drug use and abuse in Azerbaijan.

Accomplishments. In 2003 the Ministry of Internal Affairs continued "Operation Hash-Hash," a successful poppy and cannabis cultivation and storage eradication program, in several parts of the country. This operation increased the quantity of illegal narcotics seized and destroyed significantly during the first ten months of the year—more than 200 tons of narcotic plants and 152 kilograms of other narcotic substances.

Law Enforcement Efforts. There were 1,828 drug-related arrests during the first ten months of 2003, mostly small-time traffickers and users. Of those arrested, 32 were foreign citizens. 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. However, as a matter of government policy, the Government of Azerbaijan does not engage in or facilitate illicit production or distribution of narcotics.

Cultivation and Production. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan. During the first ten months of 2003, law enforcement authorities discovered and destroyed 291 tons of hemp and poppies that were under cultivation.

Drug Flow/Transit. Narcotics traffickers seem to rely on familiar transit routes. Opium and poppy straw originating in Afghanistan transit through Azerbaijan from Iran, or from Central Asia across the Caspian Sea. Drugs are also smuggled through Azerbaijan to Russia, then on to Central and Western Europe. Drug-enforcement officials suspect that traffickers may attempt to use new direct flights between Kabul and Baku as an alternate route, but there is no evidence so far to support this theory. 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.

Demand Reduction. Opium and cannabis are the most commonly used drugs. The GOAJ (Government of Azerbaijan) has begun education initiatives directed at curbing domestic drug consumption, particularly among students.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. U.S. law enforcement exchange of information and cooperation with Azerbaijan continued to increase in 2003. The U.S. and Azerbaijan signed a Letter of Agreement on Law Enforcement and Counternarcotics Assistance on January 3, 2003, which initiated a concerted U.S. effort to help Azerbaijan increase its counternarcotics capabilities. In 2003 DEA conducted training for local law enforcement on performing successful drug investigations, and DOJ's International Criminal Investigative Training Assistance Program trained Azeri forensic scientists in basic drug identification and purity analysis techniques.

In 2003 the Export Control and Related Border Security (EXBS) program of assistance to the Azerbaijan Border Guards and Customs services expanded. EXBS training and assistance efforts, while aimed at nonproliferation of weapons of mass destruction, directly enhance Azerbaijan's ability to interdict all contraband, including narcotics. During 2003, EXBS sponsored numerous Boarding Officer and Law Enforcement courses for the Border Guard Maritime Brigade. These courses included extensive instruction on conducting at-sea law-enforcement boardings, and included training on defensive tactics, arrest procedures, hidden-compartment identification, smuggling detection, and use of force. EXBS also hosted numerous conferences and training sessions aimed at non-proliferation efforts in Azerbaijan, including a DOD/FBI Counter-proliferation training team, and a DOD "Counter-proliferation Awareness Training" course. In addition, in 2003 EXBS purchased or repaired Border Guard and Customs communications equipment, vehicles, vessels, and border-crossing x-rays.

The Road Ahead. The U.S. and Azerbaijan will expand their efforts to conduct law enforcement assistance programs in Azerbaijan. Such programs would include helping the Government of Azerbaijan modernize its criminal records system, training and exchanges for Azerbaijan's law-enforcement officials and police officers, and forensic lab development, in addition to counternarcotics/drug enforcement programs. Cooperation between DEA and the GOAJ continues to increase, and the DEA plans to help Azerbaijan increase its counternarcotics capabilities.

Belgium

I. Summary

Belgium remains an important transit point for a variety of illegal drugs, especially ecstasy and cocaine. It is the second-largest supplier of ecstasy to the U.S., and plays a significant role in the shipment of cocaine from South America to Europe. Usage and trafficking of heroin appear to be on the rise. 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, the Netherlands, and elsewhere in Western Europe. Belgium takes a proactive approach to interdicting drug shipments, and cooperates closely with U.S. and other foreign countries to help uncover distribution rings abroad. Belgian authorities also continued to fight the production of illicit drugs within their borders, shutting down six synthetic drug labs in 2003. 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 (particularly ecstasy) and cannabis and remains a key transit point for illicit drugs bound for the United States, UK, the Netherlands, and Western Europe. 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 continued to decline. Sea freight is likely also used for shipping larger amounts of ecstasy from Belgium to the United States, but no such shipments have yet been discovered. Belgian authorities continue to make a concerted effort to stem the tide of ecstasy headed for the United States.

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 there appears to be growing demand in Belgium as well. Heroin usage is spreading to "casual" club users who sniff small, relatively inexpensive doses.

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. Official policy instructs authorities not to prosecute minor possession of cannabis for personal consumption, likely augmenting domestic demand. 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 2003

Policy Initiatives. Belgium's drug control strategy for 2003-2004 cites amphetamine-type stimulants and heroin as the top two large-scale drug trafficking problems. The strategy calls for Belgium to identify the top ten trafficking groups and concentrate efforts on them. Ports and egress areas will be given particular attention in order to limit the export of drugs—especially to the United Kingdom and the United States.

The Federal Prosecutor's Office, established in 2002, works to centralize and facilitate mutual legal assistance requests on drug trafficking investigations and prosecutions. At the request of the Belgian Government, U.S. DoJ, FBI, and DEA officials conducted a two-day training seminar in November for the Belgian Federal Prosecutor's Office, local prosecutors, investigating judges, and the Federal Police. The seminar addressed bilateral police-to-police cooperation, mutual legal assistance, and extradition requests.

Legislation passed in 2003 permits Belgium to share investigative assets with a foreign country in the conduct of a joint drug trafficking investigation. The new law also broadened and centralized powers to seize and confiscate assets used in the commission of certain criminal acts—including drug trafficking.

Accomplishments. Through November, 2003 Belgian authorities seized six laboratories; five producing ecstasy and one producing amphetamines. All were located along the northern border with the Netherlands. This brings the number of such laboratories seized in the past five years to 33. By comparison, only ten laboratories were seized in the six-year period from 1992 to 1998. An investigation conducted jointly with the Australian Federal Police resulted in the December seizure of 195 kilograms. (800,000 tablets) of ecstasy and the arrest of the Belgian ringleader, in Australia. The drugs were shipped from Zeebrugge, Belgium concealed inside three pieces of agricultural equipment.

For the past three years, the volume of heroin seized in Belgium has increased dramatically. Before 2000, Belgian law enforcement had never seized more than 200 kilograms of heroin in a year. In 2000 Belgian authorities seized 397 kilograms; 231 kilograms in 2001; and 262 kilograms in 2002.

Law Enforcement Efforts. Belgian Law Enforcement authorities actively investigate individuals and organizations involved with illegal narcotics trafficking. In keeping with Belgium's drug control strategy, authorities focused their efforts on combating amphetamines, ecstasy, cocaine, and heroin. Belgian authorities continued to cooperate closely with DEA officials stationed in Brussels. The exchange of information between the U.S. and Belgian authorities remained excellent in 2003.

At Brussels Zaventem airport, non-uniform personnel trained by the Federal Police to help detect drug couriers became increasingly proficient. Belgian authorities also continued a proactive approach to searches and inspections of U.S.-bound flights at the airport.

The resources Belgium devotes to the inspection of sea freight, however, remains inadequate. Though Belgium's busy seaports are utilized to ship ecstasy (as demonstrated by the seizure in Australia), port inspectors have uncovered no such shipments in 2002 or 2003.

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 other major UN counternarcotics conventions. In December 2000, Belgium signed the UN Convention Against Transnational Organized Crime and its protocols, but it has not yet ratified the Convention. 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. Under a bilateral agreement with United States as part of the U.S. Container Security Initiative, U.S. Customs officials in 2003 were stationed at the Port of Antwerp 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 on 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. Belgian cooperation under the MOU has been excellent.

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 ecstasy and cannabis production is on the rise—primarily along the border region with the Netherlands. Only the Netherlands exports more ecstasy to the United States than does Belgium.

Cultivation of marijuana is increasingly done at elaborate, large-scale operations in Belgium. A 2003 investigation in Liege revealed 3,500 plants being cultivated and a capacity for an additional 3,500. The operation was found in a bunker built underneath a tennis court. The grower had been selling the marijuana in Holland and was linked to an additional five cultivation rings.

The production of amphetamines does not appear to have abated, as evidenced by the seizure of yet another five labs in 2003. Dutch traffickers are also linked to Belgium's production of Amphetamine-Type Stimulants. 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 continue to report that when Belgian amphetamine 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 the United States, the United Kingdom, the Netherlands and elsewhere in Western Europe.

Israeli drug traffickers, perhaps partly due to long-standing ties to Antwerp, continue to figure prominently in the transportation of major shipments of ecstasy from Belgium. Airline passenger drug couriers are recruited to transport ecstasy from Brussels to New York. Authorities also continue to find that the couriers bound for New York were frequently recruited by Dominican drug traffickers. Investigations indicate the Port of Antwerp is also used to transport shipments of ecstasy via sea freight.

The port of Antwerp continues to be an entry point in Europe for marine vessels transporting cocaine from South America, with an estimated 15 tons entering the port each year. In October 2003 Dutch authorities, acting on "lookout information", intercepted a vessel headed for the port of Antwerp. Four tons of cocaine were later discovered hidden inside a compartment between the fuel tanks. The ten-man crew was Colombian and the subsequent investigation resulted in the arrest of five additional Colombian co-conspirators in the Netherlands.

The predominant cocaine trafficking groups in Belgium are Moroccan, Albanian, Colombian, Surinamese, and Chilean. Though not as significant, Bulgarian, Russian, and Romanian traffickers have also been identified. There are documented cases of Albanian traffickers transporting cocaine from Antwerp to Italy for distribution.

Belgium remains chiefly a transit country for heroin destined for the British market. Seizures of the past three years and intelligence indicate that Belgium has also become a secondary distribution and packing center for heroin coming along the Balkan Route. Turkish groups continue to dominate the trafficking of heroin in Belgium and are also known to have become increasingly involved in the distribution of ecstasy and cocaine. The Belgian Federal Police have identified trucks from Turkey as the single largest transportation mechanism for westbound heroin entering Belgium. One such vehicle was found to have 100,000 ecstasy tablets when it was stopped on its return trip eastbound, possibly indicating a heroin for ecstasy exchange.

Moroccan and other North African groups generally control most of the marijuana importation overland from France. Moroccan groups have also become involved in heroin trafficking, but have generally been limited to facilitation roles or distribution just above the street level.

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.

There are an estimated 25,000 regular heroin consumers in Belgium creating an annual demand of about 3.4 tons. The annual spending on heroin consumption is about 79 million Euros (\$94.8 million). The number of intravenous heroin addicts in Belgium remains stable, but the sniffing of heroin is becoming more fashionable in clubs. The growing acceptance of heroin as a club drug is a matter of concern; especially given that one dose costs as little as 10 Euros (\$12.00). This worrying trend, together with the crime and social costs associated with heroin addiction, make thwarting the proliferation of this drug a priority for Belgian public health and law enforcement officials alike.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During FY-2003, eight Mutual Legal Assistance Treaty (MLAT) requests for narcotics case information sharing were submitted between Belgium and the United States. Belgium allows for extraditions of non-Belgian nationals to the United States, and seeks extraditions of suspects from the United States to Belgium.

The Road Ahead. The United States and Belgium share an excellent counternarcotics working relationship and there is frequent exchange of information at the working level. Officials in the Federal Police, Federal Prosecutor's Office, and Ministry of Justice who work on counternarcotics are fully engaged with their U.S. counterparts.

Except for an increase in heroin usage and trafficking, continuation of current levels of narcotics use and trafficking in Belgium is a reasonable expectation in the near term. The large opium harvest in Afghanistan will likely contribute to larger and more frequent heroin shipments across Belgium. Belgium will continue to be a major supplier of ecstasy to the United States, and will continue to play an important role in the shipment of cocaine to Europe from South America via the port of Antwerp and via couriers and parcels at Zaventem airport.

The U.S. looks forward to continued close cooperation with Belgium in combating illicit drug trafficking and drug-related crime.

Bosnia and Herzegovina

I. Summary

Bosnia and Herzegovina (BiH) remains a small but growing market for drugs, and has emerged as a regional hub for narcotics trans-shipment. Despite increasing inter-entity law enforcement cooperation, gradual improvements in the oversight of the financial sector, several drug seizures, and substantial legal reform, local authorities are politically divided, law enforcement efforts poorly coordinated, and the justice system is still antiquated and inadequate. The narcotics trade remains an integral part of the influence of foreign and domestic organized crime figures and ethnic extremists who operate with the tacit acceptance—if not active collusion—of some corrupt public officials. 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, in practice, meant that few effective impediments to narcotics trafficking and related crimes exist.

BiH is still considered primarily a transit country for drug trafficking, due to its strategic location, passage from the Balkan Peninsula to Central Europe, weak state institutions, lack of personnel in Counternarcotics units, and poor cooperation among the responsible authorities. BiH has no national counternarcotics strategy. BiH needs to develop a national strategy as well as a state-level body to coordinate the fight against drugs. Police authorities need to be given to the State Information and Protection Agency (SIPA) through legislation amendments. Also, a public campaign should be launched by government officials, especially in BiH schools, to sensitize the public (and particularly young adults and children) to the dangers and effects of the drugs. BiH is party to the 1988 UN Drug Convention and is attempting to forge ties with regional and international law enforcement agencies.

II. Status of The Country

BiH occupies a strategic position along the historic Balkan smuggling routes between drug production and processing centers in South 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 indicate that demand is steadily increasing. No national drug information system focal point exists, and the collection, processing, and dissemination of drug-related 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, and an inter-ministerial coordination body does not exist. There is no state-level control over confiscated drugs.

BiH is also considered a storage country, since quantities, mainly of marijuana and heroin, coming into BiH from Montenegro, are stored in Bosnia until customers in Central European countries show an interest in purchase. One of the main routes for drug trafficking starts in Albania, continues into Montenegro, and enters BiH through a border point close to Trebinje. From BiH, drugs pass to Croatia

and Slovenia and then on to Central Europe. Cocaine arrives mainly from the Netherlands through the postal system.

In 2003, the Federation Ministry of Interior (FMUP) established a narcotics statistics department to track information on illegal drug laboratories. There have been several cases of suspicious imports and exports of precursors made by fictitious BiH companies. In 2003, 20,000-30,000 ecstasy pills of BiH origin were found in Austria.

In BiH there are only two methadone therapy centers, one in Sarajevo and one in Sanski Most, with approximately 150 patients and five to ten patients, respectively.

III. Country Actions Against Drugs in 2003

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.

In March, the BiH Government implemented new Criminal (CC) and Criminal Procedure (CPC) Codes; and in July and August, the Federation and Republika Srpska (RS) Governments followed suit by adopting harmonized CPC and CC codes. The implementation of these codes enhanced the legal system's abilities to protect the rights of victims and criminal defendants. Although previous reports noted routine interference by organized crime and political leaders with the judiciary, judicial reform efforts reduced this undue influence. In the new CPC, law enforcement and judicial officials have been given tools to investigate and prosecute serious crime or corruption cases effectively. In particular, the new criminal procedure code permitted court-ordered communications surveillance, use of informants, and undercover police work. However, it will take a substantial investment of time and resources to fully implement the new investigative techniques. Department of Justice ICITAP and Overseas Prosecutorial Development Assistance Training (OPDAT) training organized for law enforcement agencies has significantly accelerated this process. Recent improvement in relations with Serbia and Montenegro, working-level cooperation with Slovenian and Croatian law enforcement authorities, and an upgraded information exchange system in Sarajevo's Interpol office may also presage progress in the fight against narcotics-related crimes.

On June 20, 2002, the BiH Parliament passed a law creating the State Information Protection Agency (SIPA) whose mandate is to serve as a conduit for information and evidence among local and international law enforcement agencies, and in limited circumstances to act as a Protection authority for diplomats and officials. As of December 2003, SIPA is still not fully operational, though approximately 100 staff have been hired.

Accomplishments. Under close supervision by the international community, Bosnian law enforcement agencies have taken steps toward increased cooperation on the counternarcotics front, most notably with the formation of an inter-entity (i.e., Federation and RS) joint task force. The state-level criminal procedure and criminal codes have undergone a major overhaul. The Government of BiH has established the State Court and State Prosecutors Office, which has jurisdiction for serious criminal offenses such as terrorism; created new state-level Ministries of Security and Justice (formed

by changes imposed by the High Representative to the Law on the Council of Ministers in January); strengthened border and financial controls; and created BiH's first national identity card.

As of last year, the SBS covers one hundred percent of Bosnia's borders. Forty-seven international border crossings are now manned by SBS personnel and all four international airports are under SBS control. However, there are still a large number of illegal crossing points which 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 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 the Sarajevo, Banja Luka, and Mostar international airports. However, the SBS lacks adequate command, control, and communication expertise, technology and equipment, as well as professional training.

The U.S. has donated and installed a secure radio communications network for the SBS that will greatly enhance the ability of headquarters and regional offices to direct, control, and coordinate operations with mobile and fixed border crossing units. The communications equipment and repeater network are intended for primary use by the SBS, but should also be available to other law enforcement institutions, particularly SIPA, on an as available basis for joint law enforcement operations. After the repeater installation work and training were provided, SBS technical personnel installed base stations, mobile units and portable equipment. The entire system will be completely installed in 2004.

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—vital for effective law enforcement—is limited. Each canton has an autonomous administrative structure and budget, essentially independent of Federation-level coordination or control. Counternarcotics units are understaffed, particularly in the ten Federation cantons. The law providing for the Federation to be the competent authority over drugs has been violated repeatedly by the cantons, which take drug cases to their respective police authorities rather than utilizing the Federation Ministry of Interior (FMUP) Police. In the RS, a centralized narcotics enforcement unit based in Banja Luka is functioning in the RSMUP Criminal Department. Its primary role is to ensure coordination among the regional narcotics units that are placed in five Public Security Centers. In the RS, thirty-five policemen work on drug cases.

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 and passed by the BiH Parliament) regulating contacts, provision of evidence, and information sharing and testimony between court systems, cooperation between law enforcement cooperation agencies and prosecutors 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. Last year, an Una Sana Cantonal investigative judge released two Bosnian citizens, taken into custody by the SBS who were wanted on an international Interpol narcotics-related warrant issued at the request of Austrian authorities. Neither the 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 all judges and prosecutors in the country and reappoint those with demonstrated competency and the highest integrity. The process is expected to take another half a year to complete.

Law Enforcement Efforts. Counter-narcotic efforts have improved but remain inadequate given suspected trafficking levels. In the Federation, drug-related criminal reports to the prosecutor have increased by twenty-six percent, while the number of minor offence reports has decreased by fifty four percent. Federation counternarcotics operations have resulted in the seizure of 144 kilograms of marijuana (an 80 percent increase over 2002 levels), 2.252 kilograms of heroin (a 100 percent increase over 2002 levels), and 868 ecstasy (MDMA) pills.

Based on data through October 9, 2003, the number of drug-arrests in the RS has increased by 50 percent compared to 2002 levels. RS police operations have seized a total of approximately 215 kilograms of marijuana (an increase of 150 percent over 2002 levels), 3,893 grams of heroin (an 80 percent increase over 2002 levels), and 510 ecstasy pills (a 600 percent increase over 2002 levels).

Through December 1, the number of arrests in the Brcko District has increased to fifteen persons, compared to only two in 2002. Brcko police have seized a total of 4,868 grams of marijuana, which is five times more than in 2002, and 38 grams of heroin.

Meanwhile, preliminary figures indicate that the SBS has filed 31 criminal reports and 33 minor offence charges, and seized approximately 176 kilograms of marijuana, 11 grams of heroin, and 8 ecstasy pills through December 19, 2003.

In February 2003, Federation Anti-Narcotics Police, acting on a tip from Federation Customs officials, raided a warehouse in Tuzla, arrested three individuals, and seized approximately 34 metric tons of acetic anhydride (AA) liquid. Subsequent investigations identified two companies in Mexico as the AA supply sources. In early December, a well-organized group tried to steal the liquid precursors from the warehouse in Tuzla. However, the individuals were caught by a joint action of the Tuzla Canton MUP and Federation MUP Anti-Narcotics officers. After this incident, the Tuzla Canton Court issued an order to the Tuzla Canton Court Police to safeguard the warehouse.

In August, during a planned operation by the RS Crime Police in Doboje, a group of individuals were apprehended for the illegal production and trafficking of drugs. During the course of the arrests, shots were fired at the police with the police returning fire, killing one of the perpetrators and wounding another. An additional suspect was arrested and fifteen grams of heroin were found in his possession. An additional two kilograms and 176 grams of heroin were subsequently seized from a search of the suspect's vehicle.

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. Organized crime, corrupt officials, and ethnic hard-liners, all use the narcotics trade to generate revenue. As a matter of government policy and practice, BiH does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. There is no bilateral agreement between Bosnia and Herzegovina and the United States specifically pertaining to counternarcotics. Nonetheless, counternarcotics assistance does feature prominently in the USG's bilateral law enforcement assistance training program, which has provided both the Federation and the RS advice and assistance in a broad range of law enforcement issues including investigative techniques, border controls, and major case management. Bosnia and Herzegovina is a party to the 1988 UN Drug Convention and is developing bilateral law enforcement ties with neighboring states to combat narcotics trafficking. An extradition treaty between the U.S. and Serbia applies to the BiH as a successor state. BiH has ratified the UN Convention against Transnational Crime and its two Protocols.

Drug Flow and Transit. Major heroin and marijuana shipments are believed to travel through Bosnia and Herzegovina by 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 are 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 operations in Russia, Albania, the FRY, 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. Although refinement and production are negligible, international and Bosnian law enforcement officials indicate that the country is increasingly becoming a temporary storage point for drug shipments en route from East to West. 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 current Bosnian law. This legislative loophole will have to be closed with amendments to the new criminal codes.

Domestic Programs. USG-sponsored community-oriented policing programs, which contain a strong counternarcotics component, have reached over 40,000 Bosnian children. 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. Meanwhile, the Sarajevo Canton Health Ministry has established a government-operated therapeutic center for recovering drug addicts.

UG-PROI—the Citizen's Association for Treatment, Support, and Re-Socialization of Drug Addicts—provides advice and support to drug addicts and their families, and assists in the re-socialization of recovered addicts after treatment. The organization is now in the process of establishing a therapeutic community for the rehabilitation of addicts near Sarajevo on a property donated by a local family. UG-PROI cooperates with the Drug Addiction Department of Kosevo hospital in Sarajevo and with the Canton Sarajevo Family Counseling Branch of the Center for Social Work. UG-PROI also cooperates on a regional level with the NGO “Help” from Split and with “The Association for Helping Drug Addicts Family” from Zagreb, Croatia. Daytop, Inc., from the USA provided a four-month orientation program and specialized training to two members of UG-PROI. Daytop Inc. will also provide experts who will support the work of the therapeutic community now being established by UG-PROI. During 2003, a total of forty patients were successfully rehabilitated through UG-PROI programs. Currently, UG-PROI is focusing on development of a nation-wide database, as well as on the development of a study to standardize treatments for BiH drug users.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. USG policy objectives in BiH include reforming the criminal justice system, improving the rule of law, depoliticizing the police, improving local governance, strengthening bank regulatory authorities, and introducing free-market economic initiatives. We will continue to work closely with Bosnian authorities and the international community to combat narcotics-trafficking and money-laundering.

Bilateral Cooperation. The USG remains committed to providing the counternarcotics training and support needed to foster independent law enforcement operations by Bosnian authorities.

The Road Ahead. As the European Union Police Mission (EUPM) has taken over from the International Police Task Force (IPTF), building local capacity in counternarcotics has become even more important as the EUPM has far fewer officers (approximately one-third the IPTF's size). The EUPM is concentrating its efforts on monitoring and advising 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 related subjects such as organized crime, public sector corruption, and border controls. The adoption and full implementation (as well as provision of appropriate training and technical assistance) of the new criminal and criminal procedure codes are pivotal U.S. and international community goals for this year and next. 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 is a major transit country as well as a producer of illicit narcotics. Strategically situated on Balkan transit routes, Bulgaria is vulnerable to illegal flows of drugs, people, contraband and money. Heroin moves through Bulgaria from Southwest Asia, while chemicals used for making heroin move from the former Yugoslavia to Turkey and beyond. It is estimated that 80 percent of the heroin distributed in Europe was first transported through Bulgaria. Marijuana and cocaine also continue to be transported through Bulgaria.

The Bulgarian government has continued to make progress in improving its law enforcement capabilities and customs services, although major structural deficiencies remain. GOB has proven cooperative, working with many U.S. agencies, and has reached out to neighboring states to cooperate in interdicting illegal flow of drugs and persons. Nevertheless, Bulgarian law enforcement agencies, prosecutors and judges require further assistance to develop the capacity to investigate, prosecute and adjudicate illicit narcotics trafficking and other serious crimes effectively. Bulgaria is a party to the 1988 UN Drugs Convention.

II. Status of Country

In the past year, Bulgaria has changed from being primarily an important drug-transit country into being as well an important producer of narcotics. Bulgaria is beginning to replace Turkey as a center of synthetic drug production, and laboratories are increasingly being moved to Bulgaria. Most importantly, the use of synthetic drugs has overtaken the use of heroin, formerly the most widely used drug in Bulgaria.

GOB has emphasized its commitment to combat serious crime including drug trafficking. Despite some progress on this goal, there were no major convictions for drug trafficking, or other serious crimes such as those involving organized crime activity, corruption or money laundering during 2003. 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, widespread corruption and an overall weak judicial system.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Bulgarian government issued a national drug prevention strategy in 2002 and in 2003 continued its efforts to interdict the flow of narcotics through Bulgaria. Additional measures began in 2002 and continued in 2003, including the creation of an counternarcotics coalition involving some 60 NGOs and work on establishing “prevention information centers” in various municipalities.

Unfortunately, the new national program for prevention, treatment and rehabilitation, scheduled to run to 2005, received only BGN 200,000 (ca. \$131,000) out of an estimated BGN 10 million (\$6.52 million) needed.

Accomplishments. Two particularly impressive accomplishments in 2003 were: First, the successful participation of Bulgarian law enforcement in Operation Moonlight; and secondly, participation in the Southeast European Cooperative Initiative (SECI) Center Regional Anti-Narcotics Task Force initiative, Containment II. Operation Moonlight was the one of the biggest Europe-focused operations against trafficking in cocaine in years. It netted 5 tons of seized cocaine in Bolivia, based on investigations conducted in Bulgaria. Bulgaria also demonstrated effective leadership in its

participation in Containment II. Bulgaria was responsible for coordinating all of the operations for the 18 countries that participated in Containment II. This successful cooperation resulted in the seizure of over 390 kilograms of narcotics and 11,000 doses/pills of synthetic drugs.

Law Enforcement Efforts. From January to September 2003, Bulgarian Customs seized 1074 kilograms of drugs, including 451 kilograms of heroin, at least 29 kilograms of marijuana and 341 kilograms of amphetamines. This compares to roughly 462 kilograms of drugs seized in all of 2002. The rise in seizures suggests that Bulgarian interdiction efforts have improved and that more traffickers are being apprehended. Additionally, 1,500 kilograms of precursor chemicals were taken in an operation between June 10 and July 10.

From January through October 2003, the National Police arrested 111 persons for drug dealing: 75 cases were referred to prosecuting authorities, but none of these cases resulted in actual convictions.

Corruption. In 2002, the government unveiled an “action plan” to implement its 2001 anticorruption strategy. Despite some progress, 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, or laundered the proceeds of illegal drug transactions.

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 and the 1990 Convention on Laundering, Search, Seizure and confiscation of Proceeds from Crime. Bulgaria signed the UN Convention Against Transnational Organized Crime and its Protocols in December 2003.

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. The U.S. and Bulgaria signed a cooperation agreement in 2000.

Cultivation and Production. The only illicit drug crop known to be cultivated in Bulgaria is cannabis, but the extent of illicit cultivation is not known. It is certainly not very extensive, and is not a significant factor in abuse beyond Bulgaria's own borders..

Drug Flow/Transit. Synthetic drugs have become the main drug transported through Bulgaria. However, heroin from the Golden Crescent and Southwest Asia (e.g., Afghanistan) and some marijuana and cocaine also transit through Bulgaria. The Northern Balkan route from Turkey through Bulgaria to Romania is the most frequently used overland route. Other routes go through Serbia and Montenegro and the Former Yugoslav Republic of Macedonia. Precursor chemicals for the production of heroin pass from the Western Balkans through Bulgaria to Turkey.

Domestic Programs (Demand Reduction). The most popular illicit drugs are reportedly cannabis, heroin, synthetic drugs and cocaine. Law enforcement agencies estimate that the monthly consumption of heroin in Bulgaria is 60 kilograms, of which 20 to 25 are consumed in Sofia alone. Bulgaria's drug abuse problem is growing, although not as rapidly as some observers had anticipated. Cocaine is too expensive for all but the wealthy. Marijuana has traditionally been used in rural areas. Ecstasy use is an important and growing problem among university students. As in previous years, drug consumption is particularly widespread among the marginalized Roma (Gypsy) population.

Demand reduction has received government attention for several years. The Ministry of Education requires that schools nationwide teach health promotion modules on substance abuse. There is also a World Health Organization program for health promotion in 30 target schools. The Bulgarian National Center for Addictions (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.

There are 35 outpatient units and 10- 12 inpatient facilities for drug treatment 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

The United States supports several programs, through the State Department, USAID, Department of Justice (DOJ) and the Treasury Department to address problems in the Bulgarian legal system. These initiatives address a lack of adequate equipment (e.g., in the Customs Service), the need for improved administration of justice at all levels and inadequate cooperation among Bulgarian agencies. A DOJ resident legal advisor works with the Bulgarian government on law enforcement issues, including trafficking in drugs and persons. An American Bar Association/Central and East European Law Initiative criminal law liaison advises Bulgarian prosecutors and investigators on cyber-crime and other issues. A Treasury Department representative enhances the capacity of the Bulgarian justice sector to investigate and prosecute financial crimes, including money laundering. USAID provides assistance to strengthen Bulgaria's constitutional legal framework, enhance the capacity of magistrates and promote anticorruption efforts.

The Road Ahead. Among the most important steps the U.S. would like to see taken by the Government of Bulgaria are: overhaul the cumbersome Code of Criminal Procedure; modernize the criminal code, make structural reforms to the judicial system; increase resources for training investigators, prosecutors and judges; greater cooperation between police and prosecutors; prosecute organized crime figures (especially, but not limited to drug traffickers); implement the anticorruption program; continue reforming the Customs service; and establish 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. Croatian law enforcement bodies cooperate actively with their U.S. and regional counterparts to combat narcotics smuggling. In the second half of 2003, Croatian law enforcement organizations initiated or played a key role in a major cocaine seizure, two large heroin seizures and an undercover operation that led to arrests in Austria of a key figure in a smuggling ring. Croatia is a party to the 1988 UN Drug Convention and signed the UN Convention against Corruption in December 2003.

II. Status of Country

Geographically, Croatia presents an attractive target to contraband smugglers seeking to move narcotics into the vast European market. When Slovenia and Hungary join the European Union in 2004, Croatia will have an almost 1,000 km direct border with the EU. Croatia has a 1,000 km border with Bosnia and Herzegovina that is crossed by 150 roads, as well as a 1,000 km long coastline (4,000 km adding in its 1,001 islands). Croatian police note a steady increase in smuggling from the east, estimating that 70 to 80 percent of heroin destined for European markets is smuggled through the notorious “Balkans Route”, branches of which pass through Croatia.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Croatia adopted a National Program for Narcotics Abuse Control in January 2003. The program identifies drug trafficking and abuse as priorities for the Croatian government and allocates specific tasks to various ministries and other governmental bodies. 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 Anti-Narcotics Division is responsible for coordinating the work of counternarcotics units in police departments throughout the country.

In July 2003, the parliament approved significant changes to the criminal code, stiffening penalties for narcotics trafficking while reducing to a misdemeanor the possession of small quantities of soft drugs for personal use. However, in December 2003, the Constitutional court voided these changes on procedural grounds. The coalition that governed Croatia for the last four years lost its majority in parliamentary elections held in November. As of the end of the year, the Croatian Democratic Union (HDZ), the political party that won a plurality of seats in the parliament, was still in the process of forming its new government. Although the HDZ's political platform has strong counternarcotics elements, it supported the court challenge to the changes in the criminal code. By year's end, the new government had not indicated when and in what form it might reintroduce the criminal code changes affecting counternarcotics law enforcement.

Accomplishments. In October 2003, the parliament approved a new witness protection law, which came into effect on January 1, 2004. Croatian police and prosecutors believe this will become an invaluable tool in furthering the fight against narcotics trafficking. While cooperation on narcotics enforcement issues with neighboring states is generally described as excellent, officials complain that overlapping jurisdictions and significant legal loopholes in Bosnia and Herzegovina limit the utility of cooperation.

Law Enforcement Efforts. Croatian police recorded a string of counternarcotics successes, particularly in the second half of 2003. Working in cooperation with the U.S. DEA in September, Croatian authorities seized 336 kilograms of cocaine at the port of Rovinj destined for European markets. In November, customs authorities detained two vehicles on the main border crossing with Serbia after finding 74 kilograms of heroin. Overall, police report 5,630 narcotics seizures of all sizes in the first ten months of 2003, compared to 7,432 seizures in the same time frame in 2002.

The official strategy for State Prosecutors, approved by parliament in 2003, makes the prosecution of drug offenses one of the office's highest priorities. The Croatian government created a special office within the office of the State Prosecutor to combat organized crime and corruption, commonly referred to by its Croatian acronym USKOK. Created two years ago, USKOK has been given enhanced powers to detain suspects, freeze assets and use plea-bargaining to attack organized crime. However, USKOK has been slow in securing the staff resources to ramp up its activities, and has had its first publicly announced investigations leading to arrests only in the second half of 2003.

Corruption. Narcotics-linked corruption does not appear to be a major problem in Croatia. As a matter of government policy, Croatia 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. Similarly, no senior government official is alleged to have participated in such activities. Investigations by the State Prosecutor's Office continue into allegations of corruption, smuggling and financial crimes of a number of businessmen and politicians linked to members of the HDZ party when it was previously in power in the 1990s. Some of the smuggling offenses reportedly involved narcotics, according to local press reports.

Agreements and Treaties. Croatia is a party to the UN Conventional Against Transnational Organized Crime. Croatia is a party of the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol and the 1971 UN Convention On Psychotropic Substances. Extradition between Croatia and the U.S. is governed by the 1902 U.S.-Serbia extradition treaty, which applies to Croatia as a successor state. According to the Croatian constitution, Croatian citizens may not be extradited, except to The Hague War Crimes Tribunal For The Former Yugoslavia (ICTY).

Cultivation/Production. Small-scale cannabis production for domestic use is the only narcotics production within Croatia. Opium poppies are cultivated on a very small scale for culinary use of the seeds. Because of Croatia's small market and its relatively porous border, Croatian police report that nearly all drugs are imported into Croatia. However, authorities believe that given the existence of ecstasy labs in Bosnia and Herzegovina, it is inevitable that small-scale labs will be discovered in Croatia.

Drug flow/Transit. Croatia lies along part of the "Balkans Route" through which authorities believe travels up to 80 percent of the heroin from Asian sources to the European market. Although Croatia is not normally considered a primary gateway for heroin moving on the Balkan Route, police seizure data indicate smugglers may be attempting to use Croatia to a greater extent as a transit point for other drugs, including cocaine and cannabis-based drugs. Ecstasy and other pill-form narcotics are smuggled into Croatia from Western Europe in small quantities for domestic use. Police believe that in the past illicit labs in the Netherlands were the primary source. Recent seizures indicate a growing problem with production in Bosnia and Herzegovina.

Demand Reduction. Drug abuse is centered in major urban areas, including Zagreb and the port cities of Zadar, Rijeka and Pula. Some 5,811 persons underwent drug addiction treatment in 2002, 70 percent of who were in treatment for opiate addictions. The number of first time treatment seekers fell by about 20 percent to 2,067 in 2002 from 2,548 in 2001(Revised Figures). Overall the government estimates that Croatia has between 14,000 and 16,000 heroin addicts. Over 70 percent of the addicts

are infected with hepatitis C and one percent are HIV positive. In 2002, there were 86 drug-related deaths in Croatia, primarily overdoses, up from 53 deaths in 2001.

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 budgeted nearly 85 million kuna (approx. \$13,500,000) for demand reduction related activities in 2003, a significant rise over 2002, but 22 million kuna short of what the Office for Combating Drug Abuse recommended.

IV. U.S. Policy Initiatives and Programs

U.S. Goals. The primary objectives of U.S. initiatives in Croatia are to develop the skills and tools among Croatian law enforcement agencies to improve their ability to combat narcotics trafficking, and to improve Croatian law enforcement agencies' abilities to cooperate bilaterally and regional to combat trafficking.

Bilateral Cooperation. In 2003, the U.S. completed a three-year legal reform assistance effort focused on money laundering, organized crime and witness protection. In 2003, the U.S. provided key assistance in developing the Croatian Prosecutors Handbook a practical desk reference for all types of criminal proceedings. All 300 State Prosecutors received training and personal copies of the handbook.

Police reform efforts begun in 2001 to provide technical assistance to the Interior Ministry have begun to show fruit. The first class of police recruits entered a completely revamped basic police school in October 2003. This class will be the first to proceed from graduation to probationary assignments with specially trained, senior police officers as coaches and mentors. Work on a new police policies and procedures field manual is pending final approval at year's end. The manual will be issued to all police officers in spring 2004.

The United States is currently reviewing a draft Customs Cooperation Agreement with Croatia. The U.S. is also 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. In the next year the U.S. will complete basic training programs for Croatian police and provide follow on assistance to improve police and prosecutor cooperation in complex narcotics and organized crime cases. Additional training planned for 2004 and 2005 under the Export Control and Border Security and War Crimes prosecution programs will have ancillary benefits for Croatia's fight against narcotics trafficking, particularly in the areas of interagency cooperation, border management, vessel boarding/inspection, witness protection, and prosecution capabilities.

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. 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. 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 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. 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 2003

Policy Initiatives. To comply with EU regulations in advance of Cyprus' accession to the EU in May 2004, Customs implemented in 2003 a container examination program targeting illegal contraband and goods. As part of this process, Customs established a computer database that is linked to the Cyprus port authority office. This database facilitates profiling and targeting of containers for inspection.

Cyprus also reassigned the commander of the narcotics unit to the new European Union and International Police Cooperation Division. The Division includes an International Police Cooperation Section, which replaces a similar operational unit established in 2002. The reorganization and appointment of this seasoned narcotics officer is expected to strengthen international police cooperation 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 Division is also responsible for cooperating with foreign liaison officers appointed to Cyprus as well as Cypriot liaison officers appointed abroad. This International Police Cooperation Section assisted with one extradition to the U.S. this year and are helping to coordinate the pending extradition of two individuals arrested on narcotics offenses.

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, which remain pending, are expected to go to trial in 2004. Cypriot police cooperation and information sharing led to the initiation in 2003 of several new international narcotics investigations. One investigation resulted in the seizure of approximately eight kilograms of cocaine. 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. 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 somewhat higher than 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. 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, nor 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, but not yet ratified, the UN Convention against Transnational Organized Crime and its three Protocols. 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.

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 2004, the USG will continue to work with the Government of Cyprus to strengthen enforcement of existing counter narcotics laws and enhance Cypriot participation in regional counter narcotics efforts. DEA regularly provides information and insight to the GOC on ways to strengthen counter narcotics efforts.

Czech Republic

I. Summary

Illegal narcotics are manufactured in, shipped through, and consumed in the Czech Republic. Marijuana, both imported and to a much lesser extent grown locally, is used more than any other drug. Pervitin, a locally-produced methamphetamine is consumed locally and also exported, mainly to Germany. Ecstasy (MDMA) is imported, either for domestic consumption or re-export to more lucrative markets. Its popularity is growing, especially among “dance scene” visitors, who consider it a recreational drug. Heroin use in 2003 was similar to 2002, or even down slightly, due to successful police interdiction of the Balkan Route and consequent destabilization of the domestic heroin market. The level of cocaine use is low. The Czech Republic is a producer of ephedrine, a precursor for Amphetamine-Type Stimulants (ATS).

II. Status of Country

Several factors make the Czech Republic an attractive country for groups in the drug trade. These factors include its central location, low detection rates for laundered drug money, low risk of asset confiscation, and relatively short sentences for drug-related crimes. The maximum sentence for any drug-related crime is 15 years. The Government Commission for Coordination of Drug Policy, the main institution coordinating programs, estimates that there are between 35,000 and 37,000 problem drug users, most of whom are intravenous drug users. Police officials believe the numbers could be much higher.

While the average age of heroin users went up in 2003, suggesting fewer new young addicts, the average age of those using so-called soft drugs went down. Some surveys show that as many as 70 percent of Czech teens have tried marijuana. UN surveys show that Czechs have the highest level of marijuana use and the lowest level of cocaine abuse in Central and Eastern Europe. Marijuana cultivation used to be primarily for personal use only. However the police recently found many laboratories where the drug, cultivated hydroponically, had THC content as high as 30 percent.

Czech police focused their activities on ethnic Albanian drug gangs that import heroin via Turkey. Heroin transits the Czech Republic via the Balkan Route to Northern and Western Europe. Czech police, in cooperation with Scandinavian, German, Swiss and British colleagues had several successful interdictions and destabilized the local heroin market.

Cocaine reaches the Czech Republic, but then transits through to Northern and Western Europe. It is delivered most often to the Czech Republic by individual travelers returning from visits abroad or by mail. Police saw an increased activity among cocaine traffickers, which they link to the disruption of the heroin market, mentioned above. Due to the price of cocaine, to the degree it is used in the Czech Republic, it is mainly consumed by the middle and upper classes.

Pervitin, a synthetic amphetamine, is produced by Czechs, primarily for local consumption and by international groups for export. There was an increase in 2003 in the professionalism and level of organization of the gangs involved and the quality of drugs they produced. Pervitine is produced in either small home laboratories, where small groups of people make it for personal use, or by organized criminal organizations, usually intended for distribution. Small home laboratories tend to extract ephedrine, the main ingredient in Pervitine, from pills that are freely available. On a larger scale, Pervitine production is organized primarily by Russian speaking and Asian gangs who gain access to large amounts of ephedrine, which is produced in a factory not far from Prague, or through imports from the Ukraine, Hungary and Austria.

Ecstasy, still the favorite drug of the “dance scene”, is imported mainly from Holland and Belgium. The import is organized among small, closed groups or individuals. Ninety percent of ecstasy in the Czech Republic is in pill form. Toluene, a solvent, is still inhaled by poorer and younger segments of the population, primarily in the north of the country.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Czechs tried to crack down on drug use by passing a law in 1999 criminalizing possession of more than a small amount of marijuana. Some experts now feel that the 1999 amendment has done little to stop the manufacture, sale or consumption of hard drugs and ought to be scrapped. There is an ongoing debate in the Czech government over whether there should be a more liberal line taken in regard to soft drugs in order to focus on hard drugs.

Accomplishments. In the first ten months of 2003, the NADH seized 1450 doses of heroin; 34,656 ecstasy pills; 7,257 doses of methamphetamine, 5 kilograms of marijuana, 358 cannabis plants, 15,737 doses of hashish, 6.9 kilograms of ephedrine and 784 doses of cocaine. They have also found 32 laboratories for methamphetamine production.

In November 2003, the NADH, in cooperation with Austrian and Italian police, arrested a four-member gang, one Czech and three foreigners, suspected of organizing the export of drugs from the Czech Republic to various European countries. The police suspect them of having smuggled 238 kilograms of heroin and 19 kilograms of cocaine.

There have been several additional successful apprehensions by Czech law enforcement involving organized criminal gangs, both with Czech and foreign citizens members, who were believed to be smuggling drugs both to and from the Czech Republic.

Corruption. In the past, possession of a small amount of drugs was considered an administrative offence and possession of more than a small amount a criminal offence. The vague definition of what was a “small amount” opened up the possibility for police corruption, allowing some venal officers to construe an amount as “small” and treat the offense as an administrative one. To avoid any possible confusion and to eliminate possibilities for corruption, the Police President and Supreme Public Prosecutor issued internal regulations designed to clarify elements of the drug law that some feared allowed policemen too much discretion in whether to pursue drug cases.

In 2003 four officials received sentences from four to nine years for trying to sell five kilograms of heroin, part of a larger amount confiscated in an earlier case. A prosecutor and his superior arranged for part of a drug seizure to avoid destruction and then arranged with two policemen to sell the heroin. Telephone conversations were intercepted and formed the basis of the evidence against the four.

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. The Czech Republic has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Drug Flow/Transit. Heroin transits the Czech Republic, mainly from Turkey and the Balkans toward Northern and Western Europe. Ecstasy and some other manufactured drugs move from the Netherlands, Belgium and Germany southward and eastward. Cocaine enters with individual couriers from South America, while marijuana is grown in the Czech Republic, and imported from the Balkans.

The amount of drugs seized this year was smaller than in the past, apparently because shipments are being made in smaller amounts in order to minimize losses from police seizures. Police also say that prepaid cell phones to organize transactions clandestinely and Internet-arranged deliveries make smaller more frequent shipments feasible. Finally, Czech authorities believe that since 1999, when

possession of illegal drugs became a crime, dealers have started to be more careful. Drugs are now rarely offered on streets, as dealers have moved to private flats and clubs.

Domestic Programs (Demand Reduction). In the past, more than 80 percent of counternarcotics money was spent on police, judges, and prisons. In 2003 the government began to shift funds towards prevention through education, treatment centers and harm reduction programs. This trend is likely to continue over the next five years based on priorities set in the National Drug Strategy 2005-2009.

The Government Commission for Coordination of Drug Policy received \$4.45 million for projects at the local level, an increase from the 2002 amount of US\$3.75 million. The Commission is now funded directly by the central Czech Government. It receives about 50 percent of all drug-related disbursements, many of which previously went through various ministries.

The EU, through “PHARE” funds and twinning Programs ran several programs that focused on police, primary prevention and substitution treatment. The U.S. Department of State supports prevention efforts through a grant to the Lions' Club Lions' Quest Program. Children are taught at elementary schools how to live a healthy life without drugs. This program, supported by the Ministry of Health and Ministry of Education, is now being implemented at several pilot schools before it becomes a part of the national curriculum. The Ministry of Health also supports establishment of a research and development project that focuses on evaluation of drug prevention programs.

Bilateral Cooperation. The DEA maintains an extremely active and cooperative relationship with its Czech counterparts. The FBI and the U.S. Customs Service also work closely and effectively with their Czech colleagues. Czech police cooperate with the U.S., Israel and the UK in fighting the export of ecstasy. Czech and German police continue to cooperate in Operation “Crystal” to combat pervitine trafficking.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. covers Czech Republic drug issues through the DEA office in Berlin. The State Department has given grants for counternarcotics education and has provided equipment and training for customs officers.

The Road Ahead. The Government Commission for Coordination of Drug Policy agreed on the National Drug Strategy 2005-2009 where a priority will be given to the public health concerns, including a balance between drug supply, drug demand reduction and risk minimization, and standardization and quality assurance of services such as primary prevention, treatment and rehabilitation. The government now runs nine drug treatment/substitution centers. One of the priorities for the Ministry of Health in 2004 is to increase the number of these centers. The government also wants to implement a certification scheme for NGOs providing these services. In the past NGOs had to establish their credentials every time they applied for a grant. Interestingly, last year less than 1 percent of drivers killed in traffic accidents tested positive for illicit drugs. Roughly 40 percent tested positive for alcohol. The existing legislation on the Protection Against Damage Caused by Tobacco Products, Alcohol and other Drugs, that seeks both to prevent use of these substances and their potential harm, is being amended in order to shift the responsibility for preventive measures and solving the problems caused by drug use to regional and municipal levels. The proposed amendment, which is expected to pass, would also make it harder to get access to tobacco and alcohol and lays down conditions for substitution treatment of drug addicts.

The Interior Minister intends to seek legislation approving undercover “buy-bust” type operations and use of criminal informants, which he feels would help catch criminals and corrupt officials involved in the drug trade. A bill could be introduced in 2004.

As a result of its May 2004 accession to the EU, the Czech Republic will have to reorganize its customs service and significantly cut its staff. The drug unit of the customs office will not be affected.

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 European Union (EU), and the U.S. government (USG) against the transit of illicit drugs, and Denmark plays an increasingly important role in helping the Baltic States combat narcotics trafficking. Danish authorities assume that their open border agreements and high volume of international trade allow some drug shipments to transit Denmark undetected. Nonetheless, regional cooperation has contributed to substantial heroin seizures throughout the Scandinavian/Northern Baltic region. 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 the Balkans, 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. Police authorities do not believe Denmark to be a significant factor in the production of drugs or in the trading and transit of precursor chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. On June 3, 2003, long-awaited legislation allowing the use of undercover operations and informants was approved. Danish police view this legislation as an important tool in combating and infiltrating organized crime groups operating in Denmark, particularly in dealing with the criminality of the biker gangs Hells Angels and Bandidos—both involved in illegal drugs. The undercover operations and informants may now be used when investigating crimes punishable by terms of over six years in prison. Justice Minister Lene Espersen has also introduced legislation that would lead to stiffer penalties for narcotics-related crime. She has proposed raising the maximum jail sentence for serious drug-related crimes to sixteen years from the present ten years.

Additional Danish legislation passed in late 2002 requires that money exceeding 15,000 Euros (approximately \$17,850) be reported to customs upon entry to or exit from Denmark. This new law has led to a proactive response by Danish customs in intercepting illegal money.

Denmark continues to provide training, financing and coordination assistance to the three Baltic countries. 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. During the year there was a large increase in the amount of cocaine seized at Kastrup International Airport in Copenhagen. One seizure contained approximately seven kilograms of cocaine inside shampoo bottles that were being transported from Brazil to several London-based Nigerian males in Copenhagen. There were also successful seizures at Billund International Airport. For example, in September, the Danish police arrested a man at Billund traveling from Paris with 6.8 kilograms of cocaine in his suitcase. With his assistance, the police were able to identify the intended recipient, a Nigerian citizen identified as the head of a drug smuggling organization with cells in numerous countries. Earlier in the year, the Danish police seized 12 kilograms of cocaine at Billund

from an abandoned suitcase on a charter flight from Venezuela. Several known individuals with links to the Hells Angels were aboard the flight.

Law Enforcement Efforts. There has been an increase in cocaine smuggled from South America into Denmark. Heroin levels have fluctuated at a “normal” level, rising and falling in part with production levels in Afghanistan. More heroin has been seized in the last year than previously, and the heroin smuggling market has been largely taken over by Serbian nationals from Albanian traffickers. Hells Angels and Bandidos motorcycle gangs are also important smugglers and distributors. By March 31, 2003, Danish authorities had seized 29.1 kilograms of amphetamine, 60.7 kilograms of heroin, 350.9 kilograms of hashish/marijuana, 12 kilograms of cocaine, and 17,000 tablets of MDMA (Ecstasy).

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 are very stringent.

Agreements and Treaties. Denmark complies with the requirements of all major international conventions and agreements regarding narcotics to which it is party. Denmark is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The USG has a Customs mutual assistance agreement, a mutual legal assistance treaty, and an extradition treaty with Denmark.

Cultivation/Production. There is no substantial narcotics cultivation or production in Denmark. Only small MDMA (Ecstasy) production labs exist in the country and these are vigorously pursued, shut down, and their operators prosecuted.

Drug Flow/Transit. Denmark is a transit country for drugs on their way to neighboring European nations and, in small quantities, to the U.S. The ability of the Danish authorities to interdict this flow is slightly constrained by EU open border policies. However, the Danish Police and Customs at the German border have made large narcotic seizures this year. They reported by June 2003 that they had already seized more drugs than they had in all of 2002. The amount of cocaine seized by that point was four kilograms, compared with 200 grams in 2002; amphetamine seizures had increased from 62 grams to 22 kilograms, and MDMA seizures had increased from 39 tablets to 15,000 tablets. 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. Denmark's Ministry of Health estimates that in 2002 there were approximately 14,000 drug addicts in the country, including 900 to 1,200 seriously addicted individuals. Seventy-five percent of heroin addicts at that time were receiving methadone treatment. The 2003 governmental action plan against drug abuse was built upon existing programs and offers a multi-faceted approach to combating drug addiction. Its components consist of prevention, medical treatment, social assistance, police and judicial actions (particularly against organized crime), efforts to combat drug abuse in the prison system, and international counternarcotics cooperation.

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. The USG enjoys excellent cooperation with its Danish counterparts on drug-related issues. In August and November, the Department of Homeland Security (DHS) and the U.S. Coast Guard conducted a joint training seminar, including presentations from the Drug Enforcement Administration (DEA), for 37 EU law enforcement officials, including 10 from Denmark. The training

contained segments on interdiction of vessels that might contain contraband, hidden compartments, smuggling trends, and narcotics identification. In September, DEA sponsored the Second International Drug Profiling Conference in Sweden, which twenty forensic chemists from the U.S., Europe, including Denmark, Asia and Australia attended.

The Road Ahead. Danish enforcement efforts will be strengthened by new legislation that authorizes police to utilize informants and conduct undercover operations. The 2004 accession of the Baltic States to the EU 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.

Estonia

I. Summary

Despite concentrated police effort, the abuse of, and trafficking in, illegal drugs continues to rise in Estonia. The 2003 discovery and closure of one of the biggest Ecstasy factories in the Nordic and Baltic states, and the closure of two drug laboratories producing amphetamines, followed by seizures of record amounts of illegal drugs, clearly demonstrate both Estonia's counternarcotics efforts as well as the country's growing involvement in the international narcotics trade. Though narcotics control is a priority for the GOE, both the increasing domestic demand for drugs and the upsurge of HIV-infected intravenous drug users demonstrate that counternarcotics efforts must be continued. Estonia is a party to the 1988 UN Drug Convention.

II. Status of Country

The UN Report "Ecstasy and Amphetamines, Global Survey 2003" lists Estonia among countries with the widest use of amphetamine-type stimulants (ATS). Decreasing amphetamine prices on the local market and the record amounts of seized drugs indicate the increasing popularity of amphetamines among Estonia's drug users. In 2003 locally produced amphetamine almost displaced heroin and synthetic heroin in the local market. Meanwhile, the popularity of homemade poppy products has been rising in Estonia's economically depressed areas. Several cannabis-growing sites were also found in 2003. Police assert that the majority of locally produced cannabis is consumed in Estonia.

According to law enforcement authorities, Ecstasy has entered the domestic market in the wake of successful efforts to make heroin more difficult to obtain, including the imprisonment of key dealers and closure of sales sites. At the same time, Ecstasy's price has remained low; a clear indication of domestic manufacture. Law-enforcement authorities in Estonia are concerned not only about cross-border drug trafficking, but also about the growing domestic manufacture of illicit drugs, including amphetamine, Ecstasy and opiates.

III. Country Actions Against Drugs in 2003

Accomplishments. In 2003, three underground drug labs were closed in Estonia. During one operation, police seized 97 kilograms of liquid, including 21 kilograms of pure amphetamine, which, according to police, was the biggest seizure of domestically manufactured amphetamine ever made in Estonia. Also in 2003, authorities discovered in Tallinn one of the largest Ecstasy factories in the Nordic and Baltic countries. It had a production capacity of 12,000 pills per hour. During the operation 10,000 Ecstasy pills and raw material to make 750,000 pills were confiscated.

Law Enforcement Efforts. In recent years, the quantity of seized drugs in Estonia has increased considerably. In the first ten months of 2003, 324.8 kilos of illicit drugs were seized. During the same period in 2002, the total amount of seized drugs was 203.8 kilos. The seizures in the current year also indicate a dramatic increase in the abuse of amphetamines: in 2003, 106.9 kilos of amphetamine were seized, while in 2002, 35 kilos of amphetamine were confiscated. The amount of seized Ecstasy doubled in 2003. Meanwhile, only 0.2 kilos of heroin have been seized this year, while in 2002 the seized amount of heroine was 3.8 kilos. The amount of poppy substance seizures is declining as well: in 2002, 140.6 kilos; in 2003, 106.9 kilos. In 2003 the amount of seized cocaine doubled.

Transit. According to Ministry of Internal Affairs data, of the total narcotics business in Estonia, transit accounts for approximately 70 percent and local use 30 percent. The closures of drug labs is forcing some amphetamine producers to move to Finland. However, Estonia is still reportedly a key

supplier of illicit synthetic drugs to the Nordic countries. In addition, a new route of trafficking in drugs has appeared. In response to the continuously increasing demand and higher prices in Russia, there have been several cases of trafficking amphetamine and Ecstasy from Estonia to Russia.

Agreements and Treaties. Estonia has ratified the main international drug control conventions. These conventions and their supplementary schedules on narcotic drugs, psychotropic substances and precursors have been adopted in Estonian drug legislation. Domestically, the Narcotic Drugs and Psychotropic Substances Act entered into force on November 1, 1997. Sanctions for drug-related crimes are provided for by the Penal Code, which took effect on September 1, 2002. Article 53 of the Penal Code contains a new paragraph allowing for the imposition of a fine equivalent to the value of all assets of persons convicted of specified criminal offences and sentenced to imprisonment for a term of more than three years. This Article is applicable, inter alia, for unlawful handling of large quantities of drugs and provision of premises for the purpose of illegal activities, including consumption of narcotic drugs, as well as for membership in, or recruitment for, organized criminal groups.

In December 2003 the Estonian Parliament passed an amendment to the Penal Code strengthening the sanctions for drug related crimes. Under the amendment, imprisonment of two to fifteen years or a life sentence is the punishment for unlawful preparation, acquisition and possession of large quantities of narcotics and psychotropic substances by a group or criminal association. The same sanction is applicable to persons who have prior drug related convictions.

Domestic Programs (Demand Reduction). According to media sources, there are 15,000 intravenous drug users in Estonia.

A program entitled: "Prevention of HIV/AIDS and other STDs" is part of compulsory health education in Estonia's basic and secondary schools. The Government has not yet approved the multidisciplinary National Drug Strategy, designed by relevant state agencies, ministries and EU Phare experts, and initially drafted to cover 2002-2012. The Prime Minister has indicated that the ten-year time horizon is too long to wait for results.

The upsurge in the HIV rate among intravenous drug users

(IDU) in recent years has gone hand-in-hand with growing local consumption. During 11 months in 2003 about 700 new cases of HIV were registered, most of which were among intravenous drug users. The total number of HIV cases registered in Estonia is 3580. According to media reports, the number of young women needing emergency aid for drug overdose is rising. Women aged 20-24 form the biggest group of female overdose patients with 37.5 percent of the total.

IV. U.S. Policy Initiatives and Programs

In 2003, the USG-funded program "Rehabilitation of Young IDU's" continued. The USG also funded the translation and publication of a counternarcotics educational book called "Living with Heroin" by Paul Downes. Embassy Tallinn's Legal Attaché Office funded two mid-level police officers' participation in the FBI national re-training course in Slovenia. The Estonian government funded two additional officers' participation in this program as well.

The Road Ahead. The U.S. and Estonia will continue to cooperate to reduce drug abuse in Estonia.

Finland

I. Summary

Finland is not a significant narcotics producing or trafficking country. However, drug use and drug-related crime have increased steadily over the past decade. Drug seizures and arrests actually began to decline in 2002, a phenomenon police attribute to increased sophistication of drug traffickers and a lack of police resources rather than to a reduction in drug use. Law enforcement authorities are also affected by the fact that Finland's Constitution strongly emphasizes civil liberties and constrains the state from using electronic surveillance techniques such as wiretapping, etc., in all investigations but for the most serious crimes. Finland's political culture tends to favor demand reduction and rehabilitation efforts over strategies aimed at reducing supply. The police believe increased drug use is attributable to the wider availability of narcotics in post-cold war Europe, greater experimentation by Finnish youth, a cultural de-stigmatization of narcotics use, and a gap between law enforcement resources and the growing incidence of drug use. While there is some overland narcotics trafficking across the Russian border, particularly in heroin, police believe existing border controls are mostly effective in preventing this route from becoming a major trafficking conduit into Finland and Western Europe. Police also remain concerned about shipments of ecstasy (MDMA) and other MDMA-type designer drugs arriving from the Baltic countries, chiefly Estonia. Police fear that Estonia's accession to the EU and Schengen arrangements could lead to increased trafficking of ecstasy from Tallinn into Finland. Finland is a party to the 1988 UN Drug Convention.

II. Status of Country

Narcotics production, cultivation, and the production/diversion of precursor chemicals in Finland is relatively modest in scope. Most drugs that are consumed in Finland are produced elsewhere, and Finland is not a source country for exportation of narcotics abroad. Estonia, Russia, Spain, and the Netherlands are Finland's principal sources of illicit drugs. Finnish law makes the distribution, sale, and transport of narcotic substances illegal, and provides for extradition, transit, and other law enforcement cooperation, and precursor chemical control. Domestic drug abuse rehabilitation and education programs are excellent. New legislation passed in 2001 allows the police to fine violators for possession of small amounts of narcotics. Police issued approximately 5,000 such fines in 2002. Figures for 2003 are not yet available.

The overall incidence of drug use in Finland remains low but is increasing. Cocaine use is rare, and Finland has one of Europe's lowest cannabis-use rates, but amphetamines, methamphetamine, other synthetic drugs, and heroin use are increasingly popular. The use of ecstasy and other MDMA-type designer drugs is up significantly, and police are also concerned about the arrival of gamma-hydroxybutyrate (GHB) in Finland. As in many other western countries, ecstasy and GHB use in Finland tends to be concentrated among young people and associated with the "club-culture" in Helsinki and other larger cities. Finnish law enforcement authorities admit that lack of resources and legal restrictions on electronic surveillance and undercover police work make penetrating the ecstasy trade difficult. Changing social and cultural attitudes toward drug use and experimentation also contribute to the synthetic drug phenomenon.

Heroin use is on the rise in Finland. Police reported a significant drop in the purity of heroin imported to Finland subsequent to the conflict in Afghanistan in 2001. A number of seizures made prior to late 2001 had a purity as high as 75 percent. More recent seizures have indicated a purity as low as 5 percent, and overdose-related deaths have declined. Perhaps as a result of the difficulty of obtaining high-grade heroin, 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 is then resold in Finland with a high mark-up. Possession of subutex is legal in Finland with a doctor's prescription. The incidence of new HIV cases related to intravenous drug use in Finland held steady in 2003 after a decline in 2002. According to Finnish police, there are approximately two dozen organized crime groups operating in Finland, many of which have connections with organized crime syndicates in the Baltics and Russia. Some of these groups are facilitators and distributors of narcotics to the Finnish market. Police are concerned that as Estonia and the Baltic countries enter into the EU's Schengen agreement, which allows the free movement of goods and people throughout the Schengen Area without border-crossing formalities, Finland could increasingly become both a transit country for traffickers and a more attractive market.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Finnish government released a comprehensive policy statement on illegal drugs in 1998 which clearly articulated a zero-tolerance policy for illicit narcotics. The statement warned citizens that all narcotics infractions, from casual use to manufacturing and trafficking, are crimes punishable under Finnish law. However, a new law took effect in 2001 implementing a system of fines for possession of small amounts of drugs rather than jail time. This law enjoys widespread popular support, and is chiefly used to punish youth found in possession of small quantities of marijuana, hashish, or ecstasy. Finnish law enforcement authorities have expressed concern over the mixed message the 2001 legislation entails, and would prefer to send a stronger deterrent message on the demand side. There does not appear to be sufficient political support at this time for a policy aimed at curbing demand through stronger punitive measures, however.

Accomplishments. The Finnish government's strategy during 2003 focused on regional and multilateral cooperation aimed at stemming the flow of drugs before they reach Finland's borders and on beefed-up border control measures designed to discourage traffickers.

Law Enforcement Efforts. For the first time in about a decade, the police reported a decline in arrests and seizures of drugs in 2002. 2003 figures are not yet available, but arrests and seizures are projected to have remained relatively stable. Beginning in the mid-1980s, law enforcement authorities focused limited police resources on major narcotics cases and significant traffickers, somewhat to the detriment of street-level patrols, investigations, and prosecution. 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 police, the rise in drug use during the past decade led to a situation in which the number of drug offenders exceeds the resources deployed to combat illegal drugs. The police report that, following the release of the 1998 government policy statement on drugs, greater resources have been devoted to investigations at the street-level. This includes action by uniformed patrols as well as plainclothes police officers.

Corruption. As a matter of government policy and practice, Finland does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. There have been no arrests or prosecutions of public officials charged with corruption or related offenses linked to narcotics trafficking in Finnish history.

Agreements and Treaties. Finland is a party to the 1988 UN Drug Convention and its legislation is consistent with all the Convention's goals. Finnish judicial authorities are empowered to seize the assets, real and financial, of criminals. Finland is also a party to the 1961 UN Single Convention On Narcotic Drugs and its 1972 Protocol, and the 1971 Convention On Psychotropic Substances. A 1976 bilateral extradition treaty is in force between the United States and Finland, although Finland will only extradite non-Finnish citizens to the United States. The United States has also concluded a customs mutual assistance agreement with Finland.

Cultivation/Production. There were no seizures of indigenously cultivated opiates, no recorded diversions of precursor chemicals, and no detection of illicit methamphetamine, cocaine, or LSD laboratories in Finland in 2003. Finland's climate makes natural cultivation of cannabis and opiates almost impossible. Local cannabis cultivation is limited to small numbers of plants in individual homes using artificial lighting chiefly for personal use.

Drug Flow/Transit. Hashish is the drug most often seized by the Finnish police. Trafficking in highly purified methamphetamine from Estonia and Poland, ecstasy from Estonia, and amphetamines from Lithuania are a continuing concern for Finland. Finnish authorities report 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 Finnish Government takes the approach that demand reduction is best achieved by implementing an effective Nordic welfare policy which calls for early and effective intervention before drug use becomes a problem. Though the Nordic welfare model tends toward centralization, the Finnish Government gives substantial autonomy to local governments to address demand reduction using federal money. Finnish schools are required to educate children about the dangers of drugs. Public health services offer rehabilitation services to users and addicts. Such programs typically use a holistic approach that emphasizes social and economic reintegration into society and is not solely focused on eliminating the subject's use and abuse of drugs. Replacement and maintenance therapy for heroin addicts using buprenorphine is relatively new in Finland and not yet widespread.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Cooperation between U.S. law enforcement agencies and their Finnish counterparts is 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 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, attractive to traffickers, and France's participation in the Europe-wide Schengen open border treaty, makes the trafficking 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. Increasingly the Channel tunnel linking France to Great Britain, is also being used as a conduit for drugs from mainland Europe to the UK and Ireland.

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 laboratories have not yet been found in France, but important sources in Belgium and the Netherlands are close at hand. Recently, and in part as a result of French-U.S. cooperation, two small/home laboratories were shut down in France. Ecstasy use is prevalent among high school/college age young people at rave parties, but Ecstasy is also 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. For the first time, French authorities seized YABA (an Amphetamine-Type Stimulant (ATS) also known as "Crazy Medicine" or "Hitler's drug", manufactured in Thailand) in the possession of an airline passenger transiting Paris Charles de Gaulle airport from Bangkok to Berlin. This second ever-European seizure of YABA is causing concern among French and European authorities since it may mark the beginning of a new drug market that may surpass Ecstasy consumption as the choice drug in the club scene. 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 cannabis and 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. According to Lille customs authorities, Ecstasy seizures in northern France have risen by 320 percent from 2002-2003. According to French Judicial police statistics, the drug user profile in France is predominantly male and typically between the ages of 22-33 years old. Of French drug users 93.06 percent are male and 6.94 percent are female. The average age of consumers is as follows: cannabis—22 years old, Ecstasy—23.4 years old, LSD 25.3 years old, heroin 28.8 years old, cocaine 29.1 years old, crack 33.1 years old.

In France cannabis resin is the main drug being consumed (as opposed to cannabis oil or cannabis grass). It is produced in Morocco, transits through Spain and France before the majority is dispersed in the Netherlands, UK, Italy, Ireland, Germany and Belgium. In fact, 70 percent of all cannabis seized in France in 2002 was identified as being destined for countries other than France. Heroin arrives in France via the Netherlands and Belgium. An estimated 40 percent of the heroin seized in France was destined for use in Portugal, Italy, UK and Spain. While the median heroin user age is 28.8 years, the user population is aging, and heroin use is on the decline. Over 50 percent of cocaine and cocaine derivatives are entering France via sailboat or boat cargo, and a large percentage of the rest via

couriers on airlines. Arrest records show that couriers typically carry between 300 grams and 5 kilograms of cocaine either on them or in their luggage. A Nigerian network has also been detected funneling in cocaine via Spain through passengers on the rail system. These couriers tend to ingest bags of cocaine. Synthetic drugs are not produced in France, but France serves as a major conduit for distributing these drugs across Europe. Synthetic drugs are manufactured in the Netherlands, Belgium and Germany, and more recently in Poland and the Czech Republic. Synthetic drug use has been on the rise and is now the second most used drug in France, especially among the young population.

III. Country Actions Against Drugs in 2003

Policy Initiatives. 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. Created in 1982, MILDT coordinates the nineteen ministerial departments 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.

The French Prime Minister, in an effort to combat increased drug use among teenagers, has pledged to modernize the 1970 law that governs drug abuse by focusing on prevention in addition to punishment. The Minister of Interior has also promised to revisit the law and try to adapt the punishment for consumption of "soft drugs" according to age.

On February 3, 2003, French legislators approved a bill instituting a driving under the influence of narcotics offense carrying a 4,500 euros fine coupled with 2 years in jail. For instances where a driver is found to be under the influence of drugs and alcohol simultaneously the fine is increased to 9,000 euros and jail sentence to 3 years. In cases of traffic accidents involving death or bodily harm, drug testing is now mandatory. Police officers can carry out drug testing in any situation where they suspect a driver of being under the influence of narcotics.

Accomplishments. French law enforcement officials regularly seize large quantities of narcotics. French law enforcement officials readily share intelligence information with U.S. authorities.

In addition to the significant drug seizures carried out in France by police and customs authorities, in 2003 France also organized an international conference on drugs, drafted and signed a multinational drug agreement called the Paris Pact. In May, France invited representatives from 55 countries to a Paris conference on drug routes, focusing specifically on the opium trafficking routes from Afghanistan. The French President opened the conference and Secretary of State Powell attended and made an address.

Law Enforcement Efforts. French counternarcotics authorities are efficient and effective. In 2003, French authorities made record seizures of narcotics. In addition, they dismantled several drug rings across France.

In January, Paris airport authorities seized 2 kilograms of YABA (6,644 tablets) from a passenger transiting through Paris from Bangkok on his way to Berlin. In Hendaye, on the Spanish-French border, French customs agents seized 1.5 metric tons of cannabis resin (estimated to be worth 5.3 million euros) and 1.5 metric tons of cannabis resin in Perthus.

A major drug operation was conducted in Colombes (outside of Paris) that included 400 police officers, 2 drug-sniffing dogs and customs agents. The operation was successful in arresting 40 drug dealers, seizing cannabis, other drugs and weapons.

In March, Orly airport customs agents seized a record 60 kilograms of cocaine in unaccompanied baggage flown in from Martinique. A Spanish car on its way into France from Italy was stopped by a Nice motorcycle brigade; the car contained 26.8 kilograms of cocaine estimated to be worth 1.3

million euros. Further evidence of a Nigerian cocaine ingestion trafficking ring was unearthed when police made several consecutive arrests of Nigerian nationals domiciled in Spain and transiting by train through France with ingested cocaine. Lyon police seized 750 kilograms of cannabis in the largest drug bust ever in the city's history. The drug originated from Morocco and came into France via large luxury cars.

In May, 108 kilograms of cannabis were seized on the highway between Nice and Monaco. Estimated to be worth 220,000 euros, the drugs were hidden in sports bags of an Austrian car driving from France towards Italy. A further 4,097 kilograms of cannabis were intercepted near Montpellier, hidden in a British truck transporting fruits and bathroom tiles. In Paris, Police authorities arrested a 25 year old man at the Gare de Lyon train station after they found 4 kilograms of amphetamines (estimated at 300,000 euros) on him.

In July, customs seized 10,000 Ecstasy tablets hidden in shoe boxes in a Belgian bus in the Moselle region. The bus was traveling from the Netherlands, through Belgium and into France. Four days earlier, Channel customs agents discovered 724 grams of cocaine hidden in the soles of a passenger's shoes. Charles de Gaulle airport agents seized a record of 54 kilograms of cocaine hidden in three passengers' luggage; the passengers were transiting Paris from the Dutch West Indies and on their way to Amsterdam.

In December, the largest ever French Ecstasy seizure was conducted by Dunkirk police. They found 852,528 tablets of Ecstasy hidden in the chassis of a British truck waiting to board a ferry.

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 French government have narcotics-related agreements, including a 1971 agreement on coordinating action against illegal trafficking. A new extradition treaty between France and the U.S. entered into force in February 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 France. France is a party to the UN Convention on Transnational Organized Crime.

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. MILDT officials stated that no Ecstasy laboratories existed in France.

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 and through Belgium and the Netherlands. 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 government is continuing its experimental methadone treatment program. Although there continues to be public debate concerning decriminalizing cannabis use, the French government is opposed to any change in the 1970 drug law that criminalizes all use of a defined list 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 an established practice of information sharing. Recent examples of U.S./French cooperation include investigation and tracking of chemicals used to manufacture Ecstasy. French and U.S. narcotics authorities have worked closely to look at Internet sales of precursor chemicals and followed the chemical path from source to makeshift labs. This collaboration culminated in the shutting down of nine Ecstasy labs, three of which were in the U.S. and two small ones in France.

At the request of French gendarmes, DEA organized and held a week-long money laundering and asset forfeiture training program in Paris in September. This training brought together 30 mid-level French narcotics officers and was considered highly successful.

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

[\[Click for chapter on Georgia.\]](#)

Germany

I. Summary

Although not a major drug producing country, Germany continues to be a consumer and transit country for narcotics. The most recent official statistics of the Federal Criminal Police Office (Bundeskriminalamt/BKA) of June 30, 2003 indicate three trends. First, narcotics related deaths have been declining over several years; they declined by 17.5 percent in 2002 compared to the previous year (the lowest number since 1997). However, this trend did not continue in the first half of 2003; the number of drug deaths increased by 7.2 percent compared to the first half of 2002.

First-time heroin, ecstasy, LSD, and other hard drug consumption decreased compared to August 2002. On the other hand, first-time amphetamine consumption increased by 18.7 percent. The decrease in ecstasy seizures in 2002 for the first time in years continued into the first half of 2003. Third, seizures of opium, heroin, LSD, and hashish in the first half of 2003 rose considerably compared to the first half of 2002, while seizures of cocaine, ecstasy, and marijuana decreased. In June 2003, the cabinet adopted the “Action Plan on Drugs and Addiction,” which supersedes the 1990 national plan. Germany is a party to the 1988 UN Drug Convention.

II. Status of Country

Germany is not a significant drug 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, Eastern and Southern Europe. Ecstasy also transits from the Netherlands through Germany to the United States. Cocaine is transported from South America directly to Germany. Heroin transits Germany from Eastern Europe via the Balkan route to Western Europe, especially the Netherlands. Synthetic drugs (e.g., Ecstasy) for the European market are mainly manufactured in Europe. Organized crime continues to be very involved in drug trafficking. Germany is a leading manufacturer of pharmaceuticals, making it a potential source for precursor chemicals used in the production of illicit narcotics.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In June 2003, the cabinet adopted the Health Ministry's new “Action Plan on Drugs and Addiction,” which replaces the 1990 “National Plan to Combat Narcotics.” The action plan establishes a comprehensive strategy to combat narcotics for the next five to ten years in harmony with European and international drug policy. The plan focuses on specific prevention strategies (for new risk groups, e.g., immigrants) and international cooperation, responds to trends in the states of the former East Germany, and develops the use of new drug abuse survival assistance measures and technologies. A National Drug and Addiction Council will review implementation of the plan.

The Drug Commissioner at the Federal Health Ministry continues to coordinate national drug policy. Key pillars of the government's drug policy remain (1) prevention, (2) therapy and counseling, (3) survival assistance, and (4) interdiction and supply reduction. The following new 2003 initiatives or studies are in line with Germany's four key policy components:

Survival Aid. In March 2003, there were 19 “drug consumption rooms” in Germany. The Health Ministry views drug consumption rooms as one solution to promoting survival and stabilizing the health of the most difficult to treat drug addicts, while simultaneously facilitating treatment. According to a 2003 drug consumption evaluation study conducted on behalf of the Health Ministry,

drug consumption rooms fulfill the government's expectations in reaching the intended target group and in significantly improving medical care and the access to medical aid in general.

Telephone Hotline. Initiated by the Health Ministry, a single telephone hotline was established in November 2003 offering professional counseling, aid, and information regarding drugs and drug problems. It merges previously operated telephone hotlines of several local drug counseling institutions.

Law Enforcement Efforts. Counter-narcotics law enforcement continues to be a high priority for the Federal Criminal Police (BKA). The BKA publishes an annual narcotics report on illicit drug related crimes in Germany that contains data on seizures, drug flows, and consumption. German law enforcement agencies scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers, often working with other countries. In June 2003, an Australian citizen was arrested in Germany for smuggling cocaine from South America to Europe; investigations had been ongoing since September 2002. Several million U.S. dollars were seized as a result of this investigation. Several other suspects were arrested in the Netherlands and at least 400 kilograms of cocaine was seized there.

In October 2003, the Dutch Justice Minister and German Interior Minister agreed to intensify counternarcotics law enforcement cooperation by establishing an operational bilateral working group and by posting a German liaison officer at Amsterdam's Schiphol Airport.

Corruption. Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs. No cases of official 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. The U.S. and Germany signed a mutual legal assistance treaty on October 14, 2003, after over twenty years of negotiations. The MLAT is expected to be ratified in 2004. There is a Customs mutual legal assistance agreement (CMAA) 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. Germany signed the UN Convention against Corruption in December 2003.

Cultivation and Production. Germany is not a country of major hashish/marijuana cultivation or significant production. The Federal Criminal Police Office statistics from June 2003 reported a handful of synthetic drug labs operating in Germany (ecstasy, amphetamine, GHB).

Drug Flow/Transit. Germany's central location in Europe and its well-developed infrastructure make it a major transit hub. Traditionally, cocaine and ecstasy transits through Germany eastward and northwards, e.g., from Western Europe to Scandinavia, East and Southern Europe. Heroin transits from Eastern Europe to Western Europe. Source countries for drugs seized in Germany continue to be Afghanistan, Colombia, and the Netherlands.

Domestic Programs (Demand Reduction). The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's drug treatment policies and programs. Drug consumption is treated as a health and social issue. Germany sees education as the key measure for preventing drug use. Internet-based information and other education programs continue to be developed and expanded. Drug treatment continues to focus on drug-free treatment, psychological counseling, and substitution therapy. The first heroin-based treatment pilot project started to offer assistance to seriously ill, long-term opiate addicts in March 2002. This project is ongoing under medical supervision. In response to the growing number of drug-related deaths among young immigrants, in January 2003 a clinic in Lower Saxony opened twelve slots for drug addicts from states of the former Soviet Union.

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), the U.S. Customs Service, and their German counterparts, including the Federal Criminal Office (BKA), the State Criminal Offices (LKAs), and the Customs Criminal Office (ZKA). German agencies routinely work very closely with their U.S. counterparts in joint investigations, including against international drug trafficking organizations, using the full range of investigative measures (e.g., undercover actions). German-U.S. cooperation has led to effective programs (e.g., Operations “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. A tablet exchange program exists between the BKA and DEA which enables the exchange of samples of ecstasy pills.

The 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. The recently signed MLAT will simplify and expedite 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 headed for 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. 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 2003

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.

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 recently. In June 2003, after a two-year joint investigation, Hellenic authorities, British Customs, Spanish authorities, and the DEA dismantled a major maritime smuggling organization, culminating with the seizure of 3,600 kilograms of cocaine and the ship M.V. CORK, as well as the arrest of 10 individuals. This major transportation group was responsible for transporting multi-ton quantities of cocaine from South America to Europe and the U.S.

The counternarcotics unit of the Greek police does not have its own budget, and as a result police equipment is often outdated and training is infrequent. The situation improved during 2003, partially as a result of \$2.2 million that was shared with Hellenic authorities as a result of joint operations with the DEA.

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. 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 Greece 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 between the U.S. 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, 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, 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.

Domestic Programs (Demand Reduction). Drug addiction continues to climb in Greece. The most commonly used substances are chemical solvents and marijuana. There is a surge in the use of ecstasy that reflects developments in the growing European synthetic drug market. The GOG estimates that there are 22,000 addicts in Greece, with the addict population growing. OKANA, the state agency that coordinates all national treatment policy in Greece, is currently treating 1,640 addicts in six methadone treatment centers. OKANA runs a buprenorphine substitution program with seven public hospitals and has plans to extend the program to nine more regions. OKANA treated 1,469 addicts in “cold-turkey” therapeutic programs in 2003, up from 697 in 2002. (NB. Some figures used above have been updated from those used in last year's report.)

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The United States will encourage the GOG to continue to participate actively in international organizations such as the Dublin Group-focused on narcotics assistance coordination efforts. The DEA will also continue to organize additional conferences, seminars, and workshops with the goal of building regional cooperation and coordination in the effort against narcotics.

Hungary

I. Summary

Hungary is primarily a transit country for illegal narcotics from Southwest Asia to Western Europe, but has expanded into a consumption and production country as well over the past ten years. According to the Hungarian National Police, there are an estimated 200,000 drug users in Hungary. Drug abuse shot up in the nineties, and is still increasing, but at a much slower pace. The drugs of choice in Hungary are heroin, marijuana, amphetamines, ecstasy(MDMA), and LSD. Counternarcotics legislation, passed in late 1998 and which went into effect in 1999, introduced stiff penalties for using and/or selling narcotics. It has slowed growth in drug abuse, but not completely halted it. An amendment to the 1998 legislation that was enacted in March 2003 puts greater emphasis on treatment programs, grants judges more flexibility in sentencing, and allows police and prosecutors to differentiate between large scale and small scale drug offenses in an effort to focus on dealers rather than users. At present, drug traffickers may be punished with life imprisonment. A data-sharing memorandum of understanding to further improve U.S.-Hungarian law enforcement cooperation was concluded in January 2000. The USG and Government of Hungary (GOH) have had a mutual legal assistance treaty (MLAT) and an extradition treaty in force since 1997. Hungary is a party to the 1988 UN Drug Convention.

II. Status of Country

Hungary continued to be a major transit country for illegal narcotics smuggled from Southwest Asia and the Balkans to Western Europe. Traditional routes in the Balkans that had been disrupted due to instability in the FRY were once again being used to smuggle narcotics. Hungarian authorities report that narcotics smuggling is especially active across the Romanian and Serbian? borders.

Foreign organized crime, particularly those from Albania, Turkey, and Nigeria, control transit and sale of narcotics in Hungary. Officials report the increasing seriousness of Hungary's domestic drug problem, particularly among teens and those in their twenties, who have benefited from the country's strong, if unequal, economic performance. Hungarian "drug couriers" are very popular among foreign dealers as they are inexpensive. At present, there are twenty Hungarian citizens imprisoned abroad for drug smuggling.

III. Country Actions Against Drugs in 2003

Policy Initiatives. A key element of the national drug strategy is the creation of the National Drug Prevention Institute (NDPI), introduced in 2000. 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 fora then create drug strategies, formulated for each specific region. Out of 64 regions with populations of over 20,000, 56 have thus far established counter narcotics fora to discuss strategies. As of December 2003, many cities in these regions had also developed their own drug strategies.

The GOH has had programs for combating drug use at schools since 1992, however, given the shortage of police trainers and funding, there has been an increase in drug trading at schools. According to the latest statistics, every fifth youth has tried marijuana, with one third of these experimenters under the age of fourteen. The drugs of choice are marijuana, amphetamines, ecstasy, and LSD. Between 8 and 9 percent of young people report using these drugs on a regular basis.

An amendment to Hungarian counter narcotics legislation, which went into effect in March 2003, was designed to shift the focus of criminal investigations from consumers to dealers. Before this amendment was enacted, Hungarian civil rights leaders claimed that the Hungarian narcotics law, among the toughest on users in Europe, subjected even casual users to stiff criminal penalties, while addicts were often exempted from prosecution. The amendment encourages police, prosecutors, and judges to place drug users in government-funded treatment or counseling programs instead of prison. Drug addicts are encouraged to attend treatment centers while casual users are directed towards prevention and education programs. The amendment also provides judges with more alternatives and flexibility when sentencing drug users. The Drug Coordination Center reports that, since the amendment of the law, there has been a 2 percent increase in people choosing special programs over incarceration. The recently appointed Drug Affairs Secretary of the Ministry of Children, Youth, and Sports Affairs, stated that the amendment of the drug law was only the first step towards decriminalization of drug consumption. In late 2003, the GOH set up several needle exchange dispensers in Budapest to guarantee inexpensive, sterile needles for drug users.

Accomplishments. In 2003, the GOH arrested 20 individuals in connection with seizure of a large shipment of ecstasy smuggled into Hungary from the Netherlands. The investigation is ongoing at year's end. Modern electronic detection equipment provided by the European Union for certain high threat border posts installed in 2003 will likely improve border interdiction of all types of contraband.

Intensive cooperation between the Hungarian National Police (HNP) and DEA offices in Vienna and Athens within the framework of Southeast European Cooperative Initiative (SECI) occurred during the year, leading to important accomplishments in combating Turkish and Albanian drug trafficking by organized crime groups in the Balkans. Approximately 178 kilograms of heroin were seized in the region as a result of this cooperation.

Law Enforcement Efforts. During the first six months of the year, the Customs Authority seized nearly as much narcotics as during the whole previous year. A special action unit was trained for investigating not only couriers, but dealers as well.

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 UN 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. Hungary has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. GOH authorities claim that marijuana (mostly cultivated in Western Hungary), ecstasy (MDMA), and LSD are locally produced; all other illegal narcotics are imported into Hungary.

Drug Flow/Transit. Authorities believe that 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. Budapest's Ferihegy International Airport in Budapest is 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.

Domestic Programs (Demand Reduction). Hungarian officials continue to report the seriousness of their domestic drug problem, particularly among youth. Prevention programs were influenced by a USG-financed pilot project to train teachers to identify and counsel students using drugs. Prevention focuses on the teen/twenties age group and delivers more complete information about the dangers of drug use while emphasizing productive lifestyles as a way of limiting exposure to drugs. National drug treatment capabilities have also been expanded. Although the national drug strategy called for 17 billion HUF to be used to implement the plan over a three-year period, only 5 billion HUF was actually allotted. The government spent 1.5 billion HUF in 2002 on the national drug strategy. In 2003, the Ministry of Children, Youth, and Sports Affairs spent 3.5 billion HUF on prevention programs. As part of the national drug strategy, prevention programs were expanded to elementary schools, in addition to existing programs in junior and high schools. Six hundred schools utilized drug prevention curricula in 2003.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG focuses its support for GOH counter narcotics 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. In 2003, the Department of Justice donated investigative surveillance equipment and trained the national drug police and prosecutors on its use.

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. The DEA office in Vienna is working with the HNP in an effort to forge a closer relationship with the Hungarian national drug investigators, and may possibly be invited to send an agent to work full time with the HNP.

Iceland

I. Summary

Icelandic authorities do not have to confront significant levels of drug production or transit. Their focus is thus on stopping importation and punishing distribution and sale, with a lesser emphasis on prosecuting for possession and use. Along with the government, secular and faith-based charities organize abuse prevention projects and run respected detoxification and treatment centers. Iceland is a party to the 1988 UN Drug Convention.

II. Status of Country

Reflecting Icelandic society's coolness to liberalization of drug laws, an IMG-Gallup survey conducted in June showed that 87 percent of Icelanders oppose the legalization of cannabis. Preliminary results of the third European School Survey Project on Alcohol and Other Drugs, conducted in 2003, showed that controlled substance use among Icelandic adolescents has decreased significantly in recent years, and that students currently completing secondary school have used drugs less throughout their school careers than did earlier cohorts.

Illegal drugs and precursor chemicals are not produced in significant quantities in Iceland. The harsh climate and lack of arable land make the outdoor cultivation of drug crops almost impossible. Icelandic authorities believe that the production of drugs, to the extent it exists, is limited to greenhouse-hydroponic marijuana plants and small-time amphetamine laboratories. Authorities charged only 13 persons with production of drugs in 2002 (latest available Ministry of Justice figures).

Most illegal drugs in Iceland are smuggled in through the mail, inside commercial containers, or by airline passengers. The chief illicit drugs entering Iceland, mainly from Denmark, are cannabis and amphetamines. Smuggling of steroids and ephedrine, which is used to produce methamphetamine, is a growing problem. Authorities in 2002 (latest available Ministry of Justice figures) charged 67 persons with importing drugs and precursors.

The discovery by Faeroese Customs in July and August of two shipments of cannabis totaling 40 kilograms bound for Iceland by passenger ferry suggests that the Denmark-Faeroe Islands-Seydisfjörður (East Iceland) route is a particular target for smugglers.

III. Country Actions Against Drugs in 2003

Policy Initiatives. On July 1, 2003, the government established a new Public Health Institute. The new body subsumed the formerly independent national Alcohol and Drug Abuse Prevention Council (ADAPC) as well as the Icelandic Nutrition Council, the Anti-Tobacco Council, and the Program on Child and Youth Injury Prevention. ADAPC's primary activities continue to be data collection on use of intoxicants and funding and advising local governments and non-governmental organizations working in prevention and treatment. During the year it made grants worth \$600,000 to a total of 70 groups across the country. The organization also distributed pamphlets in pre-natal clinics to alert women to the consequences of drug and alcohol use during pregnancy. Its "together" project urged on parents (through posters, print advertisements, and television spots) the importance of developing better relationships with children, using the slogan: "The togetherness of the whole family is the best prevention."

Reykjavik Customs continued with its national drug education program, developed in 2002, in which an officer accompanied by a narcotics sniffing dog informs students participating in confirmation

classes about the harmful effects of drugs and Iceland's fight against drug smuggling. The officer meets separately with parents to inform them about their role in the fight against drugs. In order to formalize the program, Reykjavik Customs in November signed a cooperative drug education agreement with the state church. Customs officials have also commissioned a multimedia CD dealing with drug awareness that they will distribute in schools during educational visits.

Accomplishments. At seaports, authorities conducting container searches confiscated 9.7 kilograms of cannabis arriving from Denmark in June; one kilogram of amphetamines arriving from Rotterdam in September; and 60,000 ephedrine tablets from the U.S. in June. Icelandic authorities believe that there may be a general increase in ship borne smuggling due to greater security at airports post-9/11 and a younger generation of sailors seeking to profit from on-shore demand.

Through November 2003, Keflavik International Airport (KEF) authorities made about 45 seizures. In the year's largest seizures, customs at KEF in May discovered three kilograms of cannabis hidden in two passengers' food tins. In two separate incidents in October and December, alert screeners stopped four passengers who turned out to be concealing 800 grams of cocaine in condoms in bodily orifices. No U.S.-bound passengers were discovered smuggling illegal drugs.

In the year to December 8, 2003, local police forces shut down 26 cannabis producers, the largest, found in November near Selfoss, growing 700 marijuana plants. Police in November turned up an apartment in Kopavogur containing more than 200 grams of amphetamines, drug making equipment, and various types of precursor chemicals. During the year, Reykjavik police confiscated at least 1,550 ecstasy pills, almost double the number seized in 2002.

Law Enforcement Efforts. In the fourth and fifth such incidents in recent years, Icelandic authorities in December expelled a total of 14 members of the Norwegian branch of the Hell's Angels motorcycle club arriving at KEF. Nordic and local officials believe the organization is attempting to import its criminal operations to Iceland and have taken a pro-active, cooperative approach to stopping the spread.

To stem the flow of drugs smuggled into Iceland's prisons, the Ministry of Justice purchased a narcotics-detecting "Ion Trap" mobility spectrometer. Though installed at Iceland's main prison, Litla Hraun, in December, the machine is to be periodically moved to various seaports to be used in unannounced cargo searches. Authorities also plan to rotate narcotic-sniffing dogs to Litla Hraun for spot checks on visitors.

Following the year's biggest drug trial, the Supreme Court in November sentenced an Icelander to eight years imprisonment for smuggling 300 grams of cocaine and over five kilograms of amphetamines to Iceland in 2001-2, and then laundering the proceeds of his crime.

In May, Dutch and Icelandic counter narcotics officers participated in a joint exercise in which they searched all small aircraft traveling between the countries. While they did not make any seizures, officials say they found the effort at coordination and cooperation to be valuable.

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 its 1972 Protocol. Iceland has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime. An extradition treaty is in force between the U.S. and Iceland.

Domestic Programs (Demand Reduction). Heroin abuse is virtually unknown in Iceland. Cannabis is the drug of choice for persons under 20, while older addicts are partial to injecting morphine. Ecstasy, cocaine (but not crack), and amphetamines are popular, particularly on the capital region's club scene. Between them, Icelandic governmental, non-governmental, and faith-based organizations provide about one alcohol- and drug-rehabilitation bed for every 800 citizens. Three detoxification facilities (of which two have doctors on call around the clock) are supplemented by a number of

dedicated treatment and rehabilitation facilities as well as halfway houses with beds for about one in every 1400 citizens.

Most alcohol and drug abuse treatment is taken on by SAA, the Laymen's Society on Alcoholism and Drug Abuse. Founded in 1977 by a group of recovered addicts who wished to replicate the rehabilitation services they had received at the Freeport Hospital in New York, SAA now receives roughly two thirds of its annual budget from the government. It makes detoxification and inpatient treatments available free to Icelandic citizens. While there can be waiting lists for long-term adult male addicts, there are none for women and teens. SAA's main treatment center admits around 2,400 patients a year, while another 300 or so (often those with complicating psychiatric illnesses) go to the National-University Hospital. Individuals with less acute problems may turn to Samhjalp or Byrgid, two Christian charities that use faith-based approaches to treating addiction.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. During 2003, a narcotics officer from Iceland's National Commissioner of Police's office attended the two-week Drug Commander Unit School offered by the U.S. Drug Enforcement Administration (DEA) in Quantico, Virginia. DEA will continue to support Icelandic requests for U.S.-sponsored training. Further, to encourage regional cooperation, DEA plans to invite Icelandic officials to a two-week course it has proposed for the Baltic countries in spring 2004.

The Road Ahead. The DEA office in Copenhagen, the Regional Security Office in Reykjavik, and the Naval Criminal Investigative Service at Naval Air Station Keflavik have each developed good contacts in Icelandic law enforcement circles for the purpose of cooperating on narcotics investigations and interdiction of shipments. The USG's goal is to maintain the good bilateral law enforcement relationship that up to now has facilitated the exchange of intelligence and cooperation on, e.g., controlled deliveries.

Ireland

I. Summary

The Republic of Ireland is not a transshipment point for narcotics to the United States, nor is it a hub for international drug trafficking. Ireland is a party to the 1988 UN Drug Convention. According to Government of Ireland (GOI) officials, overall drug use in Ireland continues to remain steady, with the exception of cocaine use, which has increased significantly. Seizures have also increased as traffickers attempt to import drugs in larger quantities. The GOI's National Drug Strategy is to significantly reduce drug consumption through a concerted focus on supply reduction, prevention, treatment, and research.

II. Status of Country

Ireland is not a transit point for drugs to the United States; it is occasionally used as a transit point for narcotics trafficking to other parts of Europe, including across its land border to Northern Ireland. Ireland is not a significant source of illicit narcotics or precursor chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOI continued with drug abuse strategies it established in its National Drug Strategy in 2001. As of September 2003, substance abuse programs were a part of every school curriculum in the country. The National Awareness Campaign on Drugs was launched on May 15, 2003. The campaign featured television and radio advertising supported by an information brochure and website, all designed to promote greater awareness and communication about the drug issue in Ireland. Regional Drug Tasks Forces (RDTF), set up to examine drug issues in local areas, were fully operational throughout the country. The GOI will undertake a review procedure to measure how effectively each department in the government is internally implementing the National Drug Strategy.

Accomplishments. The Garda Siochana (Irish Police) continued to cooperate closely with other national police forces. In May 2003, the Garda and the Northern Ireland Office held a two-day seminar to enhance cooperation between the Garda and the Police Service of Northern Ireland (PSNI). While there were no major drug seizures this year as a result of international cooperation, the GOI continues to maintain a close relationship with other countries' law enforcement agencies, particularly the UK, France, Spain, and the Netherlands.

Law Enforcement Efforts. Official statistics are not yet available for 2003 but the Garda confirmed that drug-related arrests remained constant over the last three years (approximately 450 arrests per year), and most drug-related arrests were for possession. Cannabis was the drug most often seized, followed by ecstasy, heroin, and then cocaine.

Law enforcement services in Ireland made several major drug seizures during 2003, including the January seizure of 1.6 metric tons of cannabis resin at a business premises near Dublin. The drugs were worth 20 million Euros (\$25 million). The Garda made two further cannabis seizures with a street value of over 10 million Euros in April and May. According to a recent GOI report, cocaine use is increasing and seizures of cocaine increased accordingly. As of December 1, approximately \$3.5 million worth of cocaine had been seized, in a total of 23 seizures amounting to around 19 kilograms of cocaine. This included two separate raids in December where over 1 million Euros worth of cocaine was seized in total. In April, the Garda seized over 1.3 million tablets of ecstasy. During the first six months of 2003, 67 million Euros worth of drugs were seized, more than the total of drugs seized for the whole of 2002 (47 million Euros worth of drugs). GOI officials attributed this increase primarily to

traffickers attempting to import larger quantities per shipment than in the past; resulting in more drugs confiscated per seizure.

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, which was ratified by the Senate in July April 2003 and is awaiting ratification by the GOI. An extradition treaty between Ireland and the United States is currently in force.

Ireland is a party to the 1998 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 yet ratified, the UN Convention against Transnational Organized Crime and the Protocol to Prevent, Suppress and Punish Trafficking in Persons.

Cultivation/Production. Only small amounts of cannabis are cultivated in Ireland. There is no evidence that synthetic drugs are being produced domestically.

Drug Flow/Transit. Among drug abusers in Ireland, cocaine, cannabis, amphetamines, ecstasy (MDMA), and heroin are the drugs of choice. Cocaine comes primarily from Colombia and other countries in Latin America and the Caribbean. Heroin, cocaine, ecstasy, and cannabis are often packed into cars in either Spain or the Netherlands and then brought into Ireland for distribution around the country. This distribution network is controlled by 6 to 12 Irish criminal gangs based in Spain and the Netherlands. Herbal cannabis is primarily imported from South Africa.

Domestic Programs (Demand Reduction). There are 6,844 treatment sites for opiate addiction, exceeding the GOI's National Drug Strategy target of 6,500 treatment places. The Strategy also mandates that each area Health Board have in place a number of treatment and rehabilitation options. For heroin addicts, there are now 60 methadone treatment locations. Most clients of treatment centers are Ireland's approximately 14,500 heroin addicts, 12,400 of which live in Dublin. The GOI is evaluating drug treatment centers' ability to cope with the leveling off of heroin use and the increase of other drugs.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In 2003, the United States pursued greater legal and policy cooperation with the GOI, and benefited from Irish cooperation with U.S. law enforcement agencies such as the DEA. Information sharing, and joint operations and investigations between U.S. and Irish officials continued to strengthen ties between the countries.

The Road Ahead. U.S. support for Ireland's counternarcotics program, along with U.S. and Irish cooperative efforts, continue to work to prevent Ireland from becoming a transit point for narcotics trafficking to the United States.

Italy

I. Summary

The GOI is firmly committed to the fight against drug trafficking in-country and internationally. Italian law enforcement agencies are capable and effective. The Berlusconi government is continuing its strong counternarcotics positions. Italy is a consumer country and a major transit point for heroin coming from the Near East and southwest Asia through the Balkans en route to western/central Europe and, to a lesser extent, the United States. 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. GOI cooperation with U.S. law enforcement agencies continues to be exemplary.

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 highly professional. However, some ecstasy couriers have been arrested at U.S. ports of entry after having transited Italy. Although Italy produces some precursor chemicals, they are well controlled in accordance with international norms and not known to have been diverted.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Italy continues to combat narcotics aggressively and effectively. The Berlusconi government has made combating drug abuse a high priority, although its focus is more on prevention, improved treatment, and rehabilitation than criminalization. A draft law submitted to parliament in late 2003 would eliminate the legal distinction between hard and soft drug use. Drug users would at a minimum be compelled to enter treatment or face administrative penalties. Above certain prescribed levels, addicts would face criminal charges. The special commissioner for counternarcotics policies is preparing omnibus legislation to strengthen the capacity of his department to coordinate supply-reduction efforts and demand reduction programs run by the ministries of health, education, and labor.

At the multilateral level, Italy is a leading contributor to the UN office of drug control and crime prevention (UNODC), funding almost 20 percent of UNODC's counternarcotics work. It supported U.S. key objectives at the UN commission on narcotic drugs. The Italian EU presidency championed the need to get tougher on synthetic drugs, beef up counternarcotics assistance in the Balkans, and strengthen the role of the family in drug abuse prevention.

Law Enforcement Efforts. The fight against drugs is a major priority of each of the three services coordinated by the central directorate for drug control prevention (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, the Calabrian n'drangheta, 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.

Accomplishments. Italian law enforcement made life difficult for narcotics traffickers, seizing significant quantities of heroin, cocaine, and synthetic drugs throughout 2003. Comparing January-September data for 2002 and 2003, seizures of heroin and hashish rose, while cocaine and marijuana seizures decreased slightly. Seizures in 2003 of MDMA have lagged behind those in 2002 because of a major (over 150,000 pills) take down last year.

Corruption. Italian officials do not encourage or facilitate the illicit distribution of narcotics or the laundering of proceeds from illegal drug transactions. No senior official of the government of Italy engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Corruption exists only among bit players and has not compromised investigations. When a corrupt law enforcement officer has been discovered, authorities have taken appropriate action.

Agreements and Treaties. Italy is a party to the 1961 UN Single Convention and its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. Italy has signed, but has not yet ratified, the UN Convention Against Transnational Organized Crime, which is still being examined by the Justice Ministry. Italy has bilateral extradition and mutual legal assistance treaties with the U.S., which will be affected by the new U.S.-EU mutual legal assistance and extradition treaties agreed to in 2003; Italy is currently concluding negotiations with the U.S. on bilateral instruments to implement the U.S.-EU treaties.

Cultivation/Production. There is no known cultivation of narcotic plants in Italy. No heroin laboratories or processing sites have been discovered in Italy since 1985. However, opium poppy grows naturally in the southern part of Italy, including Sicily. It is not commercially viable due to the low alkaloid content. No MDMA-Ecstasy laboratories have been found in Italy.

Drug Flow/Transit. Italy is a consumer country and a major transit point for heroin coming from southwest Asia through the Balkans en route to western and central Europe and, to a lesser extent, the United States. Albanian heroin traffickers work with Italian criminal organizations as transporters and suppliers of drugs. Cocaine, destined for Italy and other European countries, originates with Colombian and (more recently) Mexican criminal groups.

Heroin is smuggled into Italy via fast boats and overland via truck and privately owned vehicles. Cocaine reaches Italy primarily in containerized shipments direct from South American ports. In smaller quantities, both drugs are transported via primarily Nigerian and Colombian couriers or air express parcels. Some of the ecstasy entering Italy, which is primarily imported from the Netherlands, is destined for the United States. Hashish is smuggled regularly into Italy on fishing and pleasure boats in multi-hundred kilogram quantities from Morocco and Lebanon.

Domestic Programs/Demand Reduction. The Italian Ministry of Health 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 is promoting more responsible use of methadone at the public treatment facilities. Due to budget shortfalls, Italy in 2003 spent only \$9 million on counternarcotics programs run by the health, education, and labor ministries. An counternarcotics information campaign was undertaken in 2003.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Italy continue to enjoy exemplary counternarcotics cooperation. The September-October 2003 visit to Italy by ONDCP director John Walters served to reinforce collaboration and expand information sharing on demand reduction. Italian officials uniformly agreed with Walters on the need for a balanced drug policy strategy to decrease demand for and check the supply of illicit drugs. Italy voted in favor of the U.S. candidate to the International Narcotics Control Board.

Italy's Special Commissioner for Anti-Drug Policies participated in a State Department-sponsored demand reduction tour in January. His favorable impression of U.S. programs resulted in a follow-on program for a group of Italian magistrates to expose them to U.S. drug courts. A digital video conference on drug prevention in school is being planned for early 2004 to give Italian and U.S. experts an opportunity to share thoughts on best practices.

The Road Ahead. The USG will continue to work closely with Italian officials to break up trafficking networks into and through Italy as well as enhance both countries' ability to apply effective demand dampening policies.

Kazakhstan

I. Summary

Kazakhstan continues to be an important transit corridor for drugs being transported to Russia and Europe. UNODC estimates that approximately one-third of Afghanistan's predicted 4,500 metric ton opium crop will transit Central Asia in 2004, with 70 percent of that amount expected to transit Kazakhstan. Reports also continue to suggest that Kazakhstan has become a transit country for illegal drugs going to Europe from China and other parts of Eurasia. Local drug use and its consequences continue to increase, but local crime connected to drug use seems to have dropped. Kazakhstan continues to take steps to control drug abuse within its own borders, but official corruption complicates efforts to improve 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 narcotics, evidence continues to suggest that local production is mostly limited to in-country use with some smuggling into Russia. Drugs transiting Kazakhstan impact mainly Russia and Europe, but proceeds from drug smuggling are a potential revenue for terrorist groups. No discovery of laboratories for the production of narcotics was announced this year, but a large increase in the seizure of precursors suggests that Kazakhstan could become a source for these chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Kazakhstan is in the third year of its five-year plan against drug trafficking, although the President recently announced that it will be twenty years before Kazakhstan gains control over its narcotics problem. For the last three months of 2003, the GOK has been holding extensive meetings on the reinforcement of all law enforcement bodies, with a view to simplifying bureaucratic structures and eliminating duplication of functions. Other meetings have focused on counternarcotics forces, proposing, inter alia, eliminating the moribund Drug Control Committee, the creation of a DEA-like office with sole responsibility for fighting narcotics, or the transfer of all counternarcotics forces to the Ministry of the Interior. The GOK also announced a reform of all law enforcement academies in the country.

GOK's announcement last year that it would be establishing a regional counternarcotics information center under the EU's Central Asia Drug Action Program (CADAP) has been superseded by a UNODC project, in which GOK will participate, to create a Central Asia Regional Information and Coordination Center (CARICC) based in Tashkent. The project announced last year to convert 20,000 hectares of wild marijuana in the Chu Valley to the commercial production of hemp apparently will not be carried out.

Internally, GOK continues to strengthen its law enforcement capacity, having increased the total budget for law enforcement agencies from 45.7 billion tenge (\$326.4 million) in 2001 to 70 billion tenge (\$500 million) in 2003. Police salaries were increased in 2003 with promise of a further fifty per cent increase in 2004, weakening the argument for "survival-based corruption." In January, the Ministry of Justice began drafting a strengthened counternarcotics law and in September, the GOK placed controls over a wide range of equipment that might be used for the production of illegal narcotics and precursors. The GOK also announced the construction of twenty-five major new border

posts, fifteen for the search of trucks and ten for the search of trains. The first five of these posts will be built in 2004.

Law Enforcement Efforts. The GOK continues to fight drug smuggling actively with results, however, showing only slight improvement over last year. The first nine-month figures for 2003 show only a moderate increase in seizures of opium and a slight increase in seizures of heroin. The majority of narcotics seizures were made by the Border Guards, with Ministry of the Interior running a close second. Seizures by Customs were negligible. One notable seizure not reflected in these figures, however, is Customs' seizure in November of 340 kilograms of heroin, discovered in a train car filled with vegetables stopped at the Temirzhol Railway Station on the Russian border.

Kazakhstan also participated with other CIS states (Armenia, Belarus, Kyrgyzstan, Russia, and Tajikistan) in a joint operation that netted 116 kilos of heroin and 168 kilos of opium. The fact remains, however, that the vast majority of drug seizures in Kazakhstan consist of locally grown marijuana.

The lack of improvement in narcotics seizures has not gone unnoticed by the GOK. In September, the Deputy-Prosecutor General denounced the ineffectiveness of GOK customs and border services, pointing out that the Russian Federal Security Forces often seize more in a single operation than GOK forces seize all year.

Data furnished by the Ministry of the Interior show a drop in drug-related arrests from 18,000 in 2001 to 13,000 in 2002, with a continued drop during the first nine months of 2003. Other sources suggest, however, that these figures only show a drop in the general crime rate and that drug-related crime is actually on the increase. After a steep drop in 2001 and 2002, arrests for narcotics smuggling showed a fifteen per cent increase in the first nine months of 2003.

Corruption. In a recent poll, ninety per cent of respondents claimed daily experience of corruption while seeking government services. A poll of local businessmen again rated Customs as the most corrupt agency in Kazakhstan, with every other government agency rated a close second or third. GOK regularly denounces corruption among government officials and, in fact, there were 3,370 corruption-related arrests between April 1, 2002, and March 31, 2003, the majority of these arrests being made in the Ministry of Defense, Ministry of Internal Affairs, Customs and the Tax Inspectorate. Arrests for corruption are up thirteen per cent during the first nine months of 2003.

Agreements And Treaties. These were discussed in detail above. GOK readily cooperates regionally and internationally in the fight against narcotics.

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 marijuana in Chu Valley. Approximately 97 percent of the marijuana sold in Central Asia originates in Kazakhstan. Production of opium and heroin remain minimal.

Drug Flow/Transit. One estimate of last year's predicted opium harvest in Afghanistan was 3,000 metric tons (three million kilos), of which one-third was expected to pass through Central Asia. Seventy per cent of that amount (700 metric tons, or 700,000 kilos) was expected to transit Kazakhstan. If we assume that half of that was converted to heroin (the ratio is ten to one), then a total of 385 metric tons (385,000 kilos) of opiates passed through Kazakhstan in 2002. Total seizures last year were less than 400 kilos of opiates, about 0.1 percent (zero point one per cent) of the total. In other words, the flow of narcotics through Kazakhstan is essentially unimpeded.

The main routes for narcotics coming into Kazakhstan continue to run through Tajikistan and Kyrgyzstan, or Turkmenistan and Uzbekistan. Kazakhstan's increasing prosperity has created a new market for artificial drugs like Ecstasy and amphetamines shipped in from Russia.

Domestic Demand. During the first nine months of 2003, there were 49,207 registered addicts in Kazakhstan, almost a six per cent increase over last year. Experts estimate that the true number of addicts is about five times the number of those registered. Recent reports suggest that the huge influx of narcotics from Afghanistan into Russia and Europe has begun to saturate the market, and that opiates are beginning to face stiff competition from artificial narcotics. If this is true, narcotics dealers are likely to turn to the less profitable Central Asia market for increased sales and we may expect Kazakhstan's drug-use problem to grow.

IV. U.S. Policy Initiatives and Programs

In March, President Nazarbayev approved the State Department's Narcotic Assistance Program Letter of Agreement, signed in December 2002, allowing assistance to begin. The U.S. overall goal is to develop a long-term cooperative relationship between police and investigative services of the United States and those of Kazakhstan. Within that framework, the U.S. has the more specific goal of working with the GOK to strengthen areas of recognized weaknesses. The U.S. will be working with the National Forensics Laboratory, the Ministry of the Interior and the Border Guards to provide equipment and training related to counternarcotics.

Given that Kazakhstan will soon become a regional financial center, but has little experience investigating money laundering related to narcotics and terrorism, the U.S. will begin a long-term training effort with the Financial Police Academy, using the Federal Law Enforcement Training Center as the lead agency, but also involving FBI, Treasury and others as appropriate. In the near future the U.S. will also start a trafficking in persons (TIP) program in coordination with USAID. The U.S. program will emphasize training local investigators and prosecutors to build successful legal cases against traffickers.

The Road Ahead. Despite its current problems, Kazakhstan is making serious efforts to end its status as a narcotics transit country, refining laws, developing its police services and cooperating with the international community. Corruption, failure to devote sufficient resources to training and equipment, and a weak infrastructure remain serious problems, but trends are encouraging.

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 2003, 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 doing what it can against 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 90 percent of known HIV and AIDS cases are related to intravenous drug use.

Public confidence is eroding concerning the GOKG's ability 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 on counternarcotics programs, tolerance 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 verbal 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 (SCDC) 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 new Drug Control Agency, a counternarcotics unit sponsored by the USG and initially managed by UNODC, will be a new beginning in the Kyrgyz Republic's efforts to minimize drug trafficking. The Kyrgyz Republic is 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 major producer of narcotics. However, cannabis, ephedra, and poppy grow wild in many areas.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Kyrgyz Republic has developed a comprehensive plan to combat drug trafficking and abuse. There is an open forum for communication on drug-related issues including crime prevention, health care, legal affairs, and financial concerns. There have also been initiatives in the area of drug abuse education and treatment of drug dependent persons. Projects currently underway include Regional Precursor Control in Central Asia; Strengthening Drug Capacities in Data and Information Collection Project; Diversification of HIV Prevention and Drug Treatment Services for Intravenous Drug Users.

Law Enforcement Efforts. Nearly 3000 kilograms of heroin, and 5000 of opium, pass through the Kyrgyz Republic, only 5-6 percent of which is ever seized. Drug traffickers have 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 Osh region remains an unwieldy and volatile drug trafficking region that the State Commission for Drug Control (SCDC) has declared a high priority target of its counternarcotics efforts.

The GOKG is attempting to counter trafficking with a new U.S.-funded, UNODC-sponsored Drug Control Agency (DCA), modeled after the U.S. Drug Enforcement Agency (DEA). This new 297-man agency will draw upon other Kyrgyz law enforcement agencies for its initial staff and leadership. It will have two special units, one in Bishkek and the other in Osh, designed as quick-reaction squads to respond to cross-border trafficking.

The Ministry of the Interior (MVD) reported that heroin smuggling has increased ten-fold in the last five years. The number of officially designated drug related crimes reported in 2003 is 2,569, a 2.1 percent increase over the same period in 2002. The number officially designated drug related crimes prosecuted in 2003 rose by less than one percent. The total amount of seized drugs in 2003 was up 12.7 percent from 2002, from 2,763.571 kilograms to 3,115.921 kilograms.

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 is a party to the UN Convention against Transnational Organized Crime.

Corruption. 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. However, as a matter of government policy and practice, the Kyrgyz Republic does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Drug Flow/Transit. The GOKG previously 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. In August 2003, a kilogram of heroin could be purchased in Bishkek for approximately \$5,000-\$8,000 depending on purity. Other officials maintain that street prices in Osh have shown a steady decline

over the last five years indicating a burgeoning supply. In 1997, in Kyrgyzstan a kilogram of heroin cost \$10,000. According to MVD data, a single dose of heroin is currently available for 40-50 Som (\$1).

Domestic Demand. In July 2003, the Kyrgyz Republic's National Narcological Center reported 5,591 registered drug addicts, including 12 people less than 18 years of age. While the number of official addicts has increased by more than 10 percent since the 2002 report, the actual number of drug abusers is likely to be 10-15 times the reported amount. The number of registered addicts in 2003 was 5,518 men and 73 women. Of the total number of addicts registered, 3,550 are heroin and opium addicts and 1,420 are cannabis addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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 post will be equipped with modern detection equipment and manned on a 24-hour basis. It should be in operation by the summer of 2004. This \$250,000 project will seek to serve as a model response to narcotics trafficking on one of the busiest drug-trafficking routes. If the model project succeeds it can be replicated to disrupt other trafficking routes. Additional drug assistance projects will provide the Kyrgyz enforcement authorities with drug detection equipment, communication, and mobility equipment with a value of almost \$500,000.00. The Kyrgyz Republic also receives UNODC counter narcotics trafficking assistance and its national passport is being redesigned with an eye towards better security with the assistance of the International Agency for Migration.

The Road Ahead. The USG will continue to assist the GOKG in its counternarcotics efforts through prosecutorial, customs and advanced law enforcement training. The USG will also provide direct support and training to law enforcement and customs canine services.

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 amphetamines, cocaine and cannabis. Latvia is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug production is not a significant problem in Latvia, though potential does exist for manufacture or cultivation of certain drugs. 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 concealment methods. Individual couriers traveling by land frequently conceal drugs in baggage or within their bodies. Amphetamines are trafficked from the Netherlands, Poland, and Estonia, often using posted parcels. Heroin is primarily trafficked via Russia. Drugs tend to be transhipped through Latvian seaports; drugs destined for Latvia itself rarely arrive at seaports.

Latvia is not a significant producer of precursor chemicals. It has, however, served as a destination and transit point for precursor chemicals. Customs officials believe that there is a significant presence of “pre-precursors” that originate in Belarus. International customs officials for Nordic Countries have traced a significant amount of the precursor trade back to Lithuania, where it then goes through Latvia to Estonia before taking advantage of the frequent ferry service from Tallinn to Helsinki. The amount of confiscated precursors rose from 500 ml of liquid substance in the first half of 2002 to 7.54 kilograms of solid substances and 1560 ml of liquid substances in the first half of 2003.

Heroin is sold at “retail” in public places such as parks, at the city center, or more discreetly in private apartments; selling tactics and methods constantly change. Larger dealers use intermediaries to limit the clients' contact with the dealer. Amphetamines are mainly distributed at gambling centers and other areas that attract youth, 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 retail trade.

Heroin demand, supply, and usage have decreased since September 2001. Police officials report that this is due to a disruption in the supply of heroin flowing from Central Asia through Russia to Latvia and points further west. The quantity and quality of heroin available in Latvia has deteriorated 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 sold to drug abusers on Latvia's streets. Trafficking routes appear not to have been re-established, despite the sharp recovery in illicit opium/heroin production in Afghanistan. Heroin samples from recent seizures have had a basic substance concentration of 6 percent to 30 percent, down from the average 80 percent two years ago and 20-30 percent last year. Analyses of seized samples of “low quality” heroin reveal that they were produced in Central Asia and Afghanistan. Heroin is diluted locally with additives to stretch the limited supply. Latvia's growing affluence, coupled with the diminished supply of heroin, has led to increased usage of cocaine. The Organized Crime Bureau reported that the standard purity of seized cocaine averages 50-60 percent.

Recreational drug use has also increased, with both amphetamines and cannabis usage showing an increasing trend. Nonetheless, among officially registered drug addicts at Latvia's Narcology Center, heroin and opiates account for the largest single category. As of September 2003, there were 2362 registered opiate users. Retail prices for heroin have continued to rise. In 2001, 0.1 gram of heroin retailed for 5 LVL (approx. \$9). The most current retail price is over 8 LVL for 0.1 gram (approx. \$15).

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Latvian government is in the process of drafting a master plan for 2004-2008 that addresses national drug control and drug abuse. This plan will create an institutional body with the authority to coordinate the state's counternarcotics efforts. The plan has six goals: Reduce the prevalence of drug use; Reduce the negative health consequences of drug use; Increase treatment of addicts; Reduce the supply of drugs; Reduce the number of drug related crimes; Reduce ancillary drug crimes, including money laundering; And reduce the illegal trafficking of drug precursors.

The State Police reorganized their efforts in combating drug distribution in May 2003, placing their domestic drug control unit under the supervision of the Organized Crime Bureau. Police interviews with detainees arrested for drug-related crimes revealed that stable organized crime (OC) groups control the narcotics supply and distribution networks in Latvia.

Law Enforcement Efforts. The total number of drug-related crimes increased from 584 in the first 11 months of 2002 to 895 in the same period of 2003. The 2003 drug-related crime statistics include 302 crimes related to drug sales, of which 269 crimes involved small-scale sales, purchasing, possession, and repeated illegal use of narcotics, and only 5 crimes related to large-scale drug contraband. In the first nine months of 2003, drug-related criminal charges were brought against 559 individuals, up from 354 in 2002. In the first 11 months of 2003, the amount of seized hashish, ephedrine and amphetamines, cocaine, and psychotropic substances increased compared to 2003 figures, while the amount of heroin, ecstasy, and marijuana seizures dropped.

The significant increase in the amount of seized hashish and cocaine are disproportionately influenced by several large seizures. The dramatic increase in the amount of confiscated hashish can be attributed to a seizure of 29.85 kilograms of hashish at the Grenctale border crossing point with Lithuania in March, and a seizure of 19.8 kilograms at the same location in October. The considerable increase in the seized cocaine is due to a seizure of 1726.58g from a narcotics wholesaler in Riga in May.

As part of the GOL's strategy to target distribution channels, the legislature amended the criminal code to institute harsher sentences for those with the intent to distribute. The Prosecutors Office, though, contended that their ability to prosecute offenders is limited due to three factors: 1) Latvia's small size makes it difficult to implement an effective witness protection program and thus reduces their ability to infiltrate criminal groups; 2) the current criminal procedures code (due for reform in 2004) does not allow for plea bargaining; 3) there are limited state resources to fund rehabilitation programs.

Corruption. Corruption remained a problem in Latvia, but the government established a new Anti-Corruption Bureau in February 2003. An investigation in March 2003 focused on allegations of police involved in retail drug dealing and led to the arrest of two former criminal police officers. Although there are allegations that Customs Officers and Border Guards sometimes conspire with smuggling rings, 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. 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 7, 2001. Latvia also ratified the Protocol against the Smuggling of Migrants and signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons.

IV. U.S. Policy Initiatives and Programs

U.S. Policy and Bilateral Cooperation. 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 on a transit route for heroin from Asia to Western Europe. Narcotics producers in Lithuania manufacture synthetic narcotics for local use and export. Poppy straw extract, heroin, synthetic narcotics, and cannabis are drugs of choice in Lithuania, and industrially produced psychotropic drugs are increasingly popular. Narcotics use and sales continue to increase. In 2003, Lithuania continued strengthening its counter narcotics efforts and developed the National Drug Addiction Prevention and Drug Control Strategy for 2004-2008. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

Poppy straw extract, heroin, synthetic narcotics, and cannabis are the most popular drugs in Lithuania. The low price of poppy straw and cannabis has contributed to their popularity. The current price of a heroin dose is 20 litas (about \$6). Poppy straw is especially popular in the countryside and is smuggled to the Kaliningrad district of Russia. Hashish is not popular in the country. Industrially produced psychotropic drugs (e.g. GHB), liquid heroin, amphetamines, and new psychotropic substances are increasingly popular. The police estimate that the annual revenue of Lithuanian drug dealers increased and currently amounts to 300-500 million litas (\$100-\$160 million).

About 75 percent of all drug addicts are less than 35 years old. More than 90 percent of drug addicts live in cities. One-fifth of all the registered drug addicts are women. Over 90 percent of drug dependency cases are intravenous drug users. Two thirds of HIV positive persons are intravenous drug users. By November 2003, Lithuania had registered 832 HIV infected persons, compared to 735 in the end of the year 2002. In 2003 hepatitis B and C infection among intravenous drug users decreased by 26 percent and 35 percent respectively.

Drug use continues to be a problem among adolescents. The number of 15-16 year old students who tried drugs at least once reached 15.6 percent in 2003 (15 percent in 2002). After a decade of significant increases, however, the rate of increase has slowed. Health education programs associated with the 2001 Resolution on the Order of Early Detection of Psychoactive Substance Use Among Children targets this population and is now part of the school curriculum. These programs address drug awareness and prevention, have structured after-school programs, and try to involve parents in their children's social activities. Officials are considering implementing voluntary and/or obligatory drug testing in schools. Consumption of cannabis/hashish and amphetamines has increased, consumption of heroin and Ecstasy has decreased, and alcohol and tobacco use has also increased among pupils. A recent study found that almost 98 percent of students between the ages of fifteen and sixteen have tried alcohol; 82 percent stated they have become intoxicated at least once. This represents a two percent increase of students who have tried alcohol and a 20 percent increase of student who became intoxicated, over 1999 figures.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Government of Lithuania (GOL) has begun efforts to establish a more efficient drug control and drug addiction prevention policy. Its new strategy emphasizes the development of cooperation between national authorities and drug control organizations, promotes initiatives of local governments in the field of drug prevention and control, and increases the role of civil society in dealing with drug problems. The Parliament approved the budget (11 million litas, approximately \$4.1

million) for the 2004 National Drug Control Strategy, but has yet to vote on the overall action plan that will utilize these resources.

The Lithuanian Cabinet of Ministers ruled in October 2003 to establish a Narcotics Control Department under the GOL and allocated 1.2 million litas (\$408,000) for its operation. The new authority will deal with the implementation of narcotics prevention and control policy and the coordination of central and local governments' drug-related activities. The department will employ 20 specialists and start operations in January 2004. In September 2003, the GOL approved the National HIV/AIDS Prevention and Control Program for 2003-2008 which includes preventive measures for the HIV/AIDS intervention groups for high-risk intravenous drug users and their families, prostitutes and their clients, sailors, long-distance drivers, prisoners, and others.

Public awareness of the dangers associated with drugs and drug use has notably increased due to a larger government public information effort. The GOL has allocated 10 million litas (\$3.7 million) to government agencies and NGOs to support activities aimed at combating drug abuse.

Law Enforcement Efforts. 2003 saw a slight decrease of drug-related crimes year-on-year. Lithuanian law enforcement authorities registered 886 crimes thru November (937 in 2002). In the two-year period from 2002 to 2003, police shut down ten well-equipped laboratories producing amphetamines, Ecstasy (MDMA), and precursor chemicals. In close cooperation with Lithuania's police, customs officials initiated 13 narcotics-related criminal cases (14 in 2002, 8 in 2001, 0 in 2000). In the largest raid in 2003, authorities in Kaunas seized 300 kilograms of heroin and hashish (transported from Iran to Russia, and seized at the port in Klaipeda) and 61,000 tablets of Ecstasy. The U.S. worked closely with Lithuania police and customs officials to break up a drug smuggling and counterfeiting ring involving Lithuanian organized crime members.

Lithuanian law enforcement officials in Vilnius in October detained an American citizen on charges of synthetic drug dealing and smuggling. He was the alleged leader of a known criminal organization involved in narcotics trafficking and distribution in the U.S. A Lithuanian court granted the U.S. extradition request, and the suspect returned to the U.S. in custody on December 14. This case represents the first application of the bilateral extradition treaty.

Corruption. As a matter of government policy and practice, the GOL does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Cultivation/Production. Intravenous opium extract, produced from locally grown poppies, and "Ephedrone," made from medications containing ephedrine, continue to be most popular in Lithuania. Between June and September, police, in cooperation with customs, destroyed 31,428 square meters of poppies plots (22,676 in 2002) and 687.5 square meters of cannabis plots (1,884 in 2002).

Drug Flow/Transit. Poppy straw is transported through Lithuania to Kaliningrad and Latvia. Marijuana and hashish arrive in Lithuania from the east and the west, by land and sea (e.g. from Morocco). Heroin comes to Lithuania by the Silk Road (Afghanistan, Pakistan, Tajikistan, Uzbekistan, Kazakhstan, Russia, Belarus, Lithuania) or the Balkan road (via the Balkans and Central or Western Europe). From Lithuania, heroin leaves by ferry or car to Scandinavian countries, Poland, and Kaliningrad. Cocaine arrives in Lithuania from Central and South America via Germany, the Netherlands, and Belgium; Amphetamines from Poland and the Netherlands. Local production of amphetamines for domestic use and for export to Scandinavia is growing. Lithuanian organized crime groups traffic narcotics to Western Europe from Lithuania and Central and South America. In most cases, cannabis that transits Lithuania enters from the Netherlands, Russia, Belarus, Spain, and African countries. However, the majority of marijuana that Lithuanians consume is locally grown marijuana.

Lithuanian citizens are becoming increasingly involved with internationally organized drug rings related to narcotic and psychotropic substances. Through the beginning of December, foreign law

enforcement officials detained 102 Lithuanian citizens (113 in 2002) for trafficking amphetamines, cocaine, heroin, marijuana, Flunitrazepam (Rohypnol), and other illegal pills. Most of the arrests occurred in Germany (42), Sweden (29) and Norway (11). The number of Lithuanians detained in Latin America decreased (2 in 2003 and 15 in 2002).

Domestic Programs (Demand Reduction). Lithuania operates five national dependence disorder centers. Ten regional Public Health Centers with local outlets work to prevent the use of drugs, especially in schools. Twenty rehabilitation centers, servicing approximately 200 people annually, currently operate in Lithuania. Methadone treatment programs have operated in major cities since 1995, with 315 people receiving treatment in 2003 (The figure reported in 2002 (133) by the Narcotics Information Bureau were significantly lower; the new number reflects the Bureau's revisions).

Twelve percent of all inmates in Lithuanian prisons, 1,194 prisoners, were registered drug users as of July 2003, according to the Ministry of Interior's Prisons Department. After an HIV outbreak in the Alytus prison in 2002, GOL allocated 2 million litas (\$740,000) for equipment and activities aimed at training of prison officials, educating inmates, and preventing drug trafficking into the prison. Of 433 conscripts, 2.3 percent tested positive for drug use in 2003. Heroin and synthetic drugs were the most abused substances among conscripts.

Treaties and Agreements. An MLAT and an extradition treaty is in force between the U.S. and Lithuania. Lithuania is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG and GOL law enforcement cooperation is very good. In 2003 the U.S. continued supporting the GOL efforts to strengthen law enforcement bodies and improve border security. To strengthen regional cooperation among Baltic states and Russia in the fight against HIV/AIDS, the U.S. funded "The Network of Excellence" project.

The Road Ahead. The USG looks forward to a continued close cooperation on law enforcement with Lithuania. Although Lithuania has made progress in developing an export control infrastructure, regulations and procedures, it still lacks the necessary level of professional skills and capabilities to detect narcotics and clandestine labs. In 2004 the USG will continue to promote increased GOL attention to the drug problem, and support activities to prevent production and trafficking of illicit narcotics..

Macedonia, Former Yugoslav Republic of

I. Summary

Macedonia is neither a major producer of, nor a major transit point for, illicit drugs. However Macedonia lies along a southern variant of the Balkan Route used to ship heroin, especially from Afghanistan, to the western European consumer market. Disruption from political friction and internal conflict also unavoidably encouraged criminal behavior. Drug seizures in the first nine months of 2003 increased significantly both in number and in quantity of drugs seized from the previous year due to more effective enforcement procedures as well as improved policing in the former conflict areas. Trafficking to and from Kosovo decreased in 2003, while trafficking to and from Albania increased. Macedonian local police, in particular ethnically mixed police teams, benefited from international assistance and appear increasingly focused and effective, despite security and equipment challenges. The increase in drug seizures in 2003 reflects both increased professionalism in the police force and increased trafficking. The political will to seriously address drug trafficking and its effects in Macedonia has improved in 2003 and needed legislation appears to be closer to final adoption planned for mid-2004. Macedonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Macedonia lies along one of several overland routes used to deliver Southwest Asia heroin (through Turkey) to Western Europe. This route is also used to deliver high grade hashish produced in Albania to Turkey where it is exchanged for heroin, which is later sent to Western markets. Small amounts of marijuana are grown mainly for personal use, since the market for it is small and it cannot compete with the higher quality, lower priced Albanian product. Wild marijuana plants have been a problem in the eastern border areas in Macedonia due to favorable climate conditions there. Macedonia is not known to produce precursor chemicals, and police and custom officials strictly control entrance of possible precursors at the borders. Cocaine does not transit Macedonia in significant quantities. Trafficking in synthetic drugs, in particular Ecstasy, has increased in 2003.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Macedonia is undertaking comprehensive legislative reform in its criminal codes, including amendments to the Constitution, to allow for specialized investigative methods. Changes to the Law on Criminal Procedure, the Criminal Code, the Law on Misdemeanors and the Law on Enforcement of Sanctions are expected to strengthen penal policy and the fight against organized crime, corruption, and narcotics trafficking. The Law on Prevention of Money Laundering entered into force in 2002, and the Government is currently reviewing amendments to strengthen the authority of the Money Laundering Prevention Directorate and to bring the law into compliance with European Union guidelines. The Government in December 2003 amended its constitution to permit wiretapping, and also is reviewing the Second Additional Protocol to the European Convention on Mutual Legal Assistance in Criminal Matters, which will improve cross-border monitoring, secret investigations, joint investigative teams, and witness protection. This Protocol is expected to become operational once changes to the Constitution and criminal legislation are adopted. Anti-corruption legislation entered into force in 2003, creating a National Anti-Corruption Commission.

The draft law on control of precursors, narcotics, and psychotropic substances that would bring Macedonian law into compliance with UNODC and European Union (EU) standards underwent its first reading in the Parliament and is expected to be adopted in Spring 2004. An inter-ministerial

working group, including medical and pharmaceutical experts, is also preparing a draft text for a special law on narcotics.

The Customs Administration continued to develop its intelligence units and mobile teams, which resulted in an increased number of drug seizures by customs officers in 2003. The Ministry of Interior and the Customs Administration improved their cooperation and coordination in 2003.

Accomplishments. Macedonian police worked successfully with colleagues from neighboring countries on a number of cases in 2003. Through increased interagency cooperation and intelligence sharing with the MoI, the Customs Administration was able to seize significantly larger quantities of drugs compared to previous years.

Law Enforcement Efforts. Counternarcotics police have benefited from U.S., EU, and UNODC training and support. They are focused and effective. The high turnover rate in political-appointee leadership positions in the MoI in 2002 is no longer an issue.

Drug seizures in the first nine months of 2003 increased by about 40 percent over the previous year's total. In this period, the MoI seized 382.105 kilograms of hashish, 136.128 kilograms and 86 plants of marijuana, 61.899 kilograms of heroin, 6.502 kilograms of cocaine, 17.947 kilograms of raw opium, 5,302 ecstasy pills, and 400 liters of acetic anhydride. Following record high seizures in 1999 and 2000, the decrease in 2002 reflected challenges faced by police following the 2001 conflict, including reduced police presence in the former conflict areas. In 2003, police restored their presence throughout the country, including in the former conflict areas.

In the first nine months of 2003, police succeeded in cutting off eleven international drug trafficking routes through Macedonia—four involving heroin, six involving marijuana, and one involving cocaine. The number of convicted offenders increased about 33 percent over 2002 totals. In total, 222 cases of illegal production and trafficking with narcotic drugs, psychotropic substances or precursors were uncovered and 296 offenders convicted.

During the same time period, the MoI participated in several coordinated regional activities. As a result of these efforts, three illegal narcotics laboratories in Serbia and Montenegro were discovered, and a large amount of synthetic drugs were seized. In addition, a Turkish national, a well-known narcotics transport organizer, was arrested in Bulgaria. In 2003, the MoI worked with Interpol to identify individuals and forward data on 29 Macedonian nationals arrested abroad for narcotics trafficking.

Counternarcotics police clearly understand the need to focus on major traffickers and organizations, but continue to have difficulty penetrating these predominantly ethnic Albanian organizations. Despite the increased number of ethnic Albanian police officers in high-ranking positions, few potential ethnic Albanian informants are willing to work with counternarcotics police. Law enforcement officials were hampered by the lack of legislation to protect potential informants.

Police and customs officials have a restricted mandate. Due to legal restrictions on the use of special investigative methods and rules on evidence admissibility in court evidence, police and customs officials may only arrest traffickers in the act. They may seize vehicles involved in trafficking, but courts are reluctant to rule on seizure of other assets. The Macedonian parliament in December 2003 amended the constitution to permit wiretapping under certain circumstances, and amendments to criminal legislation are expected to be adopted by mid-2004.

Corruption. Corruption is deeply entrenched and widely seen as a necessary part of doing business. Low salaries and high unemployment foster graft among law enforcement officials. However, corruption among police and customs officials appears to have declined in 2003. The judiciary remains weak and is frequently accused of corruption. As a result, the National Anti-Corruption Commission called upon the Republican Judicial Council to review allegations of corruption against

seven judges. Anti-corruption legislation drafted with technical assistance from the World Bank was adopted in 2002, and became operational in 2003, although much work in this area remains. As a matter of government policy and practice, the government of the Former Yugoslav Republic of Macedonia does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug proceeds.

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 Serbia, which applies to Macedonia as a successor state, governs extradition between Macedonia and the United States. Difficulties arise from the fact that the Macedonian Constitution does not allow for the extradition of its own nationals arrested in Macedonia. Macedonia signed the UN Convention Against Transnational Organized Crime and its two Protocols in 2000, but has not yet ratified them due to pending constitutional and criminal legislation changes.

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 illegal synthetic drugs. The small amount of legal opium poppy cultivation that exists is strictly controlled and decreasing. The only authorized pharmaceutical company for production, processing, and import of poppy seed cultivates poppy on 380.3 hectares with a 22.16 kilograms production per hectare in 2003. The overall 2002-2003 yield is down compared to the previous year due to unfavorable climate conditions. Limited quantities of marijuana also are cultivated illegally for personal use in southeastern Macedonia, and wild poppy plants were located and destroyed to the extent possible in eastern Macedonia.

Drug Flow/Transit. Macedonia lies along the southern variant of the Balkan Route used to ship Southwest Asian heroin to the western European consumer market. Police report that some 90 percent of large-scale traffickers arrested in Macedonia are ethnic Albanians; however, the number of arrested Serbian nationals trafficking synthetic drugs in Macedonia also increased in 2003. The gangs use heavy trucks, vans, buses, and cars laden with an average of several kilograms each trip. Local officials report a notable trend in smuggling high quality hashish and marijuana produced in Albania to Turkey in exchange for heroin produced in Turkey and other near-east countries. The heroin is then smuggled back through Macedonia to Albania and on to western European markets. Police report that the quality of heroin produced in Turkey is increasing, while the price is decreasing. However, officials report that these groups prefer to exchange marijuana for heroin via northern Greece or by sea, rather than via Macedonia.

Police officials also report that narcotics traffickers are using the northern Balkan route more often (from Turkey to Bulgaria, Serbia or Romania and then on to Western Europe) than the southern route through Macedonia. The small quantity of cocaine that enters Macedonia from Bulgaria and Greece generally arrives in packages of one to six kilos via airmail or courier through one of Macedonia's two airports. The average price of a kilo of cocaine in Macedonia is between \$35,000-\$40,000.

Trafficking in synthetics remains limited but increased in 2003, as illustrated by seizures of several thousand Ecstasy pills and steroids in one case. Officials are aware of Macedonia's increasingly vulnerability to synthetic drugs trafficking, since the cost for such drugs is low. Most synthetic drugs aimed at the Macedonian market originate in Bulgaria and Serbia and arrive in small amounts in vehicles. They are sold retail for about \$10 per pill in Macedonia.

Domestic Programs (Demand Reduction). Official Macedonian statistics regarding drug abuse and addiction are unreliable. Observers believe the number of drug abusers in Macedonia to be relatively high. According to police and health care officials, most registered drug abusers use marijuana, and data show a fairly constant level of heroin abuse. There is also an increase in the abuse of Ecstasy by both long term drug users and beginners. However, heroin remains Macedonia's biggest drug problem.

Cocaine abuse remains modest due to its high price and low supply on the domestic market. Police data available for the first nine months of 2003 show 5,458 registered drug addicts, indicating an additional 236 addicts compared to 2002.

Macedonia's health care and social welfare systems are still woefully unprepared to deal efficiently with the effects of drug abuse and dependence. Periodic public awareness campaigns intensified in 2003, but still need to address the underlying causes of drug abuse and provide accurate information about its harmful effects. Education officials and non-governmental organizations (NGOs) joined forces in 2003 on several occasions to produce public campaigns about the harmful consequences of drug abuse. In some secondary schools, offices to handle drug abuse issues have opened. Education specialists take an active role in the recently reinvigorated work of the National Commission in developing an action plan to combat drug abuse.

The prevailing societal attitude is that only complete abstinence is acceptable, and that demand reduction activities are not important. This policy changed slightly in 2003. The Ministry of Labor and Social Policy opened an office for social inclusion activities for drug addicts and their families in order to avoid stigmatization and to reintegrate drug addicts into society. It is too early to determine its success. A few local NGOs have made limited efforts to establish prevention programs. There is increased interest in such programs by the Chairman of the National Commission.

Macedonia has one state-run outpatient clinic for drug addicts, founded in 1985, which dispenses methadone to over 300 registered heroin addicts daily. The clinic needs to expand its capacity, technical equipment, and personnel. Methadone diversion from treatment centers to the streets is high. Evidence indicates that official statistics do not capture all overdoses, which may amount to up to 150 non-lethal overdoses per year, according to health care officials. There were six registered fatal overdoses among drug addicts in 2003. Drug treatment programs are unlikely to receive greater priority, given state budget constraints.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officers work closely with the Macedonian police, support coordination of regional counternarcotics efforts, and organize specialized training for Macedonian police officers in the U.S. Macedonian police and customs officers benefited from a two-month specialized law enforcement training course at ILEA in Budapest. A State Department assistance-financed Prosecutor, working in conjunction with DEA, conducted specialized training in counternarcotics investigations and prosecutions for police, prosecutors, and judges. U.S. Customs officials provide technical advice and assistance to Macedonian Customs officials through SECI.

The Road Ahead. Because of Macedonia's porous borders and the growing strength of regional, mostly ethnic Albanian narcotics trafficking groups, Macedonia is likely to face increased transit rates of illegal drugs, synthetic drugs in particular. The United States will continue to encourage police to monitor well-known narcotics traffickers and to refine their abilities to prosecute them. The United States will continue to push for constitutional and criminal legislative changes and the adoption of specialized counternarcotics legislation, which are indispensable tools for the effective investigation, prosecution, and conviction of drug traffickers.

Malta

I. Summary

The Republic of Malta does not play a significant role in the shipment, processing or production of narcotics and psychotropic drugs and other controlled substances. The Maltese Government has expended a great deal of time and energy over the past several years updating Malta's laws and criminal codes in preparation for accession to the European Union. As a result, Malta's criminal code stands in harmony with the goals and objectives of the 1988 UN Drug Convention.

The Malta Police Drug Unit and the National Drug Intelligence Unit (NDIU) continue to improve their capabilities. Success in the battle waged against the drug problem in Malta is perhaps best illustrated by the increase in seizures of heroin and cocaine. The steady increase in the quantity of drugs seized over the last five years is a clear indication of improved coordination and communications among all agencies involved.

Maltese Government approved surveys indicate that illicit drug use is confined to a small segment of the population. The Government claims that drug usage is much lower than in other European countries and points to these surveys indicating that cannabis is used by less than 3.5 percent of the population as a key indicator. Enforcement agencies enjoy popular support for their efforts to combat drug related crime and the local press routinely gives favorable coverage to initiatives undertaken by the police to combat drug trafficking and drug abuse.

II. Status of Country

Malta is a minor player in global production, processing, and transshipment of narcotics and other controlled substances. There is no evidence to indicate that Malta's role in the worldwide drug trade will change significantly in the near future. Malta's small population makes unwanted trends easy to detect and deter. The drug problem is generally limited to the sale and use of consumer quantities of illegal drugs. Cultivation activity in Malta is limited to the growing of less than 200 cannabis plants per year.

III. Country Actions Against Drugs in 2003

Accomplishments. In August of 2003, the Government of Malta (GOM) and the United States concluded negotiations on the final language of an agreement concerning "cooperation to suppress illicit traffic in narcotic drugs and psychotropic substances by sea." This agreement should be signed and enter into force in the near future.

Law Enforcement Efforts. The GOM is increasingly concerned with the proliferation of recreational drugs such as ecstasy (MDMA). Police officials are disturbed by the fact those using and trafficking in illicit drugs are doing so with greater impunity than in the past. The GOM is particularly concerned about drug use among teenagers and has taken an aggressive stance in combating drugs and drug-related crime. A growth in the budget resources devoted to the National Drug Intelligence Unit (NDIU) and the Special Assistant Commissioner for drug-related matters, are clear indications of the emphasis the government places on the fight against drugs. The Malta Police Drug Unit has grown from 12 to 58 officers over the past 6 years.

Police and Customs personnel have had significant success through the profiling and targeting of suspected passengers transiting the airport. The police and the armed forces work together to monitor, intercept and interrupt sea borne smuggling of illegal drugs. Maltese custom officials have worked to

become more adept at detecting and preventing the movement of drugs through the sea terminal. This task is somewhat daunting given the volume of containers moving through Malta's free port. Port authorities have shown the ability to respond quickly when notified by foreign law enforcement of intelligence related to transshipment attempts. In 2003, there were seizures of approximately 6.7 kilograms of cocaine and 4.4 kilograms of heroin

There was no significant seizure of property related to drug crimes in 2003. However, current Maltese law provides the necessary provisions for asset forfeiture of those accused of drug related crimes.

Corruption. The USG is not aware of any corruption of public officials associated with illegal drug activities and does not have evidence that a serious corruption problem exists within the ranks of enforcement agencies. Maltese law contains the necessary provisions to deal effectively with official corruption. By way of example, in 2002 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 used newly-granted wiretapping authority to identify the judges involved and gather evidence that they were planning to accept bribes in exchange for reducing the sentences of several individuals appealing the terms of their drug convictions. This case was an important example both of the Government's willingness to properly apply anticorruption laws and as a signal to the Maltese people that the social elite are not "untouchable" as had been believed widely for many years.

Agreements and Treaties. 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. Currently, extradition between the U.S. and Malta is governed through the 1931 U.S.-UK Extradition Treaty, made applicable to Malta as of 1935. The USG and the GOM have begun negotiations on both a mutual legal assistance treaty (MLAT) and a bilateral extradition treaty. At this time, negotiations are on hold but are expected to resume following Malta's accession to the EU in the spring of 2004.

Illicit Cultivation/Production. There is no significant cultivation/production of narcotics in Malta.

Drug Flow/Transit. Currently, there is no data that indicates that Malta is a major trafficking location. The free port in Malta is a continuing source of concern due to the volume of containers which pass through its vast container terminal. Equipment and training provided through USG non-proliferation and border security initiatives have enhanced Malta's ability to monitor illicit trafficking through the sea terminal. This should improve detection and act as a deterrent to narcotics traffickers seeking to use container shipping activity at Malta's free port as a platform for drug movements through the country. Malta serves as a routine transfer point for travel between North Africa and Europe. Heroin smuggled into Malta by this route is primarily carried in by visitors from North African countries (Libya, in particular).

Domestic Programs (Demand Reduction). Sedqa is the name given to the Maltese government-funded agency responsible for all aspects of drug and alcohol abuse and rehabilitation. Sedqa runs awareness and drug education programs in the schools (similar to the DARE program in the U.S.) This agency promotes a drug awareness program through advertising in the national media. Police officials also work closely with an agency funded by the Catholic Church called CARITAS. Police will often refer arrestees to CARITAS for rehabilitation and counseling services.

A nation-wide survey of Malta's population regarding the drug abuse problem conducted in 2001 indicated that 83 percent consider drug abuse to be a serious problem, compared with 43 percent in 1984. The same survey revealed that people in Malta perceive illicit drug users more as those in need of medical care ("patients") than as criminals. Like other predominantly Christian southern European cultures, a variety of festivals and open-air concerts take place in Malta throughout the year. A large number of such activities are held during the warmer months and attract younger tourists as well as local youth. The police have sought to reduce the demand for ecstasy and similar drugs at such events

by establishing a strong police presence and through random searching of those entering the venues. Regardless, the police are disturbed by the growing market for these types of “party drugs” in Malta.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. law enforcement and security agencies and their Maltese counterparts continue to cooperate closely on drug-related crime. Maltese officials remain interested in securing USG-sponsored training for personnel involved in narcotics control whenever possible. U.S. Customs, and the U.S. Coast Guard both provided training in Malta during 2003. The U.S. Customs Regional Export Control Advisor continues to work closely with port officials in an effort to improve their ability to monitor and detect illegal shipments. The proper utilization of the recently-donated VACIS monitoring system is a key goal and therefore the emphasis in training is on suspicious container identification, monitoring, and use of the detection equipment. The Defense Attache's Office routinely provides training through the U.S. Coast Guard to personnel assigned to the Maltese Maritime Enforcement Squadron. Training focuses on maritime search and seizure techniques as well as on the proper utilization and operation of the recently donated state-of the-art patrol boat. The joint effort to provide training, support and assistance to GOM law enforcement agencies has clearly improved the Maltese enforcement agencies ability to profile individuals possibly involved with trafficking and/or in possession of dangerous drugs.

The Road Ahead. Maltese authorities work harmoniously with USG efforts to stem the proliferation of narcotics and dangerous drugs. We fully expect that such cooperation will continue.

Moldova

I. Summary

Moldovan counternarcotics efforts underwent significant leadership changes this past year, with the Drug Enforcement Unit of the Ministry of Interior (MOI) changing directors three times in a six-month period. The number of law enforcement personnel within the Drug Enforcement Unit remained constant, with 95 officers in the field and 20 serving in headquarters or support functions. To date, 2003 statistics regarding the quantity of illicit opium and poppy straw seized show a noticeable decrease compared with 2002, while marijuana seizures are on track for a significant increase. There was a noticeable increase in narcotics cases referred to the Prosecutor General (PG). Drug usage within Moldova remains a concern, with the number of officially 'registered' addicts increasing by over 20 percent. Despite the fact that consistently poor economic conditions make Moldova a relatively unattractive market for narcotics sales, the MOI continues to claim that domestic drug abuse increases by approximately 35 percent each year. Moldova is not a significant producer of narcotics or precursor chemicals, and the true extent of money laundering here is difficult to determine. During 2003, the United States supported travel by Moldovan prosecutors, judges, and legislators to travel abroad 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. Annual domestic production of marijuana is estimated at several thousand kilograms. Authorities seized and destroyed 7,798 kilograms of cannabis plants and roughly 6,000 poppy plants through November 2003. The market for domestically produced narcotics remains small, largely confined to local production areas or neighboring countries. The importation of synthetic drugs continues, although authorities seized only small quantities of Ecstasy (MDMA), codeine, ephedrine, and other psychotropic substances this year. Domestic drug traffickers remain closely connected to organized crime elements in neighboring countries. These elements are involved not only in narcotics trafficking, but trafficking in women as well. Moldova is not a significant factor in the production or diversion of precursor chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Moldova strives to fulfill all obligations under the 1988 UN Drug Convention. The introduction of a new criminal code in 2003 reduced the maximum penalty for narcotics trafficking to 12 years in prison. All drug enforcement unit personnel are dedicated exclusively to counternarcotics activity. Moldova also continues to pursue, with U.S. support, anticorruption, antitrafficking, and border control initiatives that supplement counternarcotics efforts.

Accomplishments. Despite the lack of even the most rudimentary equipment such as vehicles, Moldovan drug police pursue narcotics traffickers vigorously, and seizures and lab destruction remain high priorities for the counternarcotics units. MOI officials also continue to work with the Prosecutor General to ensure that quality cases are pursued. During the first 11 months of 2003, 2,051 cases (96 percent of all reported) were sent to the Prosecutor General, with 1,588 (71 percent) going to trial.

Law Enforcement Efforts. This year, 497 kilograms of poppy straw, and 6 kilograms of opium were seized, down from 1,509 kilograms of poppy straw and 17 kilograms of opium in 2002. This reduction

in seizures of opium and poppy straw is difficult to explain. In contrast, domestically produced marijuana seizures will likely show a 33 percent increase. The possibility exists that narcotics smuggling and importation routes were disrupted, in Turkey's case due to Operation Iraqi Freedom. Despite this reduction in seizures, concerns remain for Moldova regarding the historical trend of transit countries becoming user countries. Moldova will need to invest significant resources into education, border enhancement, and further law enforcement initiatives if it hopes to stem the growth of its user population.

Corruption. The Center for Combating Economic Crimes and Corruption (CCECC) was created in 2002 at the behest of President Voronin. This Center, independent from the MOI, investigates all allegations or incidents 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.

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 Ukraine (1992), Turkey (1994), and Hungary (1997) related to cooperation against narcotics activity, terrorism, and organized crime.

Drug Flow/Transit. Seizures this year continue to indicate that Moldova remains primarily a transshipment country for narcotics. Information provided by the MOI indicates that two of the predominant heroin routes are from Ukraine through Moldova to Western Europe; and also from Turkey through Romania/Moldova into the CIS.

Domestic Programs. Moldova's officially registered addicts increased from 6,940 to 8,620, with treatment remaining an option for only the wealthiest of offenders. Financial hardships and poor facilities restrict rehabilitation and treatment efforts by the Moldovan government, although NGO's have previously provided limited funding for counternarcotics information and education campaigns.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Ongoing USG training and equipment initiatives are designed to improve the abilities of police to investigate and infiltrate organized crime and narcotics syndicates. Ancillary efforts related to counter narcotics include customs and border security improvement programs aimed at strengthening Moldovan border controls, thus reducing the flow of illegal goods through Moldova.

The Road Ahead. The U.S. and Moldova will work together to discourage narcotics trafficking through Moldova, and improve the administration of justice generally.

Netherlands

I. Summary

The Netherlands continues to be a significant transit point for drugs entering Europe (especially cocaine), an important producer and exporter of synthetic drugs (particularly Ecstasy and amphetamines), and an important consumer of most illicit drugs. U.S. law enforcement information indicates that the Netherlands still is the most significant source country for Ecstasy (MDMA) in the U.S. The current Dutch center-right coalition has made measurable progress in implementing the five-year strategy (2002-2006) against production, trade and consumption of synthetic drugs announced in May 2001. For example, there has been a significant increase in Dutch seizures of Ecstasy pills from 3.6 million in 2001 to six million in 2002 (most recent year for statistics). In July 2003, the National Criminal Investigation Department was set up with the key objective of enhancing the efficiency and effectiveness of criminal investigations and international joint efforts against narcotics trafficking. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some differences in approach and tactics. Dutch popular attitudes toward soft drugs remain tolerant to the point of indifference. The Government of the Netherlands (GONL) and the public view domestic drug use as a public health issue first and a law enforcement issue second.

II. Status of Country

The central geographical position of the Netherlands, with its modern transportation and communications infrastructure, the world's busiest container port in Rotterdam and one of Europe's busiest airports, makes the country an attractive operational area for international drug traffickers and money launderers. Production of amphetamines, Ecstasy and other synthetic drugs, and marijuana is significant. The Netherlands also has a large chemical sector, making it a convenient location for criminals to obtain or produce precursor chemicals used to manufacture illicit drugs.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The current Dutch center-right coalition government, formed in May 2003, announced a tougher approach to the production of and trafficking in “hard” drugs, Ecstasy in particular. The coalition accord of May 16, 2003, outlining the government's intentions for the next four years, stated that “airlines will be made responsible for carrying out controls so that drug smugglers can no longer make use of their flights. If airlines fail to do so, sanctions will be imposed, including withdrawal of landing rights.” It also announced that it will continue at its current level (and not expand) the heroin distribution program, under which heroin is prescribed under strict medical guidance to serious drug addicts for whom all other treatment options have failed. In addition, the new Cabinet announced consultations with local authorities about closure of “soft” drug “coffeeshops” near schools and in border regions. Justice Minister Donner is also investigating the possibility of banning foreigners from coffeeshops, in order to fight drug “tourism.”

In the summer of 2003, the National Criminal Investigation Department (“Nationale Recherche”, or NR) became operational. The new department combines the current five core police teams, the National Criminal Investigation Team, the Unit Synthetic Drugs (USD), the Trafficking in People Unit, and the five Ecstasy teams. The NR, which is part of the National Police Services (KLPD) and which comes under the authority of the National Public Prosecutors' Office, gives top priority to international cooperation in the fight against organized crime, in particular the production of and trafficking in synthetic drugs.

Despite fierce political opposition, the Dutch Parliament approved Justice Minister Donner's plan to "close down" Schiphol airport to cocaine smuggling from the Caribbean. An estimated 20,000-40,000 kilograms of cocaine, destined primarily for the European market, are smuggled annually through Schiphol (Dutch cocaine use is estimated at 4,000-8,000 kilograms annually; in 2001 and 2002, more than 3,500 drug couriers were arrested and almost 10,000 kilograms of cocaine seized at the airport). Donner hopes to achieve 100 percent interdiction of the drugs coming into Schiphol on targeted "high-risk" flights from the Netherlands Antilles, Aruba and Suriname. He told the Second Chamber of Parliament that, as a result of the 100 percent checks on passengers, luggage, freight and aircraft, the number of drug couriers apprehended is expected to rise significantly. According to Donner, this justifies a temporary adjustment in prosecution policy in which "a certain category of drug couriers will not be prosecuted." (Unconfirmed reports suggested that only smugglers caught with 3 kilograms or more are prosecuted.) Relevant identification data on drug couriers will be made available to airlines, which will be responsible for taking special measures against these persons, including an indefinite flight ban.

The chemical precursor PPK is the principal precursor used by Dutch Ecstasy laboratories. It comes mainly by sea from China through the port of Rotterdam. In an effort to enhance cooperation to combat illicit diversion of PPK, the GONL is pursuing a memorandum of understanding with the Government of China, formalizing the sharing of administrative information on shipments and investigations. In addition to working directly with the Chinese, the Netherlands is an active participant in the INCB/PRISM project's taskforce (A program run by the International Narcotics Control Board to avoid diversion of precursors).

Cannabis is available legally in certain coffeeshops in the Netherlands. According to the fourth survey on coffeeshops in the Netherlands, published in October 2003, there were 782 officially tolerated coffeeshops at the end of 2002, which is a 3 percent drop over 2001, principally in the four major cities. About 73 percent of Dutch municipalities do not tolerate any shops at all, according to the study. In early 2004, Justice Minister Donner, whose CDA Christian Democratic Alliance Party has advocated closing of coffeeshops, is expected to publish a "Cannabis Policy Paper," which is likely to discourage cannabis use. The 2002 National Drug Monitor shows that the number of recent (used last month) cannabis users in the Dutch population over the period 1997-2001 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 young people aged 20-24, while use among the 12-15 year-old age group remained limited and hardly changed from 1997. Life-time prevalence (used at least once) 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.

Since March 17, 2003, doctors have been allowed to prescribe medicinal cannabis to their patients. Contracts were entered with two suitable government-controlled cannabis growers, and, as of September 2003, the drug can be bought in pharmacies. The Health Ministry's Bureau for Medicinal Cannabis controls quality and organizes the distribution. According to the Health Ministry, cannabis may have a favorable effect on seriously ill patients, but the government recognizes that the therapeutic effects of cannabis have not been proved and that research is on-going.

The Cabinet decided in December 2003 not to expand the so-called heroin experiment, under which heroin is medically prescribed to a limited group of heroin users for whom all other forms of treatment have failed. The current capacity for 300 participating addicts will be maintained, with a spring 2004 decision on possible expansion.

Accomplishments. Justice Minister Donner's plan to target high risk flights from the Caribbean went into effect on December 11, and, during the first five days, 120 couriers were arrested on flights from the Netherlands Antilles, of whom 31 were released without a summons after drugs were seized. The remaining 89 cases are being investigated or prosecuted. In addition, 104 potential passengers were

turned away by the airlines and 375 passengers did not turn up. About 120 kilograms of drugs were seized. During routine checks on flights from Suriname, 22 couriers were arrested, one of whom carried 14.5 kilograms of cocaine.

The Justice Ministry's progress report on the implementation of the five-year (2002-2006) action plan against production, trade, and consumption of synthetic drugs highlights the increased seizure of Ecstasy: six million Ecstasy pills were seized in 2002 compared to 3.6 million in 2001. The number of Ecstasy laboratories dismantled rose to 43 in 2002, from 35 in 2001. The increase in Ecstasy seizures was attributed to intensified controls at Schiphol airport by the special team of Dutch Customs and the Military Police (more than one million pills were seized there in 2002), the introduction of five special police Ecstasy teams (total manpower: 90), and increased staffing at the Fiscal Intelligence and Investigation Service-Economic Control Service (FIOD-ECD). The progress report shows that the measures announced in the action plan are well underway.

Law Enforcement Efforts. The Health Ministry coordinates drug policy, 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, law enforcement policy is coordinated in tripartite consultations between the mayor, the chief public prosecutor and the police.

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, and Ecstasy), and "soft" drugs (cannabis products). Trafficking in "hard drugs" is prosecuted vigorously and their dealers are subject to a prison sentence of up to 12 years. Such trafficking on an organized criminal scale carries an additional one-third of the original sentence (up to 16 years). Sales of small amounts of cannabis products (under five grams) are "tolerated" (i.e., not prosecuted, even though technically illegal) in "coffeeshops" operating under regulated conditions (no minors on premises, no alcohol sales, no hard drug sales, no advertising, and not creating a "public nuisance").

Dutch police inter-regional core teams and National Prosecutors give high priority to combating drug trafficking. Drug Enforcement Administration (DEA) agents stationed with Embassy The Hague have close contacts with their counterparts in the Netherlands. Beginning in FY 2002, the Dutch assigned Dutch liaison agents to Miami, Florida and Washington, D.C. to improve coordination with U.S. law enforcement agencies.

All foreign requests for information are sent to the Regional Intelligence Department (DIN). Cooperation in quickly executing U.S. requests and obtaining teams to work on U.S. cases has been excellent. Problems remain with the exchange of intelligence on major criminal organizations, with or without a U.S. nexus. It was hoped that the formation of the National Criminal Investigation Department (also known as the National Crime Squad) would eliminate the need for foreign liaison officers to shop around to obtain a team to work on a U.S. case. However, to date, few procedures have changed because foreign offices and liaison officers still must to work through the DIN. Dutch officials also indicated they would try to complete 200 cases a year, with only 5 percent to 10 percent dedicated to foreign requests, i.e., they will only assist in approximately 20 cases annually for the numerous foreign offices with qualified status in the Netherlands.

Corruption. The Dutch government is committed to fighting national and international corruption. It 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 Dutch government engages in, encourages, or facilitates the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Press reports of low-level law enforcement corruption appear from time to time but the problem is not believed to be widespread. At year's end, the Royal Marechaussee (military police with responsibility for Schiphol Airport and border control generally) reported it had been investigating credible

allegations of drug trafficking and corruption involving ground service personnel, Dutch Customs and military police at Schiphol. In order to remove any conflict of interest, the investigation has been turned over to Ministry of Defense inspectors.

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. It has ratified the 1990 Strasbourg convention on money laundering and confiscation. The U.S. and the Netherlands have agreements on extradition and mutual legal assistance (including asset sharing). The Netherlands has enacted legislation on money laundering and controls on chemical precursors. The Netherlands is a member of the UN Commission on Narcotics Drugs and the major donors group of the UN ODC. It is a member of the Financial Action Task Force (FATF) and the Caribbean Action Task Force (CATF) as a Cooperating and Supporting Nation. The Netherlands is a leading member of the Dublin Group of countries coordinating drug-related assistance and chairs its Central European regional group. The Netherlands has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime, and two of its three Protocols.

Cultivation and Production. About 75 percent of the Dutch cannabis market is Dutch-grown marijuana (“Nederwiet”), although indoor cultivation of hemp is banned, even for agricultural purposes. Amsterdam University researchers estimate that the Netherlands has at least 100,000 illegal home growers of hashish and marijuana, with the number increasing. Together they produce more than 100,000 kilos of soft drugs and are the largest suppliers of coffeeshops, according to the study. The estimates are based on a significant rise in the number of lawsuits and police raids. Although the Dutch government has given top priority to the investigation and prosecution of large-scale commercial cultivation of Nederwiet, tolerated coffeeshops appear to create the demand for large-scale commercial cultivation. Indeed, there is evidence that demand for growers leaks over the Netherlands' borders into Belgium, and perhaps elsewhere.

The Netherlands remains one of the world's largest producers of synthetic drugs, especially Ecstasy. In 2002, the USD listed a total of 740 seizures of synthetic drugs around the world, of which 205 (some 30 percent) took place in the Netherlands. Of the remaining seizures registered in 35 other countries, some 70 percent could be related to Dutch criminal organizations. Of the 205 Dutch seizures, 141 involved synthetic drugs that were intended for export. The seizures of drugs around the world that could be linked to the Netherlands involved some 24.6 million Ecstasy tablets and over 910 kilos of MDMA powder. Of this total, the largest amount was seized in the Netherlands (6.1 million pills) and Belgium (more than 5 million pills), followed by Germany (almost 3 million), the U.S. (2.5 million), France (2 million) and the UK (1.8 million). The USD reported lower amphetamine seizures in 2002 than in 2001, but the quantity of “Dutch-related” amphetamine seized in other countries went up. In 2002, the USD dismantled 43 production sites for synthetic drugs, of which 26 were situated in residential areas. Most production sites were Ecstasy laboratories. According to the USD, the production of synthetic drugs in residential areas is an alarming development. The FIOD-ECD, which is primarily responsible for intercepting chemical precursors, seized some 318 liters and 9,255 kilos of PMK and 1,228 liters of BMK in 2002.

Drug Flow/Transit. The Netherlands remains a primary point of entry for drugs to Europe, especially cocaine. The GONL has stepped up border controls to combat the flow of drugs. Confronted with an explosive growth in the number of drug couriers at Schiphol, the government announced in January 2002 a special counter narcotics offensive—the Schiphol Action Plan. The government has also 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); the number has stabilized over the past few years, their average age has risen to 40, and the number of overdose deaths related to opiates has stabilized 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 2001, compared to 26,333 in 2000. 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 drug treatment programs are put at \$100 million. Drug experts have noted a significant drop in Ecstasy use, while cocaine use appears to be going up.

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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and the Netherlands cooperate closely on law enforcement activities throughout the Kingdom of the Netherlands. Despite excellent operational cooperation between U.S. and Dutch law enforcement agencies, concern remains over the Netherlands' role as the key source country for MDMA/Ecstasy entering the U.S. The U.S. and the Netherlands agree on the goal (to reduce production and traffic of illicit drugs), but differ over which law enforcement methodology will be most effective in achieving it. The Dutch continue to resist use of controlled deliveries and criminal informers in their investigations of drug traffickers. They are also reluctant to admit the involvement of large, international drug organizations in the local drug trade and do not use their asset forfeiture rules often in narcotics cases. The second U.S.-Dutch bilateral law enforcement talks, held in The Hague in March 2003, resulted in an "Agreed Steps" list of actions to enhance law enforcement cooperation in fighting drug trafficking.

The Road Ahead. The U.S. expects U.S.-Dutch bilateral law enforcement cooperation to intensify. The GONL's Ecstasy Action Plan should further counter Ecstasy smuggling from the Netherlands. The Dutch synthetic drug unit will also continue to make concrete progress. The establishment of a central police investigative body in the spring of 2003 will certainly boost cooperation on international investigations, including Ecstasy cases.

Norway

I. Summary

The Nordic and Baltic countries have decided to introduce joint measures to counter drug abuse and trafficking. Illicit drug production remained insignificant in 2003, but drug demand increased. Norway continued to tightly control domestic sales, exports and imports of precursor chemicals. The number of individual drug seizures fell for the first time in a decade, but the total amount of drugs seized rose as the police shifted their attention from individual abusers to bulk drug suppliers. Norway is a party to the 1988 UN Drug Convention.

II. Status of Country

Illicit drug production remains insignificant in Norway, primarily as a result of Norway's stringent regulations governing sale, export, and import of precursor chemicals and because of its harsh climate conditions. Given its strong legal framework and active law enforcement efforts, Norway is unlikely to become a significant producer of precursor chemicals for the illicit drug trade. It remains, however, a popular market and transit point for drugs produced in Central/Eastern Europe and elsewhere.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In a September 2003 meeting in Lund, Sweden, Ministers from the Nordic Council of Ministers and the Baltic States introduced joint measures to combat drug abuse. The so-called Lund Declaration calls for enhanced Nordic/Baltic cooperation to counter drug abuse in Northern Europe through prevention, law enforcement, and treatment. Areas of focus include police cooperation, the sharing of information and data, and the prevention of contagious disease linked to drug abuse.

Domestically, the Norwegian Police Directorate (PST) began to implement its 2003-2008 Counter-Narcotics Action Plan, carrying out an increasing number of drug raids in Oslo and other locations. The Action Plan focuses on reducing domestic drug abuse and identifying and curbing illicit drug distribution.

The Ministry of Social Affairs announced the establishment of a narcotics action committee to advise the government on narcotics policy for the 2003-2005 period. According to the committee's mandate, it will evaluate preventive strategies and propose drug rehabilitation and treatment measures. The committee will also study Norway's current narcotics policy and submit recommended changes.

As part of its own counternarcotics plan aimed at curbing drug imports, the Customs and Excise Directorate (CED) unveiled draft regulations to strengthen oversight of small private aircraft because of concerns that foreign gangs are dropping drugs at locations in Norway. According to the draft legislation, small aircraft will be required to submit detailed information on passengers. The CED also established a mobile narcotics control unit (including narcotics detection dogs), strengthened its surveillance, began use of mobile X-ray scanners at border crossings.

Accomplishments. In 2003, Norway contributed approximately NOK 18.5 million (\$2.6 million), compared with NOK 20.5 million in 2002, to the UN Drug and Crime Prevention Program (UNDCP).

Law Enforcement Efforts. The number of drug seizures dropped for the first time in a decade to 26,816 cases (estimated) in 2003 from 30,310 in 2002. However, the amount of seized drugs rose as the police shifted their attention from individual abusers to bulk drug suppliers. The police believe that the figures might be higher were it not for large seizures in Denmark and Sweden of narcotics destined for Norway. Of the 2003 seizures, cannabis accounted for the bulk (40 percent), followed by

benzodiazepines (22 percent) and amphetamines (18 percent). With the police's increased focus on bulk drug suppliers, the number of persons charged with narcotics offenses dropped to 38,380 in 2003 from 50,510 the previous year.

In October, seven men, Norwegian and Vietnamese, were charged with smuggling and possession of approximately 100 kilograms of amphetamines, one of the largest quantities ever seized by Norwegian police. Police investigators in "Operation Kenwood" estimate that the gang was earning upwards of 20 million NOK (nearly \$3 million) a week from April 2002 up until the time of their arrests. The "Kenwood Gang" smuggled the drugs into Norway from the Netherlands, stored the drugs, and prepared them for sale in Oslo and the surrounding areas. Working together, Norwegian and Lithuanian police arrested three people in Lithuania and several Lithuanians in Norway for smuggling amphetamines into Norway hidden in secret compartments in vehicles.

Corruption. As a matter of government policy and practice, Norway does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. According to Norway's penal code, corruption of Norwegian and foreign officials is a criminal offense. Norway's corruption laws were recently strengthened to cover corruption overseas, meaning that Norwegian nationals/companies bribing officials in foreign countries can be brought to court in Norway.

Agreements and Treaties. Norway ratified the 1988 UN Drug Convention in 1994. Norway has a bilateral extradition treaty and customs agreement with the U.S. It has laws outlawing money laundering and it closely regulates exports and imports of precursor chemicals. Norway is a party to the UN Convention against Transnational Organized Crime and two of its three Protocols.

Cultivation/Production. Norway's harsh climate and stringent laws governing drugs and drug distribution discourages illicit cultivation. Insignificant amounts of illicit drug plants were discovered. While there is concern that narcotics dealers may establish mobile laboratories to convert chemicals into synthetic drugs, the police did not uncover significant synthetic drug production in 2003.

Drug Flow/Transit. The inflow of illicit drugs—particularly cannabis, heroin, benzodiazepines, ecstasy/MDMA, and amphetamines—remains significant. Most illicit drugs are brought into Norway by vehicle from other European countries, including the Baltic States, the Netherlands, Belgium, Germany, Spain, and the Balkans. As an example, in June police in Poland uncovered a major amphetamine laboratory using Norway as one of its main outlets. Norway has also blamed Russia for failure to control rohypnol. The Norwegians report, however, that the flow of rohypnol into the country has been reduced since a Swiss pharmaceutical company stopped shipping the drug to Russia.

Domestic Programs. The Government's Action Plan against alcohol and drug problems focuses on youth, including children of drug abusers, and the most problematic abusers. Drug education programs are integrated into the curricula of most Norwegian schools. Many of Norway's municipalities have outreach programs for drug abusers, and in Oslo two million clean needles are now distributed annually free of charge to addicts. Medically assisted rehabilitation with the use of methadone and other medication has been available since 1998. According to the latest available statistics, approximately 13-19 percent of Norway's estimated 10,500-14,000 intravenous drug users have been admitted into a treatment program. The last extensive survey of drug use in Norway was conducted by the Norwegian Institute for Drug and Alcohol Research in 1999. According to the results, 15.4 percent of the population aged 15-64 had at one time tried cannabis, 3.8 percent amphetamines, 1.3 percent ecstasy, 2.1 percent cocaine, and 1.4 percent heroin. The next interview survey is scheduled for 2004.

Norway's Ministry of Defense (MOD) made drug enforcement raids at several military camps as part of its efforts to curb drug abuse in the armed forces. At one camp, 79 new recruits out of 1,420 were found to be in possession of illegal narcotics. The MOD continues to discourage drug use in the armed forces by conducting seminars and distributing counternarcotics information.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG had no counternarcotics assistance programs in Norway in 2003. U.S. Drug Enforcement Administration officials consult with Norwegian counterparts when required.

The Road Ahead. The United States and Norway will continue to cooperate on narcotics control issues..

Poland

I. Summary

While Poland has traditionally been a transit country for drug trafficking, it is now gaining significance as a consumer market and a producer of amphetamines. Illicit drug production and trafficking are closely tied to organized crime, and, while Polish law enforcement agencies have been successful in breaking up organized crime syndicates involved in drug trafficking, criminal activities are becoming more sophisticated and global in nature. Poland finalized a National Program for Counteracting Drug Addiction in July 2002, and this year allocated a budget for its implementation. Cooperation between USG officials and Polish law enforcement has been consistent and outstanding, and Poland's imminent EU accession has accelerated the process of GOP diligence on narcotics policy. 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. High-purity amphetamines and ecstasy are produced in large quantities in Poland, and are subsequently exported to other European markets. In particular, ecstasy production is on the rise, due in part to increased domestic demand. Poland is a major producer of precursor chemicals, and acts as a transshipment route from eastern suppliers of precursors and narcotics, particularly Ukraine and Turkey.

Drug use in Poland is rising, particularly the use of opiates. The Ministry of Health estimates that there are between 300,000 and 600,000 drug addicts in Poland, with the drugs of choice being marijuana, amphetamines and heroin. Drug abuse and drug-related crime are increasing in Poland, and represent a serious problem (drug-related arrests were up more than 30 percent this year). Drug-related crimes perpetrated by juveniles have increased alarmingly, and studies show that one out of every four Polish secondary school students has taken drugs.

Polish authorities indicate that there are two tiers of drug trafficking and law enforcement in Poland: large-scale, international operations dealt with by the CBS, Poland's FBI equivalent, and small-scale dealers and abuse, addressed by local municipal police. The drug trade is largely controlled by three organized crime groups operating in the areas of Warsaw, Krakow and Gdansk. Poland's law enforcement community has had marked success in breaking up drug smuggling operations, and continues to focus on identification of drug-production facilities, many of which are mobile clandestine laboratories.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The National Program for Counteracting Drug Addiction, which covers the period 2002-2005, brings Poland into compliance with the 2000-04 EU Drugs Strategy. The National Program is a comprehensive and realistic plan focusing on prevention, supply reduction, treatment, and monitoring. MONAR, a non-governmental organization, is the main actor in the implementation of the National Program. For the first time since its creation, a budget (approximately \$3.2 million) was approved in 2003 to finance the implementation of the National Program. In addition, individual ministries and local governments continue to finance Program activities out of existing counter narcotics budgets.

Accomplishments. During 2003, Polish police shut down 9 major amphetamine-producing laboratories. Five of these were in the Warsaw region, and the other four were located in southern

border areas of Poland. More than 13,000 drug-related arrests were made in Poland during 2003. To fight international crime, new regulations recently went into effect, which give Polish police more operational tools for law enforcement. Informants, telephone taps, controlled purchases are now all permitted by Polish law, and a witness protection program is in place.

Law Enforcement Efforts. DEA agents visit Poland at least every other month, and have enjoyed close collaboration with Polish officials on drug-related investigations. Other embassies' Police Liaison Officers praise the openness and cooperative nature of the National Bureau for Drug Addiction in discussing drug-related issues.

Corruption. A comprehensive inter-ministerial anticorruption plan was adopted by the government in late 2002. The detailed plan contains strict timelines for legislative action, and for the implementation of strict and transparent anticorruption procedures within each individual ministry. While instances of small-scale corruption bribery, 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 and the CBS continue their joint efforts to investigate small-scale corruption that impedes or discourages police investigations or prosecution. The number of cases investigated and successfully prosecuted relative to the number of reported incidents, however, remains low.

Agreements and Treaties. Through the National Program, Poland has fulfilled requirements to harmonize its laws with the European Union's Drug Policy. Poland has signed and ratified the UN Convention on Organized Crime and two of its three Protocols. Poland is a party to the 1988 UN Drug Convention. An extradition treaty and MLAT are in force between the U.S. and Poland.

In May 2004, Poland will become a full member of the Dublin Group, a consortium of 20 industrialized countries endeavoring to coordinate bilateral drug-related assistance policies. Poland, together with the European Commission, the Baltic States, Russia, Germany, and the Nordic states, comprise the Task Force on Organized Crime in the Baltic Sea Region.

Drug Flow/Transit. While end-product synthetic drugs are manufactured in Poland (the precursors are usually imported from other countries), heroin, hashish, and cocaine frequently transit Poland en route to Western Europe. There are also North-South routes transiting or leading to Poland. Polish police believe that most of the drugs transiting Poland are headed to Germany and the United Kingdom. Sea-based shipping routes are also utilized; some of the largest seizures in Poland have taken place at the Baltic port of Gdansk. Police, however, report that they lack a basis to estimate with any precision the amount of illegal drugs transiting through Poland.

Domestic Programs (Demand Reduction). Demand reduction objectives of the National Program 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 CBS and the border guards. Because of the high level of market activity in cheap precursors, the CBS has made the controlling and monitoring of precursors the Bureau's top priority.

In addition to the programs mentioned above, 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 curriculum 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, which educates students on a range of social ills including drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG believes that training targeted to assist the Polish law enforcement community with more effective investigation and detection techniques continues to be the best way to serve U.S. interests. Continued seminars and train-the-trainer programs, conducted by DEA, will be part of the 2004 bilateral activities. Enhancing operational cooperation through joint investigations and travel assistance to Polish law enforcement officers will also continue.

Bilateral Cooperation. The DEA maintains close contact and holds numerous operational liaison meetings with Polish law enforcement officials, and cooperates with two full-time agents from the Federal Bureau of Investigation posted in Warsaw. In 2003, DEA led a training exercise for law enforcement officials, focusing on drug investigation methodology and financial crimes. DEA recently funded the trips of two Krakow-based national police to New York as part of an ongoing joint investigation.

The Road Ahead. Poland's approaching EU membership on May 1, 2004, continues to play a key role in sharpening the Government of Poland's (GOP) attention to narcotics policy. In addition to the fact that the EU is by far the largest donor to Poland's counternarcotics activities, this should continue to serve as a motivating force for even closer collaboration between Poland and its neighbors to the East and the West.

GOP priorities for 2004 include the creation of an "early warning system" on new synthetic drugs; improvement of data gathering; intensification of international cooperation; and transformation of the role of the Council for Counteracting Drug Addiction from an advisory body to a policy-making body. The U.S. fully supports these targets

Portugal

I. Summary

Portugal is a significant gateway into Europe for drug shipments from South America and North Africa. In 2002, the price of cocaine dropped below heroin for the first time. Ecstasy (MDMA) continues to gain popularity, particularly among the younger population. Heroin continues to take a human and economic toll although the number of addicts seeking treatment is dropping. Intravenous drug use within the prison population is an area of concern to health authorities. Portugal actively participates in international counternarcotics programs. U.S./Portuguese cooperation on drugs has included visits by U.S. 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

Drug smugglers use Portugal as a gateway to Europe, their task made somewhat easier by open borders between the Schengen Agreement countries and Portugal's extensive coastline. South America (particularly Colombia) is the primary source for cocaine arriving in Portugal. Some of these shipments transit Brazil and Venezuela, which has a large resident Portuguese population. Other primary source countries are Morocco (hashish) and Turkey (heroin). Cocaine and heroin enter Portugal by commercial aircraft, truck containers, and maritime vessels. Heroin transits through the Balkans, the Netherlands, and Spain en route to Portugal. The Netherlands is the primary source of ecstasy. A significant amount of drugs enters 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, although in late 2003 several persons carrying a large quantity of ecstasy were arrested in the Lisbon airport attempting to travel to the U.S.

III. Country Actions Against Drugs in 2003

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, combats drug trafficking in coastal waters and within Portugal's Exclusive Economic Zone. Portugal is seeking maritime security cooperation agreements with other countries, particularly Morocco, and was selected to host the headquarters of the European Maritime Security Agency (EMSA) in December 2003.

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. The PJ started 2318 investigations against drug traffickers in 2002 and 1,864 defendants were sentenced to jail. At the end of December 2002, more than 3,900 persons were serving jail sentences for drug trafficking, including 665 foreigners.

Portuguese law enforcement authorities report that the new generation of drug consumers is shying away from heroin and opting for cocaine and ecstasy. According to the Institute of Drugs and Drug Addiction, the price for one gram of cocaine in 2002 dropped to 38.57 euros, while one gram of heroin sold for 43.78 euros. In December 2003, Portuguese authorities seized 300 kilograms of cocaine in a raid in Aveiro, 450 kilograms in Maia, and 800 kilograms in a raid in the Azores. In September 2003, the PJ seized 18 metric tons of hashish in the Algarve region, the largest such seizure ever in Portugal. For the period January to October 2003, the PJ seized more than 125,000 ecstasy tablets.

Corruption. No cases of systematic or large-scale corruption were reported in 2003.

Agreements and Treaties. Portugal is a party to and supports the goals of the 1988 UN Drug Convention. End-users of all narcotics-related chemicals imported into Portugal must be identified by 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. Portugal has signed, but has not yet ratified, the UN Convention against Transnational Crime.

Cultivation/Production. Portugal is not a significant producer of narcotics. Although the PJ dismantled a laboratory producing synthetic drugs in the Algarve region in 2002, ecstasy is produced mainly in the Netherlands and other countries such as Germany, Belgium, and the Czech Republic.

Drug Flow/Transit. Portugal's long, rugged coastline and proximity to North Africa offer an advantage to traffickers who smuggle illicit drugs into Portugal. In some cases, traffickers are reported to use high-speed boats in their attempts to smuggle drugs into the country. No significant routes of drug trafficking from Portugal to the U.S. have been detected. The arrest in late 2003 at Lisbon airport of several persons seeking to carry Ecstasy to the U.S. appears to have been a one-time occurrence.

Domestic Programs/Demand Reduction. Following the 2002 national elections, the Government moved responsibility for coordination of 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 hotline and several public awareness campaigns. 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 arranging for the treatment of drug abusers. A national needle exchange program has been credited with significantly reducing the spread of HIV/AIDS and hepatitis. Drug treatment within the Portuguese prison system continues to be an issue of concern as intravenous drug use is a leading cause of HIV infections among inmates. The Portuguese prison system has the highest rate of inmates with drug-related infectious diseases in the European Union. There is currently a debate on extending the needle exchange program to the prison system.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA-Madrid cooperates with the Portuguese Judicial Police on U.S.-nexus drug cases. The Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1996 CMAA. In March 2003, Embassy Lisbon's Office of Defense Cooperation (ODC) arranged for a U.S.

Coast Guard mobile training team to conduct advanced boarding-officer training with the Portuguese Customs Bureau. Another advanced boarding officer class is planned for March 2004, followed by a counternarcotics instructor course.

The Road Ahead. Continuing cooperation between the U.S. and Portugal on narcotics law enforcement will aid in attacking drug trafficking networks. The future focus will be on strengthening law enforcement training and our policy dialogue.

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 amphetamines. Romania is also used as a transit point for South American cocaine destined for Western Europe. In 2003, Romania made several major drug seizures. A national plan to address drug abuse announced in 2001 was implemented in 2003. Allegations of corruption continued to damage the image of the primary drug fighting law enforcement body. Corruption remains a serious problem, although Romania has begun taking some steps to address the issue. 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. Romania increasingly is becoming a storage location for illicit drugs prior to shipment to other European countries. In 2003, law enforcement officials seized a number of laboratories producing synthetic drugs in Romania, made several important drug seizures and arrests, and dismantled an international drug trafficking and money laundering network. Law enforcement officials noted that a trend of increasing domestic narcotics abuse continued in 2003. 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 2003

Policy Initiatives. Romania continues to build an integrated system of prevention and treatment services at the national and local level, with 47 Anti-Drug Prevention and Counseling Centers located throughout the country. Joint teams of police and social workers carry out educational and preventative programs against drug consumption.

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 have established an undercover drug investigation unit to take full advantage of the authority for undercover operations that the drug law provides.

Law Enforcement Efforts. In 2002, Romanian authorities confiscated 43,674 kilograms of illegal drugs and convicted 432 individuals for drug-related crimes. In the first nine months of 2003, Romanian authorities dismantled 115 drug trafficking rings, investigated 988 persons for drug-related crimes, and seized over 337 kilograms of drugs and 1,893 kilograms of precursor chemicals. Also in 2003, Romanian authorities shut down one synthetic drug production laboratory and a major heroin trafficking network through the Negru-Voda border point. A Romanian-Serbian network trafficking marijuana, Ecstasy and cocaine was destroyed along with drug trafficking networks in Iasi and Botosani counties. Police officers of the General Directorate for Combating Organized Crime and Anti- Drug Operations (DGCCOA), in cooperation with the General Prosecutor's Office, dismantled an international drug trafficking and money-laundering network, which trafficked 2 tons of heroin from Turkey through Romania to the Netherlands, Germany and Italy.

Romania continues to modernize and reorganize its primary drug fighting service, the DGCCOA. The DCCOA was reorganized into two divisions, an organized crime division and a counternarcotics division. The counternarcotics side of the DGCCOA now has some 50 officers; it also has internal squads working undercover operations. The DGCCOA announced plans to double its forces by the end of 2004 and made progress toward establishing 15 Regional Centers for Countering Organized Crime and Narcotics.

Corruption. Corruption remains a serious problem within the Romanian government, including within the judiciary and law enforcement branches. The reorganization of the DGCCOA 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 Ministry of Administration and Interior, Ministry of Justice and Customs undertook a major reorganization at the beginning of the year 2003, resulting in several dismissals of high officials within the police. Additionally, the Anti-Corruption Prosecutor's Office (PNA) began operation September 1, 2002 and has made good progress on investigating corruption cases, investigating over 2200 cases by 1 October 2003. In 2003, Romania drafted a code of ethics for police officers and passed an Anticorruption Law, including measures, which if fully implemented, would promote transparency in the civil service.

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 .

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 northwest through Hungary, or west through Serbia. Police estimated that 80 percent of the drugs that enter Romania continue on to Western Europe.

Domestic Programs (Demand Reduction). While consumption of narcotics in Romania has historically been low, this appears to be slowly changing; the Romanian government has become 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 adequately trained staff. As of June 2003, 1,913 individuals were registered for treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2003, the United States provided \$975,000 in assistance to Romania to further develop its cyber-crime and counternarcotics capabilities, reform of the criminal justice system, and combat official corruption. Romanian police officers participated in U.S. Bureau of Customs and Border Security Canine Enforcement Officer training and the U.S. Secret Service offered courses on financial crimes. Romania also benefited in 2003 from the over \$1.8 million in U.S. and other assistance to the Southeast Europe Cooperative Initiative (SECI) Center for Combating Trans-border Crime, which more broadly supports the twelve participating states in the Balkan region and focuses on trans-border crime.

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 with domestic drug consumption.

Russia

I. Summary

In 2003, the Government of Russia (GOR) placed renewed emphasis on combating its drug trafficking problems by creating a new counternarcotics agency aimed at coordinating all drug investigations within the country. Heroin trafficking and abuse continues to be a major problem facing Russian law enforcement agencies and public health agencies. Since the events in Afghanistan in 2001, opium cultivation and heroin production in Afghanistan has risen dramatically. Given Russia's large and porous borders with Central Asia, Afghan opium/heroin transiting Russia to Europe has become a major problem for the GOR. This rise in heroin trafficking is reflected in the increase of drug related crimes and the number of HIV/AIDS cases. Illegal diversion of legally manufactured drugs into the Russian underground market and the trafficking of precursor chemicals are also widespread in Russia. Acetic anhydride, a precursor chemical used in the production of heroin, both transits Russia from Ukraine and originates in Russia and is subsequently transported to Turkey. The GOR has recognized the extent of the drug trafficking and health problems within the country and is taking steps to address both the law enforcement and public health issues. Russia is party to the 1988 UN Drug Convention, the 1961 Single Convention of Psychotropic Substances and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

II. Status of Country

Russia is a transit country for heroin and opium, most of which comes from Afghanistan, and the majority of which is destined for Europe. Given the porous nature of the Russian border with Central Asia and the limited technical and financial support for law enforcement, it is clear that Russia is ill-equipped to handle the inundation of Afghan heroin into the country. Russia is also a consumer of heroin due to the high availability and low prices. The average price of a gram of heroin in Russia is between \$30.00 and \$36.00, down from a reported average of \$39.00 in 2002. Despite the low cost of heroin, addicts still resort to criminal activity to support their addiction. Production of amphetamines and synthetics for domestic consumption is minor but on the rise. Designer "club" drugs are increasing in popularity with Russia's youth. Typically, MDMA Ecstasy is produced in the Netherlands and Poland. However, in 2003, there were several reports by both the Russian Ministry of Internal Affairs (MVD) and Federal Security Service (FSB) that MDMA labs now exist in Russia. Although the MDMA tablets produced in Russia are of low quality, the low prices (sometimes as low as \$5.00 U.S.) are attractive to Russian youth in comparison to the \$20.00 U.S. typically charged for MDMA tablets from the Netherlands.

Russia remains a significant producer/diverter of precursor chemicals for export for the production of Afghan and Turkish heroin. Acetic Anhydride (AA) is transshipped from Ukraine through Russia to Turkey or shipped directly from Russia to Turkey. In April 2003, approximately 3 tons of AA was seized by Russian law enforcement agencies. This seizure was a result of increased cooperation between Russian and Turkish law enforcement agencies. Cocaine trafficking is not widespread in Russia, as the prices remain very high. Although there have been numerous reports of cocaine being transported to the Russian port of St. Petersburg, no significant seizures of cocaine occurred in Russia in 2003.

Drug abuse within Russia is a matter of concern for national health officials. In the beginning of 2003, there were 340,000 registered drug addicts in Russia. This figure only reflects those addicts who are known to health officials. The number of drug users in Russia is estimated to be between 3 and 4 million people. The majority of drug users are under 30 and approximately 30 percent are heroin

addicts. According to the Ministry of Health, as of October 2003, there were 251,000 officially registered HIV/AIDS cases in Russia, but the actual number is estimated to be between 700,000 and 1.5 million. Currently 70-80 percent of all transmissions are through intravenous drug use.

Domestic distribution of drugs is handled by traditional Russian criminal organizations that have long conducted other criminal operations in 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.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In July 2003, Russian President Vladimir Putin created a new drug agency called the Russian State Committee for the Control of Narcotic and Psychotropic Substances (GKPN). This 40,000 member agency is tasked with coordinating all drug investigations and enforcing narcotics laws within Russia. The head of the GKPN, Viktor Cherkesov, reports directly to President Putin, reflecting the importance of the new agency.

Russia has an enormous chemical production industry. Unfortunately this industry is almost completely devoid of effective management and regulation by either regulatory or law enforcement bodies. This lack of control results in huge illegal shipments of the precursor chemicals needed in the manufacturing of heroin. The new Russian State Narcotics Control Committee has devoted a significant portion of its resources to the control of the Russian precursor chemical industry and the diversion of legally manufactured pharmaceuticals to the illicit market. Among the chemicals used in the production of heroin hydrochloride, acetic anhydride (AA) and the solvents acetone, ethyl ether, methyl ethyl ketone, and hydrochloric acid are considered the most critical. Each has widespread legitimate commercial and industrial use, and each is regulated by the United Nations International Narcotics Control Board (INCB), as well as the Organization of American States, and the U.S. Drug Enforcement Agency (DEA) DEA will work closely with the U.S. State Department, and the new Russian State Narcotics Control Committee to develop the GKPN's ability to regulate and control the chemical industry.

Accomplishments. Russia now has a legislative and financial monitoring scheme that facilitates the tracking and seizure of all criminal proceeds. Since 1997, Russia has passed a number of laws criminalizing money laundering and terrorist financing, which also provide for the forfeiture of criminal proceeds. Russian legislation provides for techniques such as search, seizure and compelling the production of documents, as well as the identification, freezing, seizing and confiscation of funds/assets. Where sufficient evidence indicates that property was obtained as the result of a crime, investigators and prosecutors can apply to the court to have the property seized or frozen. Law enforcement agencies have the power to identify and trace property that is, or may become, subject to confiscation or is suspected of being the proceeds of crime or terrorist financing.

Law Enforcement Efforts. In November 2003, the GOR passed legislation reducing the sentence for possession of drugs for personal use from a maximum of 3 years in jail to a fine. Additionally, the GOR passed legislation increasing the maximum jail terms for drug dealers from 15 to 20 years.

Corruption. President Putin has stated that controlling corruption is a priority for his administration. However 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. In 2003, there were several reports of corruption among low to mid level law enforcement officers. In October 2003, five GKPN agents were arrested on charges of extortion. The agents allegedly were taking bribes to not launch a criminal case against a drug trafficker. The agents were former Ministry of Internal Affairs (MVD) officers.

In October 2003, reports of corruption among newly assigned GKPN officers in Russia's Far East indicated that corrupt officers could earn up to 7,000 rubles (\$230.00) a month for protecting one drug sales point. On October 28, 2003, a former policeman of the Krasnoyarsk Oktyabrskiy district was sentenced to seven and a half years in prison for drug trafficking. There were no reported cases of high level narcotics related corruption.

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 U.S./Russia Mutual Legal Assistance Treaty (MLAT), 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. At present, no extradition treaty exists between the U.S. and Russia. Russia, which does not extradite its own nationals, has said that it will extradite citizens of other countries with which it has concluded extradition treaties. To date, Russia has provided MLAT assistance in two narcotics related cases.

Cultivation/Production. There are no official statistics on the extent of opium cultivation in Russia, and the USG has no evidence to suggest that more than 1,000 hectares of opium—the threshold which would make Russia a Major Cultivator 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, in 2003 more cannabis and poppy plants were cultivated on larger plots of land, and wild harvests of these plants expanded throughout Russia. Wild cannabis is estimated to cover some 1.5 million hectares in the eastern part of the country. The MVD reported that throughout 2003, 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 transshipment to Europe and, to a much lesser extent, the United States. The Caspian Sea 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. Both 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. Cocaine traffickers also route Colombian cocaine for transshipment to Europe and elsewhere through Russian seaports and airports.

Demand Reduction. Russian authorities are attempting to implement 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.

IV. U.S. Policy Initiatives and Programs

Policy Objectives. The principal U.S. goal in Russia is to help strengthen Russia's counter narcotics law enforcement capacity to meet the challenges of international drug trafficking into and across Russia. The U.S. also tries to increase the knowledge, and improve the techniques of 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 International Narcotics and Law Enforcement Affairs (INL) negotiated a Letter of Agreement (LOA) with the GOR allowing direct assistance to the GOR in the area of counternarcotics and law enforcement assistance. The U.S. also provided technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anti corruption and money laundering.

The Road Ahead. The GOR places high priority on counter narcotics 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. DEA is scheduled to provide State Department-funded counter narcotics training to over 200 trainees in 2004, primarily enforcement personnel in the newly created State Narcotics Control agency as well as Russian Customs.

Slovakia

I. Summary

Slovakia lies at the crossroads of two major drug transit routes, 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 GOSR is a party to the 1988 UN Drug Convention.

II. Status of Country

Figures for both consumption and production of narcotics within Slovakia remained low. However, the GOSR remains concerned with the continuing use of Slovakia as a transshipment point for smuggling illicit drugs. The exact figures of seizures and arrests on the borders are not consistent, but 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. These routes may be less utilized after EU accession and enhanced border controls are enacted. Authorities do not believe that precursor chemicals are a problem in Slovakia.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The National Plan for the Fight against Drugs was revised in 2003 to include further research and responsible organizations in the fight against drugs.

Accomplishments. From 2002 to 2003, the Drug Unit at the National Police Headquarters investigated 225 distribution cases. The joint Police-Customs unit made the largest precursor seizure of an LSD-precursor, with an estimated street value of \$61 million.

Law Enforcement Efforts. The Ministry of Interior is undergoing a comprehensive organizational restructuring. The Criminal and Financial Police, where the drug unit is located, will merge with the security police section. Slovakian authorities hope that the police restructuring will facilitate communication throughout the police and shorten investigations. A specialized police agency targeted on organized crime is also part of the reorganization.

Corruption. Slovakia has made major strides in the fight against corruption. Officials serious about creating transparent rules and prosecuting abuses have been put in key positions, a new conflict of interest law is now discussed in Parliament, and a special prosecutor to fight corruption will soon be instituted. The head of the Government's anticorruption office is a noted human rights lawyer who extended the scope for “sting” operations and has introduced a “whistle blower” statute to protect employees who talk to investigators about corruption in their government offices.

Agreements or Treaties. Slovakia 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 extradition treaty between Czechoslovakia and the United States has continued in force between the United States and Slovakia. Slovakia has ratified the UN Convention against Transnational Organized Crime and has signed the Protocol to Prevent, Suppress and Punish Trafficking in Persons and the Protocol against the Smuggling of Migrants.

Cultivation/Production. Small amounts of marijuana continue to be grown in all regions of the country, but 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. Over the past few years, Police recorded between 5 to 10 synthetic drug laboratories discovered annually. However, Czech producers mostly supply the Slovak market.

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. According to the Mini-Dublin group report from 2003, the GOSR is among the highest spenders on preventative activities in relation to GNP per capita in the world. The Ministry of Education annually revises a textbook on drug prevention, which is also available in national minority languages. Centers for Education and Psychological Prevention focus on community outreach concerning drug use and are already functioning in half of the districts in Slovakia. The Slovak healthcare service has a comprehensive network across the country and offers short-term and long-term treatment.

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 anti-organized crime detection/investigative skills. The Export Control and Border Security program provided numerous training opportunities and equipment for Slovak customs officers. The two most effective training programs were the four weeks of joint training with Czech officers on the Czech-Slovak border and a training program on the Slovak-Ukrainian border.

The Road Ahead The United States will continue to encourage the GOSR to adequately budget for narcotics enforcement and to maintain its tough stance on drug interdiction..

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 geographic position makes it an attractive potential transit country for drug smugglers, and it continues to pursue active counternarcotics policies. Slovenia's impending EU membership in May 2004 and its goal of attaining full Schengen membership soon thereafter resulted in a continued intensive focus on border controls in 2003. 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

Heroin from Afghanistan, which transits Turkey continues to be smuggled via the "Balkan Route" through Slovenia to Western Europe. Heroin traffickers in 2003 tended to be mostly Albanian nationals, although recent trends show Serbian nationals becoming more involved. Slovenia's main cargo port, Koper, located on the North Adriatic, is a potential transit point for South American cocaine and North African cannabis destined for Western Europe. Drug abuse is not yet a major problem in Slovenia, although authorities keep a wary eye on heroin abuse, due to the drug's availability.

III. Country Actions Against Drugs in 2003

Policy Initiatives/Accomplishments. The Slovenian Office for Narcotics worked with its Croatian counterpart to organize a regional counternarcotics conference in Dubrovnik in November 2003 which looked at Balkan trafficking routes, addiction rates, corruption, money laundering, and national programs and legislation.

Law Enforcement Efforts. Law enforcement agencies seized 2,536 MDMA tablets in the first nine months of 2003, compared with 7,051 tablets in 2002, and 1,773 ecstasy tablets in 2001. In 2003, 77.24 kilograms of heroin were seized, compared with 65.6 kilograms of heroin in 2002, and 88.9 kilograms of heroin in 2001. In addition, 144.37 kilograms of marijuana were seized in 2003, compared with 1,083.8 kilograms of marijuana in 2002, and 170.56 kilograms of marijuana in 2001

Corruption. 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 the Kingdom of Serbia 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.

Drug Flow/Transit. A recent investigation involved Slovenian nationals trafficking large amounts of marijuana cultivated in Bosnia-Herzegovina through Slovenia to the Netherlands. This criminal organization was also transporting precursor chemicals utilized in the manufacture of MDMA to the Netherlands and then transporting MDMA back into Slovenia. This investigation demonstrated the increasing use of MDMA in Slovenia and the availability and trafficking of precursor chemicals along

the Balkan Route. Serbian and Croatian traffickers are utilizing Balkan countries to smuggle large amounts of South American cocaine to Europe using the vast unguarded Balkan coastlines as a port of entry.

Domestic Programs. Slovenians enjoy universal health care provided by the government. These programs include drug treatment.

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 Road Ahead. Based on the high quality of past cooperation, we expect to continue joint U.S.-Slovenian law enforcement investigations in 2004.

Spain

I. Summary

In 2003, Spain continued to be the leading transit point into Europe for cocaine and hashish, and made significant interdiction of synthetic drugs, such as ecstasy (MDMA), produced for domestic use. The Spanish National Police, Civil Guard, and Customs Services remain active in counternarcotics efforts and maintain excellent relations with U.S. law enforcement. Drug trafficking is one of Spain's most important law enforcement concerns. Spain is a party to the 1988 UN Drug Convention as well as new EU conventions on counter narcotics trafficking.

II. Status of Country

Spanish law enforcement agencies seized an estimated 50,000 kilograms (50 metric tons) of cocaine during 2003, surpassing the previous record set in 2002. 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 from Turkey across Europe to Spain.

No coca is grown in Spain, and production of cannabis and opium is minimal. Illicit refining and manufacturing of drugs in Spain is also minimal. However, small-scale laboratories of synthetic drugs such as LSD are discovered and confiscated each year. Spain has a pharmaceutical industry that produces 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 2003

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 strategy also outlined a system to re-integrate drug addicts back into society. The strategy targets money laundering and illicit commerce in chemical precursors, and calls for closer counternarcotics cooperation with other European and Latin American countries.

The National Central Drug Unit coordinates counternarcotics operations among various government agencies, including the Spanish Civil Guard (GC), the Spanish National Police (SNP), and the Customs Service. The agencies appear to cooperate well.

Law Enforcement Efforts. Cocaine—In 2003, Spanish authorities estimate they have seized 50,000 kilograms of cocaine, a 37 percent increase over last year's seizures. The majority of these seizures take place on the open seas. Spanish customs reports that they seized 27,000 kilograms of cocaine and 199,000 kilograms of hashish between January and October 2003. This amount represents an increase of 115 percent over last year's total during the same months.

There were many notable cocaine seizures in 2003. The Spanish National Police seized a number of Venezuelan shipping vessels including one in June carrying approximately 2,500 kilograms, and two off the coast of the Canary Islands in July, one carrying 3,300 kilograms and another carrying 1,500 kilograms. In October, Spanish authorities caught a ship named "South Sea" carrying 7,500 kilograms of cocaine. The SNP reported a seizure of a Honduran vessel with a Dominican captain and eight Greek nationals, also near the Canary Islands, transporting 3,500 kilograms of cocaine. The Spanish

Civil Guard interdicted a ship off the coast of Catalonia carrying 2.7 metric tons of hashish valued a 3.6 million euros. The ship was operated by three natives of Kosovo.

Ecstasy & LSD. Although the Spanish press reports a decline in the use of synthetic drug ecstasy, Spanish authorities continue to seize large supplies used domestically or destined for the United States. The National Plan on Drugs reported that Spanish authorities seized 1.4 million pills in 2002; however, this year, officials report they have seized 514,000 MDMA tablets. Some notable seizures were made by the Spanish Civil Guard at Madrid International Airport. In August, Officials found 13,400 tablets on a Spaniard arriving from Amsterdam. The Spanish National Police seized 235,000 MDMA tablets on the Island of Ibiza, located seventy-five miles east of Valencia. In August, the Spanish National Police discovered an ecstasy laboratory containing approximately 20,000 tablets and enough chemical material to produce 200,000 MDMA tablets. The SNP seized a shipment of ecstasy trafficked by a Romanian national operating in Europe. The trafficker planned to send 30,000 ecstasy tablets to the U.S. He was discovered with 20,000 tablets when he tried to board a bus traveling to Madrid. In October, the Spanish Civil Guard seized 30,000 dosage units of LSD from an Argentinean national at Madrid's International Airport.

Hashish. Hashish interdictions have also increased. For example, in June, the Spanish Coast guard seized a ship off the coast of Catalonia carrying 2.7 tons of hashish, valued at \$3.6 million. In July, the Spanish Civil Guard seized 25,759 kilograms of hashish from a truck and trailer at the Port of Algeciras in Cadiz, Spain. The hashish was hidden in a box of frozen squid and calamari. This was the Guard's second largest seizure since 1966.

Corruption. There is no evidence that government policy encourages or facilitates illicit production or distribution of narcotics, psychotropic drugs, or other controlled substances, or launders proceeds from illegal drug transfer. There is no evidence that senior government officials engage in, encourage, or facilitate the illicit production or distribution of drugs.

Agreements And Treaties. Spain is a party to the 1988 UN Drug Convention. Spain is a party to the UN Convention against Transnational Organized Crime and two of its protocols. A 1970 extradition treaty and its three supplements govern extradition between the U.S. and Spain. 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. Coca leaf is not cultivated in Spain, and cannabis is grown in insignificant quantities. Opium poppies are 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 cocaine coming from Columbia, Peru, and Ecuador. Maritime vessels and containerized cargo shipments account for the bulk of the cocaine shipped to Spain. In addition, Spain remains a major transit point to Europe for Moroccan hashish, as well as ecstasy and other synthetic drugs produced mainly in the Netherlands. Couriers carrying ecstasy from Spain have been arrested at Madrid's International Airport or upon entry into 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 regional governments 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

Bilateral Cooperation. U.S. goals and objectives for Spain are focused on maintaining and increasing the current excellent bilateral and multilateral cooperation in law enforcement and demand reduction.

The U.S. seeks to promote intensified contacts between officials of both countries involved in counternarcotics and related fields.

The Road Ahead. The DEA Madrid Country Office will continue to coordinate closely with its Spanish counternarcotics officials in the international fight against drug trafficking..

Sweden

I. Summary

Sweden is not a significant illicit drug producing, trafficking or transit country. Public support for Sweden's zero tolerance drug policy remains high. The government completed its second year of a three-year plan to combat narcotics. Amphetamine and cannabis remain the most popular illegal drugs in Sweden. A new synthetic drug, fentanyl (China White), appeared on the market in 2003; it resulted in the deaths of at least ten people. Sweden is a party to the 1988 UN Drug Convention.

II. Status of Country

Relative to other European countries, Sweden—both within government and society—is intolerant of drugs. Sweden also places a greater focus on prevention than some of its fellow EU members. Sweden has approximately 26,000 heavy drug addicts (i.e., with regular intravenous use and/or daily need for narcotics). There are approximately 350 narcotics-related deaths each year.

The Swedish Prime Minister, Goran Persson, has declared the fight against narcotics as one of the top priorities for his government. In February 2003, he strongly emphasized the necessity to combat organized crime, viewing organized crime as an important part of the drug industry. Persson also links the abuse of alcohol and tobacco to the fight against narcotics. The government's National Action Plan Against Narcotics was issued in January 2002 and carries on until 2005. The plan has received \$42 million in funding to combat narcotics, with a focus on restricting supply for young people. A critical element in Sweden's counternarcotics efforts is cooperation with the Baltic region where significant trafficking routes have been established.

The abuse of steroids in Sweden remains high the quantity of steroids seized in Sweden has increased steadily over the past four years. One obstacle to more effectively combating this problem remains effective legislation; the current penalty for illegal smuggling or manufacturing of steroids is lower than other illicit drugs. Young people, age 18 to 24, continued to abuse amphetamines, cannabis, and ecstasy (MDMA), despite growing public opposition to any liberalization of counternarcotics laws.

III. Country Actions Against Drugs in 2003

Initiatives and Accomplishments. During 2003, the drug abuse prevention program concentrated on information campaigns and seminars throughout the country designed to raise awareness, in addition to establishing networks with national and international NGOs. A government initiative to distribute needles to addicts in the southern parts of Sweden led to a decision by the Minister of Health to allow county councils to determine individually whether to proceed with needle distribution programs. The ministers responsible for combating narcotics in the Nordic and Baltic countries agreed in September to sign a joint declaration—the Lund Declaration—to further strengthen their work against drugs and organized crime in the region. The government decided to spend \$13 million at the municipal level on different drug preventive programs for young people, treatment for drug addicts and special assistance for children of addicts.

Law Enforcement Efforts. No major drug processing labs were detected during the year. Ten young Swedes, between 16-22 years old, were arrested in November for attempting to smuggle ecstasy to the U.S. The police think that a large international smuggling network trying to establish new routes through Europe to the U.S recruited these individuals. The investigation will continue into 2004. Swedish Customs focuses on smuggling as a manifestation of organized criminal activity.

The penalty for possession of Rohypnol was increased. After a significant increase in the illegal smuggling of Rohypnol in recent years, the Supreme Court made it easier to try traffickers for the more serious crime of gross smuggling by lowering the number of pills necessary to bring this charge from 20,000 to 9,000. Rohypnol is an anesthetic sometimes misused as a “date rape” drug.

Corruption. Cases of public corruption are relatively rare in Sweden. However, in November, an investigation by the National Corruption Prosecutor concluded that, even though corruption is not perceived to be a problem in Sweden, more resources are needed to investigate possible incidents of corruption. Although no cases arose in 2003 involving officials involved in counternarcotics efforts, two significant cases concerned the Migration Board and the Swedish alcohol retailing monopoly, where officials were found guilty of accepting bribes.

Agreements and Treaties. Swedish priorities in the international arena are focused on reinforcing control of illicit drug trafficking, streamlining counternarcotics organizations, targeting narcotics with foreign aid, and intensifying cooperation with international fora. Sweden is a party to the 1988 UN Drug Convention and is meeting the Convention's goals and objectives. Sweden is a party to the 1961 Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and to the 1971 Convention on Psychotropic Substances. Sweden has signed the 2000 UN Convention against Transnational Organized Crime and its protocols. Sweden has bilateral customs agreements with the United States, among other countries. There were no cases of extradition between Sweden and the U.S. concerning drug crimes during 2003.

Cultivation/Production. Illicit drugs are not cultivated or produced in significant quantities in Sweden. Small-scale cannabis cultivation of 800 plants was discovered in a police raid at a farm in northern Sweden in February.

Drug Flow/Transit. Drugs mainly enter the country concealed in commercial goods, by air, by ferry, and by truck over the new Oresund bridge linking Sweden to Denmark. Statistics show that 70 percent of all seizures are made in that region. Despite increased smuggling through the Baltic countries and Poland, 75 percent of illicit drugs are smuggled through other European Union (EU) countries. Most seized amphetamine originates from Poland, the Netherlands, and Belgium. Seized ecstasy comes mainly from the Netherlands, cannabis from Morocco and southern Europe. The route for heroin is more difficult to establish. Law enforcement officials did not encounter any drugs intended for the U.S. market. Authorities say that Sweden's role as a transit country has grown, as smugglers discover that goods crossing foreign borders from Sweden receive less scrutiny than goods from countries with higher crime rates.

Domestic Programs and Demand Reduction. The National Institute of Public Health, along with municipal governments, is responsible for providing compulsory drug education in schools. Also, several non-governmental organizations are devoted to drug abuse prevention and public information programs. According to Swedish penal law, individuals abusing drugs can be sentenced to drug treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Swedish cooperation with United States Government law enforcement authorities continues to be excellent.

The Road Ahead. The U.S. will pursue enhanced cooperation with Sweden bilaterally and through the EU.

Switzerland

I. Summary

Switzerland plays a role as both a consumer market and transit route for illicit narcotics, but it is not a significant producer of most illicit drugs, with the exception of hemp/marijuana. Based on revised data, drug-related arrests were up during 2002 (latest data available) by 6.7 percent.

The Swiss public continues its strong support for the government's four-pillar counternarcotics policy of preventive education, treatment, harm reduction, and law enforcement. The politics of drug liberalization at the federal level has changed recently, putting the brakes on the cannabis legalization movement. A new drug bill aimed at decriminalizing cannabis use for Swiss adults, concentrating enforcement efforts against other drugs, and making permanent a pilot heroin maintenance program for drug addicts suffered a severe setback after it failed to win parliamentary approval during the 2003 fall session. The recent victory of the conservative populist Swiss People's Party (SVP) in the last October General Elections, and the ensuing hand-over of the Justice/Police Ministry to the CVP's Christoph Blocher are further signs that support for easing drug laws is dwindling.

The SVP's successful political campaign also promised action against bogus asylum seekers who represent a significant proportion of drug dealers and traffickers in Switzerland. The significant rise in narcotic seizures among the foreign population may lead to wider use of domestic travel restrictions for foreigners convicted of drug offenses. The Swiss government has delayed ratification of the 1988 UN Drug Convention while considering the implications of its pending revised narcotics legislation.

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 uses 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), continues to increase. Police are also concerned about the continuing trend by casual users to mix cannabis and other drugs.

III. Country Actions Against Drugs in 2003

Policy Initiatives. 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's office in Bern. A new judiciary police force was 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 \$161,000(SFr 200,000) or imprisonment.

Accomplishments. Swiss drug control authorities say that therapy and treatment programs have improved the physical and mental health 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. Statistics show that 20 per cent of the patients on Switzerland's heroin prescription program are infected with HIV, and the federal public health figures show that the number of new HIV cases

among intravenous drug users successfully dropped from over 400 in 1991 to around 100 in 1997. Drug-related mortality increased by 6 percent from 167 in 2002 to 177 in 2003.

Law Enforcement Efforts. The most current seizure and arrest statistics available cover the 2002 period. Cannabis seizures increased from 11,424 kilograms in 2001 to 23,210 kilograms in 2002, and the number of narcotics apprehensions during 2002 increased from 46,116 to 49,201 (+6.7 percent compared to -1 percent in 2001), with wide disparities among cantons. Drug trafficking also increased by 15.4 percent during 2002, of which most notably marijuana supply, followed by cocaine and heroin. Drug smuggling also increased by 5.8 percent. The top three cantons with significant drug smuggling activity are: Zurich (991 arrests), Geneva (806), Bern (434) and Vaud (286).

During 2002, Swiss police seized 23,210 kilograms of cannabis (+103 percent over 2001), 186 kilograms of cocaine (+10.7 percent), 208 kilograms of heroin (-9 percent), 88,342 doses of synthetic drugs (+1.5 percent). Drug arrests also went up: 3,229 people during the first six months of the year, as opposed to 2,259 for the same period in 2001.

Foreigners and asylum seekers play a significant role in the Swiss drug scene, especially in distribution. During 2002, 77.8 percent of the 3,447 persons arrested for drug trafficking and 63 percent of the 39,603 drug consumers arrested by the police were foreigners, 10 percent of whom were considered to be drug tourists. One fourth of the people arrested originated 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. Noticing that many resident aliens suspected (but not convicted) of drug dealing were traveling from canton to canton, several cantonal authorities began imposing administrative sanctions under cantonal foreign resident regulations. Geneva and Vaud in particular have started banning drug dealers resident in another canton. If picked up by police, these dealers (mainly refugees from Eastern Europe and sub-Saharan Africa) are fined and “deported” to their canton of residency. If picked up again, they are jailed. Deportation of foreign drug dealers to their home country is difficult because they often hide their true identity from the police. In July 2003, former Swiss Justice Minister Ruth Metzler met with Polish and Ukrainian government officials during a tour of central and eastern Europe to discuss police cooperation against organized crime and immigration issues.

A drug bill aimed at decriminalizing cannabis use and concentrating enforcement efforts against other drugs reached a standstill in parliament during the 2003 fall session, after the lower house rejected the bill in a first reading. The vote came after a particularly strong lobbying by parents and teachers groups against the bill. They were joined by a group of prosecutors, judges and police officers from ten cantons, who oppose the bill's proposed changes in hemp cultivation and sales. The bill, had already passed the upper house two years before, and will have to be reworked—if not abandoned—given the new conservative forces now in power in parliament. The bill is intended to regulate the significant “gray market” for hemp products, limit the number of retail outlets, and permit the sale of cannabis/marijuana only to adults residing in Switzerland which would be subject to a tax based on the level of THC. Prices for hemp farmers and distributors would have been regulated. Authorities would have limited the acreage under cannabis cultivation and worked to prevent drug exports. The bill would have made 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. The Swiss Federal Office for Public Health believes that its heroin prescription program has a direct impact on drug-related crime: around 70 per-cent of addicts earned money from illegal activities at the time they entered the program, compared with 10 percent after 18 months in the program.

The heroin prescription program has many detractors, mostly conservative and religious groups which argue that the overall goal of getting addicts off drugs has been forgotten and that the Swiss government should instead favor abstinence programs. The Secretary of the UN International Narcotics Control Board (INCB), Herbert Schaepe, recently questioned the cost-effectiveness of the heroin treatment program and said that his agency was not encouraging other countries to follow the Swiss example: "It is an approach that is feasible only in a very limited number of countries which can afford it. This program is extremely expensive and, in times of limited resources, it has to be decided whether these resources can be spent elsewhere in a better and more productive way." Supporters like ARUD, a Swiss umbrella organization committed to harm reduction policies, point out instead that the program only costs \$38 per day (SFr 47) to treat one patient, compared to a cost of SFr90 (\$72) per person in terms of health care and criminal damage.

Several drug arrests made especially noteworthy headlines during 2003:

The owner and main shareholder of the private bank Tempus in Zurich was arrested on December 11, 2003 and detained on drug money laundering charges. The Swiss Federal Prosecutor's Office said that the banker was suspected of involvement with drug cartels and improper financial practices. He was arrested after attempting to deposit SFr 2 million (\$2.5 million) in cash with another bank. The banker was chairman of the board of directors at Bank Vontobel until 1995, and had set up the Tempus private bank six years ago.

On November 27, 2003, the Bern police arrested at the Bern- Belp Airport a 33-year old Tanzanian who tried to smuggle one kilogram of cocaine into Switzerland. Originally flying from Sao Paulo through Amsterdam, the man had swallowed 98 small 10-gram bags, worth an estimated \$81,400.

In September 2003, the Geneva cantonal police closed a marijuana on-line delivery shop called Delta 9, seizing 20 kilograms of drugs and arresting eight people.

In September 2003, a major police crackdown on the production and sale of cannabis in the Italian-speaking Ticino canton has resulted in the closure of almost all the canton's hemp shops. Shops selling cannabis proliferated in Ticino after the first store opened in 1996. By the end of 2002 there were 75 outlets. In most cases, the shops tended to establish themselves in the border area between Chiasso and Lugano where customers from neighboring Italy guaranteed a lucrative trade.

The parliament of Ticino adopted in July 2002, a law forbidding the production of marijuana, and restricting the establishment of Amsterdam-like "coffee shops." But it was only in spring 2003 that the cantonal police took decisive action against cannabis trade. As a result, dozens of cannabis plantations were sealed off, plants and funds confiscated and dealers taken into custody. The Ticino cantonal prosecutor Antonio Perugini recently boasted that there are no indoor plantations in Ticino anymore. Around 250 people are being investigated. In total, \$43.5 million (SFr 60 million) worth of cannabis was confiscated or destroyed. Faced with increased consumption of marijuana in Ticino schools, the education director has now announced the start of a "zero tolerance" campaign. Meanwhile, the cannabis price in the region has doubled to \$11.6 (SFr 16) per gram.

In August 2003, the Swiss Federal Supreme Court created a precedent by setting at SFr 10,000 francs (\$8,000) the threshold after which earnings deriving from the sale of drugs could be considered as a "severe breach" of the narcotic law leading to a minimum 12 months prison sentence. The court issued this statement when rejecting an appeal by a 23-year old trafficker who had been previously sentenced to a 12-months prison term on the ground he earned only SFr 12,000 by selling ecstasy (MDMA) and cannabis on a regular basis.

Across Switzerland five to ten per cent of police time is spent on fighting drugs.

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 two narcotics-related extraditions from Switzerland to the U.S. and one from the U.S. to Switzerland during 2003. 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 April 2003, the International Narcotics Control Board (INCB) criticized impending changes in Swiss narcotics legislation in its annual report, stating that the new proposed Swiss law would go much further than simply decriminalizing cannabis consumption. The report argued that it would be a mistake if cannabis were effectively placed in the same category as alcohol and tobacco, and that it would contravene the 1961 Single Convention. The INCB also expressed concerns about a tax on cannabis which would be introduced if decriminalization was adopted, and said it would pursue further discussions on this issue. The Swiss Federal Office For Public Health maintains that four independent legal assessments have 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 2003 area planted to illicit hemp at 350 hectares, with a value of approximately \$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 \$6 million annually according to the Swiss Federal Office of Public Health.

Swiss authorities dispensed 201 kilograms of heroin to severe drug addicts for maintenance programs in 2002, compared to 185 kilograms in 2001. Three-fourths was in ampoules for injection, while the rest was distributed in tablet form. 1,230 addicts were enrolled in the heroin prescription program during 2002, a slight increase from 1,098 in 2001. Three-quarters of those enrolled were male. The number of specialized heroin treatment centers also increased from 20 during 2000 to 23 in 2002, but still cover only four percent of the total drug addict population. Medical treatment costs approximately \$14,000 per year per person, or \$38 per day. Average time in heroin treatment is 2.76 years. Of the 181 persons who terminated the heroin prescription program, between 35 and 45 percent went on to methadone-assisted withdrawal programs, and around 25 percent decided to undergo abstinence therapy. As of July 1, 2002, heroin treatments are financed through health insurance plans.

The 2003 annual report on Switzerland's heroin-assisted treatment can be downloaded from: <http://www.suchtundaids.bag.admin.ch/imperia/md/content/spectra/47.pdf> The latest annual statistics on Heroin prevention can also be downloaded from: <http://www.suchtundaids.bag.admin.ch/imperia/md/content/drogen/hegebe/22.pdf>.

IV. U.S. Policy Initiatives and Programs

The 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 proposed revisions of its narcotics law and continue to urge Swiss authorities to ratify the 1988 UN Drug Convention without reservations.

Tajikistan

I. Summary

Tajikistan produces few if any narcotic substances, but it remains a major transit country for heroin and opium from Afghanistan. The opium/heroin moves through Tajikistan and onward through Central Asia to Russian and other European markets. The illicit narcotics transiting Tajikistan rarely enter the United States. The volume of drugs following the Afghanistan-Central Asia-Russia-Europe route via multiple methods of transportation—primarily land-based—is significant and growing.

Abuse of heroin, opium, and cannabis in Tajikistan is a minor problem now, but it is growing in importance. Tajikistan's medical infrastructure is highly inadequate and cannot address the population's growing need for addiction treatment and rehabilitation. The Tajik Government remained committed to fighting narcotics but is less well equipped to handle the myriad social problems that stem from narcotics abuse. 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. The Pyanj river, which forms part of Tajikistan's border with opium-producing Afghanistan is thinly guarded, and difficult to patrol. It is 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. Uzbekistan has often closed its borders to combat a perceived instability from Tajikistan. Additionally, the Tajik Government'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 Government's own lack of revenue to adequately support law enforcement efforts. With the average monthly income in the country around \$10, poor job prospects, and economic migration resulting in many single heads of households, 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 Tajik Government nor the USG is aware of any processing or precursor chemical production facilities. The small amount of precursor chemical imports is closely monitored by the Tajik Government and is essentially limited to five in-country industrial sites which use such chemicals.

III. Country Actions Against Drugs in 2003

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. However, the government itself is vulnerable to pressure from prominent traffickers, many of whom are in a position to threaten domestic stability if seriously challenged.

One encouraging development is the Tajik Government's emphasis on interagency cooperation. Through a two-pronged, multi-year UNODC project sponsored by the USG and Japan, the State Border Guards, the Russian Border Forces, Customs and the DCA are all working together to improve security on the Tajik-Afghan border. The equipment and training provided through the program are designed to foster better communication and cooperation among the elements of the Government, better utilizing an indigent country's limited resources.

Law Enforcement Efforts. During the first 10 months of 2003, Tajikistan officials reported seizing 8,408 kilograms of illegal narcotics, including 5,137 kilograms (a little over 5 metric tons) of heroin,

1,966 kilograms of opium, and 1,179 kilograms of cannabis group drugs. Heroin seizures increased considerably when compared with the previous year's results. Tajikistan currently ranks third in the world for heroin seizures. Opium seizures also showed a slight increase compared to 2002's ten-month total of 1,025 kilograms. This continues the trend of previous years, which demonstrated a shift from traffic in opium to processed heroin. Russian Border Forces (RBF) continued to be responsible for almost two-thirds 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.

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 or psychotropic drugs or other controlled substances and has continued to seek international support in augmenting its efforts to combat narcotics trafficking.

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. Tajikistan is a party to the UN Convention against Transnational Organized Crime. On January 27, 2003, the U.S. and Tajik Governments signed a Letter of Agreement on Narcotics Control and Law Enforcement. Following this, two amendments to this Agreement were signed on May 30 and September 10, 2003.

Cultivation/Production. Opium poppies and, to a much lesser extent, cannabis, are cultivated in small amounts, most in the northern Aini and Panjakent districts. Law enforcement efforts have limited opium cultivation, but it has also been limited because it has been far cheaper and safer to cultivate opium poppies in neighboring Afghanistan. With the beginning of "Poppy Operation" in May 2003, more than two fields of opium poppies and 5,000 hemp plants have been found and destroyed.

Drug Flow/Transit. The total volume of Afghani opium transiting Tajikistan on its way towards Europe and Russia is certainly high. One UN estimate put the amount of heroin from Afghanistan going through the country at roughly 40 to 50 metric 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. In June 2003, the USG supported Drug Demand Reduction Program was launched, and on December 2, 2003, the Drug Information Center was established through the collaborative effort of the USG, the Ministry of Health, the Tajik State Medical University and the World Health Organization. However, the number of young addicts continues to grow. Over 60 percent of Tajikistan's drug addicts fall into the 18-30 age group.

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 Contraband Enforcement Training for officers of the State Border Protection Committee and the Tajik Customs Service. The USG also provided training for a number of Tajik law enforcement officials through the International Law Enforcement Academies in Budapest and Roswell.

The Road Ahead. The UNODC is likely to remain the principal agency supporting counternarcotics efforts in Tajikistan for at least the next few years. 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. The USG will also continue to emphasize the necessity of pooling information and resources for maximum effect. The USG remains committed to working with the Tajikistan Government to increase its law enforcement and counternarcotics capabilities.

Turkey

I. Summary

Turkey is a major transit route for Southwest Asian opiates to Europe, and a refining/distribution center for major narcotics traffickers and brokers. Turkish law enforcement organizations focus their efforts on stemming the traffic of drugs and intercepting precursor chemicals. Turkish enforcement agencies cooperate closely with European and U.S. agencies. While most of the heroin trafficked via Turkey is marketed in Western Europe, heroin and opium are also 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 signed the UN Drug Convention in 1988.

II. Status of Country

Turkey is a major transshipment and morphine base processing center for heroin. Turkey is also a base of operations for international narcotics traffickers and their associates trafficking in opium, morphine base, heroin, precursor chemicals and other drugs. The majority of these opiates originate in Afghanistan, and are ultimately shipped to Western Europe. A smaller but still significant amount of heroin is trafficked to the U.S. via Turkey, and then by way of Europe. Turkish law enforcement forces are strongly committed to disrupting narcotics trafficking. The Turkish National Police remains Turkey's most sophisticated counternarcotics force, while the Jandarma and Customs continue to increase their efficacy. Turkish authorities continue to seize large amounts of heroin and precursor chemicals, such as acetic anhydride. It is estimated that multi-ton amounts of heroin are processed in or smuggled through Turkey each month.

Turkey is one of the two traditional licit opium-growing countries recognized by the USG and the International Narcotics Control Board. 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.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Government of Turkey (GOT) devotes significant financial and human resources to counternarcotics activities. Turkey continues to play a key role in Operation Containment (a regional program to reduce the western flow of Afghan heroin) as well as in other regional efforts.

In 2003 the Turkish National Police issued a regulation under which liaison officers were appointed in various provinces to establish drug abuse training and prevention units, in coordination with the Ministry of Education and the Ministry of Health.

Accomplishments. At the request of the UN, in 2003 the Turks trained 26 Afghan counternarcotics officers. Also in 2003, the DEA organized at Turkish facilities two training seminars for Turkish National Police (TNP), Customs and Jandarma, on using electronic surveillance to combat organized crime.

Law Enforcement Efforts. During 2003, Turkish law enforcement agencies seized 5220 kilograms of heroin, 308 kilograms of opium, 1009 kilograms of morphine base, 7777 kilograms of hashish and 5,847,715 pills, and made 12,420 drug-related arrests.

Corruption. In June 2003 a Parliamentary Commission on corruption issued a report examining the reasons for and possible solutions to, the problem of corruption. It recommended increased transparency in public administration, strengthened audits, hiring of more qualified personnel, adoption of international judicial standards, and increased public and business education.

In July, 2003, the Turkish Banking Regulatory and Supervisory Agency (BRSA) assumed control of Imar Bank (part of the Uzan Group), and subsequently uncovered evidence of a massive fraud. Separately, in late 2003, Parliament established three commissions to pursue investigations against six former government ministers. No connection to narcotics has been alleged in any of these investigations.

Agreements and Treaties. Turkey has been a member of FATF since 1991. Turkey ratified the UN Convention on the Suppression of Terrorist Financing in April 2002. In 2003 Turkey ratified the UN Convention against Transnational Organized Crime. Turkey is a party to the 1988 UN Drug Convention. Turkey signed, but has not yet ratified, the UN Convention on Transnational Organized Crime.

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, with no apparent diversion.

Drug Flow/Transit. Turkey remains a major route, and a storage, production and staging area, for the flow of heroin to Europe. Turkish-based traffickers and brokers operate in conjunction with narcotic smugglers, laboratory operators, and money launderers in and outside Turkey. They finance and control the smuggling of opiates to and from Turkey.

Afghanistan is the source of most of the opiates reaching Turkey. Morphine and heroin base are smuggled overland from Pakistan via Iran. Multi-ton quantities of opiates and hashish have been smuggled by sea from Pakistan to points 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 heroin precursor chemical acetic anhydride from sources in Western Europe, the Balkans and Russia. For fiscal year 2003, 5.8 metric tons of acetic anhydride was seized in or along routes headed for Turkey.

Turkish-based traffickers control and operate heroin laboratories at various locations. Some of them reportedly have interests in heroin laboratories operating near the Iranian-Turkish border in Iran. Turkish-based traffickers 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 reportedly is increasing. Although the Turkish Government appears to be increasingly aware of the need to combat drug abuse, the agencies responsible for drug awareness and treatment remain under-funded. Five Alcohol and Substance Abuse Treatment Clinics (AMATEM) have been established, 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.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives and Programs. 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 \$500,000 annually in assistance. While that program has now terminated, during 2003-04 the U.S. Government anticipates spending approximately \$100,000 in previously-allocated funds on counternarcotics programs.

Bilateral Cooperation. U.S. counternarcotics agencies report excellent cooperation with Turkish officials. Turkish counternarcotics forces have developed technically, becoming increasingly

professional, in part based of the training and equipment they received from the U.S. and other international law enforcement agencies.

The Road Ahead. With the election of a new government in November 2002, many of the key government officials responsible for counternarcotics and money-laundering were replaced; however, this does not appear to have degraded the quality of cooperation. The U.S. Mission in Turkey intends to continue to engage the recent appointees, and work with the government to strengthen the fight against narcotics trafficking.

Turkmenistan

I. Summary

Largely due to its border with Afghanistan, Turkmenistan remains a major transshipment route and passage for traffickers seeking to smuggle opiates to Turkish, Russian and European markets. Turkmenistan, however, is not a major producer or source country itself for illegal drugs or precursor chemicals. Turkmenistan shares a rugged and remote 1,180 kilometer border with Afghanistan as well as an 800-kilometer boundary with Iran. Counter-narcotics efforts in Turkmenistan are carried out by several agencies, including the Ministry for National Security (MNB), Ministry of Internal Affairs (MVD), state customs service, border guards service and prosecutor general's office. 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 have acknowledged publicly that smuggling organizations are increasing their efforts to traffic narcotics across Turkmenistan and large-scale seizures are more common. Domestic drug abuse is steadily increasing, although concrete statistics are difficult to obtain. Turkmenistan remains vulnerable to financial fraud and money laundering schemes due to its dual exchange rate and the presence of foreign operated hotels and casinos. There are troubling reports of involvement in narcotics trafficking by senior GOTX officials. Turkmenistan is a party to the 1988 UN Drug Convention.

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 frequently enter Turkmenistan from Afghanistan, Iran, Pakistan, Tajikistan and Uzbekistan. The bulk of Turkmen law enforcement resources and manpower are directed toward stopping the flow of drugs from Afghanistan. Turkmen law enforcement at the Turkmen-Uzbek border is primarily focused on interdiction of smuggled commercial goods. Visits by USG officers to crossing points on the Iranian border confirm that 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 have been unavailable. Turkmenistan Airlines operates international flights connecting Ashgabat with Abu Dhabi, Bangkok, Birmingham, Frankfurt, Istanbul, London, Moscow, New Delhi, Almaty, Tashkent and Tehran.

III. Country Actions Against Drugs in 2003

Policy Initiatives. During the past year, the President of Turkmenistan (GOTX) has increased public pressure on law enforcement officials to slow narcotics traffic through Turkmenistan. Counter narcotics efforts are heavily focused along the mountainous Afghan border, but increased efforts have also been made along the Iranian border.

Law Enforcement Efforts. The GOTX continues to give priority to counternarcotics law enforcement. Despite poor equipment and insufficient transportation, Turkmen border forces are moderately effective in detecting and interdicting illegal crossings by armed smugglers. According to GOTX officials, there are now female border guards along the Turkmen border checkpoints to search suspected female traffickers; nearly half of all traffickers being arrested at border crossings are female. Official statistics on narcotic seizures made in Turkmenistan are not published; however, official efforts are netting larger seizures. 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 operating at this border point have made very large seizures of heroin precursor, AA, headed for Afghanistan from as far away as India. In the past year, Turkmen authorities have also arrested a number of internal body smugglers, mostly Turkmen or Tajik citizens, at legal crossing points on the Uzbek border. Seizures up to 400 kilograms of narcotics have occurred along the Iranian and Afghan borders. Those convicted of possession of even small amounts of illegal drugs are routinely sentenced to eight to ten years in prison; however, those sentences are usually mitigated by the annual presidential amnesty, which is available to all but the most hardened criminals.

Corruption. Low salaries of Turkmen law enforcement officials, combined with their broad general powers, foster an environment in which corruption readily occurs. A palpable general distrust of the police by the Turkmen public, fueled by reports of police officers soliciting bribes under the guise of routine traffic stops, suggests a level of corruption in Turkmen law enforcement. There are some reports that senior officials of the GOTX are directly linked to the drug trade. Payments to facilitate passage of smuggled goods to lower officials at border crossing points do frequently occur. Such arrangements could easily facilitate drug trafficking.

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. Small-scale opium cultivation is thought to occur in remote mountain and desert areas of Turkmenistan. 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 sources within GOTX law enforcement agencies also report that the Indian cannabis plant is being cultivated for domestic consumption in the country's remote areas on small patches of ground in hidden places.

Drug Flow/Transit. Turkmenistan remains a primary transit corridor for smuggling organizations seeking to transport opium and heroin to markets in Turkey, Russia and the rest of Europe, and for the shipment of precursor chemicals back to Afghanistan. According to GOTX officials, the quantity of drugs intercepted this year along the Afghan border has increased due to their interdiction efforts and the significant increase in poppy production in Afghanistan. Opiate seizures have increased by sixty percent. Smugglers are moving opiates via legal entry points in hidden compartments in vehicles and in containerized cargo. Turkmen border forces continue to engage in gun battles with traffickers in remote areas along the Iranian and Afghan frontiers, with the majority of drug seizures on the Afghan border continuing to involve confrontations with armed smugglers.

Turkmenistan's nearly 1,800-kilometer Uzbek frontier remains thinly staffed by border guard forces when compared to its boundaries with Afghanistan and Iran. In addition, Turkmenistan's border with Uzbekistan has numerous legal crossing points that are ill equipped in comparison to those on its Afghan and Iranian frontiers. The Uzbek frontier has thus increasingly become an attractive alternative for smugglers seeking to circumvent more stringent controls on Turkmenistan's southern borders.

Turkmenistan's two major border control agencies, state customs and the border guards, are significantly handicapped in carrying out their drug enforcement duties by a systematic lack of adequate resources, facilities and equipment. Most Turkmen border crossing points have only rudimentary inspection facilities for screening vehicle traffic and lack reliable communications systems, computers, unloading and x-ray equipment, as well as dogs trained in narcotics detection. Turkmenistan will continue to serve as a major transit route for illegal drugs and precursors until meaningful legal and political reforms are initiated and border control agencies are adequately funded.

Domestic Programs. There is a steady increase in the domestic user population, in particular in the capital of Asghabat and the second largest city of Mary. The quality of the heroin consumed locally

continues to be very poor; however, police sources report higher quality heroin is now more readily available for local consumption as well. Ninety-eight percent of the heroin users in Turkmenistan smoke, rather than inject heroin intravenously. Cheap disposable syringes are easily obtainable and are regularly shared among intravenous users. Heroin abuse continues to escalate and abusers have little fear of being caught or prosecuted. The Turkmen Ministry of Health estimates that approximately fifteen percent of the population use illegal drugs, though unofficial estimates put the user population at twenty percent. In some villages up to sixty percent of adult males between the ages of 18 and 65 are regular heroin users. Currently, the Ministry of Health operates six drug treatment clinics; one in the capital Asghabat and one in each of the five districts. Narcotics users receive treatment at these clinics without revealing their identity. The GOTX has permitted the implementation of a UN International Drug Control Program(UNDCP)/UNAIDS project for the prevention of drug abuse, aids and sexually transmitted disease among youth in Turkmenistan. The project calls for a drug abuse assessment of five to six Turkmen cities over a one or two month period. Regional media outlets have increasingly covered drug-related stories, highlighting the dangers of drug addiction and emphasizing the state's treatment facilities.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG seeks to assist Turkmenistan in modernizing its law enforcement institutions and legislation to more effectively counter the illegal drug trade. The USG trains Turkmen border inspection and passenger document inspection/control officials in how better to do their jobs. The USG also offers a program to upgrade Turkmenistan's forensic laboratory capabilities so that it can support police in the field, and prepare and present crime scene evidence in court.

The Road Ahead. In the coming year, the USG will continue to cooperate with Turkmenistan in its fight against the illegal drug trade. 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.

Ukraine

I. Summary

Trafficking and use of narcotics continued to increase in Ukraine in 2003. The Government of Ukraine (GOU) continued to take effective steps to limit illegal cultivation of poppy and hemp. The transit of narcotics through Ukraine is a serious and growing problem. Combating narcotics trafficking and use, and its effects, continues to be a national priority, 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. No senior government officials are known to engage in, encourage or facilitate any of the above illegal activities. Ukraine is a party to the 1988 UN Drug Convention, and it follows the provisions of the Convention in its counternarcotics legislation.

II. Status of Country

Ukraine is not a major drug producing country; however, Ukraine is located astride several important drug trafficking routes into Europe, and thus is an important transit country. Ukraine is a significant transit corridor for narcotics originating in East, Central and Southwest Asia (Afghanistan), as well as for drugs transiting from the Caucasus, Central and Eastern Europe (the Balkans), and even from Latin America and Africa. Numerous available ports on the Black and Azov seas, river transportation routes, porous borders, and inadequately financed and under- equipped border and customs control forces make Ukraine susceptible to drug trafficking. Domestic use of narcotics also continues to rise, and the number of drug addicts is increasing.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Over the past seven years the Ukrainian parliament adopted 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, 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 shortages of resources, the DED has achieved positive results in combating drug trafficking. In 2003 the Government of Ukraine approved a detailed policy paper entitled “The Program of the State Policy in Combating Illegal Circulation of Narcotics, Psychotropic Substances and Precursors for 2003-2010.” The Program acknowledged the growing scale of drug abuse, the lack of adequate education and public awareness efforts, community prevention efforts, treatment and rehabilitation.

The Program is to be implemented in two stages: stage one 2003-2005, and stage two 2006-2010. Stage one objectives include: improvement of legislation; improved monitoring of drug abuse and drug trafficking; improving interagency cooperation; creating a modern interagency data bank; improving the prevention of drug abuse; increasing law enforcement capacity; scientific research; and setting up an interagency lab to research new drugs and discover new trends in drug trafficking. Stage two will include integration into the European information space and exchange of information on drug trafficking; strengthening drug abuse prevention centers; introducing new treatment practices; increasing public awareness and education, especially in schools; further strengthening law enforcement capacity and fully achieving international standards.

These priorities are further split into 63 specific tasks and responsible agencies were named. The Program also provides estimates of future funding to support its implementation. The total estimate is over 300 million Ukrainian hryvnias (\$55 million), including about UAH 50 million (\$9 million) to be allocated in 2003, and in 2004 nearly UAH 59 million (\$10.5 million).

Accomplishments. The Ministry of Health and the Ministries of Education and Culture continue to collaborate with the Ministry of Internal Affairs to intensify counternarcotics educational programs. A pilot program directed at demand reduction operates in Donetsk Oblast, which includes dispensing methadone to addicts. The Ministry of Health proclaimed 2003 as the “Year of Healthy Lifestyles and Recreational Physical Activity,” and has increased the number of counselors and social workers in schools. The Ministry has also instructed educational authorities to increase the responsibility of school administrators for drug abuse in schools, to improve school health programs and drug prevention/awareness programs for children.

Law Enforcement Efforts. According to official statistics for 2003 (January through September), approximately 45,100 narcotics offenses were investigated, including 14,100 instances of sale of narcotics; 2,568 drug dealer rings were broken up, including 22 organized criminal groups; 190 illegal drug labs were destroyed; and 16.3 tons of illegal drugs were seized. Unemployed persons under the age of 30 committed most crimes connected with drugs.

The major law enforcement achievements in 2003 included the following: In January 2003 a ring operating a clandestine PCP lab in Sevastopol was broken up. Three-hundred grams of PCP were seized. In March 2003 MVS investigators, Border Guards, Customs officers and SBU officers together with their Russian counterparts carried out a joint operation during which they uncovered 42 drug dealer rings and seized over 50 kilograms of heroin, opium and marijuana. Another joint operation was directed at discovering and intercepting shipments of Afghan heroin trafficked by auto and truck transport. Twenty-four drug couriers were arrested and 15 kilograms of drugs seized. In August and September several international amphetamine smuggling routes were uncovered, and 1 kilogram of amphetamines was seized. 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 fragmented investigative jurisdiction.

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. There were no prosecutions in 2003 on any charges of corruption of public officials relating to drugs. There were several cases of prison guards smuggling drugs into prisons. 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 UN Office of Drugs and Crime (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. The U.S. and Ukraine signed a Memorandum of Understanding on Law Enforcement Assistance in December 2002.

Cultivation/Production. Opium poppy is 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 in late 1997. Despite the prohibition on the cultivation of drug plants (poppy straw and hemp), over 5000 cases of illegal cultivation by private households were discovered.

Drug Flow/Transit. Ukraine continues to experience an increase in drug trafficking from Afghanistan. Drugs pass through several countries before transiting Ukraine: Russia, the Caucasus, Turkey, Romania, Moldova, and Poland are among these transit countries. Criminal groups use Ukraine's seaports and rivers as part of the "Balkan Route" for smuggling narcotic drugs. Shipments are usually destined for Western Europe, and arrive by road, rail, or sea, which is perceived as less risky than air or mail shipment. While opium and marijuana are mostly produced locally, synthetic drugs are usually imported from Romania, Hungary, Poland, Germany, and other European countries. Drug traffic from Asia is increasingly controlled by well-organized international criminal groups of Afghan, Pakistan, and Tajikistan origin using CIS citizens as drug couriers. Other smuggling routes include cocaine from Latin America and hashish from Northern and Western Africa. These routes transit Ukraine into Europe.

Domestic Programs (Demand Reduction). The number of officially registered drug addicts in Ukraine now exceeds 199,000, including over 4,000 teenagers, with over 18,000 new registrations in 2003. Sixty-eight percent of registered drug users are under 30 years of age; nearly 25 percent are women, and over 78 percent are unemployed. Estimates of unregistered drug abusers vary widely, up to one million reported by local NGOs in press reports. About 15,000 criminal offenses are committed annually by drug addicts. Drug addiction results in more than 1,000 deaths every year, according to Ukrainian health authorities. Marijuana and hashish continue 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, such as ephedrine, ecstasy (MDMA), LSD, amphetamines and methamphetamines. Hard drugs such as cocaine and heroin are still too expensive for most Ukrainian drug users, but law enforcement officials report a rise in heroin use due to the continued decrease in price, from \$80-\$120 to \$40-\$80 per gram in 2003 (and a decrease from \$40-\$70 to \$20-\$40 per gram wholesale). Despite major efforts against drug trafficking, the narcotics flow intercepted on Ukraine's borders is estimated at not more than 30 percent of the total traffic. Ukrainian efforts to combat narcotics continue to be hampered by a lack of resources (e.g., financing, personnel and equipment).

Ukrainian officials are working to reduce drug demand through preventive actions at schools, as most Ukrainian drug abusers are under the age of 30. Drug information centers have been opened in the cities and regions with the highest levels of drug abuse. NGOs operating with assistance from international institutions are conducting a number of rehabilitation programs throughout the country.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. 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 assist Ukraine in countering money laundering. Offices from the DEA, the Department of Treasury, and the Department of Justice have conducted a number of training courses and conferences in such areas as drug interdiction, forensic science, money laundering, and management training funded by drug assistance administered by the Department of State. The United States has provided technical assistance in the drafting of the new Ukrainian money laundering legislation, and has provided resident advisors to the Financial Monitoring Unit.

The Road Ahead. 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 challenges requiring close attention. Law enforcement agencies need continued

assistance in modern techniques to fight drug trafficking and in effective interagency and international cooperation. Ukrainian law enforcement agencies collaborate effectively with law enforcement counterparts from the United States and other countries.

United Kingdom

I. Summary

The United Kingdom (UK) is a consumer country of illicit drugs. Like other developed nations, the UK faces a serious domestic drug problem. The UK is in the sixth year of a ten-year drug strategy to address both the supply and demand aspects of illegal drug use. The UK strictly enforces national precursor chemical legislation in compliance with EU regulations. Crime syndicates from around the world tap into the underground narcotics market and use the UK as a major shipping route. Legislation introduced in October 2001 to improve the UK's asset forfeiture capabilities took effect in January 2003. The UK is party to the 1988 UN Drug Convention.

II. Status of Country

Cannabis remains the most-used illicit drug in the UK; however, heroin and other major drugs remain a serious concern and govern the British government's active domestic and international drug policies. Figures for 2002/03 show that Class A drug use among young people has been broadly stable since 1996 with recent falls in some individual drugs, such as ecstasy, which has fallen for the first time. In 2002/03 around 5.4 percent of young people had used ecstasy in the past 12 months—a reduction of 21 percent from the previous year. Around three million 16-59 year-olds reported using cannabis at least once in the past year.

Overall, the latest surveys on drug use showed that in 2002/03 about 12 percent of those aged 16-59 reported having used an illicit drug in the past year, figures similar to those in the 2001/02 survey. Cocaine use seemed to have leveled off in the latest figures, and was the only drug for which use increased among 16-24 year-olds. However, official estimates of cocaine and crack users are well over 700,000 and, with as many as 116,000 opiate users in the UK, heroin and powder and crack cocaine remain major concerns.

Virtually all parts of the UK, including many rural areas, confront the problem of drug addiction to at least some degree. The National Criminal Intelligence Service (NCIS) reports that Britain faces its worst-ever threat from national and international organized crime. Drugs are linked to about 80 percent of all organized crime in London, and about 60 percent of UK crime overall.

III. Country Actions Against Drugs in 2003

Policy Initiatives/Accomplishments. UK counternarcotics policies have a strong social component, reflecting the view that drug problems do not occur in isolation, but are often linked to other social problems. In 2003, 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. Trends in responding to drug abuse with government programs reflect wider UK government reforms in the welfare state, education, employment, health, immigration, criminal justice, and economic sectors.

UK counternarcotics strategy focuses on Class A (i.e., hard) drugs and has four emphases: to help young drug abusers 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 was the decision to downgrade cannabis to a Class C drug. The final legislation implementing this downgrade was enacted in July 2003, taking effect on January 29, 2004. Class C categorization will reduce the maximum sentence for

possession of cannabis from five to two years in prison. Notwithstanding this amendment, the UK 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. There currently are no plans to change the penalties for Class C offenses.

Expenditures under the updated overall drug strategy will increase 21 percent between 2002 and 2005, from \$1.8 billion (£1.026 billion) in 2002 to \$2.18 billion (£1.24 billion) in 2003, followed by annual increases to \$2.64 billion (£1.5 billion) by April 2005. Drug treatment expenditures are targeted to increase 31 percent over the same period, and expenditures on programs for young people will rise 59 percent. The largest increase will come in spending on community programs(234 percent).

In December 2002, the government announced a program to specifically target crack cocaine use, the National Crack Action Plan, which has focused on breaking up supply networks, improving crack-related education programs, and expanding treatment opportunities. Under the Action Plan, existing crack treatment facilities have been evaluated for effectiveness and eleven new sites have opened in 2003.

Based on statistics that showed an increase in drug-related deaths, the 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 to reduce drug-related deaths by 20 percent by 2004. In May 2003, the government launched a \$5.3 million (£3 million) multimedia campaign called “FRANK”, which offers help and advice to anyone who may be affected by drugs. “Positive Futures”, a sports-based program started in March 2000 to specifically target socially vulnerable young people is now in its third phase with 104 projects established in regions throughout the country. A program to develop new drug-prevention services for young people at risk of drug misuse is an integral component of the 26 Health Action Zones (a broader health-policy initiative). The UK 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; current figures show a 41 percent increase of people in drug treatment programs since 1998. An additional U.S. \$377 million (£214 million) has been allocated over three years (2002-05) 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. The UK is on track to meet its target of having drug education policies in all schools by March 2004. As of the end of 2003, 96 percent of all secondary schools and 80 percent of all primary schools had drug education policies in place. By March 2006, the government 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 are required to weigh a positive test result when deciding bail, and testing is extended to offenders serving community sentences and those on parole. On January 21, 2003, the Home Secretary announced a package of measures to target the 30 areas most affected by drug-related crime with an initial budget of \$81.3 million (\$46.2 million for 2003/04). Under this Criminal Justice Interventions Program (CJIP), those areas receive additional support to tackle drug-related crime. The program will be expanded to an additional 36 areas as of April 1, 2004 with a 2004/05 budget of \$266 million (£151.2 million) and an overall total of \$787 million (£447 million) over three years.

The CJIP is designed to mesh with the existing program of Drug Treatment and Testing Orders (DTTO). DTTO 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, and 6,140 made in April 2002-March 2003. The Home Office has set a target of doubling that figure in 2004/05. 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. The program is linked to another pilot scheme called "Prospects", which was launched in February 2003 to offer support to those leaving prison by providing stable living situations and assistance with life skills.

The UK attended the International Conference on Reconstruction to Afghanistan in January of 2002 and pledged to give \$352 million (£200 million) to Afghanistan over four years. Through the Department for International Development (DFID), \$114 million (£65 million) has already been given to Afghanistan for humanitarian and reconstruction purposes.

The UK 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 UK 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 in Iran does not meet.

Law Enforcement Efforts. UK forfeiture law applies to proceeds of all indictable offenses and a small number of other specified offences. The United States enjoys good law enforcement cooperation from the UK. The UK 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 UK'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. The Proceeds of Crime Act, which took effect on January 1, 2003, incorporated many of the recommendations in the PIU report. The UK government has also published its first Asset Recovery Strategy and created a special confiscation unit.

Corruption. Narcotics-related corruption of public officials at all levels is not considered a problem in the UK. When identified, corrupt officials are vigorously prosecuted.

Agreements and Treaties. The U.S. and the UK have a long-standing extradition treaty, a mutual legal assistance treaty (MLAT), and a narcotics agreement, which the UK has extended to some of its dependencies. A new bilateral extradition treaty has been negotiated and signed by both countries and awaits final ratification. A new extradition statute was passed in 2003 and entered force in January

2004. A finding pursuant to this statute facilitates U.S. requests for extradition even prior to U.S. ratification of the new treaty, although this status is conditional and subject to revocation by Parliament. The U.S. and the UK 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 U.S. and the UK are also party to a 1928 agreement for the direct exchange of information regarding the traffic in narcotic drugs and a 1981 agreement to facilitate the interdiction by the United States of UK vessels suspected of trafficking in drugs. The UK is a party to the 1988 UN Drug Convention, 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.-UK Customs Mutual Assistance Agreement (CMAA) dates from 1989. In December 2000, the UK 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 UK in limited amounts. Authorities destroy crops and clandestine facilities as detected. U.S. authorities are concerned about a growing incidence of production in the UK of a “date rape” precursor drug, GBL.

While the UK government made GHB, the “date rape” drug illegal in July 2003, GBL remains uncontrolled and there have been instances in 2003 of trafficking of GBL to the United States.

Drug Flow/Transit. Steady supplies of heroin and cocaine enter the UK. Some 90 percent of heroin in the UK (amounting to around 30 tons a year) normally comes from Southwest Asia, chiefly Afghanistan. UK-based Turkish criminal groups handle a significant amount of the heroin that reaches the UK, although Turkish criminals in the Netherlands and Belgium also channel heroin into the UK. Pakistani traffickers also play a significant part: a large amount of the heroin they import, normally in small amounts by air couriers traveling directly 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 descent) are increasingly involved in the supply and distribution of heroin as well as cocaine. Most heroin probably enters the UK through ports in the southeast, although some enter through major UK airports with links to Turkey, Northern Cyprus, and Pakistan.

Hashish comes to the UK primarily from Morocco. Cocaine imports are estimated at 25-40 tons a year and emanate chiefly from Latin America and the Caribbean. Supplies of both cocaine and crack cocaine reach the UK market in a variety of ways. Around 75 percent of cocaine is thought to be carried across the Channel from consignments shipped from Colombia to mainland Europe and then brought to the UK concealed in trucks or private cars, or by human couriers or “mules”. Traffickers based in the UK are the organizers of this smuggling.

The Caribbean, chiefly Jamaica, is a major transshipment point to the UK from Colombia. Cocaine comes in both by airfreight and, increasingly, by couriers, normally women, who attempt 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 UK.

Domestic Programs (Demand Reduction). The UK Government’s demand-reduction efforts focus on school and other community-based programs to educate young people and to prevent them from ever starting on drugs. 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.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The U.S. looks to the UK as a partner in addressing international drug crime issues. The United States looks forward to continued close cooperation with the UK on all counternarcotics fronts.

Uzbekistan

I. Summary

Uzbekistan is primarily a transit country for opiates originating in Afghanistan. Well-established trafficking/smuggling routes facilitate the transit of these narcotics to Russia and Europe. There is a growing domestic market in Uzbekistan for a variety of narcotic substances and consequently a growing problem with drug addiction. The Government of Uzbekistan (GOU) remains committed to eliminating the narcotics trade, but still relies heavily on multilateral and bilateral financial and technical resources. Law enforcement officers seized a total of 448 kilograms of illegal narcotics in the first six months of 2003. 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 direction on their way to drug refining laboratories in Afghanistan and Pakistan. Effective government eradication programs have eliminated nearly all illicit production of opium poppies in Uzbekistan.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Uzbekistan has a multi-year comprehensive plan to address all aspects of the narcotics problem. The plan began in 2002, and is in effect through 2005. It includes measures to address trafficking, demand reduction, coordination of efforts 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 several specific goals to be accomplished and assigns responsibility to agencies, indicates funding sources, and requires detailed documentation to show progress or completion.

The GOU is interested in the establishment of a regional law enforcement and counternarcotics center in Tashkent, modeled on the Southeast European Cooperative Initiative located in Bucharest. This proposal has been discussed and approved at the highest levels of the Uzbek government.

Accomplishments. The annual “Black Poppy” eradication campaign has virtually eliminated illicit domestic poppy cultivation. In the first six months of 2003 the operation eliminated a residual 1.7 hectares of illicit drugs.

Law Enforcement Efforts. Preliminary statistics from the National Center for Drug Control show that in the first six months of 2003, Uzbek law enforcement seized a total of 448 kilograms of illicit drugs. Confiscated heroin accounts for approximately one-quarter 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 out 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.

Law enforcement suffers from a lack of reform, mainly judicial and procedural reform, and standards remain below international norms.

Corruption. Corruption charges were brought against several individuals from the Ministry of Internal Affairs and the Prosecutor's Office. Criminal cases resulted in prison sentences for most individuals. In other cases, those involved were fired from their jobs. The Prosecutor's Office continues to be the lead investigative agency for all criminal matters, including corruption. The Uzbek criminal justice system is not far removed from the system inherited from the Soviet Union—the executive branch and Prosecutor General 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.

Agreements and Treaties. Uzbekistan is a party to the 1988 UN Drug Convention. Uzbekistan and the United States signed a letter of agreement for provision of USG counternarcotics assistance in April 1998 and again in August 2001. Proposed amendments to the 2001 agreement are currently being reviewed. Uzbekistan has bilateral agreements to cooperate in the fight against narcotics and in other areas of law enforcement with Russia, Ukraine, Georgia, Kazakhstan, Kyrgyzstan, Turkmenistan, the Czech Republic, Germany, Turkey, China and Pakistan. Uzbekistan has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. The government's eradication efforts, named “Operation Black Poppy,” has all but eliminated illicit opium poppy cultivation in Uzbekistan.

Drug Flow/Transit. Several major transnational trade routes facilitate the transportation of opiates and cannabis from Afghanistan to Russia and Europe. 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. Trafficking also continues along traditional smuggling routes and by conventional methods, mainly from Afghanistan into Surkhandarya oblast and from Afghanistan via Tajikistan and Kyrgyzstan into Uzbekistan. The primary regions in Uzbekistan for the transit of drugs are Tashkent, Termez, Fergana Valley, Samarkand and Syrdarya. Most smuggling incidents involve one to two individuals. Smuggling rings are thus 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.

Domestic Programs. According to the Ministry of Health (MOH), there are approximately 19,000 drug addicts in Uzbekistan. In the first half of 2003, 1,767 new addicts were registered. The number of registered addicts is believed to reflect only 10-15 percent of the actual drug addicts. 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 systems. The demand reduction efforts also 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. 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 narcotic substances. The Drug Enforcement Administration (DEA) has established a Sensitive Investigation Unit (SIU) in the Ministry of Internal Affairs. The SIU became operational on May 1, 2003 and has

been working successfully since. It has conducted several undercover and international operations. A Resident U.S. Legal Advisor in Uzbekistan is focused on legal and judicial reform.

Bilateral Cooperation. In 2003 the U.S. Government assisted Uzbekistan's anti drug effort in several ways:

- The FBI conducted several seminars on violent crimes, kidnapping, and law enforcement safety.
- DEA organized seminars dealing with training analysts, regional cooperation on counternarcotics issues, and precursor chemicals.

The Road Ahead. The USG will work with all appropriate Uzbek agencies to improve narcotics detection and drug interdiction.

AFRICA AND THE MIDDLE EAST

Angola

I. Summary:

Angola does not suffer from significant drug production or abuse; however, some cannabis is cultivated and consumed locally and some illegal drugs transit Angola, particularly cocaine from Brazil to South Africa. Anecdotal evidence suggests that the trafficking problem is growing. Angolan counternarcotics officials reported seizures of both cocaine and cannabis during the year. Angola is party to the 1988 UN Drug Convention. However, it is the only Southern African Development Community (SADC) member not a signatory to the SADC counternarcotics protocol.

II. Status of Country

Angola is not a major center of drug production, money laundering, or production of precursor chemicals, and is not likely to become one. Nevertheless, the police continued to seize cocaine and cannabis in 2003, and anecdotal evidence suggests that trafficking is increasing. During the year, the Government gave increasing coverage to drug seizures and arrests in the official media. Following the end of Angola's civil conflict in April 2002, border controls were relaxed. Now authorities have tightened border controls to prevent trafficking activity.

III. Country Actions Against Drugs in 2003

Angola is a party to the 1988 UN Drug Convention, but it is not a signatory of the SADC counternarcotics protocol. Cases of public corruption connected to narcotics trafficking are rare. However, at least three counternarcotics officials suspected in the disappearance of cocaine seized in an earlier operation were arrested and were facing charges at the end of the year.

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 not having signed the drug protocol.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. In 2003, for the first time, 12 Angolan police officers participated in a State Department-sponsored regional training course, which included segments on counternarcotics. The Angolan government has expressed interest in receiving additional law enforcement training.

Botswana

I. Summary

Botswana is not a major producer of illicit drugs or precursor chemicals, and it is not a significant drug-transit country. Isolated pockets of marijuana cultivation occur, but efforts to suppress cultivation keep production levels low. Botswana is a party to the 1988 UN Drug Convention and partners with the U.S. as host of Africa's International Law Enforcement Academy (ILEA).

II. Status of Country

Cannabis remains the drug of choice for local consumption due to its low price. In 2003 there was a slight increase in the overall amount of cannabis seized, all of it intended for domestic consumption, according to police. Compared to 2002, there was a slight decrease in the number of seizures of recreational drugs transiting Botswana. Botswana is not a drug trafficking site, although drug control officials remain alert concerning drug trafficking and abuse.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Government of Botswana (GOB) created a National Drug Control Council (NDCC), chaired by the Office of the President, in 1998. Its overall functions include defining, promoting and coordinating policy on the control of drug abuse, trafficking and related activities. The NDCC submitted a draft master plan in 2003, which is awaiting GOB approval.

Law Enforcement Efforts. The Drugs and Related Substance Act imposes a penalty of BWP 1000 (\$235) or three months imprisonment for possession of less than 60 grams of cannabis; possession for more than 60 grams carries a fine of BWP 1,500 (\$350) or a jail sentence of a year or more. 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.

But in October 2003, a Francistown court sentenced a person found with ten bags of cannabis (a quantity presumably for trafficking) to three years in prison.

The number of seizures of drugs decreased slightly in 2003. In an October 2003 interview, a senior police superintendent noted that during the first six months of 2003, 187 persons had been arrested for dealing or possessing cannabis. By the end of 2003, 213 cases of seizure of cannabis had taken place. One case of arrest for cocaine (1.77 grams) had occurred, one arrest for methaqualone (5 tablets) and two seizures of ecstasy (MDMA) involving 32 tablets had occurred.

Agreements and Treaties. Botswana is a party to the 1988 UN Drug Convention. Botswana has signed and ratified the UN Convention against Transnational Organized Crime and two of its Protocols.

Drug Flow/Transit. The hard drugs are carried into Botswana via the Republic of South Africa; cannabis frequently comes in through Zimbabwe or Zambia. There is no intelligence suggesting that drugs are transiting Botswana in significant quantities. The EU in conjunction with UNODC (United Nations Office of Drugs and Crime) has provided drug detection dogs to Botswana for use in drug searches.

Corruption. As a matter of government policy and practice, Botswana does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug

transactions. There are no indications of senior government officials being involved in drug-related corruption.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2003 the ILEA, based in Botswana, offered four Law Enforcement Executive Programs to approximately 170 law enforcement officers from 16 countries in Sub-Saharan Africa, including Botswana. During the six-week program students were taught by a number of U.S. law enforcement agencies, including DEA and the Secret Service. DEA presented a week-long course of instruction on many aspects of drug enforcement technique. Course material covered case initiation, drug trafficking trends, drug tracking trends, drug identification, evidence collection, drug testing, interviewing and interrogation, use of informants, undercover operations, international controlled deliveries, and team raids and planning.

The Road Ahead. The USG deeply appreciates the assistance and support of the GOB in connection with the ILEA, and anticipates continuing cooperation with the GOB to assure that Botswana, the South African Development Community region and the rest of Africa continue to benefit from the ILEA'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 and also from Nigeria. 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 20 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. The 2003 statistics for drug seizure, drug-related convictions and punishments were not available by year's end. Most of the marijuana cultivated in Burkina Faso is intended for domestic consumption.

III. Country Actions Against Drugs in 2003

Policy Initiatives. With the encouragement and monetary support of the UN Office on Drugs and Crime (UNODC), 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. Lacking a reliable assessment of the status of drug trafficking, use, and production in Burkina Faso, the drug control committee established in 2002 a panel of experts to conduct a preliminary study and to produce a proposal for further research. The committee did not start the study by year's end because the GOBF was yet to approve of \$100,000 budget for the study. The committee had been hoping to have its first regional office established in southern Burkina Faso by the end of 2003, but funding problems prevented this from happening. This office would help coordinate at a regional level the efforts of the agencies that work on drug interdiction efforts.

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 and its two Protocols.

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 in 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. Should there be any sign of increased use of Burkina for trafficking in hard drugs, the U.S. has regional programs that could respond. However, for the moment, there are no plans for narcotics assistance programs in Burkina.

Côte d'Ivoire

I. Summary

Côte d'Ivoire remains a transit point for narcotics trafficking from Asia and Latin America to Europe and to some degree, North America. Drug production in Côte is limited to cannabis. Domestic consumption of cannabis, which is rising, constitutes by far the most important current drug-related concern for authorities. The September 2002 political/military crisis, which split the country in two, created additional opportunities for trafficking in drugs, money and merchandise in the rebel-occupied zones and hampered efforts to meet overall counternarcotics goals. The national law enforcement apparatus effectively disappeared in conflict areas. In spite of this situation, the Government of Côte d'Ivoire (GOCI) continues modest, but not insignificant efforts to combat drug abuse and illicit trafficking of narcotics and psychotropic substances. The Department of Drug and Narcotics Police (DPSD) is the leading agency for fighting narcotics trafficking. Côte d'Ivoire is a party to the 1988 UN Drug Convention.

II. Status of Country

Abidjan is a major West African financial center and a regional hub for international airline travel and shipping. After the attempted coup and armed rebellion in September 2002, Côte was effectively split into rebel-controlled and government areas. Côte d'Ivoire experienced a sharp increase in trafficking of smuggled goods, money and drugs from the rebel-held zones through the porous northern and western border posts controlled by opposition forces to neighboring countries. In 2003, police seized increased quantities of cannabis, heroin and ephedrine in Abidjan. Controlled pharmaceuticals were also seized. Among the 884 People arrested, many were non- Côte West African nationals. Ivoirians, however, still constitute the majority of arrestees for trafficking. To date, 645 of those arrested have been prosecuted. Trafficking in cocaine remains relatively rare.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Côte d'Ivoire narcotics officials are drafting a new omnibus narcotics law in compliance with the provisions of the 1988 UN Drug Convention.

Accomplishments. The DPSD has opened three new regional offices in the interior of the country in an effort to improve police/citizen relations. One-hundred seventeen new police officers underwent special training in counternarcotics detection/investigation tactics in 2003. The police also launched a drug awareness campaign targeted on higher education students.

Law Enforcement Efforts. The lack of central government authority and police and customs presence in rebel-controlled areas disrupted counternarcotics law enforcement efforts. Nevertheless, cannabis seizures increased sharply, reflecting expanded cannabis cultivation.

Corruption. Corruption is endemic in many poor countries, like Côte. Given the recent political turmoil, it is a reasonable assumption that corruption facilitates narcotics trafficking to some extent.

Agreements and Treaties. Côte d'Ivoire is party to the 1988 UN Drug Convention, and has signed the UN Convention against Transnational Organized Crime.

Drug Flow/Transit. Abidjan's Houphouët-Boigny International airport remains a transit point for cocaine and heroin from Latin America and Asia to Europe and beyond. Other key points where drugs enter Côte are the seaports in Abidjan and San Pedro, Côte 's second port city, after Abidjan. Drugs and other illicit goods also cross borders clandestinely by boat and vehicle.

Domestic programs (Demand Reduction). Public awareness of the social effects of drug abuse remains low.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. policy goals in Côte d'Ivoire are geared to encourage improved law enforcement to keep Côte d'Ivoire from becoming a transit point for narcotics trafficking.

The Road Ahead. National drug police experts are concerned that consumption of drugs by youth and child soldiers during Côte's recent turmoil will make it difficult to re-integrate them into society. They fear that such youth could become involved in theft to continue to feed their drug habits. GOCI authorities believe that the civil strife in Côte may increase criminal activity, undermine an already weak judicial system, and foster increased corruption among the police and the army. They fear it could become easier for traffickers and criminal organizations to operate in Cote.

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 in three years. A 2003 study conducted by the Government of Egypt showed that the narcotics problem costs the Egyptian economy approximately \$800 million annually, including the amounts spent on illegal drugs and what the government spends to combat the problem. The Anti-Narcotics General Administration (ANGA), the main counternarcotics organization in Egypt, is competent and progressive, and it cooperates fully with the Drug Enforcement Administration (DEA) office in Cairo. Egypt is party to 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. 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. Transshipment has 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 continual improvements in its capabilities.

III. Country Actions Against Drugs in 2003

The Government of Egypt (GOE) continues to aggressively 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.

Accomplishments. With the passage of the first anti-money laundering law in 2002, which criminalized the laundering of proceeds derived from trafficking in narcotics and numerous other crimes, seizures of currency in drug related cases rose by fifty percent to over 3,000,000 Egyptian Pounds (\$487,000). In 2003, Egypt's Council for Combating and Treating Addiction (see more on this organization below) concluded a three-year study of the narcotics problem, and found that narcotics cost the country approximately five billion Egyptian pounds annually. Of this amount, ninety-two

percent is money spent by users to buy narcotics and the remaining eight percent is government money spent on counternarcotics programs.

Law Enforcement Efforts. Internal security and combating terrorism are the major foci of Egyptian law enforcement efforts. Despite these priorities, ANGA 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. We do not have statistics yet, but anecdotal evidence indicates that the amount of illegal crops seized during 2003 was less than that seized in 2002. Drug seizures in 2002 included cannabis (59,282 kilograms), hashish (1080 kilograms), and smaller amounts of heroin, opium, psychotropic drugs, and cocaine. Significant amounts of prescription and "designer" drugs such as ecstasy (85,849 tablets), amphetamines, and codeine were also seized. During the course of 2002, Egyptian law enforcement officials eradicated 162.8 hectares of cannabis and 14.4 hectares opium poppy plants.

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 had an extradition treaty in place since the 1860's. Egypt has been a party to the 1988 UN Drug Convention since 1991. Egypt also is a party to the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 protocol amending the Single Convention. The U.S.-Egypt Mutual Legal Assistance Treaty entered into force on November 29, 2001. Egypt has signed but not ratified the UN Convention against Transnational Organized Crime.

Cultivation and Production. Cannabis is grown year round in the northern and southern Sinai and in Upper Egypt, 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 13 years and no evidence is available indicating that opiates or cannabis grown in Egypt reach the United States in sufficient quantities to have a significant impact.

Domestic Programs (Demand Reduction). In 2003, the National Council for Combating and Treating Addiction continued to be the GOE's focal point for domestic demand reduction programs. The Council is an inter-ministerial group chaired by the Prime Minister and has the participation of ten ministries. The group espouses a three-pronged strategy to counter the demand for narcotics: awareness, treatment (including detoxification and social/psychological treatment), and rehabilitation. The group's efforts over the past year included a range of activities, including a media advertising campaign with participation from First Lady Suzanne Mubarak, seminars at Al-Azhar University on Islam and narcotics, and the establishment of a drug treatment hotline and website. Additionally, the Council sponsors four rehabilitation centers, mostly located in the Cairo metropolitan area. In 2002, these centers received 4,131 requests from addicts for help compared to 5,531 in 2001.

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 2004, the U.S. Government plans to provide additional training in drug interdiction, anticorruption 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. Seizures in 2001 indicate that opium poppy is being grown in Ethiopia, but only in a few small plots. More heroin is transiting Ethiopia for markets in West Africa, Europe, and the United States. Nigerian traffickers are active in Ethiopia. The Ethiopian Counternarcotics Unit (ECNU) maintains an interdiction team at Bole International Airport, where the ECNU uses its two drug sniffer dogs to examine, with a degree of randomness, cargo and luggage. The ECNU routinely screens passengers, luggage, and cargo on flights arriving from “high risk” origins, i.e., Bangkok, New Delhi, Mumbai, and Islamabad. Ethiopia is a party to the 1988 UN Drug Convention.

II. Status of Country

Ethiopia is not now, and is not likely to become, a significant producer of narcotic drugs or precursor chemicals. A small volume of cannabis is produced, of which a small portion 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, 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 2003

The use of heroin and other hard drugs remains quite low, due primarily to the high street price and limited availability of such drugs. To the extent these hard drugs are available, it is in large part due to the “spillover” effect from the transiting of drug couriers through Bole International Airport in Addis Ababa. Bole is a major air hub for flight connections between Southeast and Southwest Asia and Africa, and much of the heroin entering and/or transiting Ethiopia comes from Asia according to Ethiopian authorities. Many of the flights require up to a two-day layover in Addis, permitting an 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. 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 interdiction unit has improved its ability to identify male Nigerian/Tanzanian drug “mules” who traditionally swallow drugs to smuggle them.

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 bureaucratically and is less effective than expected. 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, the 1961 UN Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. Ethiopia has signed the UN Convention against Transnational Organized Crime.

IV. U.S. Policy Initiatives and Programs

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 pending 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. 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 U.S.

The Road Ahead. Ethiopia is likely to remain a minor 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 and cooperation with the U.S. has been good.

Gambia

I. Summary

The Gambia does not have significant drug production, trafficking or use. However, cannabis is cultivated and consumed locally. The Gambia is a party to the 1988 UN Drug Convention.

II. Status of Country

The Gambia is not a major center of drug production, trafficking, money laundering or production of precursor chemicals. Despite the fact that the counternarcotics squad of the national police has very limited resources, the police, together with military personnel, continued to seize large amounts of cannabis throughout the country in 2003. The National Drug Control Council (NDCC) coordinates The Gambia's fight against drug use and trafficking.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Government of The Gambia has strict legislation against drug production, drug trafficking and money laundering, whether associated with the drug trade, terrorism or other illicit activity. The incidence of drug related offenses is still relatively low in the country. Gambian courts impose stiff mandatory sentences and fines, depending on the quantities involved.

Law Enforcement Efforts. Alarmed by the increased use of marijuana in the country, particularly in the tourism development area, the police counternarcotics squad, in collaboration with the national army, conducted a series of raids in furtherance of The Gambia's "War on Drugs." In December 2003 the police raided some youth gatherings in Brikama town and arrested more than 15 dealers who were reportedly trafficking in hard drugs in the area. In September, police in the provincial town of Farafenni reported that drug trafficking and consumption was on the rise in the northern part of the country. Some drug traffickers in the town were raided and large quantities of cannabis found in their possession. Also during the same month, a series of raids along the beach from Senegambia to Palma Rima (tourism development area) highlighted the government's determination to fight drug trafficking and use. A group of marijuana smokers were arrested along the beach after a tip-off from an informant. The police also conducted a nationwide counternarcotics campaign in May, coinciding with the 22nd anniversary of the death of Reggae artist Bob Marley. Men from the drug squad rounded up at least a dozen suspected cannabis dealers and smokers in different neighborhoods of Serrekunda, Bakau and Lamin. Similar arrests were also reported in other parts of the country on the same day.

Over 600 drug traffickers were charged and prosecuted in the courts in 2002, the last year for which statistics are available; and 1,232 kilograms of prohibited cannabis were destroyed by the NDCC that year.

Corruption. As a matter of government policy and practice, The Gambia does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

Treaties and Agreements. The Gambia is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The Gambia will continue its tough policies on drugs, and the U.S. will stand ready to cooperate with The Gambia in this effort.

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 remains a problem. Ghana-U.S. law enforcement coordination continued in 2003, and Ghana's law enforcement agencies took steps to deepen interagency coordination. 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 (Cote 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, as well as cannabis crop substitution programs. Production of precursor chemicals is not a major problem.

III. Country Actions Against Drugs in 2003

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 never implemented due to lack of funding. However, the UN office of Drugs and Crime (UNODC) agreed to finance three demand reduction projects selected from the National Plan of Action: train 110 Ghana Education Service counselors (one per district in the country) on drug abuse prevention; work with the Department of Social Welfare to provide vocational training to those completing drug treatment programs; and produce a drug education guide for teachers throughout the country. Each year since 1999, the NCB has proposed to amend the 1990 narcotics law to allow stricter application of bail bond system (i.e., no general granting of bail when flight is a real possibility; higher sureties to assure that defendants appear for trial) and to fund NCB operations using a portion of seized proceeds, but the Attorney General's office has not acted on these proposals.

Accomplishments. Comparing seizure data from the first three quarters of 2002 and 2003 (only January-September 2003 figures are available) reveals that quantities of cocaine and cannabis seized have increased, and the number of persons arrested with heroin and cannabis has also increased. The amount of heroin seized has decreased and number of persons arrested with cocaine has remained the same. The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies in 2003, sharing information as well as rendering an American citizen and extraditing a Ghanaian citizen to be tried in the United States for narcotics offenses. In October, the NCB cooperated with British authorities to coordinate a controlled delivery of cocaine that British officials discovered on a container ship from Guyana bound for Ghana. The controlled delivery resulted in the arrest of three traffickers, who were later granted bail by the courts. (See below on bail policy and conviction rates.)

The NCB's national drug education efforts continued in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. On June 26, the NCB organized Ghana's National Day Against Drug Abuse and Illicit Trafficking, with sponsorship from private companies such as Western Union, and the Agricultural Development Bank, under the theme "Let's talk about drugs." From March 17-21, over 40 officials from Ghana Post Company Limited, Ghana Police Service, the NCB and the Customs, Excise, and Preventive Service (CEPS) attended training on ways to enhance inter-agency cooperation to combat drug trafficking and money laundering in the postal system.

Law Enforcement Efforts. In 2003, Ghanaian law enforcement agencies continued to conduct joint police-NCB operations against narcotics cultivators, traffickers, and abusers. NCB agents, who are not armed, rely upon the police's Criminal Investigative Division's (CID) narcotics unit in situations requiring armed force. For example, in November, a joint NCB-police operation seized approximately two metric tons of cannabis worth cedis 1.5 billion (\$172,414) and arrested seven people in the Brong-Ahafo Region. The NCB continued to work with DHL and Federal Express to intercept packages containing narcotics.

The NCB reports a slight drop in the prices of cocaine, heroin and cannabis from 2002. In 2003, a gram of cocaine sold for cedis 133,350 (\$15.30) compared to cedis 165,000 (approximately \$20) in 2002. A gram of heroin sold for cedis 173,550 (\$20) compared to cedis 200,000 (approximately \$25) in 2002. The price of a kilogram of cannabis dropped slightly from approximately cedis 40,000 (approximately \$5.00) in 2002 to approximately cedis 20,000-32,000 (\$2.30-\$3.67) in 2003. A wrap or joint sells at cedis 500-1,000 (\$0.06-0.11).

Corruption. Despite the consistent number of arrests of suspected narcotics traffickers, Ghana has an extremely low rate of conviction, which law enforcement officials indicate is likely due to corruption within the judicial system. Of 15 high profile cases in 2003, 12 suspects have been granted bail, two have been remanded in prison custody pending a trial and only one suspect has been convicted and jailed. Of 23 high profile 2002 cases that went to court, 21 suspects were granted bail (11 of whom fled the country), one person escaped from custody, while only one was convicted and jailed.

NCB officials complain that courts often release suspected smugglers, including foreign nationals, on bail that is often set at only a tiny fraction of the value of the drugs found in a suspect's possession. The court requirement of a surety in addition to bail is often either dropped, or court registrars will fraudulently use the identical property as surety for multiple cases. In at least one case, when the NCB requested that the details of a suspected fraudulent surety be investigated before releasing a suspect on bail, the judge threatened the officer with prosecution for "denying justice."

In 2003, there were cases of possible evidence tampering and also, arraignment of police officers for taking bribes from drug traffickers. In February, a Ghanaian man died after ingesting 70 pellets of heroin, one of which burst in his stomach. The organization responsible for issuing the toxicology report, the Ghana Standards Board, at first did not receive all of the pellets for analysis. Upon request, the pellets were delivered, but the Standards Board discovered that the packaging had been improperly sealed and possibly tampered with, that the chain of custody was in doubt, and that two of the pellets had been replaced with salt. Because of the poor handling of the evidence, the Police CID could not make a determination whether the heroin had been replaced with salt before being given to the deceased, or after being retrieved by police officers, and therefore closed the investigation.

In August, four police officers were arraigned and charged with taking bribes from drug traffickers in October 2001. The case was ongoing at year's end.

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 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. In December, Ghana signed a bilateral Customs Mutual Assistance Agreement with the United 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 2003, combined NCB and police teams continued to investigate production and distribution, and to destroy cultivated cannabis farms and plants.

In February 2003, the NCB implemented a pilot program designed to reduce the area under cultivation, under which 140 marijuana cultivators volunteered to give up marijuana in exchange for government assistance with planting and processing new food crops and immunity from prosecution. The NCB plans to expand the program next year to an additional 120 farmers that have registered for assistance.

Drug Flow/Transit. Cocaine and heroin are the main drugs that transit Ghana. Cocaine is sourced mainly from South America and destined for Europe, while heroin comes mainly from Southeast and Southwest Asia on its way to Europe and North America. Cannabis is shipped primarily to Europe, specifically to the United Kingdom. Narcotics are sometimes repackaged in Ghana for reshipment, and the most recent trend in concealment method is in carry-on, wheeled luggage.

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. In the past year, however, the NCB reports that narcotics air transit through Ghana has reduced somewhat in favor of land routes to Abidjan, largely due to the instability in Cote d'Ivoire, which creates more favorable conditions there for narcotics traffickers.

Domestic Programs. The NCB works with schools, professional training institutions, churches, local governments, and the general public to reduce local consumption. The Ministries of Health and Education further coordinate their efforts through their representatives on the Board. 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. Ghana's National Day Against Drug Abuse and Illicit Trafficking was celebrated on June 26, in Kpando, Volta Region under the theme, "Let's talk about drugs." Although treatment programs have lagged behind preventative education and enforcement due to lack of funding, there are three government psychiatric hospitals receiving drug patients, and three private facilities in Accra, run by local NGOs, also assisting drug abusers.

IV. U.S. Policy Initiatives and Programs

U.S. Goals and Objectives. The USG's counternarcotics and anticrime goals in Ghana are to strengthen Ghanaian law enforcement capacity generally, to improve interdiction capacities, to enhance the NCB's office and field operation functions, and to reduce Ghana's role as a transit point for narcotics.

Bilateral Cooperation. In 2002, the United States provided the Government of Ghana with \$84,000 worth of counternarcotics assistance in the form of surveillance and detection equipment, including two narcotics detection devices ("Itemizers") installed at Kotoka International Airport in December 2003. Similar equipment funded in FY 2000 and FY 2001 is effectively maintained and has facilitated a number of drug arrests and seizures. FY2002 funding provided training for the Police and CEPS to

create Internal Affairs Units, 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.

Jordan

I. Summary

Jordan remains primarily a transit country for illicit drugs because of its geographical location between drug producing countries to the north and drug consuming countries to the south and west. In the past Jordanians themselves neither produced nor consumed significant amounts of illicit drugs. However, Jordanian authorities have noted an increase in the use of illicit drugs in Jordan. The primary drug of choice in Jordan is heroin smuggled in from Turkey. The target consumers are young university and high school-aged students. Although the amounts believed to be consumed are still relatively small in comparison to other countries, the authorities are concerned about the direction this new trend is taking. Cooperation with neighboring countries, particularly Lebanon and Syria, is ongoing and growing. Conversely, cooperation with Israel is decreasing due to the continuing violence in the West Bank. Jordan is a party to the 1998 UN Drug Convention.

II. Status of Country

Jordan continues to be a transit country for narcotics, and remains vulnerable to illicit drug smuggling through its vast desert borders.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In response to the increased usage of heroin among school and university aged individuals, Jordanian authorities have launched a wide spread awareness campaign in an attempt to educate young people of the perils of drug use. Authorities continue to provide hundreds of educational presentations in schools and universities throughout the country.

Law Enforcement. PSD statistics indicate a marked increase in heroin seizures and officials are clearly concerned with an increase in heroin usage, especially in the more affluent area of Aqaba, Ramtha and West Amman. Officials report that although the usage of heroin is still well below that of other countries, the trend is towards increased abuse, and they are concerned about the future.

Corruption. Jordanian officials report no narcotic related corruption or corruption investigations for the reporting period. There is currently no evidence to suggest that senior level officials are involved in narcotics trafficking.

Agreements and Treaties. Jordan remains committed to existing bilateral agreements providing for counternarcotics cooperation between Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt, Pakistan and Hungary. Jordan is a party to the 1998 UN Drug Convention

Cultivation and Production. Existing laws prohibit the cultivation and/or production of narcotics in Jordan. These laws have been effectively enforced, and there is as a result only negligible illegal cultivation in Jordan.

Drug Flow and Transit. Jordan has been and remains primarily a narcotics transit country. Jordan is bordered by narcotics producing countries to the north and narcotics consuming countries to the south and west. Jordan's primary challenge in stemming the flow of narcotics through the country remains the remote and open borders with neighboring countries. While law enforcement officials confirm substantial cooperation with its neighbors, the desolate border regions and the nomadic tribes associated with the trafficking of narcotics (with a centuries old tradition of smuggling as a principal source of income) make interdiction extremely difficult. None of the narcotics transiting Jordan is believed to be destined for the United States. Primary focus and concern remain the control and

policing of the open borders between all its neighbors. To date, Jordanian authorities have seen no transit of narcotics across the Iraqi border since the war ended. However, PSD officials continue to monitor the situation.

Domestic Programs. Jordanian authorities are focused on awareness and education, interdiction and rehabilitation. Jordanian officials have instituted a robust awareness program largely in response to the apparent increase in heroin use. Jordanian authorities are also increasing rehabilitation abilities. With United Nations assistance, Jordan is modernizing its drug treatment centers to include private hospitals.

Cultural and religious norms help to control drug use. The counternarcotics unit works in conjunction with the Ministry of Muslim affairs and holy places, which directs sermons, lessons and lectures on awareness of drugs and their effects.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. Creating an effective Jordanian interdiction force remains a primary goal of U.S.-Jordan cooperation. DEA is currently planning a narcotics training course to be conducted in Jordan in march 2004.

Bilateral cooperation. DEA country attaché in Cyprus and the U.S. Embassy in Jordan have a close working relationship with Jordanian authorities on narcotics related matters.

The Road Ahead. U.S. officials expect continued cooperation with Jordanian officials in counternarcotics related issues.

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 (that is, about 1,354,000 people) 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 500,000-600,000 "casual" (i.e., non-dependent) users, for a total of perhaps two million Iranians who abuse drugs. UNODC estimates that 2.8 percent of the Iranian population over age 15 used opiates in 2001. This figure is more than five times the estimate (0.5 percent) for the U.S. Only Laos and Russia come close to Iran's estimated drug abuse, with 2 percent of Laos's 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. Revised figures show that in 2002, the number of deaths from drug abuse increased by 370 percent to 2989 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, with estimates ranging from \$250-\$300 million to as much as \$800 million each year, depending on whether treatment and other social costs are included. Opiate drug seizures during 2002 in Iran, the last year for which complete-year statistics are available, were almost 208 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. Projected drug seizures for 2003, based on nine month figures, were even higher, at 243.6 metric tons of opium equivalent. 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, but Iranian security forces seem to be having increased success by concentrating their interdiction efforts in the eastern provinces.

Iran has ratified the 1988 UN Drug Convention, but its laws do not bring it completely into compliance 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. Another route to Europe and Turkey passes by way of Turkmenistan, Armenia, and Azerbaijan. Drugs are also smuggled by sea across the Persian Gulf.

Iranians have clearly been using more heroin during the past several years. Heroin has not replaced opium, the traditional drug of choice in Iran, but lower street prices for heroin, and temporary shortages of opium, after the Taliban successfully prohibited opium production in Afghanistan for one year (2000/01), plus higher prices for opium, have encouraged some addicts to switch from opium to heroin. Some heroin is smoked or sniffed, but a growing share is injected.

Iranian seizures in the first nine months of 2003 display some surprising trends. In contrast to recent years, the quantity of heroin seized in Iran, expressed as a share of all opiates seized (i.e., heroin, morphine and opium), has fallen sharply from 19 percent of all opiates seized in 2002 to just 10.4 percent in the nine month statistics available for 2003. The absolute quantity of opium seized is also down even more sharply, by about 70 percent. It is hard to account for this shift analytically, as expectations were for a continuing increase in heroin seizures, as heroin consumption in Iran continues to grow. The share of heroin in all opiates seized in Iran had been rising since 1996 (3.1 percent), but it seems to have peaked in 2001 and 2002 at about 19 percent, then declined this year by almost half.

Interestingly, as the quantity of heroin seized in Iran fell sharply (-64 percent) in 2003, the quantity of morphine base seized increased sharply (+47 percent). Morphine base is destined for shipment across Iran, ultimately to Turkey, where the refining process into heroin is completed. One might speculate that the sharp increase in morphine base seizures in Iran may forecast increased heroin availability at higher purity and lower prices in Western Europe during 2004. But it is risky business to draw conclusions about illicit drug availability from seizure statistics alone. Perhaps Iranian security forces are stationed along Iran's borders in such a way that their share of morphine seized has risen sharply relative to heroin.

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, 17 percent more opiate seizures in Iran during the first nine months of 2003 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 2003

Policy Initiatives. 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 to be 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 certain addict populations sharing needles.

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 \$800 million in a system of berms, 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, so that their inhabitants are less subject to harassment by narcotics traffickers.

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. Iranian officials seized 208 metric tons (corrected figures from last year's report) of opiates (opium equivalent) in 2002, and 165 metric tons of opiates (opium equivalent) in the first nine months of 2003. During the same nine-month period of 2002, 150 metric tons of opiates (opium equivalent) were seized. Thus, opiate seizures rose by about 10 percent in the first 9 months of 2003 in comparison with the same period of 2002. The rise in opiate seizures in 2003 suggests a continuing return to larger shipments of opiates from Afghanistan. These increases are likely to continue as one of Afghanistan's largest opium harvests ever moves towards markets in Iran itself, and in the West.

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. Narcotics-related arrests in Iran during 2002 remained high at 118,819 persons, but are down sharply from a peak reached in 2001. Iran has executed more than 10,000 narcotics traffickers in the last decade; executions continue, but the UNODC reports that many in the 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 compliance with the Convention, particularly in the areas of money laundering and controlled deliveries. The bill governing money laundering countermeasures, which was submitted to the Iranian Parliament (Majlis) in October 2002 by the Minister of Economic Affairs and Finance, passed the Majlis and has become law. The bill provides for confiscation of property 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 other 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 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. 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 multi-agency 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.

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. 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, which shot up to 57.6 percent of opiates seized thus far this year in Iran, is likely moving towards Turkey, as is some share of the much diminished 10 percent or so of opiates moving as heroin. Significant quantities of opium are consumed in Iran itself, 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 characteristics 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. Trafficking through Iran is facilitated by wide spread smuggling to provide necessities, and to escape high taxation. There are reports that enforcement authorities accept bribes to pass shipments, and not to enforce laws against street sales inside of Iran.

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. Hashish moves extensively along this route. 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 metric tons of opium consumed in Iran itself by its 1.8 to 2 million users.

Hashish seizures in Iran in the first nine months of 2003 were on track to maintain the high level they reached in 2002. At slightly more than 51 metric tons in the first nine months of 2003, only raw, unrefined opium seizures at 60 metric tons exceed them in volume.

The amount of drugs moving to all destinations by mail and courier service in 2002 declined, with seizures of 32.5 kilograms of drugs in 75 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). Most observers place the number of drug users in Iran at about 2 million individuals, the great majority males. 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 (about 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 UNODC's NOROUZ narcotics assistance project, the GOI spent more than \$68 million dollars in the first year for demand reduction and community awareness. The Prevention Department of Iran's Social Welfare Association runs 12 treatment and rehabilitation centers, as well as 39 out-patient treatment programs in all major cities. Eighty-eight 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

Policy Initiatives. 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, as it is one of the biggest victims of the short term increase in opium/heroin production there now. 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. The Israeli National Police (INP), however, report that during the year 2003 the Israeli drug market continued to be characterized by high demand in nearly all sectors of society and a high availability of drugs including cannabis, ecstasy (MDMA), cocaine, heroin and LSD. In particular, the INP reports a high demand for cocaine and an increase in seizures abroad of cocaine bound for Israel. The INP also reports a continuing high demand for ecstasy in 2003, but a low level of seizure, especially compared with 2002, which was a record year. There was a sharp increase in the amount of marijuana seized along the southern border with Egypt due to the employment of border police there. Furthermore, this year a high demand for hashish was reported with an increase in the amount of hashish seized along the border with Lebanon. Lebanon is traditionally a major source country for hashish bound for Israel. The INP reports that the amount of heroin seized remains relatively low as in previous years, and the level of demand is unchanged. The quantity of LSD seized in 2003 far exceeds the norm, thanks to a single record seizure of 25,000 blotters. The number of drug arrests remained steady compared to last year, with 3,616 in 2003 and 3,662 in 2002. (Note: All data is for the period January through October) Widespread use of ecstasy by Israeli youths is a continuing source of concern to authorities. Israel's domestic law contains the legislative requirements mandated by the convention. Israel is a party to the 1988 UN Drug Convention.

II. Status of Country

Israel is not a major producer of narcotics or precursor chemicals. Israeli narcotics traffickers operating outside of Israel continue to be deeply involved in the international ecstasy trade. The INP reports that during the year 2003 the Israeli drug market continued to be characterized by a high demand in nearly all sectors of society and a high availability of drugs including cannabis, ecstasy, cocaine, heroin and LSD. The INP estimates the annual scope of the Israeli market to be 100 tons of marijuana, 20 tons of hashish, 20 million tablets of ecstasy, 4 tons of heroin, 3 tons of cocaine, and hundreds of thousands of LSD blotters. Officials are also concerned with the widespread use of ecstasy among Israeli youth.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In 2003, the INP continued its general policy of interdiction at Israel's borders and points of entry. This year, in recognition of the importance of their work, the INP upgraded the status and facilities available to the South Central Border Unit, which patrols the border with Egypt between the Gaza Strip and Eilat. This unit is responsible for an increase in seizures along the Egyptian border. As Israel is a multicultural society, the Israeli Anti-Drug Authority's (IADA) master plan is tailored specifically to the cultural needs of the various communities found there. For example, it is developing treatment and prevention programs focused on the Israeli-Arab sector. It is also working to change the public atmosphere regarding drug use, placing special emphasis on parents.

Law Enforcement Efforts. INP reports a high demand for cocaine in Israel and notes an increase in seizures abroad of cocaine bound for Israel. INP reports that in 2003, 66 kilograms (kg.) of cocaine was seized, a figure down from last year's number, which included a single seizure of 23 kilograms of cocaine along the Jordanian border in September of 2002. In 2003, 14,795 kilograms of marijuana was seized, representing an increase over 2002. Again, this increase is attributed to the stepped-up presence of the South Central Border Unit along the Egyptian border. In 2003, 900 kilograms of

hashish was seized, a quantity down significantly from last year, but consistent with a slow long-term rise in use of hashish in Israel. (In 2002, in a single operation two metric tons of hashish were seized on the Red Sea by Israeli authorities. This abnormally large seizure created a “base effect” when compared to this year's more normal seizures of ca. 1 metric ton of hashish) The number of ecstasy tablets seized in 2003 was 97,658, down from the record number of 930,000 in 2002, which included a single seizure netting 800,000 tablets. The amount of heroin seized in 2003 was 51 kilograms., including a big seizure of 34 kilograms. of heroin smuggled into Israel from Jordan. Overall, the quantity of heroin seized is comparable to last year. In 2003, 25,000 LSD blotters were seized in a single operation, bringing the total number of blotters seized to 28,331. In comparison, 2,484 blotters were reported seized during the same period of 2002. The number of drug arrests tracked last year's numbers, with 3,616 in 2003 and 3,662 in 2002. This represents a decrease of 1.3 percent.

The Department of Customs and VAT, National Drug Unit, reports that from February through September 2003 it made 110 seizures at ports of entry, including airports and maritime ports. These seizures include 15.35 kilograms. of cannabis, 58 milligrams of morphine, 11.2 kilograms. cocaine, 9 grams of heroin, and 15,020 ecstasy tablets.

Corruption. As a matter of government policy and practice, the Government of Israel (GOI) does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. In 2003 Israel had no cases of narcotics-related corruption, nor is there any explicit or implicit official support for narcotics-related activities.

Agreements and Treaties. In June 2002, Israel became a party to the 1988 UN Drug Convention after passing all the necessary laws to make Israeli laws consistent with the Convention. Israel 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 1971 Convention. A customs mutual assistance agreement and a mutual legal assistance treaty are also in force between Israel and the U.S. Israel is one of 36 parties to the European Treaty on Extradition and has separate extradition treaties with several other countries, including the U.S. Under the Israeli extradition law 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. Four individuals were extradited from Israel to the U.S. for drug-related charges in 2003.

Cultivation/Production. There is negligible cultivation and production of illicit drugs in Israel.

Drug Flow/Transit. 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 drug smuggling into Israel from neighboring countries (Lebanon, Jordan and Egypt). The INP reports that the war in Iraq and an increased police presence along Israel's borders in 2003 had a major impact on the drug market and caused temporary shortages of a few types of drugs, especially those that are smuggled via the land borders. The war in Iraq caused a delay of drug smuggling operations via the Israeli border with Jordan and Egypt because the traffickers from both sides were wary of changes in Israeli army deployments in those areas. Trafficking of hashish across the Israeli-Lebanese border decreased because of the murder of a senior Lebanese drug trafficker in late 2002 and because of successful law enforcement operations in which several trafficking networks were shut down. The Israeli police report that one such operation uncovered a connection between the Israeli-Arab trafficking network and Hizbullah activists. Jordan continued to be a drug transit country to Israel for heroin, hashish, and cocaine. In September 2003, the Israeli police seized 34 kilograms. of heroin and 23 kilograms. of cocaine smuggled into Israel from Jordan. This year, the South Central Border Unit of the Border Police began patrolling the border with Egypt between the Gaza Strip and Eilat. Since this unit was

formed, it has seized ten tons of marijuana (160 percent more than in 2002), 14 tons of untaxed tobacco, 6 kilograms of hashish and 750 grams of heroin. The Unit arrested 88 people, primarily Egyptians and Israelis, most of whom were believed to be involved in the prostitution trade.

Demand Reduction. A number of both public and private entities are working to reduce the demand for drugs through awareness and prevention. The Israeli Anti-Drug Authority (IADA) is one of the main governmental actors in this effort. Its mission, among other things, is to spearhead prevention efforts, initiate and develop educational services and public awareness, and treat and rehabilitate drug users. It coordinates with and directs the activities of a number of government ministries with a role in reducing demand. The IADA also seeks to change the public atmosphere to counter increasing social acceptance of recreational drug use. Prevention programs target high-risk segments of the population like youth, students, backpackers, new immigrants, and others. For example, in 2003 the IADA implemented a pilot program for kindergarten children ages 5-6 in the city of Ashkelon. The IADA also offers workshops and lectures for immigrants from Russia and Ethiopia in their respective languages and tailored to their particular cultural needs. The IADA is working to reduce demand for narcotics among soldiers by providing officers with training to identify and to combat effectively the use of drugs within their units. There is currently also an ongoing public awareness campaign aimed at parents and designed to focus their attention on their children's whereabouts and activities. A workplace drug prevention program, modeled after similar programs in the U.S., is planned for implementation in 2004. In 2003, IADA opened a drug hotline, a comprehensive source of information regarding all facets of drug use, treatment and prevention. The IADA is currently concentrating on human resources development, including the development of a professional infrastructure. It is establishing a unified standard for training purposes, including development of a curriculum for nurses, police, prison employees, physicians, and counselors, as well as other drug prevention, treatment, and enforcement professionals. The IADA also performs basic, epidemiological, and evaluative research in the narcotic drug field.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The DEA looks forward to continued cooperation and coordination with its counterparts in the Israeli law enforcement community. The GOI is seeking to widen and build on relations with other countries and has created an office of International Relations within the IADA to pursue this objective. In 2003, Israel was made a member of the Commission on Narcotic Drugs (CND) under the United Nations Economic and Social Council (ECOSOC). Israel begins its four-year-term as a member of the CND in January 2004.

Kenya

I. Summary

Kenya is a transit country for heroin and hashish, mostly bound from South Asia for Europe and North America. Heroin transiting Kenya has markedly increased in quality in recent years and is destined increasingly for North America. Nigerian drug cartels appear to be looking to Kenya as an increasingly attractive alternative route for narcotics smuggling. Although the exact impact of this heroin on the U.S. market is unclear, it is not believed to be significant. Cannabis/marijuana is grown domestically in Kenya, and also imported from neighboring countries for the illegal domestic market. There is a small, and apparently dwindling local heroin market. Air passenger profiling, airport controls, and other techniques have helped reduce airborne heroin shipments. Interdiction of narcotics shipments by sea has been unsuccessful as Kenyan police lack the necessary infrastructure, funding, or staffing for such an endeavor. A program for profiling shipping containers is in effect, but has had little success.

The two year-old national drug control master plan has not moved forward since the cabinet turned the project over to an inter-agency committee led by the Solicitor General. The Anti-Narcotics Unit (ANU) of the Kenyan police continues to cooperate well with international and regional counternarcotics officials. The GOK also cooperated closely with the DEA and other U.S. law enforcement agencies to successfully conclude a major extradition case in February 2003. Although government officials profess strong support for counternarcotics efforts, the overall program suffers from a lack of resources, and financial deficits hinder its intelligence collection capabilities. Kenya is a party to the 1988 UN Drug Convention and has enacted full implementing legislation.

II. Status of Country

Kenya is an important transit country and a minor producer of narcotics. Heroin and hashish transit Kenya on their way to markets in South Africa, Europe, and, increasingly, the U.S. The share moving to the U.S. has a relatively small impact on the United States, and quantities are down from their 2001 peak. Cannabis or marijuana is produced in commercial quantities for the domestic market. Kenya remains a transit country for small quantities of cocaine and other drugs (Mandrax, other synthetics) destined for South African and Western European consumers. All these drugs originate outside Africa. Kenya's sea and air transportation infrastructure, and the network of commercial and family ties that link some Kenyans to South Asia, make Kenya a significant transit country for Afghan 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 2003. Officials now believe that the United States is at least as significant as Europe as a destination for heroin transiting Kenya. It is difficult to quantify the amount of heroin reaching the United States through Kenya and other points in East Africa. In recent years, Kenya has been an important transit point for South Asian cannabis resin (hashish), and police made several multi-ton hashish seizures. However, hashish seizures have fallen off dramatically since 2000. Cocaine seizures are also down sharply in the past two years.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The 2001 "National Drug Control Master Plan" continues to languish within an inter-agency committee chaired by the nation's Solicitor General. Counter-narcotics agencies, notably the ANU, continue to depend on the 1994 Narcotics Act for enforcement authorities and interdiction

guidelines. Most believe that the ten year-old Act is sufficient to sustain current interdiction efforts, but note the Act's lack of provisions addressing money laundering.

The National Drug Control Master Plan, should it be implemented, would provide for a senior civil servant-donor liaison, who would coordinate a broad counternarcotics effort to include a much-expanded public campaign aimed at preventing drug abuse. Additionally, the plan summarizes policies, defines priorities and apportions responsibilities for drug control to various agencies.

ANU officers have continued a program of outreach to judges and magistrates, conducting seminars on counternarcotics law and the seriousness of narcotics issues. The ANU continued to publicize its counternarcotics message effectively through local media and increased public awareness through lectures aimed at a range of students from primary grade schools through universities and members of local civic groups.

Accomplishments. The ANU began a program of judicial outreach in 2002, and that program has helped lead to good results in sentencing. The ANU also believes the court system has been more responsive since the dismissal in March of one of Kenya's more problematic Law Court judges on corruption charges. Other notable arrests include that of a Kenya Airways purser carrying 5 kilograms of heroin in June. A security officer for the airline was also arrested in the sting, and was sentenced to the maximum jail time in accordance with Kenyan law.

In October, the ANU provided Embassy Nairobi with information on a suspected heroin courier that resulted in her interception and arrest at Chicago O'Hare International Airport. Many ANU officers have undergone training, much of it through the or 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. Profiling has yielded good results, albeit generally for couriers and not major traffickers, and the success rate over the past two years has forced traffickers to seek viable land routes through Kenya rather than a sole dependence on Jomo Kenyata International Airport.

Seaport profiling has proved difficult. The ANU has trained two officers in maritime narcotics interdiction, but does not possess any boats with which to conduct search operations. The ANU has built its surveillance capabilities and has capitalized on the information yielded from 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 and other operations.

Law Enforcement Efforts. Kenya seized 17.6 kilograms of heroin in 2003, a approximately a 46 percent decrease from the quantities seized in 2002 and arrested 34 people on heroin-related charges. (All statistics on drug seizures in this section reflect the period from January to August 2003, the most recent tabulation done by the ANU.) Officials report a sharp shift to higher-quality white heroin from lower-quality brown heroin, and report that traffickers have re-oriented much of the white heroin transiting Kenya for the United States in hopes of a larger profit yield. Most couriers arrested in Kenya conceal heroin by swallowing, though some also hide it in their shoes, false-bottom briefcases, and car engine parts. The ANU concentrates its antiheroin operations at Kenya's two main international airports. Officials believe Kenyan coastal waters and ports are major transit points for the shipment of hashish from Pakistan to Europe and North America.

While 2003 saw an increase in the number of persons arrested on charges of cocaine smuggling, seizures yielded 3.39 kilograms, down significantly from the previous year (17.6 kilograms). Cocaine seized in Kenya is believed to originate from Brazil and Columbia; its abuse and local availability is not widespread.

Authorities believe a sustained drop in the size of cannabis seizures over the past three years demonstrates a decrease in crop production following two successful, highly-publicized, targeted raids of 14 farms along Mt. Kenya in 2001 and 2002 that collectively destroyed 404,978 kilograms of cannabis. This year, 1,802 persons were arrested in raids that confiscated 2,270.5 kilograms of cannabis.

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 counternarcotics offenses and identify ways cases can be handled more effectively. The ANU also disseminates its messages through local media.

Corruption. Corruption remains a significant barrier to effective narcotics enforcement at both the prosecutorial and law enforcement level. ANU estimates that a majority of the 200 officers who left the service over the past five years were dismissed as a result of being “compromised.”

Police frequently complain that the courts are ineffective in handling counternarcotics cases, likely through a combination of corruption, misunderstanding of the law, and simple judicial backlog. In the past, payments ranging from \$255 to \$6,360 were offered as bribes to judges presiding over narcotics cases. These figures for proffered bribes are based on known cases; other bribes offered remain unknown. By March of this year, 10 judges had been dismissed on corruption-related charges, and in September, a parliamentary committee focused on the judiciary found there to be substantial and credible evidence linking 152 of Kenya's 300 judges and magistrates to corruption and unethical conduct. The Kenyan High Court had previously reassigned all narcotics cases destined for the docket of one of these judges after repeated official protests by ANU officials alleging bribery and flagrant disregard for penal procedures laid out under the 1994 Narcotics Act.

The National Alliance Rainbow Coalition was successfully elected in December 2002 on a campaign platform that included a pledge to root out official corruption. Members of the law enforcement community have cited significant improvement within the court system since the new government's election. Despite Kenya's strict narcotics laws, however, which encompass most forms of narcotics-related corruption, there are continued but unconfirmed reports of public officials being involved in narcotics trafficking, and 2003 saw incidents of airport and airline personnel in collusion with traffickers, and in one instance outright involvement.

Agreements and Treaties. Kenya is a party to the 1988 UN Drug Convention. Kenya is also a party to the 1961 UN Single Convention and its 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. The 1931 U.S.-U.K. Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes.

Under a 1991 Memorandum of Understanding (MOU), amended in 1996, the U.S. donated surveillance and computer equipment to the ANU in 1997. The MOU also provides for sharing of narcotics-related information. The United States and Kenya signed another MOU in 2002 to cover the donation of equipment and training to the ANU.

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. Aerial surveys this year yielded no discovery of large-scale cultivation sites as they had in previous years.

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. As a result of counterprofiling measures and enhanced counternarcotics efforts, ANU officials believe traffickers are finding Jomo Kenyatta International Airport (JKIA) to be an increasingly inconvenient exit point for drugs. The ANU reports a new trend of Western and Eastern European couriers trafficking in heroin transiting Kenya to Europe and North America, and notes that for the first time, it did not arrest any West African couriers in 2003. Once in Kenya, heroin is typically delivered to agents of West African crime syndicates.

Postal and commercial courier services are also used for narcotics shipments through Kenya. In the past, Kenya has been a transit country for mandrax en route from India to South Africa. For the four years proceeding 2003, there had been no mandrax seizures in Kenya; however, in 2003, one person was arrested transporting 10,000 mandrax tablets.

Domestic Programs. Kenya has made some progress in efforts to institute programs for demand reduction. Illegal cannabis and khat are the domestic drugs of choice. (Note: Fresh khat leaves, when chewed, produce an amphetamine-like effect.) Two active ingredients of qat, cathinone and cathine, were recently classified on Kenya's Schedule I and Schedule IV, respectively, under the standards of the same standards as the U.S. Controlled Substance Act. Heroin abuse is limited generally to members of the economic elite and a slightly broader range of users on the coast. Solvent abuse is widespread (and highly visible) among street children in Nairobi and other urban centers. There are no reliable statistics on domestic consumption of illicit narcotics.

Demand reduction efforts have largely been limited to publicity campaigns sponsored by private donors and a UNDCP project to bring counternarcotics education into the schools. In 2001, however, the Government of Kenya appointed a National Coordinator on Campaign Against Drug Abuse to initiate national public education programs on drugs. This program continues under his guidance to the present and is making reasonable progress. 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. We seek to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction, and strengthening Kenyan counternarcotics capabilities.

Bilateral Cooperation. In 2003, the U.S. provided the ANU with computers and related equipment and has facilitated several DEA courses. The United States remains active in the Mini-Dublin Group, which has responsibility for coordinating counternarcotics assistance from several Western donors. The United States is in the process of seeking an amendment to the MOU it signed with the Government of Kenya in 2000 to provide increased law enforcement assistance to the GOK. Once signed, this amendment will allow the U.S. to set up an automated fingerprint identification system for Kenyan law enforcement that will not only assist the ANU to identify suspected traffickers but also assist Kenya's other law enforcement entities with tracking terrorists and criminals applying for entry and within the country. Department of Homeland Security, Customs and Border Protection (CPB) conducted an assessment trip to Kenya in March 2003. As a result of the port security issues, CPB submitted a proposal for a multi-faceted narcotics interdiction strategy.

The 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. As a regional hub, Nairobi remains a key location 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 international narcotics, particularly heroin, through Kenya to the United States.

Lebanon

I. Summary

Lebanon is not a major illicit drug producing or drug- transit country. The Lebanese government continued its zero-tolerance policy for poppy cultivation and opium/heroin production this year. It took serious actions to prevent cannabis cultivation and to eradicate illicit crops before harvest in the Biqā' Valley in 2003. It appears that this will continue to be a routine operation every year. However, illicit crop cultivation is likely to resume, albeit at reduced levels, in 2004 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 2002 to 2003, and there was a small amount of poppy cultivation in 2003. 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 cannabis cultivation by farmers in the Biqā' Valley in 2002 and to a lesser extent in 2003. There were also minor instances of poppy cultivation. The GOL made serious efforts to deter new cultivation in 2003 and to eradicate the resulting crop before the summer harvest. The government also continued a counternarcotics campaign to discourage new planting. According to the Internal Security Forces (ISF), approximately 39,952,000 square meters of poppy (Ca. 4000 hectares) and 7,293,850 square meters of cannabis were eradicated in 2003. The Judiciary Police—the law enforcement agency tasked with counternarcotics responsibilities—claimed to perform complete eradication in 2003.

At least five types of drugs are available in Lebanon: hashish, heroin, cocaine, methamphetamine, and other synthetics, such as MDMA (Ecstasy). Although cannabis 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. According to a report issued by the Judiciary Police this year, very small quantities of cocaine were smuggled, as compared to a yearly average of approximately 500 kilograms smuggled in previous years. 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 dual use precursor chemicals, however, are shipped from Lebanon to Turkey via Syria. Legislation passed in 1998 authorized seizure of assets if a drug trafficking nexus is established in court proceedings.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The Lebanese government took serious actions to prevent illicit cannabis cultivation in 2003. The government also launched a public awareness advertising campaign under the slogan “Together Against Drugs” in 2003 to discourage drug use. The Ministry of Interior sent

counternarcotics messages to mobile phone users. Counternarcotics posters and slogans were displayed throughout the country. Counternarcotics ads and video clips were broadcast on television stations and tee-shirts reading “Together Against Drugs” will be distributed by the Ministry of Interior to NGOs participating in the drug awareness campaigns.

Accomplishments. In 2003, the Government of Lebanon resumed cannabis and poppy eradication. The ISF stated that they eradicated all cultivated crops during the year. However, according to Dr. Riad Saade, a reliable local expert and Director General of the Lebanese Center of Agricultural Studies and Research, farmers reported that there was no cannabis production in 2003 whereas approximately 2,500 hectares of land were used for illicit cannabis production in 2002. Some observers claim that some of the crops eradicated in 2003 were located in previously planted fields which grew back. Given the continuing agricultural crisis in the country, and the limited amount of development funds available, 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. In 2002, the government launched a widespread public awareness campaign to discourage drug use which remains on-going. Textbooks approved for use in all public schools contain a chapter on narcotics to increase public awareness. The current law on drugs dictates that a National Council on Drugs (NCD) be established, whose services and activities will include substance use treatment, prevention, awareness, assistance to substance users and their families, in addition to setting up a national action plan.

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 GOL, through the Ministry of Social Affairs and the Ministry of Public Health, provides 36 percent of ON's yearly budget, which is projected at \$1,000,000 for 2004. 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 reported as possibly rising.

ON operates three drug treatment centers in Lebanon, two for men and one for women. The centers, which have a maximum capacity of 70 patients, offer a year-long residential program for hard-core addicts, and sometimes operate above capacity. The program provides recovery for the residents' physical, psychiatric, spiritual, and social well-being without the use of substitution products. A new section, funded by USAID, was built in one of the men's centers and can accommodate 12 to 15 patients. It was inaugurated this summer but is not yet operational while staff is being trained. The organization lacks outpatient care for individuals whose addictions do not necessarily warrant hospitalization.

A new walk-in outpatient therapeutic facility for addiction that offers prevention, awareness, and psychological treatment to drug users and their families called Skoun (which means “internal tranquility” or “silence” in Arabic) opened recently in downtown Beirut. The center is currently treating some 10 outpatients. One recurrent problem is the lack of coordination between concerned ministries and sometimes between the various NGOs that work on substance abuse.

According to the report “Substance Use and Misuse in Lebanon”, released by the UN Office on Drugs and Crime (UNODC) in May 2003, ISF participants in the study reported that individuals arrested for substance-related offenses most commonly use heroin, hashish/marijuana, and cocaine. Furthermore, the participants noted that medicinal pill usage is on the rise and so is Benzhexol use in prisons. On the other hand, Ecstasy use was perceived as uncommon. As for data from treatment/rehabilitation centers, it showed that Ecstasy and medicinal opiate abuse is on the rise. Data gathered from street substance users showed that codeine and other medications abuse are on the rise, and additionally, the young population is increasingly inhaling paint thinner.

Law Enforcement Efforts. From January to November 2003, the GOL seized 11.1 metric tons of hashish, 2.7 kilograms of opium, 943.25 grams of heroin, 40.333 kilograms of cocaine, 464 grams of marijuana, 805 unspecified drug pills, 254.753 kilograms of cannabis seeds, and 7.2 kilograms of opium seeds. From January to November 2003, 1,212 persons were arrested on charges related to narcotics use or distribution.

Corruption. Corruption remains endemic in Lebanon up to the senior levels 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 ISF, which appear to be genuinely dedicated to combating drugs.

Agreements and Treaties. Lebanon is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention, as amended by the 1972 Protocol.

Cultivation and Production. There are conflicting reports of illicit crop cultivation. Statistics from the Judicial Police this year show that 39,952,000 square meters of poppy and 7,293,850 square meters of cannabis were eradicated during 2003. However, according to an agricultural research institute, farmers claim there was no cannabis production in 2003 as compared to a production of 2,500 hectares in 2002.

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 cannabis from Lebanon during 2003 was overland to Arab countries such as Saudi Arabia, Egypt, Kuwait, the United Arab Emirates, and via sea routes to Europe. According to the ISF, large exports of cannabis from Lebanon to Europe are more and more difficult for smugglers due to increased seashore patrols and airport control. The ISF asserts that no cannabis 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 Embassy, 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 U.S. State Department funded a narcotics demand reduction program administered by a Beirut-based NGO, the Justice and Mercy Association (AJEM). The project is designed to create a drug treatment facility in

Roumieh prison to provide treatment and social rehabilitation for drug addicted prisoners incarcerated there. A second project aimed at expanding receiving and treatment capacity at Oum el Nour centers was also supported with State funds.

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 GOL, in cooperation with the Syrian government, appears to have eradicated all illicit cultivation during 2003. However, it 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 anticorruption policies.

Madagascar

I. Summary

Madagascar is not a major producer, supplier or exporter of drugs or precursor chemicals. Cannabis, destined primarily for domestic consumption, is cultivated in small quantities in relatively inaccessible areas in the north, west, and south. There were no seizures of illicit drugs at Madagascar's international airports in 2003. However, in two separate cases, small amounts of heroin were seized in the neighboring islands of Reunion and Mauritius, after having reportedly transited Madagascar. An Inter-ministerial Commission for Coordination of the Fight Against Drugs (the Commission), nominally headed by the Prime Minister, but managed on a day-to-day basis by its Secretary General, oversees Madagascar's counternarcotics efforts. In late 2002, the Commission presented an ambitious three-year counternarcotics strategy. Lack of funding has slowed implementation, but some useful elements, including draft money laundering legislation, are moving forward.

II. Status of Country

Available statistics indicate that production, cultivation and trafficking in illicit drugs in Madagascar are chiefly limited to cannabis. Conditions in remote areas of the western and northern provinces and in the southern provinces favor rapid growth of this crop. Statistics for surface area devoted to cannabis cultivation in Madagascar are not available. Although a small portion of this production may be finding its way to markets in neighboring islands and the African continent, it appears that the vast majority is distributed through informal networks and consumed domestically. Production and sale of cannabis may be a way to supplement income in acutely poor rural areas. The Commission reported that in 2002 (the last year for which complete figures are available) authorities seized 1,744 metric tons of cannabis and arrested 550 people for use, trafficking, or growing of cannabis.

Malagasy Customs reported no seizures of illicit drugs at Madagascar's four international airports during 2003. Antananarivo's Ivato airport, which accounts for well over 95 percent of international traffic, has upgraded security and screening procedures. Search and boarding procedures are less rigorous at the smaller airports of Nosy Be, Tamatave and Mahajanga, which have limited regional international service. Over the past six years, Malagasy authorities have seized a total of 1.3 kilograms of cocaine and 1.4 kilograms of heroin at Antananarivo Ivato Airport, but none of the seizures occurred within the last three years.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Since 1998 the Commission has led the Government of Madagascar's counternarcotics efforts. Its principal work was the drafting of a three-year national plan, which was presented to the National Assembly in late 2002. The plan provides an overview of narcotics issues in Madagascar and includes proposals for crop eradication, stronger counternarcotics and anti-money laundering legislation, awareness campaigns aimed primarily at children, and rehabilitation programs. The drafting of the plan received funding and technical support from the United Nations Office for Drug Control and Crime Prevention and the United Nations Development Program. However, the GOM has not proactively sought the foreign donor support necessary to implement the plan fully. Few elements of the plan have moved forward, apart from the drafting of money laundering legislation and some small-scale drug abuse awareness campaigns.

Law Enforcement and Accomplishments. Two recent seizures on neighboring Indian Ocean islands have raised the possibility of Madagascar serving as a transit country for regional drug traffic. In

October, police on the French island of Reunion arrested a Mauritian woman in possession of 2 kilograms of heroin and press reports suggested that the drugs may have come through Madagascar. In early December, acting on a tip, a Mauritian counternarcotics unit arrested a Malagasy woman at Port Louis airport. Under observation in a Mauritian hospital, the woman passed thirty small vials containing heroin. In October, Malagasy authorities expelled a Madagascar-born businessman of Pakistani origin, who was suspected of crimes ranging from murder to bribery. The Secretary General of the Commission, Maurice Randrianame, speculated that the man might also have been involved in transshipment of narcotics from Pakistan through Madagascar to Reunion and Mauritius. Randrianame also cited information that larger quantities of heroin from Pakistan might be awaiting shipment through Madagascar. Inadequate law enforcement assets, training and expertise prevent Malagasy authorities from quantifying and dealing with a narcotics problem that may be larger than the statistics indicate.

Treaties and Agreements. Madagascar has ratified the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 Vienna Convention on Psychotropic Substances. The Secretary General of the Commission said his agency had prepared an instrument of ratification for the United Nations Convention Against Transnational Organized Crime to be presented to the National Assembly. He also said Madagascar would sign and quickly ratify the United Nations Convention Against Corruption, opened for signature in early December 2003. A 1997 Malagasy law deals with domestic narcotics production, use and trafficking and aims to ensure domestic implementation of commitments made in international instruments on narcotics issues.

Corruption. As a matter of government policy and practice, the GOM does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. During 2003 the USG supported several programs with both direct and indirect narcotics trafficking implications in Madagascar. The principal action was the delivery to the Malagasy Navy in February 2003 of seven retired U.S. Coast Guard motor lifeboats, which improved Madagascar's ability to patrol portions of its 5,000 kilometers of coastline.

The Road Ahead. The U.S. will work closely with Madagascar to improve the interdiction capacity of law enforcement personnel.

Mali

I. Summary

Drug trafficking and abuse are minimal in Mali. Small quantities of hashish and amphetamines enter Mali from Senegal and small quantities of cannabis are grown in Mali for use in Mali. Mali has seen an increase in hard drugs, originating in Asia, transiting Mali from Mauritania to other African countries. As a result, the Government of Mali (GOM) has reorganized the narcotics division of the Police Directorate to increase its presence at Bamako International Airport. The GOM has also established a regional presence in some cities to address changes in drug entry and distribution. Mali seized and destroyed one ton of hashish during the period from October 2002 to October 2003. Mali did not keep records of previous years seizures; however, GOM officials feel that the problem continues to be small.

II. Status of Country

Mali's per capita gross domestic product (GDP) of \$250 (2002) places it among the world's 10 poorest nations. Mali's vast porous borders and antiquated communications infrastructure would seemingly be attractive to drug traffickers; however, the vastness of the country with few paved roads coupled with the general poverty level have contributed to the fact that Mali has not developed a serious drug abuse or narcotics problem. U.S.-Malian relations are excellent and expanding. They are based on shared goals of averting suffering and strengthening democracy. Mali is not a significant location for drug production, drug transit, or production, trading and transit of precursor chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Within its limited resources, Mali is trying to meet the goals of the 1988 UN Drug Convention. There have been no large drug related cases in Mali in 2003.

Accomplishments. Mali law enforcement authorities redirected some resources to counter trafficking at the Bamako airport, the most likely entry point for hard narcotics.

Law Enforcement Efforts. Given limited resources, the Malian government has not made an effort to strengthen the counter narcotics police or the national prosecutor's office with personnel or budgetary increases or new training. In fact, overall manpower for the narcotics police was reduced from 30 people to 17 during 2003 (officers relocated to other higher priority divisions within the police directorate). Bamako International Airport has increased visible security measures, implemented a more reliable access badge system, and received new equipment that will aid in Mali's drug interdiction program. Overall, Mali seized and destroyed one ton of hashish from October 2002 to October 2003. Because of limited funding, Mali does not have enough officers to cover the Bamako train station or regional bus stations. In addition, the Narcotics division of the Police Directorate does not have a patrol car at its disposal to transfer its officers from one location to another.

Corruption. By regional standards, corruption in Mali is average. Narcotics laws have not changed since the 1980's.

Agreements and Treaties. Mali is a party to the 1988 UN Drug Convention. Mali is not a party to any regional agreements regarding narcotics suppression and control.

Cultivation/Production. There is little cultivation/production of narcotic substances in Mali. Law enforcement officials destroy illegal plantings when discovered, but search and destroy missions are not a priority. Law enforcement officials do not keep records on seizures.

Drug Flow/Transit. Based on limited seizures at Bamako International Airport, authorities believe that hard drugs originate in Asia and pass from Mauritania through Mali bound for other African countries. Mali's international borders are porous to passage of all manner of contraband into, through, and out of the country due to the vast largely unpopulated regions throughout the country.

Domestic Programs (Demand Reduction). There are no high-visibility public campaigns against drug use in Mali. At the national prosecutor's office, the drug problem is not viewed as a significant threat to Malian society.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The principle U.S. policy aim on the counternarcotics front continues to be to minimize Mali's attractiveness to drug smugglers, and thereby reduce the overall flow of illegal drugs through the country, through transit control and anti corruption measures.

The Road Ahead. Drug trafficking is really a modest problem in Mali. Mali appropriately focuses its efforts elsewhere. The United States will continue to work closely with Mali on issues of mutual interest.

Morocco

I. Summary

Morocco continues to be a major producer and exporter of cannabis. Morocco produced an estimated 47,400 metric tons of cannabis in 2003, providing for potential cannabis resin (hashish) production of 3,080 metric tons. Evidence continues to indicate the United States is not a major recipient of drugs from Morocco. In the first-ever comprehensive survey of Moroccan narcotics production, the United Nations Office on Drugs and Crime (UNODC), in conjunction with the GOM's Agency for the Promotion and the Economic and Social Development of the Northern Prefectures and Provinces of the Kingdom, estimated that 134,000 hectares of land were used to cultivate cannabis in 2003, greatly surpassing the government of Morocco (GOM) earlier estimates of a growing area covering a total of 15,000-20,000 hectares. The UN Office of Drugs and Crime (UNODC) study also states that approximately 800,000 Moroccans (2.7 percent of the country's estimated 2003 population) were involved in the cultivation of cannabis. Morocco effectively tolerates cannabis cultivation for want of any short-term economic alternative for those involved in its production. A major crackdown on narcotics in northern Morocco during the summer led to the arrest of a number of high-ranking regional officials. Morocco is a party to the 1988 UN Drug Convention.

II. Status of Country

Morocco consistently ranks among the world's largest producers and exporters of cannabis, and its cultivation and sale provide the economic base for much of northern Morocco. Only very small amounts of narcotics produced in or transiting through Morocco reach the United States. According to the UNODC report, the illicit trade in cannabis resin generates approximately \$12 billion a year, and the trade remains Morocco's primary source of hard currency.

Independent estimates indicate that the returns from cannabis cultivation range from \$16,400- \$29,800 per hectare, compared with an average of \$1,000 per hectare for one possible alternative, corn. According to EU law enforcement officials, Moroccan cannabis is typically processed into cannabis resin or oil and exported to Europe, Algeria, and Tunisia. To date, Morocco has no enterprises that 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 in harder drugs.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The GOM's partnership with the UNODC in conducting the 2003 cannabis survey reflects the GOM's most significant effort to date to compile accurate data about narcotics production, possibly reflecting a desire to more earnestly address narcotics production in northern Morocco. Throughout the 1980's, the GOM worked in conjunction with the United Nations to find a response to 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.

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 \$20,000-\$80,000. Ten years imprisonment remains the typical sentence for major drug traffickers arrested in Morocco.

Law Enforcement Efforts. As part of a 1992 counter narcotics 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 narcotics 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 these efforts, however, have changed the underlying reality of extensive cannabis cultivation and trafficking in northern Morocco. Indeed, cannabis cultivation continues to expand throughout the Northern Rif region.

Corruption. It is unlikely that the extensive cannabis production in Morocco could be undertaken without the involvement of at least some government and law enforcement officials. In August, a GOM investigation resulted in the arrest of numerous government, judicial, and law enforcement officials in northern Morocco linked to narcotics-related corruption, as well as the detention of a major drug baron. Trials of those arrested were underway during the latter part of the year.

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. Morocco is a party to the UN Convention against Transnational Organized Crime.

Cultivation/Production. The center of cannabis production continues to be the province of Chefchaouen, although production has expanded in the last 20 years north to the outskirts of Tangiers. Small farmers in the Northern Rif region cultivate most cannabis, where an estimated 10 percent of arable land is dedicated to its cultivation. Production is also carried out on a smaller scale in the Souss valley of the South. The UNODC survey found that 75 percent of villages and 96,600 farms in the Rif region cultivate cannabis, representing 6.5 percent of all farms in Morocco. The GOM has stated its commitment 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 amount of cannabis production measured in 2003 suggests that the crop's cultivation has seen a steady increase over the past few years, to the detriment of other agricultural activities. The UNODC report warned that this agricultural mono-culture represents an extreme danger to the ecosystem, as the extensive use of fertilizers and forest removal continue to be the methods of choice to make room for cannabis cultivation.

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. According to the UNODC, Spain continues to have the world's largest seizures of cannabis resin (57 percent of global seizures and 75 percent of European seizures). Given the proximity of Morocco, and its known role in cannabis production, it seems likely that Spain is a massive transfer point for Moroccan cannabis resin. Indications that cannabis was even being exported by helicopter emerged from investigations following a helicopter crash in the Rif region in 2002. In 2001, Moroccan authorities seized 61.35 metric tons of cannabis resin, the world's third largest figure; data on later seizures have not yet been published.

Domestic Programs (Demand Reduction). The GOM does not acknowledge a significant hard drug addiction problem and does not actively promote reduction in domestic demand for cannabis. It has established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction.

IV. U.S. Policy Initiatives and Programs

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 counter narcotics 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 such as 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 cultivation and a few mandrax laboratories. Available evidence suggests significant use of herbal cannabis and limited consumption of "club drugs" (ecstasy/MDMA, 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 United Nations Office on Drugs and Crime ("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, 2000, and 2002. Mozambique's role has grown rapidly 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. Increasing amounts of cocaine from Colombia and Brazil transit Portugal and Angola or Mozambique (all Portuguese speaking countries) on their way to South Africa. International flights from Lisbon to Maputo and from Dar es Salaam to Pemba provide a conduit for smuggling into South Africa. With the assistance of the South African police, numerous arrests were made in 2003 of drug couriers originating in Brazil, who transit Mozambique from Portugal in route to Johannesburg or continue through Johannesburg to Maputo to take advantage of the relatively lax controls disembarking in Maputo. Mozambique is not a producer of precursor chemicals.

III. Country Actions Against Drugs in 2003

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 2003 include:

- The seizure of heroin being smuggled from Brazil via Lisbon by two couriers at Maputo Mavalane International Airport in October and November and the arrest in South Africa in December of a Tanzanian national identified by the couriers.
- The seizure by customs officials of 9.3 kilograms of cocaine found in the baggage of a passenger arriving at Mavalane Airport in December.
- The detention in November 2003 of three senior police officers in Inhambane province for trafficking in hashish and marijuana. The drugs were seized from a Pakistani national in 2001.
- The seizure of 75 kilograms of a chemical used in the manufacture of mandrax found in a parked car on a busy street in Maputo in November.
- The arrest in May at Mavalane Airport of a Tanzanian national smuggling 2 kilograms of cocaine in his stomach.

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. Despite a good deal of suspicion that corruption has an effect on Mozambique's efforts against narcotics, there is no credible evidence that high level officials facilitate narcotics trafficking, and certainly as official policy, Mozambique seeks to enforce its laws against narcotics trafficking.

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 increasingly serves as a transit country for hashish, cannabis resin, heroin, and Mandrax originating in Southwest Asia, owing to its long, unpatrolled coastline, lack of resources for interdiction and sea, air, and land borders, and growing transportation links with neighboring countries. Drugs destined for the South African and European markets arrive in Mozambique by small ship, especially in the coastal areas of the northern provinces, including islands off Cabo Delgado and Nampula.

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, Mozambique and South Africa indicate cocaine is being shipped by drug couriers from Colombia and Brazil to

Mozambique through Lisbon for onward shipment to South Africa and East Asia. In addition, there is anecdotal evidence that Nigerian and Tanzanian cocaine traffickers have targeted Mozambique as a gateway to the South African and European markets.

Domestic Programs (Demand Reduction). The primary substances 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 conducted an education program aimed at youth in 2001. The program included plays and lectures in schools, churches, and other places where youth gather. The Sofala provincial GCPCD office has created a community volunteer educational program. As in 2002, funds were not available in 2003 for continuation 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

Bilateral Cooperation. The USG sends Mozambican law enforcement officials and prosecutors to regional training programs through the International Law Enforcement Academy (ILEA) for Africa in Botswana. Law enforcement officials have also received training at ILEA New Mexico. The State Department's Bureau for International Narcotics and Law Enforcement Affairs provided support to the attorney general's anticorruption unit and the police sciences academy (ACIPOL). The funds provide for training, specialized course instruction, instructor development, and curriculum development for ACIPOL. The anticorruption unit, which began operations in November 2002, has received specialized training and advisor visits through the Department of Justice OPDAT (Overseas Prosecutorial Development Assistance and Training) program, as well as renovation of its office facility, up-dated information technology equipment, and office furniture, funded by USAID. The Department of Defense has assisted the Mozambican Navy to develop a plan for improved coastal surveillance activities, and is providing training to Mozambican military personnel.

The Road Ahead. The U.S. expects to continue cooperation with Mozambique to improve capacity to detect and prosecute narcotics-related crime..

Namibia

I. Summary.

While occasionally used as a drug transit point, Namibia is not a major drug producer or exporter. 2003 saw a slight increase in drug seizures in Namibia, and drug abuse remains an issue of concern, especially among economically disadvantaged groups. Narcotics enforcement is the responsibility of the Namibian Police's Drug Law Enforcement Unit (DLEU), which lacks the manpower, resources and equipment required to fully address the domestic drug trade and transshipment issues. Namibia, which is not a party to the 1988 UN Drug Convention, has not received any USG assistance in the past two years.

II. Status of Country.

Namibia is not a significant producer of drugs or precursor chemicals. No drug production facilities were discovered in Namibia in 2003. Namibia's excellent port facilities and road network combine with weak border enforcement to make it an ideal transshipment point for drugs en route to the larger and more lucrative South African market. DLEU personnel believe much of the transshipment takes place via shipping containers either offloaded at the port of Walvis Bay or entering overland from Angola and transported via truck to Botswana, Zambia and South Africa. Personnel constraints, a lack of training and low motivation among working-level customs and immigration officers at Namibia's land border posts all prevent adequate container inspection and interception of contraband.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Namibia has requested United Nations (UNDOC) assistance in completing a National Drug Master Plan, which is still being formulated. While Namibia has not announced plans to become a party to the Convention, many Convention requirements are already reflected in Namibian law, which states that illicit cultivation, production, distribution, sale, transport and financing of narcotics are all criminal offenses.

The Namibian Government is currently drafting legislation regarding money laundering and asset forfeiture as part of a general effort to modernize statutes relating to terrorism and organized crime. Both the money laundering and asset forfeiture legislation will encompass narcotics-related activities.

Law Enforcement Efforts. Namibia fully participates in regional law enforcement cooperation efforts against narcotics trafficking, especially through the Southern African Development Community (SADC) and the Southern African Regional Police Chiefs' Cooperative Organization (SARCCO). The Minister of Home Affairs meets regularly with counterparts from neighboring countries, during which efforts to combat cross-border contraband shipment (including narcotics trafficking) are reportedly discussed.

Corruption. No incidents of narcotics-related public corruption were reported in 2003. Namibia's National Assembly authorized and provided funding for the creation of an anticorruption commission, which will be responsible for investigating all cases of public malfeasance. The organization should begin operations by mid-2004.

Agreements and Treaties. Namibia is not a party to the 1988 UN Drug Convention. However, Namibia is a party to the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. While there is no US-Namibia bilateral extradition treaty, narcotics offenses are extraditable under Namibian law. Namibian law also allows for the

provision of mutual legal assistance as described in the 1988 UN Drug Convention. However, Namibia received no such requests for extradition or mutual legal assistance in 2003. Namibia has also signed and ratified the UN Convention against Transnational Organized Crime and two of its three Protocols.

Domestic Programs (Demand Reduction). While there are no major demand reduction campaigns underway in Namibia, drug treatment programs are available from private clinics, and to a lesser extent from public facilities. Approximately 80 percent of treatment cases in Namibia are for alcohol abuse, with the remainder divided evenly between cannabis and mandrax (methaqualone).

IV. U.S. Policy Initiatives and Programs

The USG continues to offer Namibia opportunities for fully funded law enforcement training programs at the International Law Enforcement Academy (ILEA) in Gaborone, Botswana. Most of these training programs contain counternarcotics elements, and some narcotics-specific training is also offered. While representatives of several law enforcement agencies (Customs, Immigration, Prison Service) and prosecutors have participated in ILEA training, the Namibian Police have declined to do so.

The Namibian Police have repeatedly stated their willingness to cooperate with the USG on any future narcotics-related investigations. There were no USG requests for assistance with specific narcotics cases in 2003.

The Road Ahead. The USG will continue to encourage the Namibian Police to take advantage of training opportunities at ILEA Botswana, and will assist the Government of Namibia in any narcotics investigation with a U.S. nexus.

Nigeria

I. Summary

Nigeria remains a hub of narcotics trafficking and money laundering activity. Nigerian criminal organizations dominate the African drug trade and transport narcotics to markets in the United States, Europe, Asia, and other parts of Africa. Some of these same organizations are engaged in advance-fee fraud, commonly referred to in Nigeria as “419 Fraud,” and other forms of defrauding U.S. citizens and businesses as well as citizens and businesses of other countries. Severe unemployment after years of military rule and an associated economic decline contributed significantly to the continuation and expansion of drug trafficking, widespread corruption and other criminal acts in Nigeria.

These factors, combined with Nigeria's central location along the major trafficking routes and access to global narcotics markets, provided both an incentive and mechanism for criminal groups to flourish. Nigeria is still ranked as one of the world's most corrupt countries. Heroin from Southeast and Southwest Asia, smuggled via Nigeria, accounts for a significant portion of the heroin reaching the United States. Nigerian criminal elements, operating in South America, trans-ship cocaine through Nigeria to Europe, Asia, and Africa. South Africa is a major destination for Nigerian-trafficked cocaine within Africa. Nigerian-grown marijuana is exported to neighboring West African countries and to Europe, but not in significant quantities to the United States. Aside from marijuana, Nigeria does not produce any of the drugs that its nationals traffic.

No Nigerian law enforcement agency or Commission has received its current annual budget although they claim that their budgets have been approved. Although the National Drug Law Enforcement Agency (NDLEA) enjoyed successes in interdiction at the international airports, their efforts were short of expectations due mainly to inadequate funding. All law enforcement agencies suffered slowdowns in activities while the country concentrated on local, state and national elections in April 2003. More than seventy-five percent of the National Assembly turned over. The USG enjoys high cooperation with the new Attorney General who took office in July 2003. Cooperation among Nigeria's law enforcement agencies still leaves much to be desired. Although all law enforcement elements are represented at the international airports and at the ports, joint operations among them are virtually non-existent. A missing ingredient in the apprehension of a major trafficker or the interdiction of a major shipment of contraband is interagency cooperation. No single law enforcement agency in Nigeria has adequate resources to combat the increasingly sophisticated international criminal networks that operate in and through the country, so better cooperation among them is an imperative. Nigeria is a party to the 1988 UN Drug Convention.

II. Status of Country

Nigeria does not produce precursor chemicals or drugs that have a significant effect on the United States, but is a major drug-transit country. In addition, Nigerian criminal elements operate global trafficking/criminal networks, which traffic drugs around the world. Nigerian drug organizations are also 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.

The NDLEA is the law enforcement agency with sole responsibility for combating narcotics trafficking and drug abuse in Nigeria. Established in 1989, NDLEA works alongside Nigerian Customs, the State Security Service, the National Agency for Food and Drug Administration and

Control, 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 the majority of hard drug seizures (e.g. cocaine and heroin) at the airport in Lagos.

Increasing numbers of drug couriers are being apprehended at the airport in Abuja. NDLEA has successfully apprehended individual drug couriers transiting these airports but only a few of the drug traffickers sponsoring these couriers. Efforts similar to the vigorous inspections conducted at the Lagos and Abuja international airports are needed at Nigeria's five major seaports as smugglers change their tactics to avoid detection.

III. Country Actions Against Drugs in 2003

Policy Initiatives. NDLEA created State Commands—local offices in each Nigerian administrative jurisdiction—to ensure a comprehensive nationwide presence of the Agency. Thus, the agency now has 37 State Commands in addition to the national headquarters and nine Special Area Commands. Additionally, the computerization of the agency's administrative and accounting statistics ensures greater efficiency and transparency. The NDLEA also sponsored several events to increase awareness of drug abuse among school age children and hosted, with private sponsors, a money laundering workshop to explain to banks and other financial institutions their role in stemming money-laundering activity in the country.

The continuity provided by the current NDLEA Chairman, Alhaji Bello Lafiaji, has exacted a greater measure of commitment and loyalty from the NDLEA field personnel and staff and has resulted in increased efforts and training opportunities at all levels of the agency. As an example of NDLEA's commitment to trained personnel and regional cooperation, Nigeria has contributed \$2,000,000 towards a five-year \$6,000,000 UNODC project to convert the NDLEA Academy in Jos to a Regional Law Enforcement Training Center. The first phase of the project is underway.

Accomplishments. The NDLEA continues its successful interdiction of couriers destined for the U.K. and U.S. through Murtala Mohammed International Airport in Lagos as well as Nnamdi Azikiwe International Airport in Abuja. NDLEA helped intercept over \$3,000,000 worth of fraudulent checks and, with the added cooperation of Federal Express, over \$200,000 in merchandise that had been purchased with stolen credit cards was returned to the respective vendors.

The NDLEA has assumed a leadership role in drug enforcement in the region. 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. A DEA-assisted WAJO planning conference will be held in The Gambia in early 2004. The NDLEA continues expanded counternarcotics cooperation with the police in South Africa, where Nigerian criminal organizations are believed to be responsible for the bulk of drug trafficking.

Law Enforcement Efforts. Seizures of hard drugs in 2003 were modest, with cocaine and heroin totaling 130 kilograms and 70 kilograms respectively; no one seizure exceeded 15 kilograms. NDLEA also seized more than 937 kilograms of synthetic drugs and more than 530,000 kilograms of cannabis. Similar successes have been recorded by the NDLEA State Commands, with one State arresting 58 persons and seizing 1,700 kilograms of cannabis, 10 kilograms of cocaine and 9 kilograms of heroin between September and November 2003. NDLEA achieved limited success in combating the various elements of the drug trade during 2003. Typically, street pushers and trafficker “mules” were apprehended; the effort against large-scale traffickers, however, was less effective. NDLEA continues to incur resistance from the Nigerian Customs Service to NDLEA presence at the major seaports, where NDLEA agents are viewed as competitors as opposed to collaborators.

Using special drug courts, a more energetic approach by the NDLEA to prosecute drug traffickers efficiently and successfully resulted in over 2,300 arrests and 841 prosecutions from January through

October 2003. Major narcotics smugglers and their networks continue to elude arrest and prosecution, despite a NDLEA commitment to launch an intensified effort to investigate major international drug traffickers operating in Nigeria. 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.

Nigerian counternarcotics efforts primarily focus on interdiction at Nigeria's air and seaports, which normally nets couriers originating or transiting to Europe or the U.S. Another area for enforcement emphasis is a public campaign focused on destroying marijuana crops throughout the country. Asset seizures from narcotics traffickers and money launderers, while permitted under Nigerian law, have never been systematically utilized as an enforcement tool, but some convicted traffickers have had their assets forfeited over the years. The number of traffickers so far penalized, however, remains small.

The Government of Nigeria continues to work on a mechanism to process U.S. extradition requests expeditiously while observing due process under Nigerian law. Currently, a dedicated prosecutorial team handles all U.S. extradition cases before a specifically designated High Court judge, but extradition cases can still take significant time. The last extradition was in late 2002. There is one extradition case pending before the court and another individual in custody awaiting extradition hearings.

Corruption. Corruption has for many years permeated Nigerian society and continues to be a systemic problem in Nigeria's government. Unemployment is very high and civil servants' salaries are low. In addition, salaries are frequently paid months in arrears, compounding the corruption problem. The Independent Corrupt Practices and Other Related Offenses Commission (ICPC) has weathered several storms, including an attempt by the last session of the National Assembly to repeal the Anti-Corruption Act 2001 and replace it with a watered-down version that virtually exempted lawmakers from prosecution. Recent high profile ICPC investigations and arrests have resulted in cabinet level officials being charged, dismissed from their post and incarcerated while awaiting hearings on corruption charges.

None of these actions was for drug-related offenses. USG technical assistance, funded through the State Department Drug Assistance Program and implemented by the U.S. Department of Justice, has entered a second phase providing the ICPC with additional training and technical assistance, including a Resident Legal Advisor for its staff in early 2004.

Agreements and Treaties. Nigeria is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Nigeria has 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 1931 U.S.-UK Extradition Treaty, which was made applicable to Nigeria in 1935, is the legal basis for pending U.S. extradition requests. The U.S.-Nigeria Mutual Legal Assistance Treaty (MLAT) 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 states. Major cultivation takes place in central and northern Nigeria and in the Delta and Ondo states in the south. Marijuana, or "Indian Hemp" as it is known locally, is sold in Nigeria and exported throughout West Africa and into Europe. To date, there is no evidence of significant marijuana imports from Nigeria into the United States. The NDLEA has pursued an aggressive eradication campaign. For 2003, the NDLEA claimed to have discovered and destroyed more than 159,202 hectares of cannabis.

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. While Nigeria remains Africa's drug transit hub, there are indications that the preferred methods of

transshipment have changed. The NDLEA unit at Lagos' Murtala Mohammed International Airport conducts 100 percent searches of passengers and carry-on baggage. This is extremely significant given the addition of World Airways direct flights to the U.S. from Lagos that started in May 2003. The enhanced security posture at this airport has prompted some drug traffickers to use Nigerian seaports, concealing large quantities of contraband in shipping containers. They also seem to have switched to other West African airports and seaports with less stringent security controls.

Domestic Programs (Demand Reduction). Local production and use of marijuana have been a problem in Nigeria for some time; however, according to the NDLEA and NGOs, the abuse of harder drugs (e.g., cocaine, heroin) is now on the rise. Heroin and cocaine are readily available in many of Nigeria's larger cities. 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. NDLEA sponsored a nationwide contest between primary and secondary schools with public presentations held at the "UN Day Against Drugs" ceremony in 2003.

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 enhancing the professionalism of the NDLEA and other law enforcement agencies. U.S. training programs, technical assistance and equipment donations have continued, with the NDLEA as the primary target. The DEA country office in Nigeria works with the NDLEA Joint Task Force and other operations personnel to train, coordinate, plan and implement internal and regional interdiction operations. At all levels, USG representatives enjoy excellent access to their counterparts and there is an evident desire on both sides to strengthen these relationships. The current NDLEA chairman is committed to meeting agency goals and improving the morale of NDLEA officers.

The United States and Nigeria signed a Letter of Agreement covering many aspects of law enforcement assistance, including a new U.S.-funded police reform program in 2002. The Agreement has been amended three times to increase assistance for Nigerian law enforcement to support the Police Service Commission, ICPC, and Trafficking In Persons projects. Additional equipment will be provided for the NDLEA Joint Task Force and all law enforcement agencies will be included in future training in an effort to promote better cooperation and collaboration in areas of mutual interest.

Bilateral Accomplishments. A high level U.S.-Nigeria law enforcement dialogue, initiated by Nigeria in 2001, was renewed in December 2002 and ended with pledges by both Governments to accomplish certain objectives before the next meeting. Due to Nigerian national elections in April and delays in filling key positions, the GON has agreed to delay the scheduled 2003 meeting until March/April 2004. The meeting is planned for Washington, to be hosted by the Assistant Secretary for International Narcotics and Law Enforcement Affairs. The new Attorney General, Chief Akinlolu Olujinmi, will lead the Nigerian delegation. The majority of the goals and objectives resulting from the December 2002 meeting have been met or exceeded. As with the last two meetings, the next meeting will 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.

The Road Ahead. After years of non-cooperation, the U.S. and Nigeria enjoy an excellent relationship and improved cooperation on the law enforcement front. Federal funding for Nigerian law enforcement agencies and key anticrime agencies, however, remains insufficient and erratic in disbursement. This affects the planning and consistency of actions on the part of these agencies, giving the impression of lack of commitment and ineffectiveness. Unless the Nigerian Government remedies this situation, very little progress will be made and none sustained. It will require strong and sustained

political will and continued international assistance for any Nigerian government to confront these difficult issues and bring about meaningful change. The U.S. government has expanded aid to Nigeria's counternarcotics efforts; counternarcotics assistance provided since February 2001 now totals over \$1.5 million.

The police remain grossly mistrusted by the Nigerian populace and organized crime groups continue to exploit that mistrust by preying on citizens throughout the country. Nigerian police are poorly trained. A new recruit curriculum and a separate mid-level in-service training program designed by Department of Justice advisors are being presented in Kaduna and Kano police colleges. The Program focuses on community policing, civil disorder management and criminal investigation; it will be emphasized during the remainder of the multi-year police modernization program. In an encouraging commitment to professionalism in police work, NDLEA has mandated that all their officers undergo re-training at the basic level and mid-level before qualifying for promotion under the new promotion program. Implementation of a 2001 Presidential order to recruit 40,000 new police constables each year will challenge the Nigerian system. The Government of Nigeria needs to prioritize its commitment of resources to ensure the success of this ambitious recruiting program.

The U.S. government will continue to work with Nigeria on the issues of counternarcotics, money laundering and other international crimes. There has been measurable success and a renewed commitment to drafting legislation that enhances the capabilities of Nigeria's law enforcement community in the past year. All branches of government support these goals, but performing up to their own standards over the long-term has been more challenging.

The underlying institutional and societal factors that contribute to narcotics trafficking, money laundering and other criminal activities in Nigeria are deep-seated and require a comprehensive and collaborative effort at all levels of law enforcement and government. Progress can only be made through sustained effort, political will, and continued support of the affected international community.

Rwanda

I. Summary

Rwanda does not have a significant drug-abuse or trafficking problem, although police contacts suggested that the problem had become slightly worse relative to last year. The main drugs at issue were cannabis (which may be imported but is also grown in Nyungwe Forest) and heroin. Sources felt that most of the users, particularly of heroin, have not grown up in Rwanda; the problem seems generally to be limited to some districts of Kigali and is almost unknown in the countryside. Government officials attempt to address the problem primarily through programs designed to prevent drug abuse from spreading from the existing small abuser group.

II. Status of Country

According to police sources, Rwanda does not have a large trafficking problem. Some cannabis from Nyungwe may be sold in Burundi. Otherwise, some cannabis may also be grown in the Virungas Park in Uganda and DRC, and can be relatively easily transported through the forest by the local population, as the borders in that region are porous. Raids, however, have only netted about 30 kilograms of cannabis this year. There is a smaller problem associated with heroin, which police believe is being imported from Uganda and the Congo, and used primarily by well-off urban youth.

The police have a dedicated drug unit, and other branches of the police also pursue drug-related offences. Any illegal drugs found are seized, and the police and the prosecution service take drug-related crime very seriously. Police sources say that prosecution difficulties arise due to a lack of training among all police regarding drug-related procedures and rights.

The GOR monitors all monetary transfers totaling more than \$50,000 (ref B), information the police say they can access if necessary. However, nobody believes the problem is significant or organized enough in Rwanda that someone could be getting rich off the illicit trafficking of drugs.

The GOR is a party to the 1988 UN Convention Against Illicit Traffic and Narcotic Drugs and Psychotropic Substances. Despite minimal resources, the government is attempting to meet its obligations in the following ways:

- Illicit cultivation: there is perhaps some illicit cultivation in Nyungwe Forest, for cannabis only. The police raid the forest about once a year in order to destroy any cannabis crops they find.
- Production: There is no indication of domestic drug production.
- Distribution: Distribution seems to be almost exclusively in Kigali. Traffic police can seize drugs if they are found as part of routine work.

Sniffer dogs are employed at the airport in an attempt to identify illicit drugs. The police lack sophisticated equipment to do more than that. At other customs points, officials rely on intuition & experience to try to find potential drug carriers. Drug-unit officials work with customs officials to remind them of their role in identifying drugs that could be coming in. There is a police unit against terrorism; and there will soon be one for financial crime, both of which will help ferret out suspect monetary transactions. At the moment, the drug unit does not engage in regular financial investigations. They are investigating to what extent the drug trade might be organized; it does not seem to be highly so and as such the finance angle has not received a lot of attention. The GOR does not believe there is an organized trade in illicit drugs; and, therefore, there is no one getting rich off of

their production and/or sale. The police have seized only small amounts of drugs. The police are working on drug abuse education campaigns in schools; the Ministry of Health also has a unit for the control of legal drugs and prevention of their abuse.

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, the Government has imposed the death penalty for drug smuggling. Due to these factors, drug abuse and trafficking do not pose major social or law enforcement problems. However, Saudi officials acknowledge that illegal drug consumption and trafficking are on the rise. Saudi and U.S. counternarcotics officials maintain excellent relations. In 2003, the Saudi Government enacted a comprehensive money laundering law. 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 16, 18 individuals have been executed for drug offenses in 2003, a significant increase from 2002. 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, growing 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 if found with narcotics substances. 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 2003

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 Drug Control Program (UNDCP) and its drug enforcement personnel regularly participate in international training programs.

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. We have no evidence of involvement by Saudi Government officials in the production, processing or shipment of narcotic and psychotropic drugs and other controlled substances.

Agreements and Treaties. There are no extradition or mutual legal assistance agreements between the U.S. and Saudi Arabia, although Saudi Arabia is a party to the 1988 UN Drug Convention.

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

Policy Initiatives. The U.S. and Saudi Arabia are actively working to strengthen bilateral counternarcotics cooperation.

Bilateral Cooperation. Saudi officials actively seek and participate in U.S.-sponsored training programs and are receptive to enhanced official contacts with DEA.

The Road Ahead. The U.S. will continue to arrange regular visits of DEA officers to Saudi Arabia. It will also explore opportunities for additional bilateral training and cooperation.

Senegal

I. Summary

The production and trafficking of cannabis continues to be the largest domestic narcotics problem. 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. Senegal has made progress against money laundering through cooperation with other West African states. 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 cornerstones 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. Unrest in the Casamance 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 because they claim there is inadequate 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. Police are reluctant to undertake greater enforcement efforts against cannabis cultivation in the Casamance for fear of hampering peace negotiations between the rebels who have been involved in the insurgency and the government.

III. Country Actions Against Drugs in 2003

Policy Initiatives. Senegal developed a national plan of action against drug abuse and the trafficking of drugs in 1997. Multidisciplinary in its approach, Senegal's national plan includes programs to control the cultivation, production, and traffic of drugs; inform the population of the dangers of drug use; and reintroduce former drug addicts into society. Full implementation of this plan remains stalled due to funding constraints. Periodic efforts to improve coordination have been hampered because of insufficient funding. Through cooperation with other member-states in the West African Monetary Union, a uniform common law against money laundering is now being considered by the Senegalese National Assembly.

Accomplishments. Due to weak enforcement efforts and inadequate record keeping, it is impossible to assess accurately the real drug problem in the country. Senegal has in the past undertaken few cannabis eradication efforts. As previously mentioned, police forces feel constrained in their efforts to eradicate cannabis cultivation in the southern part of the country because of ongoing peace negotiations between insurgents and the central government. Meetings have been organized, though, with island populations in the south in accordance with the UN Program for International Control of Drugs to promote substitution of cannabis cultivation with that of other crops.

Law Enforcement Efforts. Given limitations on funding, training, and policy, there is only limited ability to guard Senegal's points of entry from the transiting of drugs through Dakar. The international airport has drug enforcement agents present, but they lack the training and equipment to systematically detect illegal drugs. There is no consistent monitoring of containers at the port of Dakar.

Two examples from 2003 show the use of Dakar as a transit point. More than 50 kilograms of cocaine transported through the Dakar airport was seized in London and Brussels from Belgian nationals. In addition, more than two metric tons of hashish bound for Hamburg, Germany, were seized after transit through the port of Dakar.

Despite the limitations to the creation of a more robust counternarcotics regime in Senegal, according to police officials, the number of drug seizures increases from year to year thanks to successful efforts to raise the awareness of police regarding the harmful effects of drugs. In 2003, 3,048 drug-related arrests were made in Senegal. Of these cases, 2,948 were prosecuted, which led to 1,830 convictions. The Government of Senegal (GOS) cooperated with foreign governments in two successful drug seizure operations in 2003; 6 kilograms of cocaine were seized and arrests made after cooperation with Italian authorities. At least 8,000 kilograms of cocaine were seized through the cooperation of Senegalese authorities with Spanish police. Seventeen arrests were made as a result of that five-month operation.

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. A revision to the Senegalese Penal Code to address corruption is under consideration by the National Assembly.

Agreements and Treaties. 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. Senegal is a party to the UN Convention against Transnational Organized Crime.

Cultivation/Production. Although cannabis cultivation in Senegal is not a large problem in relation to the global cultivation of the drug, it could become a serious internal drug problem for Senegal.

Drug Flow/Transit. Dakar's position on the west coast of Africa and the presence of an international airport and seaport make it an enticing transit point for drug dealers. 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.

The Chief of OCRTIS explained that the transshipment of illicit drugs through Senegal is increasing. Thus far, hashish and cocaine have been the drugs transited through Senegal. The U.S. is not a destination point for these drugs.

Domestic Programs. 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 health, and that drugs were degrading the economy. Village committees have been established to convey the above information to sensitize people to the problems associated with drug use. The focus of the second phase of the program is 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.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG goals and objectives in Senegal are to strengthen law enforcement capabilities in counternarcotics efforts. In 2002 the USG started 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 \$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, and is assisting with expanding the lab into a regional facility for use by other West African Francophone countries.

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 trafficking, production and abuse of illicit narcotics, both domestically and internationally. Reliable evidence suggests that the country continues to be 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 Southern Africa, 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 in 2003 there were 226 organized criminal syndicates active in South Africa. At least 120 are known to be involved in drug trafficking. According to an Institute for Security Studies report, most of those syndicates are run by third country nationals, primarily Nigerians, Pakistanis, and Indians. South Africa is a party to the 1988 UN Drug Convention.

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 kinds, including narcotics. Porous borders and an over-stretched criminal justice system 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 progress in crafting an appropriate response to this situation.

South Africa has for some time been the origin, transit point, or terminus of many major smuggling routes; this was particularly so during the apartheid period. Trends and practices begun in the sanctions-busting apartheid period continue into the present; 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 systems in Sub-Saharan Africa. The country's modern 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 (4th largest according to the South African Institute for Security Studies); however, 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. There are currently 36 South Africans in Irish prisons for drug trafficking and there has been an increase in marijuana seizures in Ireland from 128 kilograms in 2000 to 3.2 metric tons in 2002, mostly from South Africa.

South Africa is also becoming a larger producer of synthetic drugs, mainly mandrax, with increasing smuggling of precursor chemicals, and more and more labs in South Africa established. The South African Police Service has dismantled a large number of labs this year and is trying to better track the smuggling of precursor chemicals.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In October 2001, the Parliament passed the Financial Intelligence Center Act (FICA), which mandates reporting and record keeping of certain financial transactions. The Financial Intelligence Center (“FIC”) began work in February 2003. In June, 2003, South Africa was admitted to the Financial Action Task Force (FATF) and to the Egmont Group, strengthening its money-laundering control capacity and international connections.

Combating the abuse, production and 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 and 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 all sorts of contraband, including, but not limited to: illicit drugs, stolen cars, illegal firearms, diamonds, precious metals and human beings. The Cabinet interagency “Justice Cluster” works to help coordinate the law enforcement and criminal justice system's response to these challenges. As of September 2003, the Narcotics Bureau (SANAB) has been fully integrated into the South African Police Service's 41 organized crime units. Those units claim that drug trafficking is their number one priority; however, there is no solid evidence of that fact. In addition, it is too early to tell if the integration has had any real effect on the targeting and investigating of drug-related crime in South Africa.

The South Africa Police Service plans to continue its broad based strategy of focusing on dismantling illicit drug labs, interdicting precursor chemicals, targeting ethnic-based trafficking organizations, and concentrating on operations at the Johannesburg International Airport.

Accomplishments. In 2003, the SAG and other law enforcement agencies met the goals and objectives of the 1988 UN Drug Convention. Prosecutors increased their use of the Prevention of Organized Crime Act, and the establishment of the FIC gave more credibility to the country's anti-money laundering efforts. The FIC has grown into a viable center of financial analysis of suspicious transactions, and this analysis will ultimately help combat drug trafficking.

Law enforcement entities in South Africa continued this year to make record drug busts of mandrax, Ecstasy (MDMA) and precursor chemicals. However, they have not moved further in dismantling the kingpins who are responsible for importing and exporting drugs to South Africa.

The conviction rate for drug offenses is high in South Africa, averaging about 70 percent. As of June 2003, 6,904 individuals had been sentenced for drug related crimes, an increase of 18 percent from 2002. Approximately 1,035 of those sentenced were not South Africans.

The SAG also appreciates the relationship between violent crimes and the use of drugs. The Minister of Safety and Security Charles Nqakula, addressing a meeting of diplomats and journalists, said that most violent crimes are committed on weekends, by people under the influence of drugs and alcohol.

Law Enforcement Efforts. The SAPS seized large amounts of drugs during the periods April 2002-March 2003 and July-September 2003, including 210 kilograms of cocaine. There were also drug seizures made by other law enforcement entities, including the Scorpions, a special unit targeting organized crime. In November 2003 the Scorpions publicly destroyed 5 million mandrax tablets, which they had seized during 2000-2003. In July 2003 the Scorpions seized 4 tons of mandrax powder, the largest bust in South Africa history. That same month, the SAPS made its biggest seizure of precursor chemicals and mandrax tablets, but the mandrax tablets were stolen several months later from a SAPS warehouse. The police service also detected, seized and dismantled 36 clandestine labs, which were producing methamphetamines and other synthetic drugs. In August 2003, the police busted a Pretoria drug lab, which produced a large amount of methcathinone (“cat”), with product worth about \$83,000.

Corruption. Officials accused of corruption can be prosecuted under the 1992 Corruption Act, although the capacity to combat corruption will be greatly enhanced by the new Prevention of Corruption Bill once it is enacted. The SAG has also adopted a Public Service Anti-Corruption Strategy. The SAPS Act of 1995 provides for the Independent Complaints Directorate (ICD) which is active in fighting corruption within the police force. Of all the offences by police officers investigated by the ICD, about 10.5 percent represent corruption in diverse forms, according to the latest ICD Report. Accusations of police corruption are frequent although the experience of enforcement officers working at the U.S. Embassy Pretoria 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 suspect that the reported quantities of seized drugs are lower than the actual figures. Some amount of corruption and much malfeasance among border control officials does appear to contribute to the permeability of South Africa's borders.

Agreements and Treaties. South Africa is a party to the 1988 UN Drug Convention and has signed the UN Convention against Transnational Organized Crime. The U.S. and South Africa have bilateral extradition and mutual legal assistance agreements in force, as well as a Letter of Agreement on Anticrime and Counter-narcotics Assistance. The Letter of Agreement provides for U.S. training and commodity assistance to several South African law enforcement agencies. In 2000 the U.S. and South Africa signed a Customs Mutual Assistance Agreement, which is not yet in force.

Cultivation/Production. Cannabis, or “dagga,” grows wild in Southern Africa and is a traditional crop in many rural areas, 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 South Africa. Most South African cannabis is consumed domestically or in the region. Increasing amounts are, however, being seized in continental Europe and the UK. The South African Police regularly spray cannabis with herbicide in SA, in Swaziland and Lesotho.

Drug Flow/Transit. Significant amounts of cocaine reach South Africa from South America. While there are no exact statistics available, cocaine is regularly available in South Africa's major cities, while the amounts seized oscillate between recent highs of 635.9 kilograms in 1998 and lows of 78.4 kilograms in 1993. This year's (2003) level of 210 kilograms is lower than the level of last year's (286 kilograms), but higher than the levels of the 4 previous years. South Africa, once a transshipment country, has become a user country with its own flourishing market. The consumption of cocaine, both powder and crystalline (“crack”) is on the increase. The production of synthetic drugs within South Africa's borders is also on the increase, according to the South Africa Police Service.

According to South Africa's Institute for Security Studies, of an estimated 100,000 Nigerian residents in South Africa, only 4,000 are legal. Many illegal Nigerian and West African residents in South Africa are involved in organized crime, specializing in the smuggling of crack cocaine. Car hijackers, for instance, whether Nigerian or other nationalities, take cars abroad, exchange them for drugs and come back to South Africa with drugs which can also finance other crimes. Nigerian gangs have also been found using South Africa as a base of operations for worldwide drug smuggling and the so-called 419 Fraud. In “419 Fraud” criminal groups from Nigeria offer the prospect of huge, windfall payments—in exchange for a pre-payment or data that would permit free access to a target's bank account.

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 various drugs before sending them on to other countries. They believe that criminals view South Africa as a “weak enforcement” option for such warehousing operations. South Africa also has excellent infrastructure—financial, transportation, communications—and enforcement efforts are not as strong as those at alternative warehousing sites

nearer to the cultivation/production sites of the drugs. The largest “warehousers” are organized crime groups of Nigerian, Venezuelan, Colombian and Chinese nationals.

Heroin is smuggled into South Africa from Southeast and Southwest Asia, with some onward movement 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. These indications give rise to further concerns about the spread of HIV/AIDS through shared needles. A recent prevalence study conducted with 8-11 graders across South Africa, by the Medical Research Council of South Africa, showed that 12 percent had used marijuana and a shocking 11 percent had tried heroin.

Domestic Programs. South Africa has had a long history of mandrax and “dagga” abuse; drug counselors have noted in the past two to five years large increases in the number of patients seeking treatment for crack and heroin addiction. General budgetary constraints have meant that SAG subsidies for non-government drug rehabilitation agencies have been cut over the last three to four 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 themselves for drug abuse problems. Figures for 2003 (January to June), show that percentage as 8 percent for Cape Town, 5 percent in Durban, and 2 percent in Port Elizabeth. The prevalence study mentioned above shows a much greater percentage of youth abusing drugs than are seeking treatment.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. Crime remains an important issue in South Africa. U.S. law enforcement officers from the DEA, FBI, and DHS successfully cooperate with their South African counterparts. The U.S. urges the SAG to strengthen its implementation of current legislation and its law enforcement system—and thus become able to prosecute more sophisticated organized criminal activities, including drug trafficking. In support of these objectives, the U.S. has provided material assistance and training for a wide array of South African law enforcement units including the South African Police Service, the Directorate for Special Operations, the Johannesburg, Tshwane and Durban Metro Police, Home Affairs, the South African Revenue Service and the Department of Correctional Services.

The Road Ahead. Although the SAG is committed to creating 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

Swaziland continues to be a center for trafficking in Southern Africa. In 2003, authorities seized marijuana, heroin (brown sugar and Thai white), Ecstasy (MDMA), mandrax, and cocaine that were en route from Mozambique to South Africa. Marijuana is the main, if not only, drug cultivated in Swaziland. It is grown primarily in the Piggs Peak area, in the northwest of the country. Although cocaine and mandrax use appears to be growing among high school and university students, the vast majority of all drugs are destined for South Africa and elsewhere.

The Royal Swaziland Police Service (RSPS) does its best to eradicate marijuana crops and combat trafficking, but weak legislation and poor resources have prevented them from making more progress in these areas. For example, under Swaziland's outdated criminal code, ecstasy is not an illegal substance, and police can seize the drug but cannot arrest the holder. Furthermore, because prosecution for drug offenses is limited to possession, organizers and conspirators cannot be prosecuted unless they also possess drugs. As a result, the RSPS remains a reactive rather than a proactive force. During 2003, authorities seized Swazi marijuana that was destined for the U.S., UK, Europe, and Japan. Swaziland is a party to the UN Drug Convention. It has also signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

There have been arrests of Anti-Drug Unit officers in the past year, but overall corruption appears to be minimal and not tolerated by commanding officers. As a matter of government policy and practice, Swaziland does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions. As for the production of designer drugs, there is no indication that these are manufactured in Swaziland, and no labs have been identified or arrests made. South African Police Service officials are training RSPS so that they may better assess, identify, and seize such operations if necessary in the future.

Syria

I. Summary

In 2003, the Syrian government continued to prioritize and devote significant resources towards combating the drug trade. Although drug seizures increased measurably and domestic usage was negligible, Syria remained an important transit country. Jordan and the Gulf States remained the primary destinations for drugs transiting Syria from Lebanon and Turkey. Syrian authorities reported a reduction in the amount of opium transiting Syria from Pakistan and Afghanistan 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, and in 2003 initiated cooperation with Saudi Arabia. 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 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.

Since Syria was removed from the Majors List in 1997, The U.S. continues to monitor Syria's efforts to suppress cultivation of poppies in the Biqa' Valley, as well as the effect of drugs transiting Syria to the U.S., and sees no evidence that cultivation of significant amounts of either opium or cannabis has resumed, despite initial reports to the contrary in 2001.

III. Country Actions Against Drugs in 2003

Policy Initiatives. In 2002 Syrian authorities prepared a draft decree, which was expected to be released in early 2003, that was to provide financial incentives of up to several million Syrian pounds (3 million SP=apx. \$57,309) to anyone providing information about drug trafficking and/or cultivation in Syria. The draft decree was not enacted in 2003 because of a lack of funding and there is no expectation that there will be sufficient funding to do so in 2004. On September 9, 2003, the Syrian government enacted anti-money laundering legislation (Legislative Decree Number 59) consistent with guidelines adopted at the 1998 Arab League General Assembly.

In 2003, for the first time, Syrian authorities initiated joint narcotics investigations with Saudi Arabia. Syrian and Saudi counternarcotics officials worked together in four cases to investigate the illegal transport of Captagon pills through Syria to Saudi Arabia.

Syria's antitrafficking law of 1993 calls for the death penalty for certain offenses. In practice, however, most death sentences are commuted and the maximum sentence imposed is 30 years imprisonment. There were no death sentences in narcotics-related cases in 2003. Many cases are pending under the antitrafficking law, and there are ongoing prosecutions of drug offenders. Syrian law permits the seizure of assets that are the proceeds of crime.

Accomplishments. Seizure rates of some illegal substances, including hashish, increased in 2003. Arrests and convictions for drug related offenses also increased. Within Syria, the Syrian authorities confiscated 36 kilograms of cocaine, 7 kilograms of opium, 1,863 kilograms of hashish, and 2.2

million Captagon pills. Syrian authorities reported the arrest of 3,505 individuals on narcotics-related charges in 2,360 narcotics-related cases in 2003.

In 2001, there were allegations that Syria did not use its authority in Lebanon to suppress drug cultivation in the Syrian-controlled Lebanese Biq'a Valley. In 2002 and 2003, however, the Syrian government cooperated with the Lebanese police on successful opium and cannabis eradication programs. In August 2003, approximately 7,235,350 square meters of cannabis fields were eradicated. In December 2003, Lebanese authorities, with the support of Syrian authorities, carried out raids in the Northern Biq'a valley which resulted in the arrest of 75 individuals (many of whom were wanted for drug violations) and the seizure of 200 kilograms of hashish and seven kilograms of heroin and cocaine.

Key border stations were staffed with personnel and specialized dogs trained in detecting concealed drugs.

Law Enforcement Efforts. Drug seizures increased in 2003. Syrian officials characterized cooperation on drug issues with neighboring Saudi Arabia, Jordan, Turkey, and Lebanon on narcotics issues as "excellent."

Corruption. In the past there have been unconfirmed reports of corruption among some Syrian military officials in Lebanon involving the issuance of passes permitting the free movement of goods and persons in return for bribes. The Syrian government has an Investigations Administration (Internal Affairs Division) responsible for weeding out corrupt officers in the counternarcotics unit and the national police force. The Investigations Administration is independent of both the counternarcotics unit and the national police and reports directly to the Minister of the Interior. According to Syrian authorities, there were no arrests or prosecutions of officers in the counternarcotics unit for corruption in 2003; Syrian authorities did not provide information on whether any investigations were conducted. As a matter of government policy and practice, Syria does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

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. Syria has signed, but has not yet ratified, the UN Convention Against Transnational Organized Crime and its protocols.

Cultivation/Production. The Syria Government (SARG) 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. Despite increased seizure rates, Syrian officials estimate that in 2003 the overall flow of narcotics transiting Syria and destined for other countries in the region was approximately the same as in 2002. Transshipment of narcotics from Turkey continues to represent the major challenge to Syria's counternarcotics efforts. The SARG's reported seizure statistics suggest that either the overall flow of narcotics has increased, or that SARG counternarcotics efforts have been more effective in seizing shipments of hashish and cocaine transiting through Syria to Europe and other Middle Eastern countries, of opium transiting from Afghanistan through Syria to Turkey, and of Captagon pills transiting from Turkey through Syria to Saudi Arabia.

Domestic Programs/Demand Reduction. Due to the social stigma attached to drug use and stiff penalties under Syria's strict antitrafficking law, the incidence of drug abuse in Syria remains low. The SARG'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 individual Syrian officials in the drug trade.

Bilateral Cooperation. U.S. Embassy officials in Damascus and DEA officials based in Nicosia maintain an ongoing dialogue with Syrian authorities in the Counternarcotics Directorate. Additionally, high-ranking U.S. officials periodically share their views and recommendations with the Syrian ministries of Foreign Affairs and Interior. Syrian Ministry of Interior officials characterize cooperation with the Nicosia DEA office as excellent.

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 improve its counternarcotics cooperation with neighboring countries.

Tanzania

I. Summary

Tanzania is located along trafficking routes from Asia and the Middle East to South Africa, Europe and the United States. Drugs like hashish, mandrax, cocaine, heroin and opium have found their way into and through Tanzania's porous borders. In addition, the domestic production of cannabis is a significant problem. As a result, drug abuse, particularly involving cannabis, as well as cocaine and heroin, is gradually increasing, especially among younger, more affluent people and in tourist areas. In 2002, 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 and through Tanzania's porous borders.

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 United States. Drugs enter Tanzania by air, sea, roads and rail. Major points of entry include airports in Dar es Salaam, Zanzibar and Kilimanjaro, and sea ports at Dar es Salaam and Zanzibar, as well as smaller ports like Tanga and Mtwara.

During the year, there were reports of "mules" carrying hard drugs to various African destinations via regional flights. It is widely believed that traffickers conduct a significant amount of narco-smuggling off-shore in small "dhow" boats that never stop in ports. In June of 2003, 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 2003

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. In 2003 the House of Representatives in Zanzibar passed their own Prevention of Illicit Traffic and Drugs Act, which puts Zanzibar narcotics law and sentencing in line with that of the mainland.

Accomplishments. Law enforcement officials have increased their efforts to combat narcotics trafficking, but still made only sporadic seizures during the year. Eradication of cannabis cultivation was more successful—over 111,000 kilograms of cannabis sativa were seized and destroyed in 2002, and police expect similar statistics for 2003.

Law Enforcement Efforts. Tanzania has increased its counternarcotics police force to nearly 75 officers in three branches located in Dar es Salaam, Zanzibar and Moshi. Additionally, over 300 regional officers throughout the country have received counternarcotics training. However, because of the still limited training and operational capabilities of its counternarcotics officers, Tanzania's efforts against narcotics are narrowly focused on street pushers and not effective at limiting narcotics trafficking. Senior Tanzanian counternarcotics officials acknowledge that their officers are under-trained and under-resourced. For example, the harbor unit lacks modern patrol boats and relies on modified traditional wooden dhows to interdict smugglers. As a result of the lack of training and resources, Tanzanian officers and police staff do not effectively implement profiling techniques and seize large amounts of narcotics. Narcotics interdiction seizures generally result from tip-offs from police informants. Moreover, low salaries for law enforcement personnel provide a good deal of impetus to engage in corrupt behavior.

On the positive side, 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.

According to the most recent statistics, in 2002, the Criminal Investigative Police reported seizure of a total 2,461 grams of cocaine, 1,461 grams of heroin, 1,500 grams of mandrax, 850 grams of morphine, and 1,866 kilograms of cannabis resin. In addition, 111,511 kilograms of locally grown cannabis sativa were seized in a large-scale effort to eradicate cannabis plantations throughout the country. In 2003, police reported that four “swallowers” were apprehended at airports, three carrying pellets of cocaine and one carrying heroin. Full statistics for 2003 are not yet available.

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. In a highly publicized case, one customs officer was arrested and charged with corruption. The case is still pending. As a matter of government policy, however, the country does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions, nor does any senior official of the government encourage such activities.

Agreements and Treaties. Tanzania is a party to the 1988 UN Drug Convention. Tanzania also has signed the Southern African Development Community (SADC) Protocol on Drug Control, and the Protocol on Combating Drug Trafficking in the East African Region, which seeks to strengthen regional counternarcotics cooperation within the region, and also with Interpol, UNDCP and the International Narcotics Board. The Southern African Development Community, of which Tanzania is a member, has approved an counternarcotics action plan with the following objectives: 1) acquire information about drug use and trafficking in the region; 2) inform policy makers about the drug situation; and 3) develop legal frameworks to counteract drug use and trafficking. The 1931 U.S.-U.K. Extradition Treaty is applicable to Tanzania.

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. Police have seized equipment used to manufacture mandrax from clandestine laboratories in Dar es Salaam, suggesting continued

effort to establish domestic production. Most other illegal drugs imported into Tanzania are probably produced elsewhere.

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 in small quantities. Traffickers from landlocked countries of Southern Africa, including Zambia, use Tanzania for transit. The port of Dar es Salaam is a major entry point for mandrax from India headed towards South Africa.

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 spillover from trafficking and increased tourism both have contributed to an increase of domestic demand. The tourist industry has brought ecstasy (MDMA) to Zanzibar, and police reports confirm that crack cocaine is available locally. The Government of Tanzania has no programs to reduce demand for illegal narcotics.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. policy initiatives and programs for addressing narcotics problems in Tanzania are focused on training workshops and seminars for law enforcement officials. State Department law enforcement assistance includes 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 counterterrorism bureau is funding the "PISCES" program to improve interdiction capabilities at major border crossings. While the program targets terrorist activities, it has implications for narcotics and other smuggling as well.

The Road Ahead. U.S.-Tanzanian cooperation is expected to continue, with a focus on improving Tanzania's capacity to enforce its counternarcotics laws.

Togo

I. Summary

Togo is not a significant producer of drugs and its role in the transport of drugs is primarily regional. During 2003, however, the drug trade in Togo increased substantially. 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 resultant suspension of most international development aid. The installation of an enormous cargo scanning x-ray machine in October 2003 at the Lome Autonomous Port, part of an agreement between the Government of Togo (GOT) and a Swiss company named COTECNA, will noticeably improve Togo's ability to intercept drugs and illegal chemical substances arriving in Togo by sea. Togo is a party to the 1988 UN Drug Convention.

II. Status of Country

Drug abuse by Togolese citizens and crimes resulting from drug abuse were not numerous enough to constitute a threat to society in Togo in 2003. There are three agencies responsible for drug law enforcement: the police, the gendarmerie, and customs.

The only locally produced drug is cannabis and approximately 1-2 metric tons are seized each year. Heroin and cocaine, while not produced in Togo, are available, coming through the Port of Lome from South America and Afghanistan. In October 2003, police destroyed 893 kilograms of drugs which had been seized during the period of June 2002 until October 2003: 883.5 kilograms of cannabis valued at \$81,000, 1.775 kilograms of cocaine valued at \$81,000 and 6.085 kilograms of heroin valued at \$335,000. Lome serves as a transit point for drugs on their way to Nigeria, Burkina Faso, northern Ghana, and Niger. Togolese are not significant consumers. The great majority of smugglers are Lebanese or Ibo Nigerians. Togolese buy small amounts and sell to expatriates living in Lome. From January to November 2003, 42 people—of whom 35 were Togolese—were arrested for drug distribution: 37 men and 5 women. During the same period, 41 people were tried for narcotics-related crimes.

Togo's long and relatively porous borders permit narcotics traffickers easy access/egress. This relatively easy movement 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.

III. Country Actions Against Drugs in 2003

Policy Initiatives. A master plan to counter narcotic trade was developed under the auspices of the Narcotic Control Coordinating Committee(CNAD). The Ministry of Interior appealed to members of the public to denounce illegal users and traffickers of drugs. In April 2003, Ghana and Togo created joint security units at the borders of Mognori, Kulungugu, and Pulimakom to combat drug and arms trafficking across the border.

Law Enforcement Efforts. The number of arrests increased somewhat in 2003. Only occasional spot checks are made of passengers at the airport. The new cargo screening ability at the Port of Lome will, however, aid the interdiction of drugs arriving by sea. 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.

The greatest obstacles that the GOT faces in apprehending drug distributors are the government's lack of computer technology, lack of communication and coordination, and mutual distrust among the three agencies responsible for drug law enforcement. There is no reporting, record keeping or cross-agency communication process.

Corruption. The Anti-Corruption Commission (ACC) made no drug-related arrests of government officials and, to USG knowledge, no government officials are involved in the drug trade. Unsubstantiated rumors abound that unnamed officials in various GOT agencies can be bribed to allow illicit narcotics to transit to or through Togo.

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. Togo has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. The only drug cultivated in quantity is cannabis, which can be grown in all five of Togo's regions. Cultivation is primarily for local demand although some cross border distribution by small-scale dealers is suspected.

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 the region, before being dispatched to final consumption markets.

Domestic Programs (Demand Reduction). 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.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The primary goal of the U.S. 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 is not a significant drug transshipment country. The government has an active youth demand reduction education program and encourages NGOs' counternarcotics educational activities. Tunisia is a party to the 1988 UN Drug Convention, and its domestic law contains the legislative provisions mandated by the 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 drug 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. Before Tunisia gained its independence, cannabis was cultivated legally for local use.

III. Country Actions Against Drugs in 2003

Accomplishments. The Government of Tunisia (GOT) continues to give a high priority to counternarcotics law enforcement. Tunisian media reported that law enforcement authorities seized a small amount of drugs, mostly hashish, and arrested a handful of drug abusers and traffickers in 2003. Hard drugs remain difficult to find or buy in Tunisia. Counterterrorism legislation containing money laundering provisions was passed in December 2003.

Policy Initiatives. In December 2003, the Tunisian Parliament passed law no. 94/2003 criminalizing support and financing to individuals, organizations, or activities related to terrorism, including the laundering of money for this purpose.

Law Enforcement Efforts. Tunisian authorities did not make publicly available comprehensive information on counternarcotics law enforcement. Media occasionally reports on law enforcement efforts to break up small rings of Tunisian hashish traffickers and to arrest cannabis users.

Corruption. In 2003 Tunisia had no publicized cases of public narcotics-related corruption. There is not any explicit or implicit official support for narcotics-related activities.

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. Tunisia is also a party to the UN Convention against Transnational Crime and the Protocol to Prevent, Suppress, and Punish Trafficking in Persons, supplementing this convention.

Cultivation/Production. There is negligible cultivation and production of illicit drugs in Tunisia. Some cannabis is grown in northern Tunisia.

Drug Flow/Transit. Tunisia is not a major drug transshipment country. There are regular reports of 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 large addict population in Tunisia.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The U.S. will continue to work closely with Tunisia to improve narcotics law enforcement. The U.S. supports Tunisian efforts to comply fully with the 1988 UN Drug Convention, and it seeks Tunisian support for U.S. international counternarcotics initiatives.

United Arab Emirates

I. Summary

Although not a narcotics-producing nation, the United Arab Emirates (UAE) is believed to be a transshipment point for traffickers moving illegal drugs from the major drug-producing countries, especially Afghanistan, westward. Frequent reports of seizures of illegal drugs in the UAE during the past year underscore this conclusion, although most seizures have been of “soft” drugs like hashish, not “hard” drugs like heroin. Besides the country's general laissez-faire attitude toward trade—although not drugs—there are several other factors that render the UAE a way-station, 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, which is notable given the country's harsh drug laws. A Ministry of Health report in late 1998 asserted that there were approximately 12,500 drug addicts in the country of 3.1 million people. The UAE is a party to the 1988 UN Drug Convention.

II. Status of Country

A major regional financial center and 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 the United States. Western Europe is the principal market for these drugs. Statistics on drug-related cases released by the UAE government (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 are the emergence of Dubai and Sharjah as regional centers in the transportation of passengers and cargo, a porous land border with Oman, and the fact that a number of ports in the UAE are de facto “free ports”—transshipped cargo are not subject to inspection, as are other goods that enter the country.

III. Country Actions Against Drugs in 2003

Policy Initiatives. The UAE continued in 2003 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 studying a proposal to establish a federal General Directorate to replace the existing federal committee for fighting drugs. This reorganization, if approved, would mean additional manpower and a larger budget to wage the war on drugs.

The UAE's Federal Supreme Court issued an important ruling in 2003 regarding proof that drug-offenders actually consume drugs in the UAE before they can be prosecuted. The Supreme Court decided that UAE law enforcement officials could not prosecute drug-users if the consumption took place in another country. A positive blood test for drugs is considered evidence of consumption, but does not determine whether the drug-taking occurred in the UAE or abroad.

Law Enforcement Efforts. In 2003, the UAE Ministry of Interior established a countrywide database that is accessible to emirate-level police departments. This is a major step forward in coordinating narcotics-related information throughout the UAE.

Punishment for drug offenses is severe; a 1995 law stipulates capital punishment as the penalty for drug trafficking. No executions, however, have ever taken place, and sentences usually are commuted

to life imprisonment. In November, the Dubai Supreme Court handed a death sentence to two of six drug smugglers who set fire to a boat containing cannabis, as the Anti-Narcotics Squad approached them off the Dubai coast. The rest of the gang received life sentences. According to police, the six smugglers were carrying more than 800 kilograms of cannabis on board their boat.

Several other high-profile seizures in 2003 indicate that UAE authorities continue to take seriously their responsibility to interdict drug smuggling and distribution. In June, Dubai authorities seized a shipment of 350 kilograms of opium from a dhow belonging to an Iranian trader. International news wire services reported the event as “the largest ever” seizure of opium in the UAE. As of mid-2003, 525 people had been arrested in the UAE on drug-related charges.

The UAE signed a landmark counternarcotics agreement with Iran in 2003 providing for cooperation against production, distribution, and smuggling of illicit drugs across the UAE-Iran sea border. Press reports note that UAE and Iranian border forces will work together to identify smuggling routes, and jointly conduct some counternarcotics training in 2004. UAE police attended a series of UN-sponsored counternarcotics training programs in Iran in 2003.

Organized crime is not a major security threat in the UAE, but the very public assassination of an infamous Indian gangster and suspected drug-runner in Dubai in January forced the UAE authorities to acknowledge the existence of organized crime in the UAE. Further anecdotal evidence suggests that a Russian mafia is growing increasingly influential in prostitution and the narcotics trade. In 2003, UAE authorities worked to dismantle the activities of Indian and Russian gangs, and extradited a number of henchmen back to their native countries to stand trial.

Corruption. UAE officials aggressively pursue and arrest individuals involved in illegal narcotics trafficking and/or abuse. There is no evidence that corruption, including narcotics-related corruption, of public officials is a systemic problem.

Agreements and Treaties. No extradition or mutual legal assistance treaties (MLAT) exist between the United States and the UAE, although the two countries are exploring whether to negotiate an MLAT. The UAE is party to the 1988 UN Drug Convention, the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1988 UN Convention on Psychotropic Substances. The UAE has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. There is no evidence of drug cultivation and/or production in the UAE.

Drug Flow/Transit. Narcotics smuggling from south and southwest Asia continues to Europe and—to a significantly lesser degree—the United States via the UAE. Hashish, heroin, and opium shipments originate in Pakistan, Afghanistan, and Iran and are smuggled in cargo containers, via small vessels and powerboats, and/or sent overland via Oman. The UAE, and Dubai in particular, is a major regional transportation and shipping hub. High volumes of shipping render the UAE vulnerable to exploitation by narcotics traffickers. UAE authorities recognize that the number of human carriers of illicit narcotics transiting local airports is also on the rise. Dubai police foiled 83 attempts to smuggle drugs through Dubai International Airport in 2002. The police also caught a number of traffickers trying to smuggle drugs over the UAE land border by truck and horseback.

Recognizing the need for increased monitoring at its commercial shipping ports, airports, and borders, the UAEG is making an effort to tighten inspections of cargo containers as well as passengers transiting the UAE. Customs officials and inspectors received specialized training on ferreting out prohibited items from U.S. DHS and Commerce's Bureau of Industrial Security in December 2003. Customs officials randomly search containers and follow up leads of suspicious cargo. Dubai Ports Authority purchased state-of-the-art equipment for rapid, thorough searches of shipping containers and vehicles.

Domestic Programs (Demand Reduction). To mark the occasion of International Anti-Narcotics Day on June 26, the UAEG released a report outlining the drug problem in the UAE. The report noted that the majority of UAE drug users take their first dose abroad, primarily because of peer pressure. Statistics reveal that 75 percent of drug users in the UAE prefer hashish, 13 percent use heroin, while 6 percent use morphine. The report illustrates a clear relationship between drug abuse and level of education—75 percent of arrested drug users in 2002 were high school graduates, but only 2 percent were university graduates. Local press reports the street value of one kilogram of Pakistani hashish to be an approximate 5,000 Dirhams (\$1,362) in Abu Dhabi and about 4,500 Dirhams (\$1,226) in Dubai. The price is said to be highest in Abu Dhabi and Dubai because the customer base in these two emirates tends to be more affluent.

The focus of the UAEG's domestic program is to reduce demand through public awareness campaigns directed at young people and the establishment of rehabilitation centers. UAE officials believe that 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. An affluent country, the UAE has established an extensive treatment and rehabilitation program for its citizens. There is a rehab 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. Those nationals who do not turn themselves into local authorities are referred to the legal system 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.

Most UAE nationals arrested on drug charges are placed in one of the UAE's drug treatment programs. They undergo a two-year drug rehabilitation program, which includes family counseling/therapy. The Emirate of Ras Al-Khaimah announced in June that it would require former addicts to undergo a weekly blood test for an additional two years upon completing the drug treatment program. Ras Al-Khaimah authorities discovered that some resume taking drugs, even after completing the rehabilitation program. The police issue a search warrant for the drug addict if he or she misses a scheduled blood test.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S. Mission to the UAE seeks continued and enhanced participation by the UAEG in programs dealing with narcotics trafficking, precursor chemicals diversion, border/export control, and money laundering. The U.S. Embassy in Abu Dhabi and the Consulate in Dubai in 2003 organized, in conjunction with Washington-based agencies, additional training initiatives related to money laundering, border/export control, and the investigation and prosecution of related crimes.

The 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 and UAE are actively considering whether to negotiate an MLAT treaty, which would facilitate the exchange of information related to drug and financial crimes. The USG will encourage the UAEG to focus enforcement efforts on dismantling major trafficking organizations and prosecuting their leaders, and to enact export control and border security 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 a dramatic ten-fold increase in seizures of cannabis in 2003 over the previous year. Seizures of other drugs remained small compared to most other countries, even though the DEC confiscated a much larger quantity of amphetamines this year (4 kilograms versus 19 grams last year). The DEC works closely with other Zambian law enforcement agencies and has a strong record of cooperation with foreign governments, including the U.S. 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.

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 95 percent of illegal drug seizures in 2003. 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 2003

Policy Initiatives. In 2003, the DEC intensified its outreach efforts to schools. DEC officers have now given presentations at every primary school in Lusaka province.

Law Enforcement Efforts. DEC statistics show a dramatic increase in seizures of cannabis and amphetamines. The DEC reports confiscation of 114 metric tons of cannabis from January through November of 2003, versus 16 metric tons for all of 2002. During the same period, the DEC confiscated four kilograms of the amphetamine methaqualone (mandrax), compared to just 19 grams in 2002. An important contributing factor to the increase in seizures was the improved professional capacity of DEC officers, achieved in part through USG training programs. Drug-related arrests increased slightly in 2003. There were 3,534 through November, compared with 3,288 in the first ten months of 2002. Of the persons arrested for drug offenses in the first eleven months of 2003, 115 were foreign nationals. Of these, 23 came from the Democratic Republic of Congo, 21 from Tanzania, and 7 from Zimbabwe.

Corruption. In 2003 the Government of Zambia continued 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 have been general good government initiatives and have 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.

Agreements and Treaties. Zambia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol. A 1931 extradition treaty between the U.S. and the UK governs extraditions from Zambia.

Drug Flow and Transit. In 2003 there was no evidence that large quantities of drugs flowed through Zambia to other jurisdictions. In the first months of 2003, the DEC intercepted only 1.5 kilograms of heroin and just over 50 grams of cocaine.

Domestic Programs. The DEC's demand-reduction effort consists mainly in education programs carried out in schools and the workplace. The government has no specialized facilities for drug treatment. DEC officials report that there are fewer than 200 known addicted users of drugs in Zambia.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. provides significant training assistance to Zambian law enforcement agencies, including the DEC. In 2003 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. The U.S. will continue to work with Zambia's government and law enforcement officials in the area of narcotics control.

Zimbabwe

I. Summary

Zimbabwe is not a major producer, supplier, or exporter of drugs or precursor chemicals. Cannabis remains the biggest drug problem in Zimbabwe, with the majority (80 percent) being imported from Malawi, Mozambique, and Zambia, while the remainder is home grown. Cocaine has risen to be the second most popular drug in Zimbabwe, overtaking Ecstasy. For many of the drugs being tracked (cannabis, cocaine and heroin), Zimbabwe is a transshipment point on the route to other countries. 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 unfunded and inactive.

II. Status of Country

Production, cultivation, and trafficking in illicit drugs in Zimbabwe are considered rather 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 of cannabis (80 percent) being imported from Malawi, Mozambique, and Zambia. A large percentage of the drug is re-exported to Botswana and South Africa. Cocaine has risen to be the second most popular drug in Zimbabwe, overtaking Ecstasy. Cocaine is predominately smuggled in from Brazil and other Latin American countries. Zimbabwe Republic Police (ZRP) report that “the bulk” of the cocaine imported is re-exported to other countries.

Ecstasy is predominately consumed in the rave/night club party scene and is imported from the Netherlands, Britain, and South Africa. Hashish, heroin, and LSD have also been noted in very limited quantities in larger urban areas such as Harare, Bulawayo, and Gweru. Unaffordable to the mainstream population, these drugs are generally used by affluent suburban youths. Due to its location along established routes, Zimbabwe has also been identified as a transshipment point for mandrax (methaqualone), a synthetic drug produced in India and Pakistan for distribution primarily 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 2003

Zimbabwe is a party to the 1988 UN Drug Convention, as well as the SADC Protocol. Zimbabwe has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. While the five-year Zimbabwe Drug Control Master Plan was formulated in 2000, it has yet to be implemented by the Government of Zimbabwe (GOZ). In a recent report by the ZRP, they described their drug enforcement activities as an “absence of meaningful drug seizures and noteworthy arrests.” Nevertheless, offenders continue to be prosecuted in the courts. Narco-money laundering does not appear to be a problem and there are no known indicators to demonstrate or suggest that government officials are engaged in or encourage illicit drug production or distribution.

IV. U.S. Policy Initiatives and Programs

The U.S. Government neither conducted nor proposed any counternarcotics policy initiatives in Zimbabwe during the past year. Zimbabwe's overall problems with illicit drugs are relatively small, certainly in comparison with many neighboring countries, but unfortunately it appears the GOZ's counternarcotics efforts continue to be sidelined by a more pressing, yet controversial, political agenda.

The Road Ahead. Internal political difficulties dominate events in Zimbabwe. Re-integration into more intense international cooperation against narcotics trafficking awaits resolution of Zimbabwe's political difficulties.



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

International Narcotics Control Strategy Report

Part II
Money Laundering
and Financial Crimes

March 2004

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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
UN Convention	1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNODCCP	United Nations Office for Drug Control and Crime Prevention
USAID	Agency for International Development
USG	United States Government
ha	Hectare
HCl	Hydrochloride (cocaine)
Kg	Kilogram
Mt	Metric Ton

MONEY LAUNDERING AND FINANCIAL CRIMES

The 2004 report on Money Laundering and Financial Crimes is a legislatively mandated section of the U.S. Department of State's annual International Narcotics Control Strategy Report. This report on Money Laundering and Financial Crimes is based upon the contributions of numerous U.S. Government agencies and international sources. A principal contributor is the U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN), which, as a member of the international Egmont Group of Financial Intelligence Units, has unique strategic and tactical perspective on international anti-money laundering developments. FinCEN is the primary contributor to the individual country summaries and the suspicious activity report analyses. Other key contributors are the U.S. Department of Justice's Asset Forfeiture and Money Laundering Section of Justice's Criminal Division, for its central role in constructing the Money Laundering and Financial Crimes Comparative Table and its role in providing international training, as well as the Office of Counterterrorism, that provided law enforcement case data. Many agencies provided information on international training, technical and other assistance and/or law enforcement cases including the Department of Homeland Security's Bureau of Immigration and Customs Enforcement; Justice's Drug Enforcement Administration, Federal Bureau of Investigation, and the Office for Overseas Prosecutorial Development Assistance; and Treasury's Executive Office for Terrorist Financing and Financial Crimes, the Internal Revenue Service, the Office of the Comptroller of the Currency, and the Office of Technical Assistance. Also providing information on training and technical assistance are independent regulators, the Federal Deposit Insurance Corporation and the Federal Reserve Board.

Legislative Basis for the INCSR

The Money Laundering and Financial Crimes section of 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 2004 INCSR, issued in two volumes, is the eighteenth 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 initially set forth in section 591 of the Kenneth M. Ludden Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2002 (P.L. 107-115) (the "FOAA"), and now made permanent pursuant to section 706 of the Foreign Relations Authorization Act, Fiscal Year 2003, (P.L. 107-228)(the "FRAA").

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. In addition to identifying countries as major sources of precursor chemicals used in the production of illicit narcotics, the INCSR is mandated to identify major money laundering countries (FAA §489(a)(3)(C)). The INCSR is also required to report findings on each country's adoption of laws and regulations to prevent narcotics-related money laundering (FAA §489(a)(7)(c)). This report is that section of the INCSR that reports on money laundering and financial crimes.

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:

Major Money Laundering Countries in 2003

Antigua and Barbuda, Australia, Austria, Bahamas, Bosnia and Herzegovina, Brazil, Burma, Canada, Cayman Islands, China, Colombia, Costa Rica, Cyprus, Dominican Republic, France, Germany, Greece, Guernsey, Haiti, Hong Kong, Hungary, India, Indonesia, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Luxembourg, Macau, Mexico, Nauru, Netherlands, Nigeria, Pakistan, Panama, Paraguay, Philippines, Russia, Singapore, Spain, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uruguay, and Venezuela.

The Money Laundering and Financial Crimes section provides further information on these countries/entities and United States money laundering policies, as required by section 489 of the FAA.

Introduction

“Follow the money” became an increasingly important and effective thrust of law enforcement and other international efforts in the fight against transnational crime and terrorism in 2003. Against the backdrop of terrorist attacks in Saudi Arabia, Malaysia, the Philippines, Thailand, Turkey, Indonesia, Israel and Russia last year, the international community intensified its efforts to develop coordinated, targeted actions to thwart money laundering and terrorist financing. By the end of the year, important gains had been made across all fronts that mattered most, setting the stage for further progress in 2004 and beyond. International anti-money laundering and antiterrorist financing standards were stronger and increasingly in effect in more countries. The countries most vulnerable to terrorist financing were well on their way to receiving technical assistance packages to develop comprehensive anti-money laundering regimes to eliminate these vulnerabilities. Assets belonging to criminals and terrorists continued to be identified, frozen, and seized. Intelligence developed by following the money led to the identification and subsequent investigation of key criminals and terrorists or terrorist supporters. And scarce assistance assets also were used more efficiently: burden sharing among our allies in the donor community expanded and reliance on regionally focused training programs grew.

One important positive measure of these developments is that crime and terrorism-related funds are now harder than ever to move clandestinely through formal domestic and international financial channels. But this achievement hardly means that we have put the money laundering and terrorist financing challenge behind us. The stakes remain too high for our adversaries to think they need not counter our efforts: transnational crime continues to pay big, and the terrorists are fighting for their survival. Money will continue to motivate, lubricate, and sustain their ambitions. And if they cannot now move or acquire funds as easily as they did before through formal channels, they will seek alternative laundering and financing methods to undermine our international efforts and overcome the obstacles we have thrown in their way. Evidence of this can be seen as investigation after investigation reveals the increasingly important role of “alternative remittance systems”—Hawalas, the black market peso exchange, and other forms of trade-based money laundering—in facilitating transnational crime and terrorism. Often based simply on trust of family and ethnic cohorts, these systems of “recordless” transactions are shaping the next generation of anti-money laundering and antiterrorist financing challenges. The challenges presented by the use of these systems are also influencing the responses of authorities worldwide with regard to setting of standards, training, institution building, data collection, and investigations.

On the standard-setting front, the Financial Action Task Force (FATF) continued to provide critical guidance as to how best to attack the full range of financial crime. FATF welcomed South Africa and Russia as its 32nd and 33rd members, and it completed the second revision of its Forty Recommendations since its formation in 1989. The revisions address a number of deficiencies in

earlier versions, such as the need to prohibit shell banks and to cover “gatekeepers” like lawyers, accountants, and notaries who work outside the financial sector but can nevertheless help with arranging and structuring accounts. FATF also elaborated on its eight Special Recommendations on Terrorist Financing, which it promulgated in 2001 by publishing guidance and best practices notes to help regulators, enforcers, financial institutions and others better understand and implement the most technical recommendations. The FATF-style regional bodies worked throughout the year to adopt these recommendations in line with their particular regional requirements. The IMF and World Bank have also incorporated FATF’s recommendations into the financial sector reviews they undertake.

FATF sustained the behavior-changing pressure of its Non-cooperative Countries and Territories (NCCT) process. Out of the 23 jurisdictions FATF has designated as NCCTs over the past five years, nine still remain on the list, and of those, FATF member states are imposing additional countermeasures on Nauru and Burma for their persistent inability to adequately comply with FATF’s recommendations. As a rule, however, the threat of countermeasures has motivated countries to improve their compliance, to wit: Ukraine passed new anti-money laundering laws in early 2003 just in time to have FATF lift countermeasures for Ukraine at its February plenary, and the Philippines, after receiving assistance from the United States, Australia, and Japan, passed revised anti-money laundering laws in time for countermeasures that were to go into effect in March to be withdrawn.

The United States remains particularly concerned about terrorist financing activity in a core set of approximately two-dozen countries around the world. Accordingly, the bulk of U.S. anti-money laundering technical assistance is focused on making these countries less vulnerable to the terrorist financing threat and on making terrorists and their assets more vulnerable to counter attacks. The U.S. State Department is funding most of this inter-agency effort and is coordinating and leading the entire undertaking of technical assistance. So far, the Department has led comprehensive vulnerability and needs assessments of, and produced training and technical assistance implementation plans for, 17 of these priority countries. The remaining assessments are planned for 2004, security and political conditions permitting. Assistance, pegged to the implementation plans, is being provided to all of the assessed countries. The program takes a systemic and comprehensive approach, with assistance—targeted at five core objectives—delivered in both sequential and parallel stages:

- Countries must first have adequate anti-money laundering/antiterrorist financing laws. They must comply with FATF’s anti-money laundering and antiterrorist financing recommendations including the criminalization of money laundering and terrorist financing and the establishment of effective measures to block and freeze assets.
- With appropriate laws in place, training and technical assistance can be focused to simultaneously develop the three core entities responsible for implementing laws. Training is provided for criminal investigators in customs and other law enforcement services to assist them in detecting and tracking money laundering and terrorist financing and in developing the evidence to support indictments and prosecutions against criminals and terrorists; for regulators that supervise the financial sector so that they can ensure that all relevant banking and nonbanking financial institutions know and follow “know your customer,” suspicious transaction reporting, and other record keeping and good practices procedures; and for the prosecutors and judges who will be key to the criminal prosecution of cases against criminals, terrorists and their supporters.
- Typically, the capstone to this effort is the development of Financial Intelligence Units (FIUs), which are often tasked with developing the regulations that banking and nonbanking financial organizations must follow and where suspicious transaction reports and other intelligence is collected, analyzed and disseminated both to help

develop cases domestically and sharing internationally through FIUs in other countries as part of transnational investigations.

The U.S. Government, however, is not the sole provider of such assistance. The United States supports a number of regional training programs around the world in which officials from neighboring countries are brought together for specialized anti-money laundering and antiterrorist financing training. The global network of International Law Enforcement Academies (ILEAs), funded and managed by the State Department's Bureau of International Narcotics and Law Enforcement Affairs (INL), has enhanced its anti-money laundering curricula, including the incorporation of new segments on terrorist financing. The State Department's Anti-terrorist Assistance (ATA) Program similarly includes terrorist financing segments in the curricula it delivers at various antiterrorism training centers around the world such as the Malaysian-run Southeast Asia Regional Center for Counterterrorism. These and other broad-based training initiatives allowed the U.S. to provide some form of anti-money laundering or antiterrorist financing assistance to nearly 100 countries in 2003.

International efforts to identify, block, and freeze terrorist assets persevered in 2003; however, the task is growing more challenging as the most vulnerable targets have been successfully attacked and as terrorists employ countermeasures to further protect their funds. The U.S. Treasury reports that at the end of 2003, some \$140 million worth of terrorist assets worldwide have remained blocked since the crackdown began shortly after September 11, 2001. This represents approximately a 12 percent increase from the \$125 million total at the end of 2002.

A number of factors help explain the slower pace in 2003. Most notably, assets were less concealed and thus more vulnerable to detection and blocking when measures were suddenly implemented in the immediate aftermath of 9/11; in short, the low hanging fruit has been picked. Meanwhile, to avoid the successful targeting of the formal financial sector, terrorist organizations appear to be placing more emphasis on traditional, ethnic-based alternative remittance systems, including trade-based money laundering, and on nongovernmental organizations such as charities. Identifying and tracking funds through these alternative networks—a tough enough assignment even for countries with sophisticated anti-money laundering regimes—is a staggering challenge for many of the key terrorist financing countries who are only now beginning to develop competent anti-money laundering institutions. The FATF has sought to help overcome this challenge by issuing various interpretative notes and best practices guidelines on its Special Recommendations dealing with charities and the blocking and freezing of assets. Indeed, at its 2003 annual typologies meeting, which addressed such issues as money laundering trends and enforcement and regulation best practices, FATF focused on the charities problem, particularly the challenge of tracking and monitoring funds raised by charities when they are distributed in areas that have no formal banking, accounting, or record keeping infrastructure and depend on cash economies.

Finally, important substantive strides were made with regard to burden sharing in 2003. The proliferation of terrorist attacks around the world brought the threat home to more and more countries and underscored the fact that no one country has the sole obligation or wherewithal to meet the entire challenge. Sharing the burden of anti-money laundering and antiterrorist financing training and technical assistance is especially important because it is so labor intensive. U.S. experts are particularly stretched because of their frequent need to undertake, nearly simultaneously, assessment, training, and investigative missions. Efforts to identify priorities and coordinate assistance by the major donor countries took an important step forward at the June 2003 G-8 Summit in Evian. There the heads of state agreed to establish the Counterterrorism Action Group (CTAG) for these priority-setting and coordination purposes. CTAG consists of the G-8 members (U.S., UK, France, Germany, Italy, Canada, Japan, and Russia), the European Union, and representatives of the UN Counterterrorism Center, as well as other representatives, invited on a case-by-case basis, who have demonstrated a willingness and ability to provide counterterrorism assistance. CTAG—recognizing the importance of the issue and the potential for burden sharing—focused its first mission on terrorist

financing. It has partnered with FATF, providing that organization with a list of countries CTAG members are interested in providing assistance to so that FATF can assess their antiterrorist financing technical assistance needs. FATF will deliver these assessments to the CTAG in early 2004 enabling the donors for the first time to follow through with coordinated, cost-saving and gap-closing counterterrorism technical assistance programs.

As we look beyond the accomplishments of 2003 and into the future, we see that much still remains to be done to combat money laundering and terrorist financing. There remain significant challenges in the adoption and implementation of anti-money laundering and antiterrorist financing standards worldwide. However, two new FATF-style regional bodies may be established in 2004, bringing more rigorous anti-money laundering disciplines to two regions especially critical in the war against terrorism: the Middle East and Central Asia. The U.S. will significantly enhance its anti-money laundering programs in East Africa as part of the President's counterterrorism initiative for this region. Operationally, the biggest challenge will be countering moves by criminals and terrorists to conduct their transactions through alternative, often underground, remittance systems. This will press intelligence collection and criminal investigation skills to their limits as they struggle to be effective in very closed, often hostile foreign environments. One of the means being considered to attack this challenge is the creation of an international network of Trade Transparency Units (TTUs). Patterned after the international network of Financial Intelligence Units (84 worldwide) that, among other missions, collect, analyze and disseminate information on suspicious transactions, the TTUs would similarly focus on detecting anomalies in trade data—such as deliberate over and under-invoicing—that can be a powerful predictor of trade-based money laundering. By focusing on commodities that often serve as stores-of-value, such as gold and precious gems, and are used to settle accounts without involving the formal financial sector, the TTUs would get to the heart of much of the alternative remittance challenge and help expose the criminals, terrorists, and their associates and assets to punitive and deterrent enforcement action.

These initiatives will be essential to achieving further progress against money laundering and terrorist financing. Progress will continue to require strong, imaginative and well-resourced leadership from the United States. But we need not go it alone. The gains the United States made in 2003 through its diplomatic and technical assistance efforts show an increasing willingness of the international community to cooperate in this fight—to comply with the measures needed to block, deter, and expose money laundering and terrorist financing, and to provide the assistance needed to turn the political will to comply into the operational ability to enforce the laws and regulations that lead to the confiscation of crime and terrorist-related assets and the prosecution and conviction of money launderers and terrorist financiers.

Money Laundering and Terrorist Financing—A Global Threat

International recognition of, and action against, the threat posed by money laundering continue to increase. Money laundering poses international and national security threats through corruption of officials and legal systems, undermines free enterprise by crowding out the private sector, and threatens the financial stability of countries and the international free flow of capital. Undeniably, 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 September 11, 2001, the threat posed by money laundering's closely related corollary, terrorist financing, has also been more widely recognized. The amount of damage through loss of life and economic after-effects from a relatively small amount of operational funding can be devastating.

While terrorist financing shares most of the fundamental attributes of money laundering, 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

Most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial. While traditional narcotics-traffickers and criminal groups primarily seek monetary gain, terrorist groups usually seek nonfinancial goals, such as publicity for their cause and political influence. Ordinarily, criminal activity produces funds and other proceeds that traditional money launderers must disguise by taking large cash deposits and entering them into the financial system without detection. Funds that support terrorist activity may come from illicit activity but are also generated through means such as fundraising through legal nonprofit 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. 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), terrorist financiers need to place substantially fewer funds into the hands of terrorist cells and their members. This is a significantly easier task than seeking to disguise the large amounts of proceeds generated by criminal and drug kingpins.

Funding Sources

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.

While actual terrorist operations require only comparatively modest funding, international terrorist groups need significant amounts of money to organize, recruit, train and equip new adherents; and otherwise support their activities. In addition to direct costs, some terrorist organizations also fund media campaigns, buy political influence, and undertake social projects that help maintain membership and attract sympathetic supporters.

Because of these larger organizational costs, terrorists often rely in part on funds gained from traditional crimes such as kidnapping for ransom, narcotics trafficking, extortion, credit card fraud, currency and merchandise counterfeiting, 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 some criminal activity and then use a portion of the proceeds to finance their terrorism efforts. Indeed, some Foreign Terrorist Organizations (FTOs), such as the Revolutionary Armed Forces of Colombia, (FARC), the United Self Defense Forces of Colombia (AUC) and *Sendero Luminoso* (Shining Path) in Peru, are so closely linked to the narcotics trade that they are often referred to as "narcoterrorists."

Like narcotics-related money launderers, 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. Front companies are frequently established in offshore financial centers that provide anonymity, 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.

Money Movements of Criminal and Terrorist Funds

The methods used to move money to support terrorist activities are nearly identical to those used for moving and laundering money for general criminal purposes. In many cases, criminal organizations and terrorists employ the services of the same money professionals (including 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. Both terrorist organizations and narcotics-trafficking groups have exploited poorly regulated banking systems, and their built-in impediments to international regulatory and law enforcement cooperation, and have made use of their financial services to originate wire transfers and establish accounts that require minimal or no identification or disclosure of ownership.

In addition to the formal financial sector, terrorists and traffickers alike employ informal methods to move their funds. One common method is smuggling cash, gems or precious metals across borders either in bulk or through the use of couriers. Likewise, both traffickers and terrorists rely on currency or moneychangers. Moneychangers play a major role in transferring funds, especially 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 alternative remittance systems, such as “hawala” or “hundi”, and underground banking; these systems use trusted networks that 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 expatriate communities in other regions

Trade-based money laundering is used by organized crime groups and, increasingly, 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 the use of precious gems in Africa.

Some terrorist groups may also use Islamic banks to move funds. Islamic banks operate within 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. Some of the largest Islamic financial institutions now operate investment houses in Europe and elsewhere. Many of these banks are not subject to a wide range of anti-money laundering regulations and controls normally imposed on secular commercial banks nor do they 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 assure such compliance or the implementation of updated anti-money laundering policies.

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; but they are never far from the eventual revenue stream. By contrast, funds used to finance terrorist operations are very difficult to track. Despite this obscurity, 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.

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. While there are some important differences between how money laundering and terrorist financing is conducted, 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—are precisely the tools required to identify, interdict and disrupt terrorist financing.

Money Laundering Methods, Trends and Typologies

As in previous years, money launderers and supporters of terrorism 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 2003 and examples of the various money laundering/terrorist financing typologies.

Statistical Overview of U.S. Money Laundering Trends in 2003

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 (MSBs), including money exchangers, sellers of traveler's checks and money transmitters.

The requirements went into effect on January 1, 2002 for MSBs, on January 1, 2003 for brokers and dealers in securities, and on March 25, 2003 for casinos. The regulations generally require that covered financial institutions file a SAR when they suspect violations of law or suspicious activities involving amounts greater than between \$2,000 and \$5,000, depending on the institution's applicable reporting threshold. The following chart provides aggregate totals for SARs filed by depository institutions (i.e., banks, thrifts, savings and loans, and credit unions) from April 1, 1997 through June 2003. Additionally, a small part of the total volume relates to reports filed by affiliates of depository institutions or, in some cases, filed voluntarily by MSBs; by brokers and dealers in securities who were not affiliated with banks; or by gaming businesses that, during the time period, were not yet required under the Bank Secrecy Act (BSA) to file SARs.

From inception of the SAR requirement in April 1996 through June 2003, a total of 1,126,488 SARs were filed, with the volume of filings increasing from 52,069 during 1996 to 273,823 in 2002. During the first six months of 2003, 136,115 SARs were filed.

Money Laundering and Financial Crimes

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.

Table 1: Frequency Distribution of SAR Filings by Characterization of Suspicious Activity
April 1, 1997 Through June 30, 2003

Violation Type	1997	1998	1999	2000	2001	2002	2003
BSA/Structuring/Money Laundering	35,625	47,223	60,983	90,606	108,925	154,000	72,462
Bribery/Gratuity	109	92	101	150	201	411	261
Check Fraud	13,245	13,767	16,232	19,637	26,012	32,954	16,803
Check Kiting	4,294	4,032	4,058	6,163	7,350	9,561	5,333
Commercial Loan Fraud	960	905	1,080	1,320	1,348	1,879	934
Computer Intrusion ¹	0	0	0	65	419	2,484	3,605
Consumer Loan Fraud	2,048	2,183	2,548	3,432	4,143	4,435	2,271
Counterfeit Check	4,226	5,897	7,392	9,033	10,139	12,575	6,445
Counterfeit Credit/Debit Card	387	182	351	664	1,100	1,246	659
Counterfeit Instrument (Other)	294	263	320	474	769	791	615
Credit Card Fraud	5,075	4,377	4,936	6,275	8,393	12,780	6,037
Debit Card Fraud	612	565	721	1,210	1,437	3,741	4,575
Defalcation/Embezzlement	5,284	5,252	5,178	6,117	6,182	6,151	2,887
False Statement	2,200	1,970	2,376	3,051	3,232	3,685	2,316
Misuse of Position or Self Dealing	1,532	1,640	2,064	2,186	2,325	2,763	1,564
Mortgage Loan Fraud	1,720	2,269	2,934	3,515	4,696	5,387	3,649
Mysterious Disappearance	1,765	1,855	1,854	2,225	2,179	2,330	1,264
Wire Transfer Fraud	509	593	771	972	1,527	4,747	4,317
Other	6,675	8,583	8,739	11,148	18,318	31,109	15,854
Unknown/Blank	2,317	2,691	6,961	6,971	11,908	7,704	2,290
Totals	88,877	104,339	129,599	175,214	220,603	300,733	154,141

¹ The violation of Computer Intrusion was added to Form TD F 90-22.47 in June 2000. Statistics date from this period.

General Money Laundering Trends in 2003

Organized crime and narcotics-traffickers have used the following methods for decades to launder their illegal proceeds. These methods continue to be used frequently.

- 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.
- Movement of funds through countries that are on the FATF list of NCCTs.

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. Following is a review of U.S. money laundering trends in 2003 including examples of the various money laundering and terrorist financing typologies.

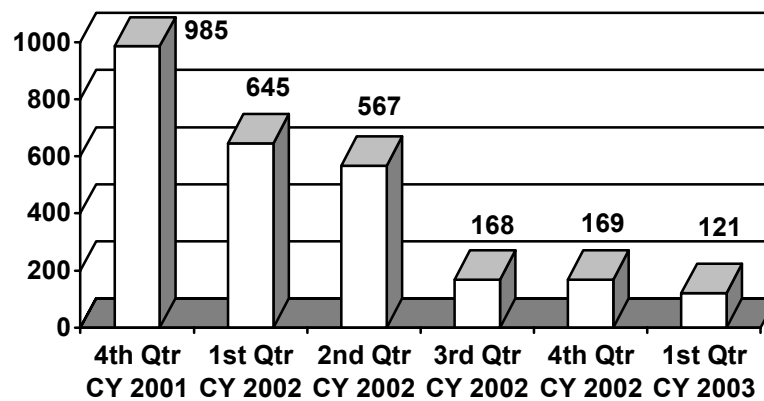
SARs Relating to Terrorist Financing

FinCEN continues to examine the SAR database to determine the extent to which SARs have been filed by institutions that suspect certain activities may relate to terrorism and terrorist financing. A recent review identified several interesting trends. First, the number of SARs submitted from financial institutions reporting suspected terrorism or terrorist financing has continued to decline steadily since the events of September 11, 2001. Secondly, of all SARs filed referencing terrorism, one-third were filed as a result of names appearing on government lists (Office of Foreign Assets Control or OFAC— or other watch lists) or in response to USA PATRIOT Act Section 314(a) information requests. Finally, the remaining two-thirds of all SARs reviewed appeared to be submitted as a direct result of proactive initiatives by institutions, which are becoming more aware of possible indicators of financial activity and transactions by suspected terrorists and terrorist organizations. In other words, institutions are becoming less dependent on specific lists and are identifying on their own suspicious activity as being potentially terrorist-related. This section offers a synopsis of SAR statistical data for the recent review period and identifies the general types of activities being reported in terrorist-related SARs.

Money Laundering and Financial Crimes

Chart 1: SARs filed relating to terrorism for the 18-month period (by Calendar Year quarters)

October 1, 2001 thru March 31, 2003.



As the above chart demonstrates, the number of filings began to steadily decline after the 4th quarter of calendar year 2001, the three-month period directly following the September 11th terrorist attacks.

Following is additional information about the 290 SARs filed between October 1, 2002 and March 31, 2003 (the last six months of the study) that reference terrorism and/or terrorist financing:

- Sixty-nine financial institutions, including five foreign banks licensed to conduct business in the United States, filed SARs (three banks filed 155 of the 290 SARs or 53.4 percent of the SARs filed).
- The suspicious activity reported in the SARs occurred in 35 states and the District of Columbia.
- Alleged suspicious activity amounts ranged up to \$193 million.

Eighty-four SARs (29 percent) filed were the result of apparent matches of names on OFAC's list of Specially Designated Nationals and Blocked Persons, from the USA PATRIOT Act's Section 314(a) Information Requests from law enforcement, names gleaned from media reports, or as a result of subpoenas issued by law enforcement.

The activity described in the SARs remained consistent with the activity described in previously issued SAR Review Reports. The activity included wire transfers predominantly to and from Middle Eastern countries; frequent use of domestic and foreign Automated Teller Machines (ATMs); and large currency transactions. The majority of the SARs filed (206 SARs or 71 percent) were a result of depository institutions' discoveries during the due diligence process. This denotes the first time since the events of September 11, 2001, that a marked increase in independent depository institution filings occurred, i.e., without the aid of government published lists. It is also worth noting that, previously, the filings were reversed in that 75 percent to 80 percent were filed based on government watch lists, while 20 percent to 25 percent were filed at the depository institutions' initiative.

The above-mentioned SARs were filed based on one or more of the following criteria, which the financial institution believed might be associated with terrorist activity:

- Even dollar deposits followed by like-amount wire transfers;
- Frequent domestic and international ATM activity;
- No known source of income;

- Use of wire transfers and the Internet to move funds to and from high risk countries and geographic locations;
- Frequent address changes;
- Occupation “student”—primarily flight schools;
- Purchases of military items or technology; and
- Media reports on suspected/arrested terrorists or groups.

Alternative Remittance Systems (ARS)

In 2003, FinCEN completed an analysis of a sampling of SARs referencing ARS or ARS-like operations. Four predominant themes identified from those SARs are:

- Unlicensed and/or unregistered money transmitters;
- Hawala or other types of ARS;
- Black Market Peso Exchange (BMPE); and,
- Evasion of the International Emergency Economic Powers Act (IEEPA).

Illegal Money Transmitter Businesses

Forty-five SARs (or 56.3 percent) filed regarding unregistered and/or unlicensed money transmitter businesses identified a variety of techniques commonly used by ARS operators to facilitate the transfer of funds on behalf of their customers. Many unlicensed/unregistered money transmitters were identified by the filing institution as ARS because of the mechanisms used to conduct transactions that ultimately ended up going through a depository institution account, such as aggregation of monetary instruments or cash from multiple sources. Most ARS operations are considered Money Services Businesses (MSBs) by virtue of the funds/value transfer services they provide to their customers. The type of account activity exhibited by such entities also provides significant insight into the identification of illegal and informal MSBs that may be providing ARS services. The SARs analyzed for this study provided a number of such indicators:

- Account activity inconsistent with the type of account held by a customer and/or volume of activity anticipated by the filing institution (according to the expected levels conveyed to the institution by the account holder);
- Account holder occupation inconsistent with the type and volume of financial activity affecting an account; e.g. unemployed, housewife, etc.;
- Large volume deposits of cash, checks, and other types of monetary instruments immediately followed by wire transactions abroad; sometimes, multiple wire transfers sent from unregistered and/or unlicensed MSBs to benefit a single beneficiary located in a foreign country;
- Structured cash transactions through the use of multiple transactions at multiple branches of the financial institution where the account is maintained;
- Account holders using their personal accounts to act as possible agents of wire remitter businesses;
- Personal accounts used as “layering” points involving wire transfers sent into those accounts from unregistered and/or unlicensed MSBs and then transferred abroad;

- Cash intensive businesses (for example, restaurants) providing transfer services to groups of people by accepting cash to facilitate payments to customers' family members residing in a foreign country;
- Businesses conducting structured cash deposits and drawing checks from their account to purchase bulk phone cards and/or stored value cards for possible resale;
- Similarly, a subject engaged in the suspected operation of an unlicensed MSB conducting numerous outgoing wire transmissions out of his personal account, in addition to drawing checks from his account to pay for phone cards;
- Use of possible shell companies and multiple accounts to facilitate the structuring of cash, deposit of money orders, and the negotiation of third party checks, followed by wire transfers from the accounts to high risk countries;
- Deposits of cash into accounts and subsequent outgoing overseas wire transfers by unregistered and/or unlicensed MSBs conducted on behalf of expatriate workers wishing to send money back home to their families; an account is typically maintained to service customers in one state or locale, while the actual account holder (or an agent) conducts the remittance transactions from another state. In one reported instance, foreign cruise line employees transferred cash to an unlicensed MSB via an intermediary who carried the cash from the ship and deposited it into the unlicensed MSB account at a nearby bank branch on shore. The account holder was actually located several states away and transferred the funds to an associate in a foreign country for further dispersal to relatives of the cruise line employees, also residing in the foreign country.

Securities & Futures Industries SARs (SAR-SFs): The First Quarter

Brokers or dealers in securities, one segment of the securities and futures industries, were required to report suspicious financial activity beginning in January 2003. By mid-March, a total of 119 entities had filed 555 SAR-SFs. Statistical analysis of the SAR-SF data revealed several interesting trends and patterns.

Violations Types

The table below provides a breakdown of all the types of reported violations on FinCEN Form 101 submitted by the 119 entities. Note: The totals will exceed the number of SAR-SFs filed (555), because SAR-SFs can specify more than one type of suspicious activity per form.

Table 2: Breakdown of All the Types of Reported Violations on FinCEN Form 101

Types Of Suspicious Activity Reported	SAR SFs	Percentage of Total SAR SFs Reviewed
Bribery/Gratuity	4	0.7
Check Fraud	112	20.2
Computer Intrusion	3	0.5
Credit/Debit Card Fraud	32	5.8
Embezzlement/Theft	74	13.3
Forgery	15	2.7
Identity Theft	86	15.5
Insider Trading	7	1.3
Mail Fraud	4	0.7
Market Manipulation	1	0.2
Money Laundering/Structuring	154	27.7
Prearranged or Other Non-Competitive Trading	2	0.4
Securities Fraud	10	1.8
Significant Wire or Other Transactions without Economic Purpose	56	10.1
Suspicious Documents or ID Presented	22	4.0
Terrorist Financing	2	0.4
Wash or Other Fictitious Trading	1	0.2
Wire Fraud	23	4.1
Other	157	28.3
None	8	1.4

Violation Amounts

Reported amounts in the 555 SAR-SFs submitted by broker-dealers ranged up to \$5 billion. Twelve reported amounts of at least \$100 million, including five filed in New York, three in San Francisco, three in Iowa, and one in Miami. Approximately 40 percent of the SAR-SFs reported amounts between \$10,000 and \$99,999.

Types of Instruments

Many types of financial instruments were involved in the suspicious activity reported on the SAR-SFs. The following table provides a breakdown of the instrument types. Note: The totals will exceed the number of SAR-SFs filed (555), because SAR-SFs can specify more than one type of financial instrument.

Table 3: Types of Financial Instruments

Types Of Financial Instruments Reported	SAR-SFs	Percentage of Total SAR-SFs Reviewed
Cash or Equivalent	276	49.7
Other	101	18.2
Money Market Mutual Fund	45	8.1
Stocks	37	6.7
None	35	6.3
Mutual Fund	33	5.9
Bonds/Notes	25	4.5
Other Non-Securities	13	2.3
Other Securities	6	1.1
Commercial Paper	1	0.2
Warrants	1	0.2
Foreign Currencies	1	0.2

Eighty included an additional instrument description. Of these, the most frequently mentioned were business or personal checks (39); wire transfers (12); counterfeit or stolen checks (9); cashier's or official checks (6); life insurance policies (6); brokerage accounts (5); and debit cards (5). One SAR specified "precious metals" under commodity type.

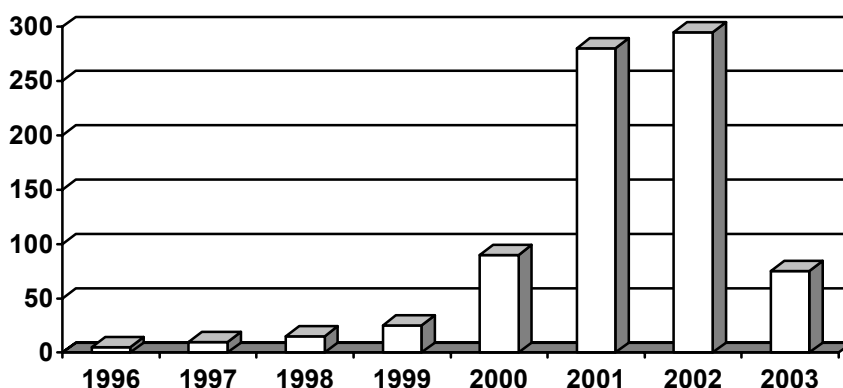
Online and/or Internet Banking

Recently, FinCEN conducted a study of SARs related to Internet and/or online banking. These SARs often used the terms, "online" and "Internet" interchangeably. For example, a bank may state that a customer conducted transactions via Internet banking, rather than specifying that the customer transacted through the bank's online facilities.

A search of the Suspicious Activity Reports Query System resulted in 776 "hits." The research was conducted for the period April 1, 1996 through April 18, 2003. As evidenced from the chart below, the volume of SAR filings that discuss online or Internet banking increased considerably. One reason for the increase may be the June 2000 addition of "Computer Intrusion" as a specific violation type on the depository institution SAR Form.

Chart 2: SARs “Hits”

April 1, 1996 thru April 18, 2003



Statistical Overview

A total of 291 separate financial institutions, including six foreign banks licensed to conduct business in the United States, filed 776 SARs between April 1996 and April 2003. The SARs were filed in 47 states, the District of Columbia and Puerto Rico. The five states with the most filings were: California (145 or 18.7 percent), Texas (80 or 10.3 percent), New York (55 or 7.1 percent), Florida (52 or 6.7 percent), and Ohio (30 or 3.9 percent). Those five states filed 362 or 46.6 percent of the SARs in this study.

The 776 SARs identified 983 violations. The most frequently cited violations were:

- Other—198 SARs or 20.1 percent;
- Check Fraud—190 SARs or 19.3 percent;
- Computer Intrusion—160 SARs or 16.3 percent;
- BSA/Structuring/Money Laundering—145 SARs or 14.8 percent;
- Counterfeit Check—78 SARs or 7.9 percent.

Violation amounts ranged up to \$82.3 million. Twenty-two SARs exceeded \$1 million.

One hundred twenty two separate bank branches in 31 states filed 126 SARs as a result of information received from their Internet Service Providers (ISPs). One bank headquartered on the West Coast filed 68 percent of the 100 BSA/Structuring/Money Laundering SARs. Almost all of those SARs reported structuring of cash deposits and withdrawals. The remaining 32 percent of the BSA/Structuring/Money Laundering SARs also reported primarily structured cash deposits. Frequent, sometimes more than one a day, cash deposits were made to an account followed by online transfers from the receiving account to another account (i.e., moving funds electronically from a checking account to a money market account or from a savings account to a business account). One SAR revealed cash deposits, followed by preauthorized online withdrawals by an international money transmitter.

SARs Filed by or About Internet Banks

Four Internet banks filed 17 SARs. At first glance, this may seem like a relatively small number of banks as well as SARs filed. However, only approximately 40 Internet banks operate in the United

States, as opposed to 20,000+ brick-and-mortar banks and credit unions currently conducting business across the country. Financial institutions across the United States detected that many transactions were conducted through Internet banks. Sixty-eight SARs mentioned this type of activity.

The common types of violations reported in SARs referencing Internet banks were:

- Check Fraud;
- Counterfeit Check;
- BSA/Structuring/Money Laundering;
- Identity Theft;
- Credit Card Fraud;
- Other: Unauthorized ACH Debits;
- Check Kiting.

Internet Gambling

The number of Internet gambling sites has increased substantially in recent years. In addition to on-line, casino-style gambling, there are numerous sport books taking bets on sporting events. Most of these websites are physically located in offshore jurisdiction. These operations accept bets and wagers from persons in the United States in violation of United States law, including 18 U.S.C. Section 1084, 1952, and 1955. For example, the majority shareholders of Gold Medal Sports Book, which was located in Curacao, N.V., pled guilty in federal court in Wisconsin to violating Section 1084 for accepting sports wagers from customers in the United States over the telephone lines and over the Internet. The company pled guilty to violations of the Racketeer Influenced and Corrupt Organizations (RICO) Act. In another example, the United States Attorney's Office in St. Louis reached a civil settlement agreement with a company called PayPal to settle allegations that PayPal aided in illegal offshore and on-line gambling activities. PayPal agreed to pay \$10 million to the government to settle this claim.

In March 1999, a federal grand jury in Manhattan charged Jay Cohen with conspiracy to violate the Wire Wager Act, 18 U.S.C. Section 1084(a), and seven substantive counts of violating, and aiding and abetting violations of that Act, in connection with Cohen's operation of World Sports Exchange ("WSE"), a book making organization that Cohen owned and ran over the Internet from Antigua. The Wire Wager Act makes it unlawful to use a wire communication facility to transmit in interstate and foreign commerce to "bets or wagers" on sporting events, "information assisting in the placement" of any such bets or wagers, or a communication "which entitles the recipient to receive money or credit as a result of bets or wagers." Cohen was charged with violating all three clauses of Section 1084(a). After a two-week trial in February 2000, the jury convicted Cohen on all charges. In August 2000, Cohen was sentenced to 21 months' imprisonment. Cohen's conviction was affirmed and in June 2003, the United States Supreme Court refused Cohen's petition for review. In October 2002, Cohen began serving his sentence.

In January 2000, the U.S. Attorney's Office for the Eastern District of Missouri successfully prosecuted an offshore sports book operation based in Curacao, which took bets from U.S. citizens in violation of the Wire Wager Act. The individual defendants were charged with tax crimes as well as money laundering, and the Paradise Casino was charged with money laundering. This prosecution led to the forfeiture of millions of dollars of property derived from the proceeds of Wire Wages Act violations and resulted in Paradise Casino agreeing to pay over \$11,000,000 in back excise taxes,

interest and penalties based on violations of the Internal Revenue Code for failure to pay excise taxes on the gambling activity.

While many companies operate their games in an apparently fraud-free fashion, the potential for gaming fraud is greater via the Internet than in the physical realm. This is because start-up costs are relatively low and software is readily available. Similar to scam telemarketing operations, on-line gambling establishments appear and disappear with regularity, collecting from losers and not paying winners, and with little fear of being apprehended and prosecuted.

Internet gamblers operating offshore may be allowed to operate legally by the offshore jurisdiction in which they are physically located, but if they operate in whole or in part, virtually or physically in the United States, they are subject to prosecution under the Wire Wager Act if they take bets, transmit or receive betting information or transmit funds in support of unlawful activity, in accord with the Wire Transfer Act itself. While these Internet gambling operations may or may not be perpetrating a fraud on their customers, they could still be subject to prosecution under U.S. law for, among other things, violations of the Wire Wager Act, transmitting funds in violation of 18 U.S.C. 1960 or failing to pay excise taxes in violation of the Internal Revenue Service.

In addition to providing a venue for fraud and other elements of organized crime, Internet gaming offers considerable potential for money laundering. In the United States, land-based casinos are required to file suspicious activity reports and currency transaction reports with the Treasury Department's Financial Crimes Enforcement Network (FinCEN) and all financial institutions, which now by definition specifically include casinos, are required to adopt money laundering compliance programs.

While land-based casinos are known to be used in the placement stage of money laundering, in which currency is introduced into the financial system, Internet gambling is particularly well-suited for the laying and integration stages of money laundering, in which launderers attempt to disguise the nature or ownership of the proceeds by concealing or blending transactions within the mass of apparently legitimate transactions. Due in large measure to the volume and speed of transactions, as well as the virtual anonymity offered by the Internet, offshore gambling websites are an area of considerable money laundering concern. The Internet gambling operations are, in essence, the functional equivalent of wholly unregulated offshore banks with the bettor accounts serving as bank accounts for account holders who are, in the virtual world, virtually anonymous. For these reasons, Internet gambling operations are vulnerable to be used, not only for money laundering, but also for criminal activities ranging from terrorist financing to tax evasion.

The FATF's Report on Money Laundering Typologies 2000-2001 set forth scenarios involving money laundering in conjunction with Internet gambling. In a report published in February 2001, FATF noted that, "Internet gambling might be an ideal web-based 'service' to serve as a cover for a money laundering scheme through the net. There is evidence in some FATF jurisdictions that criminals are using the Internet gambling industry to commit crime and to launder the proceeds of crime." In June 2003, the Financial Action Task Force on Money Laundering (FATF), the leading multilateral international anti-money laundering organization, recognized the ever-increasing problem that Internet gambling represented and revised its forty anti-money laundering recommendations to include, among other things, recommendations affecting casinos and specifically including Internet casinos.

Trade-Based Money Laundering

Criminal individuals and organizations have long misused international trade mechanisms to avoid taxes, tariffs, and customs duties. As both the formal international financial system and money service businesses become increasingly regulated, scrutinized, and transparent, criminal money launderers and terrorist financiers are increasingly likely to use fraudulent trade-based practices in international

Money Laundering and Financial Crimes

commerce to launder, earn, move, and integrate funds and assets. U.S. Customs officials define trade-based money laundering as the use of trade to legitimize, conceal, transfer, and convert large quantities of illicit cash into less conspicuous assets or commodities. In turn, the tangible assets or value are transferred worldwide without being subject to financial transparency laws and regulations.

Trade-based value transfer schemes use commerce in both licit and illicit goods to transfer value. Invoice fraud involving a shipment of trade goods from country A to country B provides a simple and effective way to launder the proceeds of criminal activity. For example, over-invoicing a shipment of goods gives criminal organizations a paper rationale to send payment abroad and/or to launder money. Thus, if a container of electronics is worth \$50,000, but is over-invoiced for \$100,000, the subsequent payment of \$100,000 will cover both the legitimate cost of the merchandise (\$50,000) and allow an extra \$50,000 to be remitted or laundered abroad. The business transaction and documentation disguises the illicit transfer of \$50,000, and washes the money clean.

There are a multitude of other types of invoice fraud and trade manipulation; for example, false invoicing, double invoicing, and drawback and carousel fraud. Drawback is the refund of customs duties, taxes or fees on goods destined for favored uses. Carousel fraud is the import, re-export, or diversion of goods that fraudulently obtain drawback, export subsidies and/or value added tax. For instance, export incentives often encourage and disguise fraud. In this scheme, a government pays cash incentives to a company to export products, and the company uses 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. In some areas of the world, trade goods are simply bartered for other commodities of value. In regions of Pakistan and Afghanistan, illegal drugs are commonly thought of as a commodity or trade good. Law enforcement authorities have reported, for example, that the price for a kilogram of heroin in this region of the world is a color television set. There are other barter networks where narcotics in Pakistan and Afghanistan are exchanged for foodstuffs such as vegetable oils.

These simple schemes become more complex when the misuse of trade also involves traditional and entrenched ethnic-based 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 illegal techniques are commingled and intertwined, making it extremely difficult for investigators to follow the trail and conduct effective law enforcement investigations.

There is a wide range of estimates on the total annual flow of transactions through informal banking systems. The United Nations estimates \$200 billion, the World Bank and International Monetary Fund estimate tens of billions of dollars, and a FinCEN report noted that quantifying the amount with certainty is virtually impossible. If tax and duty evasion is included, the amount of money laundered worldwide through these trade-based systems is undoubtedly staggering. U.S. officials estimate that the United States government alone loses tens of billions of tax revenue every year due to artificial overpricing and under pricing of products entering and leaving the country. Because it allows them to shift profits abroad, criminal individuals, corporations and other enterprises engage in abnormal international trade pricing that transfers value and/or reduces U.S. tax liability. Recent examples of abnormally priced transactions include cotton dishtowels imported from Pakistan into the U.S. for the absurdly high price of \$153.72 each, briefs and panties imported from Hungary for \$739.25 a dozen, metal tweezers imported from Japan at \$4,896 a unit, toilet bowls exported to Hong Kong for the ridiculously low price of \$1.75 each, and missile and rocket launchers exported to Israel for a mere \$52.03 each. Although transactions such as these can result in substantial loss of revenue for the

governments involved, criminals also know that moving and laundering money by these very simple techniques are virtually undetectable in the conduct of international trade.¹

Trade and Terrorist Financing

Trade-based value transfer is prevalent in many parts of the world that are vulnerable to terrorist financing. At present, it is impossible for law enforcement and customs to interdict all suspect transactions in this underworld of trade. At times, however, trade-based systems intersect with banks and other traditional financial institutions, which allow terrorist financiers or money launderers to obtain currency needed to purchase goods for further fund transfer. Financial institutions can also serve terrorist financiers as links in a clearing process that involves wire transfers. Where trade-based money laundering/terrorist financing intersects with financial institutions, law enforcement must develop techniques to identify the brokers or their representatives. Moreover, at that point, financial institutions may then be able to review the trade-related financial transactions for indications of unusual activity, which may be reported to authorities in suspicious activity reports. The financial community, law enforcement, and customs officials must seek a more aggressive role in recognizing how trade can be used in money laundering and in the financing of terrorism so as to conduct effective law enforcement investigations.

In one example of how alert customs scrutiny stopped suspect trade goods with ties to terrorism, a European customs service intercepted a shipment of transshipped toiletries and cosmetics that originated in Dubai. Customs examination of the manifest suggested that the goods were counterfeit and they were grossly undervalued. The goods were ultimately consigned to a third country. The resultant investigation revealed that the original exporter of the goods was a member of al-Qaida.

Law enforcement sources reveal that al-Qaida, as well as its ally in Southwest Asia, Jemaah Islamiya, are also involved in international drug trafficking to help them buy arms and finance operations. When illegal drugs are used in barter transactions for goods or services, they serve as an underground currency for terrorism.

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. 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 misuse of precious metals and gems.² Informal banking systems such as hawala are a very efficient and very effective method of moving money or transferring value. Generally, the transfer of funds between sender and receiver must be settled. This can be done via a variety of methods such as the physical movement of money, wire transfer or check, payment for goods to be traded, invoice manipulation, and the trade in precious metals and gems. Historically and culturally, in all of these alternative systems, trade is the method of choice to provide “countervaluation” or a method of “balancing the books.”

The September 11, 2001 terrorism attacks prompted U.S. law enforcement authorities to focus greater attention on the possibility that terrorist financing takes place through informal banking systems such as hawala. Yet according to the FBI, some of the September 11 hijackers allegedly used hawala to transfer thousands of dollars in and out of the United States prior to their attacks. In addition, Somalis working in the United States used the Al Barakaat informal banking network to send money to their families in Somalia. Al Barakaat was founded with significant investment from Usama bin Laden. Al

¹ November 2002 press release by Florida International University finance professor John Zdanowicz PHD and Penn State University finance professor Simon Pak, Ph.D.

² All of these systems have been reported upon in depth in previous editions of the *International Narcotics Control Strategy Report*.

Barakaat's worldwide network was reportedly also channeling several million dollars a year to and from al-Qaida.

It is readily apparent that criminal organizations the world over use value transfer and asset concealment systems that are culturally indigenous and avoid government scrutiny. Recent reports indicate that terrorist organizations increasingly use cash or have shifted resources into assets such as gold and diamonds and other untraceable commodities to avoid financial institutions' transparency networks. According to a September 2002 United Nations Security Council letter, al-Qaida was believed to have converted some of its assets into gold and diamonds. According to Global Witness, a nongovernmental organization, British forces in Afghanistan found an al-Qaida training manual that describes techniques for the smuggling of gold. Press reporting has detailed the use of gold, diamonds, tanzanite and other precious commodities by terrorist groups¹.

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 by Colombian drug trafficking organizations to convert U.S. drug dollars in the U.S. to Colombian pesos in Colombia without the inherent risk of smuggling the bulk currency across international borders. The placement stage of this money laundering technique frequently involves the evasion of 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 Immigration and Customs Enforcement Agency 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. U.S. and Colombian law enforcement and regulatory officials are continuing to cooperatively seek system-wide solutions to this problem that would break the importers' reliance on drug dollars to pay their international debts.

¹ The reference above to al-Qaida and to the UN letter are noted in the GAO Report to Congress on "Terrorist Financing—U.S. Agencies Should Systematically Assess Terrorists' Use of Alternative Financing Mechanisms," November, 2003.

Law Enforcement Cases

Bulk Cash Smuggling: Seizure of \$1,103,125 Hidden in Porsche

In August 2002, the Mississippi Highway Patrol stopped a 2002 Porsche Boxster, with temporary Mexican registration, near Jackson, Mississippi. During questioning, occupants of the Porsche said that they crossed into the United States in the Porsche from Mexico several days before and were now on their way back to Mexico. The Highway Patrol requested and received permission from the driver to search the vehicle and discovered a compartment in the storage area located under the hood of the car containing stacks of U. S. currency wrapped in plastic and marked on the outside with a dollar amount. The Highway Patrol contacted the U. S. Customs Blue Lightning Operations Center in Gulfport, Mississippi, to request assistance with the follow on investigation.

A review of records through the Bureau of Immigration and Customs Enforcement (ICE) reveal that the Porsche under investigation had entered the United States at the Paso del Norte Bridge, El Paso, Texas, on August 11, 2002. Authorities found over \$1.1 million cash in the car when it was searched.

The driver, identified as Jorge Javier Magallanes-Villarreal, stated in an interview with ICE agents that he had turned the Porsche over to an individual in Mexico who kept the vehicle overnight. Magallanes-Villarreal told agents that he was aware that when he got the Porsche back from this individual, a hidden compartment had been installed and that it was loaded with some type of a controlled substance, although Magallanes-Villarreal stated that he did not know the nature of the substance. Magallanes-Villarreal reported that he then traveled to Burlington, North Carolina, and turned the Porsche over to two unknown Hispanic males who kept it for approximately three hours before returning it. Magallanes-Villarreal alleged to agents that he was aware that the vehicle contained currency when he got it back, however he said did not know the amount. Magallanes-Villarreal said that upon returning to Chihuahua, Mexico, he had been told to contact the person that loaded the controlled substance into the Porsche and make arrangements for the currency to be removed.

Magallanes-Villarreal was arrested by the Mississippi Highway Patrol for Conspiracy to Distribute a Controlled Substance. The Porsche and currency were placed into forfeiture proceedings under Mississippi state law. Following the prescribed notification period under state seizure law, both the vehicle and currency were forfeited. During this period, no claims were made against the property.

One day after the seizure in Mississippi, the El Paso County, Texas, Sheriff's Department stopped another 2002 black Porsche Boxster, with Mexican temporary registration. A search of the vehicle resulted in the seizure of 55.6 kilograms of cocaine. The driver of this vehicle told agents that another Porsche loaded with currency was due at any time to pass through El Paso and back into Mexico.

In October 2002, Magallanes-Villarreal was indicted in the Southern District of Mississippi on one count of money laundering and another count on the bulk cash smuggling provision of the USA PATRIOT Act. In November 2002, Magallanes-Villarreal pleaded guilty to bulk cash smuggling into or out of the United States and was later sentenced to a term of 42 months in Federal prison.

Attorney Receiving Drug Proceeds Through Trust Bank Accounts

Bureau of Immigration and Customs Enforcement (ICE) agents in New York questioned a Colombian national who was observed making suspicious cash deposits from a large handbag into numerous bank accounts. During the interview, the suspect told agents that the cash he had deposited was drug proceeds. Agents subsequently seized \$16,000. Money laundering records/bank deposit receipts reflected the movement of \$1.8 million by the suspect. Agents arrested the Colombian for violations of U.S. laws against money laundering. The investigation determined the suspect had deposited funds

into numerous accounts including an attorney trust fund. The owner of the trust fund account was later identified as a prominent drug trafficking attorney. Agents subsequently seized several bank accounts associated with the money from the trust fund account.

BMPE: Life Insurance, Undercover Operation and International Cooperation

Operation Capstone exposed a sophisticated criminal scheme that targeted life insurance companies in the United States, the Isle of Man, and other locations where some \$80 million worth of Colombian drug proceeds have been laundered over the past few years. This two-year multinational investigation, involving the Bureau of Immigration and Customs Enforcement (ICE), the Isle of Man Customs and Excise Service, and Colombia's Departamento Administrativo de Seguridad (DAS), revealed that Colombian drug trafficking organizations, through a small number of insurance brokers, were purchasing investment-grade life insurance policies in the United States, the Isle of Man, and other locations, with cartel associates as the beneficiaries. These policies were funded with tens of millions of dollars worth of drug proceeds sent (in the form of checks and wire transfers) to insurance companies by third parties around the globe. When a company receives payments for its products or services in the form of wire transfers, checks, or cash from random third parties who have no connection to the transaction, it is a clear signal that money is being laundered by drug traffickers via the insidious Black Market Peso Exchange (BMPE).

Once an investment-grade life insurance policy is created, customers can over-fund the policy beyond its face value and make early withdrawals, an effective money laundering technique. Operation Capstone revealed that cartels were routinely liquidating their drug-financed life insurance policies after relatively short periods of time. Despite paying stiff financial penalties for early liquidation, the cartel beneficiaries would receive a check or wire transfer from the insurance company that, on its surface, appeared to be legitimate insurance investment proceeds. The cartels could then use these "clean" funds virtually unquestioned.

As of December 2003, Operation Capstone has resulted in numerous enforcement actions around the globe. ICE agents in Miami have seized approximately \$9.5 million, while a grand jury has indicted five Colombian nationals for laundering approximately \$2 million worth of drug proceeds through insurance companies. The Colombian DAS has seized roughly \$20 million worth of insurance policies, bonds, and cash, and arrested nine individuals. Panamanian authorities have frozen \$1.3 million in local accounts based on evidence uncovered in Colombia. The investigation is ongoing and authorities have identified more than 250 insurance policies that have been linked to drug proceeds.

Operation Capstone marks the first time that massive drug money laundering through the life insurance industry has been exposed, and demonstrates that insurance companies, like other financial institutions, are susceptible to abuse by criminal organizations. The investigation revealed that independent insurance sales brokers, operating internationally, had little or no training in anti-money laundering issues and were easily manipulated to place funds into nonbank financial institutions. "Know your customer" and "know your broker" regimes were not enforced. Insurance companies provided limited oversight over their many brokers and sub-brokers, and failed to recognize potential indicators of money laundering. The U.S. Treasury Department's Financial Crimes Enforcement Network (FinCEN) has issued proposed rules that, for the first time, would require life insurers and annuity firms to establish anti-money laundering programs and to file suspicious activity reports to the U.S. government, reporting suspected instances of money laundering.

Political Corruption—Asset Identification, Seizure and Forfeiture

In May of 2002, the Bureau of Immigration and Customs Enforcement (ICE) in Miami initiated an investigation, based upon information obtained by the ICE Attaché Panama, to assist the Nicaraguan

Government in identifying assets in the United States belonging to Byron Jerez Solis, former head of the Nicaraguan Direccion General de Ingresos (equivalent of the U.S. Internal Revenue Service). It was believed that more than \$100,000,000 was embezzled from the Nicaraguan government by Solis and others acting on orders of former Nicaraguan President Arnoldo Aleman.

Investigation showed the funds were wired to Panamanian banks from Nicaragua then wired to United States banks from Panama. Once in the United States, the money was used to purchase certificates of deposit, a three million dollar condominium, a three hundred thousand dollar beach house in Florida and a helicopter in Texas.

At the time of the request from the Nicaraguan government for assistance, Aleman was a member of the Nicaraguan Parliament and therefore was granted immunity from any criminal charges. In December of 2002, Aleman was stripped of his immunity and was indicted for money laundering, fraud, embezzlement, misappropriation of public funds and electoral violations. In December 2003, Arnoldo Aleman was convicted and sentenced to 20 years incarceration for the crimes on which he was charged. In addition, he was fined \$17,000,000, and according to the money laundering law that he was convicted under, he is required to pay twice the amount that he was found to have laundered.

As a result of this investigation, ICE in Miami seized and recovered \$5.6 million in assets in the United States on behalf of the Nicaragua Government.

Commodity Based Money Laundering Case—Operation Meltdown

In January 1999, Customs New York El Dorado Task Force (EDTF) received information that gold suppliers in the New York area were assisting drug traffickers in the laundering of drug money. According to the information, gold, disguised as various objects, would be purchased with drug proceeds and smuggled to Colombia. Once in Colombia the gold would be resold for cash, thus completing the laundering cycle. Follow up investigation revealed that numerous seizures of gold, in the form of tools, pellets, trailer hitches, auto parts, and other items being transported from the United States to Colombia by airline passengers were linked to narcotics proceeds. As a result of these findings, EDTF initiated Operation Meltdown, an undercover investigation targeting gold suppliers in the New York area.

During the course of the investigation, confidential sources of information and undercover agents delivered more than one million dollars in cash, purported to be narcotics proceeds, to several jewelry stores. In return for the cash, the undercover agents received either gold shot or gold disguised as machine parts and tools, which the suspects believed would be smuggled to Colombia.

In June 2003, New York agents assigned to EDTF conducted an enforcement action that included the arrests of 11 suspects for money laundering violations and the execution of eight search warrants. Statistics as of December 2003 included: 23 arrests, six guilty pleas, and the seizure of 140 kilograms of gold (valued at \$1.4 million), approximately \$1.0 million in loose diamonds, molds that were used for the gold in the shape of cones, wrenches and screws, plus firearms and vehicles.

Narcotics Terrorism: Links to FARC

In October 2002, Bureau of Immigration and Customs Enforcement (ICE) agents arrested a Colombian national when he attempted to transport \$186,000 into the United States. The investigation revealed that he was an active money launderer affiliated with the Colombian Fuerzas Armadas Revolucionarias de Colombia (FARC) drug-terrorist group. Agents suspect he laundered in excess of \$100,000,000 for the FARC (designated by the United States as a foreign terrorist organization) in the United States. He was charged and subsequently convicted for failure to obtain a state money-transmitting license, in violation of U.S. law, and the funds were seized.

Illegal Money Transmitter Business

In 2002, FBI Salt Lake City initiated an investigation concerning an illegal money transmitting business in Utah run by Iraqi immigrants. The basis of this investigation was a tip received by law enforcement. Based on financial evidence developed during the investigation, three simultaneous search warrants were executed on October 16, 2002, at three locations for financial records and other documentation on the money remitter businesses. In addition, approximately \$19,000 was seized from seven bank accounts controlled by the subjects.

An analysis of the bank records and seized documents showed that the suspect and his associates had wired over four million dollars to Jordan from 1997 through 2002. Other funds were sent to Syria, Iran, Saudi Arabia, Chile and the Ukraine. Further analysis of these bank accounts showed the deposit of dozens of checks and cash belonging to over 500 individuals living in the United States.

The scheme involved a conspiracy to deposit money from expatriate Iraqis living in the United States, into the subjects' accounts, and then wire the money to Jordan. The funds were then primarily smuggled into Iraq, in violation of the embargo order, and provided to the designated beneficiary.

The primary subject was indicted on violations of Title 18 USC Section 1960 (Illegal money Transmitting Business). He entered a guilty plea and was sentenced in March 2003 to four months incarceration and fined \$10,000 dollars.

Terrorist Financing: Counterfeit Check Smuggling and Links to Chechen Terrorists

Bureau of Immigration and Customs Enforcement (ICE) agents initiated an investigation as the result of a seizure of \$12 million in counterfeit cashier's checks by ICE agents and Customs and Border Protection Inspectors. The primary violator was a naturalized U. S. citizen who resided in the United States. This individual was described as a proponent/advocate of Islam and Jihad and was affiliated with the designated terrorist group Riyadus-Salihan Reconnaissance and Sabotage Battalion of Chechen Martyrs. The investigation resulted in the execution of one Federal search warrant, two indictments and subsequent convictions for conspiracy to distribute and/or manufacture counterfeit securities, bank fraud and smuggling of merchandise into the United States. The investigation revealed that in the early to mid 1990's, the primary violator was involved in the recruitment and enlistment of individuals, as terrorists, to fight against Russian forces in Chechnya. Additionally, the investigation revealed that this individual helped raise funds for the Chechen rebels. ICE corroborated this allegation with the assistance of various foreign law enforcement agencies.

Terrorist Financing: Palestinian Islamic Jihad

The FBI-Tampa office initiated a long-term investigation against Sami Al-Arian and other members of the Palestinian Islamic Jihad (PIJ). PIJ was first declared a "specially designated Terrorist Organization" by the United States in January 1995. The investigation focused on Al-Arian and his associates' financial support of the PIJ from U.S.-based fund raising events from 1988 through 2002. In addition, the investigation sought to establish their culpability for the over 100 murders (including two U.S. citizens) conducted by this terrorist organization through violent acts in the Middle East.

The FBI's financial analysis of over 90 bank accounts held by Al-Arian and associates, evidence obtained via subpoena, search warrants, intelligence techniques and through witness interviews, pinpointed the U.S.-based funding mechanisms used by the PIJ to support the organization and its terrorist activities. PIJ financed the organization by obtaining funding from state sponsors (Iran, Sudan, Syria, Libya) through Iranian Embassy channels in the Middle East, including Damascus, Syria. Couriers sent the money to the West Bank and Gaza Occupied Territories. Funds were also sent to "straw" accounts set up in Arab Bank branches in West Bank and Gaza Occupied Territories.

In addition, money was raised in the U.S. through mosques and “front” companies controlled by PIJ operatives including suspicious charities. The collected funds were then sent to the Middle East through “straw” accounts and moneychangers. The funds were wire transferred from the PIJ leadership in Lebanon to operatives in the West Bank and Gaza Occupied Territories. The investigation also revealed that money was sent from U.S.-based PIJ members to the accounts of the PIJ family members of PIJ affiliated suicide bombers in the Middle East.

In February 2003, a Federal Grand Jury in the Middle District of Florida indicted Sami Al-Arian and seven co-defendants for alleged violations of the Racketeer Influenced and Corrupt Organizations Act (RICO) and for providing material support to a terrorist organization, among other violations.

In February 2003, the FBI in Tampa, Florida, and Chicago, Illinois, arrested Sami Al-Arian, Hatem Fariz, Sameeh Hammoudeh and Ghassan Ballout. In addition to the arrests, the FBI executed seven search warrants on the residences and businesses of Al-Arian and his associates. The remaining four defendants are currently fugitives in Syria, Lebanon, Gaza Strip and the United Kingdom.

A trial date of January 2005 was set for this case in Tampa, Florida. Al-Arian and Hammond were being detained pending trial, while Farris and Ballot were released after posting bonds.

Drugs, Money, and Terrorist Ties

Bureau of Immigration and Customs Enforcement (ICE) agents in New York initiated an investigation of a company suspected to be involved in the smuggling and distribution of pseudoephedrine. Additional information indicated that employees at the business were sending a large number of negotiable checks to Sanaa, Yemen. During the investigation, ICE agents conducted several wire intercepts on the targets’ telephone lines, cellular telephones and fax machine. In December 2002, ICE agents, in coordination with other Federal, state and local officers, executed three federal search warrants in the New York area. Agents also arrested and indicted three suspects for violation of U.S. laws associated with failure to register as a money service business, and seized approximately \$60,000 in cash and checks, numerous documents, and a handgun. Additionally, agents seized a bank account containing approximately \$130,000, which was used to facilitate illegal wire transfers outside the United States. Analysis of the documents seized as a result of the search warrants and bank records revealed that the suspects had transferred money via wire to an individual with suspected ties to the al-Qaida terrorist group.

Illegal Wire Remitter: Violation of Iraq Sanctions Regulations

Bureau of Immigration and Customs Enforcement (ICE) agents initiated an investigation of a Seattle-based money remitting company with approximately 30 remitting agents throughout the United States. The investigation revealed that remitting agents collected money and subsequently sent the funds to Iraq through Jordan and various other Middle Eastern countries. Some funds were used to purchase goods that were subsequently shipped to Iraq. Agents identified \$28 million, which was wired through numerous bank accounts. Agents identified approximately \$12 million that was illegally transferred to Iraq in violation of the U.S. International Emergency Economic Powers Act (IEEPA) regulations relating to Iraq sanctions. During the investigation, ICE agents conducted three wire intercepts, executed 36 search warrants, arrested six individuals, indicted 16 individuals and indicted three bank accounts.

Terrorist Financing: Mohammed Ali Hassan Al-Moayad

In December 2003, an influential Imam and political leader from Yemen, Mohammed Ali Hassan Al-Moayad, was indicted in the Eastern District of New York for providing, and conspiracy to provide, material support and resources to al-Qaida and Hamas, in violation of 18 U.S.C. 2339B. Al-Moayad’s

assistant, Mohammed Mohsen Yahya Zayed, was also indicted on the conspiracy charges. The defendants were extradited from Germany in November 2003, after a sting operation where they sought from a confidential informant a \$2 million donation to fund violent jihad. To establish his bona fides and to entice this donation, Al-Moayad explained to the donor that he (al Moayad) has strong connections to al-Qaida and Hamas, via a financing network that reaches into Brooklyn, and that prior to September 11, 2001, he (al Moayad) provided recruits and more than \$20 million to Usama bin Laden. A trial date for al Moayad and Zayed had not been set by the end of 2003.

Terrorist Financing: Virginia Charities

For more than two years, Federal law enforcement agents have been jointly investigating a group of individuals living in Northern Virginia, who operate over 100 different for-profit companies and ostensibly charitable organizations. The majority of these organizations, which appear to be educational and charitable organizations, are actually “paper” organizations that are registered at common addresses, but have no apparent physical presence. The individuals under investigation have moved or authorized the movement of millions of dollars in funds through a series of transactions that involve both the charities and the for-profit corporations they control.

The financial transactions include: contributions to the charities from the for-profit corporations, loans to for-profit corporations, contributions, loans and grants between charities, and the movement of funds from the charities into offshore trusts and other foreign entities. For example, of the \$54 million in grants and allocations reported between 1996 and 2000, almost half was transferred to entities in the Isle of Man, while \$20 million remained within accounts that belong to the charities. Almost \$8 million went to unidentified recipients. By exercising common control, those controlling the charities leverage the tax benefits of the movement of funds among tax-exempt and for-profit entities, without ever surrendering control of the funds. Although substantial funds are moved among various entities, the individuals under investigation maintain control over the funds, even as the group transfers those funds among entities with interlocking directorates, common officers, common physical locales, and centralized control. The government maintains that absent any plausible legal explanation for these convoluted transactions, the transactions have been designed to prevent the United States from tracking the funds, in violation of the charter of the charitable organizations and the laws relating to charities and their tax exempt status.

Financial records obtained with legal process and judicially authorized searches of the premises of many of these organizations, leads the government to believe that these individuals are laundering money by transmitting funds internationally to promote violent crimes against foreign nations, in violation of 18 U.S.C. 1956, providing material support or resources to a foreign terrorist organization, in violation of 18 U.S.C. 2339B, and other crimes.

Other ongoing Federal investigations into the fundraising activities of the Palestinian Islamic Jihad and Hamas reveal that front organizations associated with these groups received funding from the Virginia charities. Investigators believe that the individuals in Virginia who are under investigation are conspiring to do the following: abuse the tax code’s charitable exemption provisions; use their web of interlocking corporate entities to move funds so as to conceal the true nature, source, disposition and taxability of those funds; and misrepresent the nature of the relationships among the charities and the for-profit companies to avoid scrutiny of their financial transactions.

Soliman Biheiri, who ran an investment firm handling investments for one of the purported charities, was charged with unlawful procurement of citizenship, making false statements and immigration related fraud, in violation of 18 U.S.C. 1425(a), 1001, and 1015(a), on August 7, 2003. He was convicted in October 2003 and was scheduled to be sentenced in January 2004.

Terrorist Financing: Abdurahman Alamoudi

Abdurahman Alamoudi, a naturalized U.S. citizen and president of the American Muslim Council, was arrested in September 2003 upon his arrival in the United States from London. In August 2003 he was stopped in England with \$340,000 in U.S. currency in his suitcase on his way to Syria. At the time, Alamoudi claimed that the funds were payment to him by the Libyan government for his help in lifting U.S. sanctions and that he planned to deposit the money in a Saudi Arabian bank and bring it back to the U.S. in smaller increments so as to avoid detection by U.S. law enforcement.

In October 2003, Alamoudi was indicted for making false statements in violation of 18 U.S.C. 1001, conducting illegal transactions with the Libyan government in violation of 18 U.S.C. 2332d, violating the IEEPA in violation of 50 U.S.C. 1701, money laundering in violation of 18 U.S.C. 1956, structuring coin and currency transactions in violation of 31 U.S.C. 5324, passport misuse in violation of 18 U.S.C. 1544, U.S. naturalization fraud in violation of 18 U.S.C. 1425 and failure to report control over foreign bank accounts in violation of 31 U.S.C. 5322.

Terrorist Financing: Fundraiser Convicted

Enaam M. Arnaout, the director of Benevolence International Foundation, an Islamic charity in suburban Chicago, was charged with funneling money to a terror network and other violent groups in late 2002. The indictment described a multi-national criminal enterprise that over many years fraudulently used charitable contributions from Americans—Muslim, non-Muslim and corporations—to support al-Qaida, the Chechen mujahedin, and armed violence in Bosnia. Arnaout pleaded guilty in February 2003 to operating a charity as a Racketeer Influenced Corrupt Organization (RICO) enterprise and failing to tell donors that their money was being used to support violent actions. In August 2003, the defendant was sentenced to more than 11 years imprisonment and to pay restitution to the United Nations High Commission on Refugees in the amount of \$315,000.

Terrorist Financing: Ties with Internet Service Provider

In August 2003, Mousa Abu Marzook, his wife Nadia Marzook, and Bayan, Basman, Ghassan, Hazim and Ihsan Elashi (the Elashi brothers) and the INFOCOM Corporation were indicted in the Northern District of Texas. The Elashi brothers owned and operated INFOCOM, an Internet service provider and computer exporter, which shipped computers and computer components to Libya and Syria—countries designated as state sponsors of terrorism. Exports to those countries are strictly controlled. The defendants filed false Shipper's Export Declaration forms with the U.S. Department of Commerce, on which they either falsely identified the final destination or stated that no license was required for the shipments. In addition, the defendants filed false Shipper's Export Declaration forms for other shipments on which they undervalued the shipment to assist their customers in evading the duties imposed by the customers' country. The Elashi brothers have been charged with violations of the following: IEEPA, money laundering, and multiple counts of making false statements on Shipper's Export Declaration forms.

In the early 1990's INFOCOM received a significant investment from Mousa Abu Marzook, a leader of the political section of HAMAS and a relative of the Elashi brothers. In 1993, Marzook, and Bayan, Ghassan, and Basman Elashi attempted to conceal Marzook's involvement with INFOCOM by creating an agreement stating that his investment belonged to Nadia Marzook, his wife and a cousin of the Elashi brothers. The agreement called for periodic payments to Nadia as a return on the investment. In 1995 the United States designated Mousa Abu Marzook as a Specially Designated Terrorist, which precludes others from having financial dealings with Marzook. Nevertheless, the Elashi brothers continued to make periodic payments to Mousa Abu Marzook by disguising them as

payments to Nadia. The resulting charges are for money laundering and violations of IEEPA. The trial is scheduled for May 2004.

Terrorist Financing: Kidnapping

On February 13, 1997, employees of Overnight Solutions were preparing a Venezuelan fishing camp for guests when seven hooded and armed suspects entered the camp and took control. One camp employee was forced to divulge details about the guests' planned arrival and the location of weapons. The following day, a plane carrying a U.S. citizen was allowed to land and was then taken by the defendants and was held hostage and flown from the site. During his nine months in captivity, he was controlled by armed men wearing *Fuerzas Armadas Revolucionarias de Colombia* (FARC) uniforms. FARC is a designated foreign terrorist organization. The hostage witnessed his captors murder two men who had provided assistance to the group. Subsequent negotiations with one of the defendants resulted in the payment of a \$1 million ransom on November 23, 1997, whereupon the American hostage was released.

On October 29, 2002, the defendants Jorge Briceno Suarez, Tomas Molina Caracas and a defendant whose alias was "El Loco" were indicted for: (1) conspiracy to commit hostage taking resulting in death (18 U.S.C. 1203(a)); (2) hostage taking resulting in death (18 U.S.C. 1203 (a)); (3) hostage taking (18 U.S.C. 1203); and (4) using a firearm during a crime of violence (18 U.S.C. 924(c)).

Terrorist Financing: Drugs for Weapons

In December 2002, four persons were indicted in the Southern District of Texas for a \$25 million drugs-for-weapons plot involving the United Self Defense Forces of Colombia (AUC). The defendants were charged with conspiring to provide material support or resources to the foreign terrorist organization (FTO), in violation of 18 U.S.C. sec. 2339B, and a drug conspiracy, in violation of 21 U.S.C. secs. 841(a)(1), (b)(1)(A), and 846. Defendants Elkin Alberto Arroyave Ruiz (a.k.a. Commandante Napo) and Edgar Fernando Blanco Puerta (a.k.a. Commandante Emilio), both high-ranking members of the AUC, were arrested in a sting operation in Costa Rica. After being extradited to the United States, Arroyave Ruiz pled guilty to the material support conspiracy. In exchange, the drug charges against him were dropped. Blanco Puerta remained in Costa Rica, challenging extradition. Also indicted in December 2002, were two brokers in the United States, Carlos Ali Romero Varela and Uwe Jensen. They pled guilty to all charges in April 2003, and June 24, 2003, respectively. In addition, Adriana Gladys Mora was indicted on September 3, 2003, on material support and drug charges. She conspired to help arrange a related drug buy in the United States, to establish for the AUC the bona fides of defendant Varela.

Terrorist Financing: Cash and Material

In August 2002, Earnest James Ujaama was charged with providing material support to the Taliban in violation of 18 U.S.C. 2339 (A) and (B) but pled to conspiring with others to provide support, including money, computer software, technology and services to the Taliban and to persons in the territory of Afghanistan controlled by the Taliban. Following a plea agreement, Ujaama pled guilty to one count of conspiracy to violate the IEEPA and was sentenced in April 2003 to 24 months in prison.

Bilateral Activities

During 2003, 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

The Department of State's Bureau for International Narcotics and Law Enforcement Affairs (INL) and the Department's Office of the Coordinator for Counter-Terrorism (SCT) are together implementing a multi-million dollar training and technical assistance program 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 also 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 various nongovernment organizations offered law enforcement, regulatory and criminal justice programs worldwide.

During 2003, INL/SCT-funded programs were delivered in 49 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 2003. 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 2003, INL reserved \$1 million for the United Nations Global Programme 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 yearlong basis to specific countries or regions. A 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 2003, 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, and the Caribbean Financial Action Task Force (CFATF). INL also provided financial support to the 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. INL also financially supported the Pacific Island Forum and the Organization of American States (OAS) Inter-American Drug Abuse Control Commission (CICAD) Office of Money Laundering and the OAS Counter-Terrorism Committee.

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 mission of the ILEAs has been to support emerging democracies, help protect U.S. interests through international cooperation and to promote social, political and economic stability by combating crime. To achieve these goals, the ILEA program has provided high-quality training and technical assistance, supported institution building and enforcement capability and has fostered relationships of American law enforcement agencies with their counterparts in each region. ILEAs have also encouraged strong partnerships among regional countries, to address common problems associated with criminal activity.

The ILEA concept and philosophy is a united effort by all of the participants—government agencies and ministries, trainers, managers, and students alike—to achieve the common foreign policy goal of international law enforcement. The goal is to train professionals that will craft the future for rule of law, human dignity, personal safety and global security.

The ILEAs are a progressive concept in the area of international assistance programs. The regional ILEAs offer three different types of programs: the Core course, specialized training courses and regional seminars tailored to region-specific needs and emerging global threats. The Core program typically includes 50 participants, normally from three or more countries. The Specialized courses, comprised of about 30 participants, are normally one or two weeks long and often run simultaneously with the Core course. Topics of the Regional Seminars include transnational crimes, counterterrorism and financial crimes.

The United States has amended the money laundering portion of the Core course presented at each ILEA to address terrorist financing, significantly increasing the number of instruction hours dedicated to this critical topic. The ILEA program partner agencies (see below) are working on finalizing a new Specialized course that would focus specifically and in detail on terrorist financing, to be offered at all the ILEAs.

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, Homeland Security and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 12,000 officials from 50 countries in Africa, Asia, Europe and Latin America. The annual ILEA budget averages approximately \$18-19 million.

Africa. ILEA Gaborone (Botswana) opened in 2001. The main feature of the ILEA is a six-week intensive personal and professional development program, called the Law Enforcement Executive Development Program (LEEDP), for law enforcement mid-level managers. The LEEDP brings together approximately 45 participants from several nations for training on topics such as combating transnational criminal activity, supporting democracy by stressing the rule of law in international and domestic police operations, and by raising the professionalism of officers involved in the fight against crime. ILEA Gaborone also offers specialized courses for police and other criminal justice officials to enhance their capacity to work with U.S. and regional officials to combat international criminal

activities. These courses concentrate on specific methods and techniques on a variety of subjects, such as counterterrorism, anti-corruption, financial crimes, border security, drug enforcement, firearms and many others.

Instruction is provided to participants from Angola, Botswana, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania and Zambia. This area of focus was recently expanded to include key countries (Djibouti, Ethiopia, Kenya, Uganda) in East Africa and Nigeria in West Africa. Eventually this gradual expansion will reach other sub-Saharan African countries. United States and Botswana trainers provide instruction. ILEA Gaborone has offered specialized courses on money laundering/terrorist financing related topics such as Criminal Investigation (presented by FBI) and International Banking & Money Laundering Program (presented by DHS/FLETC). ILEA Gaborone trains approximately 450 students annually.

Asia. ILEA Bangkok (Thailand) opened in March 1999. The ILEA focuses on enhancing the effectiveness of regional cooperation against the principal transnational crime threats in Southeast Asia—illicit drug trafficking, financial crimes, and alien smuggling. The ILEA provides a Core course (the Supervisory Criminal Investigator Course or SCIC) of management and technical instruction for supervisory criminal investigators and other criminal justice managers. In addition, this ILEA presents two Senior Executive programs and eight to ten specialized courses—lasting one to two weeks—in a variety of criminal justice topics. The principal objectives of the ILEA were the development of effective law enforcement cooperation within the member countries of the Association of Southeast Asian Nations (ASEAN) plus China and the strengthening of each country's criminal justice institutions to increase their abilities to cooperate in the suppression of transnational crime.

Instruction is provided to participants from Brunei, Cambodia, China, Hong Kong, Indonesia, Laos, Macau, Malaysia, Philippines, Singapore, Thailand and Vietnam. Subject matter experts from the United States, Thailand, Japan, Netherlands, Australia, Philippines and Hong Kong provide instruction. ILEA Bangkok has offered specialized courses on money laundering/terrorist financing related topics such as Computer Crime Investigations (presented by FBI and DHS/BCBP) and Complex Financial Investigations (presented by IRS, DHS/BCBP, FBI and DEA). Total annual student participation is 550.

Europe. ILEA Budapest (Hungary) opened in 1995. Its mission has been to support the region's emerging democracies by combating an increase in criminal activity that emerged against the backdrop of economic and political restructuring following the collapse of the Soviet Union and its former satellite regimes. ILEA Budapest offers three different types of programs: an eight-week Core course, Regional Seminars and Specialized courses in a variety of criminal justice topics. Instruction is provided to participants from Albania, Armenia, Azerbaijan, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Macedonia, Moldova, Montenegro, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Trainers from 17 federal agencies and local jurisdictions from the United States and also from Hungary, Canada, Germany, Great Britain, Holland, Ireland, Italy, Russia, Interpol and the Council of Europe provide instruction. ILEA Budapest has offered specialized courses on money laundering/terrorist financing related topics such as Investigating/Prosecuting Organized Crime and Transnational Money Laundering (both presented by DOJ/OPDAT). ILEA Budapest trains approximately 950 students annually.

Global. ILEA Roswell (New Mexico) opened in September 2001. This ILEA offers a curriculum comprised of courses similar to those provided at a typical Criminal Justice university/college. These four-week courses have been designed and are taught by academicians for foreign law enforcement officials. This Academy is unique in its format and composition with a strictly academic focus and a worldwide student body. The participants are mid-to-senior level law enforcement and criminal justice

officials from Eastern Europe, Russia, the Newly Independent States (NIS), Association of Southeast Asian Nations (ASEAN) member countries and the People's Republic of China (including the Special Autonomous Regions of Hong Kong and Macau); and member countries of the Southern African Development Community (SADC) plus other East and West African countries. The students are drawn from pools of ILEA graduates from the Academies in Bangkok, Budapest and Gaborone and other selected participants mainly from Latin American and the Caribbean. ILEA Roswell trains approximately 450 students annually.

Board of Governors of the Federal Reserve System (FRB)

The FRB participates 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 Mexico, as well as courses designed for students from Eastern and Southern African countries, were provided in 2003. In addition, the FRB collaborated with the U.S. State Department as well as other bank regulatory agencies in presenting counterterrorist financing regulatory training to numerous South East Asian, Central American, and South American countries.

In addition to its international training programs, the FRB presented training courses to U.S. law enforcement agencies at the Federal Law Enforcement Training Center to the Internal Revenue Service, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, Department of Homeland Security's Bureau for Immigration and Customs Enforcement, and the Drug Enforcement Administration.

Drug Enforcement Administration (DEA)

The International Training Section of the Drug Enforcement Administration (DEA) conducts its International Asset Forfeiture and Money Laundering courses in concert with the Department of Justice (DOJ). In 2003, a total of 168 participants from Brazil, Malaysia, Costa Rica, France and Greece received this training. A wide range of DEA international courses contain training elements relating to countering money laundering and other financial crimes. DEA training division also provides training International Law Enforcement Academy (ILEAs) Hungary; Thailand and Botswana.

The basic 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.

Federal Bureau of Investigation (FBI)

In 2003, training specialists with the Federal Bureau of Investigation (FBI) through its Terrorist Finance Operations Section (TFOS) continued extensive training in various regions of the world covering basic and more advanced courses in terrorism financing and money laundering, financial fraud and the underpinning of terrorism, racketeering, enterprise investigations, complex financial crimes and countering international money laundering.

In concert with other U.S. and international trainers, the FBI conducted aspects of the full range of its training for a variety of countries on a regional basis through the International Law Enforcement

Academies (ILEAs) in Bangkok, Thailand, and Budapest, Hungary. In other programs, FBI training reached numerous officials representing various levels of the judiciary and law enforcement as well as private sector banking and financial officials. Students participating in FBI training around the world—in several instances in concert with the U.S. Internal Revenue Service (IRS)—represented Bahrain, Oman, Qatar, Saudi Arabia, UAE, Turkey, Pakistan, India, Cambodia, China, Fiji, Indonesia, Japan, Kiribati, Korea, Laos, Malaysia, Philippines, Taiwan, Thailand, Brazil, Colombia, Paraguay and Kenya. Some 40 officials representing 17 Latin American countries traveled to the FBI Academy in Quantico, Virginia, to participate in the Latin-American Law enforcement Executive Development Seminar, which includes coursework in money laundering and other financial crimes.

Federal Deposit Insurance Corporation (FDIC)

The FDIC is working in partnership with several agencies to combat 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 has 22 individuals available to participate in foreign missions.

A training session was held in June 2003 that provided FDIC foreign mission participants with background information on the international conventions related to money laundering and terrorist financing and other essential preparatory instruction. 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 in reviewing the "Know Your Customer" risk management report and evaluated the progress report on jurisdictions with cross-border banking impediments.

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 2003, such presentations were given to representatives from Anguilla, Antigua, Armenia, Aruba, Austria, the Bahamas, Barbados, Barbuda, Belize, British Virgin Islands, Brazil, Cayman Islands, Dominica, Estonia, Grenada, Guyana, Haiti, Italy, Jamaica, Monsterrat, Netherlands Antilles, Poland, Russian Agency for Restructuring Credit Organizations, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Taiwan, Trinidad and Tobago, and the Turks and Caicos Islands.

FDIC provided assistance in an interagency Financial Systems Assessment Team (FSAT) to Bangladesh in April 2003. The group reviewed the country's existing AML law and training efforts. Additionally, the group discussed implementation of the law and recommendations related to constraints of computer technology available in the country.

The FDIC participated in an interagency anti-money laundering evaluation of the Republic of Palau from March 6-16, 2003. The review was sponsored by the Asia/Pacific Group on Money Laundering.

FDIC also provided staff to participate in two training sessions. The first session was held in coordination with the Office of the Comptroller of the Currency in March 2003 in Washington, D.C. Twenty-five students from Bahrain, Egypt, Jordan, Pakistan, Qatar, and Saudi Arabia participated. The second training session was held July 13-19, 2003 in Panama City, Panama, with supervisors and examiners from Brazil, Argentina, Paraguay, Venezuela and Panama. The training session addressed anti-money laundering and antiterrorism financing examination procedures.

In October 2003, FDIC staff participated in an anti-money laundering and antiterrorist financing workshop in Honolulu, Hawaii, for regulators from the Philippines, Thailand, Indonesia and Malaysia.

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)

FinCEN, the U.S. Financial Intelligence Unit (FIU), a bureau of the U.S. Department of the Treasury, coordinates and provides training and technical assistance to partner nations seeking to work against money laundering, terrorist financing, and other financial crimes. In particular, its efforts focus on the creation and improvement of the financial intelligence units (FIUs). 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 2003, FinCEN conducted training courses, both 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. 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.

In an effort to reinforce the sharing of information between established FIUs, FinCEN conducted personnel exchanges with a number of Egmont Group allies, including the Baltic States (Estonia, Latvia and Lithuania), Bolivia, Turkey, South Korea, and Russia. The exchanges offer the opportunity for FIU personnel to see first-hand the working of another FIU with a view towards possible improvement in such areas as analytical tools, information flow, and information security.

For financial intelligence analysis training, a group of analysts from the country's financial intelligence unit spends up to one week at FinCEN. In some cases, FinCEN will coordinate such training in-country. This type of training provides analysts with basic skills in critical thinking, inference and analysis; data collection; report writing; research and sources of information; financial analysis (such as bank records and net worth analysis); and case presentation. Training topics such as regulatory issues, international case processing, technology infrastructure and security, terrorist financing and money laundering trends and typologies provide analysts with broader background knowledge of the money laundering realm. In addition, analysts also gain an extensive knowledge of the U.S. anti-money laundering regime by meeting with representatives from other U.S. agencies, such as the Department of Justice's Asset Forfeiture and Money Laundering section, the State Department's Bureau of International Narcotics and Law Enforcement Affairs, and the Bureau of Immigration and Customs Enforcement under the Department of Homeland Security.

In 2003, to more appropriately address the specific needs of countries, FinCEN co-hosted training workshops in Malaysia and Mauritius. In Mauritius FinCEN worked with the newly formed FIU to provide specialists to teach analytical and money laundering investigative methods to analysts from India, Mauritius, and South Africa. In Malaysia, FinCEN joined with the FIU to co-host a regional Basic Analysis and Suspicious Transaction Report training seminar. The focus was on how to collect,

analyze, and share data supplied by covered institutions, as well as on the FIU's ability to gather and disseminate information on money laundering trends and techniques to financial institutions and competent authorities. Invited participants included investigators and analysts from the newly formed and/or established FIUs in Malaysia, Thailand, Philippines, Singapore, India, Pakistan, Brunei and Indonesia. The workshop was the first training course hosted under the auspices of the Southeast Asian Centre for Counter-Terrorism in Kuala Lumpur. In Bangkok, Thailand, FinCEN provided Suspicious Transaction Report analytical training to the Anti-Money Laundering Office (AMLO). The training concentrated on suspicious transaction reporting analysis and basic investigative techniques, using AMLO's currently active data.

FinCEN partnered with other U.S. agencies such as Treasury's Office of Technical Assistance (OTA) to coordinate and fashion training to address specialized needs of FIUs during weeklong programs in Bulgaria and Hungary. Efforts were undertaken to begin to gain a better understanding of the role of international organizations in training and technical assistance programs and to coordinate FinCEN's programs and objectives with organizations such as the Organization of American States, the IMF and World Bank.

During 2003, FinCEN hosted representatives in the U.S. from over 50 countries. The visits focus on new money laundering trends and patterns, the Bank Secrecy Act, details of the USA PATRIOT Act, communications systems and databases, international case processing, and the regulatory role of FinCEN. Representatives from foreign governments and their financial and law enforcement sectors generally spend a day at FinCEN learning more about money laundering, the U.S. regulatory regime and reporting requirements, the national and international roles of a financial intelligence unit, and various other topics. During the year, this type of orientation was offered to officials from a diverse number of countries ranging from Kazakhstan to Lebanon.

In 2003, FinCEN also hosted delegations for more intensive seminars in computer software programs, data mining, and case processing. Participants came from various jurisdictions of the Caribbean, the Middle East, Africa, Southeast Asia and the Pacific, Central and South America, the Gulf States, and Europe. FinCEN's communications personnel provide FIU technical analysis and support in two primary areas: analysis and development of FIU network infrastructures and systems implementation and ongoing technical support. During the year, FinCEN also provided communications support to Albania, Argentina, Bahrain, Brazil, Egypt, Georgia, Guatemala, Indonesia, Israel, Lebanon, Macau, Marshall Islands, Mauritius, Mexico, Montenegro, Panama, Philippines, Russia, Serbia, South Africa, Turkey, United Arab Emirates, and Ukraine.

Homeland Security (DHS) Bureau of Immigration and Customs Enforcement (ICE)

During 2003, the Bureau of Immigration and Customs Enforcement (ICE), Financial Investigations Division, provided extensive money laundering, financial investigations and antiterrorist financing training to domestic and foreign law enforcement organizations, and to the regulatory, banking and trade communities. ICE money laundering and financial investigations training is based on the broad experience achieved while conducting international money laundering and traditional financial investigations techniques as part of the U.S. Customs Service (USCS) legacy. Additionally, ICE conducted antiterrorist financing training in 2003, which drew on similar expertise obtained during the USCS-led Operation Green Quest.

ICE conducted training at 56 domestic and international money laundering and financial investigations seminars which focused on the traditional patterns and trends identified on trade-based money laundering schemes, bulk-cash smuggling, Black Market Peso Exchange (BMPE) investigations, alternative money remittance systems and trafficking in humans. Under the ICE Cornerstone Program,

training was also developed and designed to provide the private sector with the necessary skills to identify and develop methodologies to detect suspect transactions indicative of money laundering and criminal activity within the financial and trade sectors. Moreover, as part of Cornerstone, ICE has appointed field and headquarters agents who are dedicated to providing training to the financial and trade communities on identifying and preventing exploitation by criminal and terrorist groups. Through its partnership with private industries, Cornerstone has enlisted their participation in aggressive joint efforts to combat financial crime and strengthen money laundering laws and regulations.

ICE provided international training, technical assistance and instruction on conducting anti-money laundering, financial crimes and terrorist finance investigations to officials from over 160 countries worldwide. The ICE Financial Investigations Division participated in international training in coordination with the Department of State Bureau of International Narcotics and Law Enforcement Affairs (INL), the Department of Justice's Prosecutorial Development and Assistance and Training Program (OPDAT), and the International Law Enforcement Academy (ILEA) programs.

Additional financial investigations training of law enforcement officers from 11 Central and South American countries was conducted by ICE in support of the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) program. Other ICE international training in conjunction with the State Department and the Department of the Treasury was provided to countries of special interest to the U.S. regarding terrorist financing on anti-money laundering/antiterrorist financing. ICE provided courses on trade-based money laundering in Kuwait and Qatar.

Internal Revenue Service (IRS)

In 2003, the IRS Criminal Investigation Division (IRS-CI) continued its commitment to international training, multi-agency training efforts and technical assistance programs to foreign law enforcement agencies. Training included financial investigative techniques, anti-money laundering/asset forfeiture, counterterrorism financing and the financial underpinnings of terrorism.

IRS-CI provides financial expertise in support of the International Law Enforcement Academies (ILEAs) in Bangkok, Thailand; Budapest, Hungary; and Gaborone, Botswana, by providing training in Financial Investigative Techniques/Anti-Money Laundering and Counter-Terrorism Financing. An IRS-CI special agent continues to serve as Deputy Director of the ILEA in Bangkok. The IRS-CI also serves as coordinator of the annual Complex Financial Investigations course, which is provided to a wide variety of foreign senior, mid-level, and first-line law enforcement supervisors, inspectors, investigators, prosecutors and customs officers.

IRS-CI delivered Anti-Money Laundering/Financial Investigative Techniques courses in Santiago, Chile, and Prague, Czech Republic. In Prague, the participants were ministerial financial investigators, supervisors and prosecutors, who are responsible for enforcing their country's money laundering laws. In Santiago, students included uniformed police, intelligence analysts, supervisors and prosecutors from the financial and organized crime unit. The overall goal of this training was to enhance anti-money laundering efforts and to foster exchange of information between these countries and the U.S. to combat global money laundering. IRS-CI presented a Financial Investigative Techniques course to participants from the Inland Revenue Board, Securities Board, Finance Ministry, Treasury and Customs in Kuala Lumpur, Malaysia. This class was also facilitated by the IRS's Tax Administration Advisory Services. In addition to teaching financial techniques for investigating tax and other financial crimes, this course helped to foster on-going exchange of information among the different government agencies represented during the three-week training session.

IRS-CI undertook several training commitments as part of the Plan Colombia initiative in the Southern Hemisphere. Anti-Money Laundering, Undercover Techniques and Financial Investigative Techniques courses were delivered to federal agents, military police and intelligence officers, tax authority officials, judges and magistrates in the Colombian cities of Bogotá, Medellín and Paipa. The thrust of the training continues to stress the compelling need for the use of these techniques to destroy the financial underpinnings of Colombia's narcotics/terrorists threat. These courses allowed participants to establish relationships designed to improve joint investigations of money laundering and terrorist finance activities. In other activity, Colombian computer forensic investigators traveled to the United States to participate in a two-week Computer Forensic Investigation Specialists course at IRS-CI's new Electronic Crimes Development Center in Springfield, Virginia. The crux of the training involved recovery of seized computer data, its presentation and identification of Internet and other electronic issues relevant to financial investigations.

IRS-CI also assisted the FBI at a Financial Underpinnings of Terrorism course in Quantico, Virginia, presented to high-level prosecutors and national police from the Republic of Turkey. The participants in the course came from Turkish anti-money laundering and antiterrorism investigation units.

IRS-CI assisted during a one-week course on Counter-Terrorism Financing/Anti-Money Laundering in Abu Dhabi and Dubai, United Arab Emirates. Participants from the UAE Public Prosecutor's office, Department of Justice, Ministries of Interior, Justice, Economy and Finance, Bahrain, along with the Police and Central Bank, completed the course. Counter-Terrorism Financing/Money Laundering courses were also conducted in Brasilia, Bogotá, and in Kuala Lumpur. All of these IRS-CI training sessions were conducted in partnership with the FBI.

As a part of a larger Department of State initiative, IRS-CI has been instrumental in assisting the Government of Trinidad and Tobago (GOTT) as part of an agreement with the IRS's Tax Administration Advisory Services project for technical assistance. IRS-CI's role was to assist with the development of a Criminal Tax Investigation Unit within the Trinidadian Bureau of Inland Revenue. The newly formed unit was created primarily to improve the level of tax compliance through the development of modern criminal tax enforcement methods, techniques and programs. IRS-CI has assisted in the analysis of the current laws and statutes over which the unit will have authority to investigate and has also recommended law changes to enhance the authority of the unit.

Office of the Comptroller of the Currency (OCC)

The Office of the Comptroller of the Currency (OCC) supported and sponsored several anti-money laundering training initiatives during 2003. These included:

- Presentation of three, five-day Anti-Money Laundering (AML) schools for foreign banking supervisors including two in Washington, D.C., and a third in Mexico sponsored by the Association of Banking Supervisors of America (ABSA). The more than 50 students participating in the schools in the United States came from Bahrain, Egypt, Jordan, Pakistan, Qatar, Saudi Arabia, Antigua and Barbuda, Anguila, Barbados, Brazil, Montserrat, Cayman Islands, Dominica, France, Japan, Haiti, Grenada, Guatemala, Korea, Netherlands, Nevis, Nigeria, St. Vincent, St. Kitts, St. Lucia, Spain, United Kingdom and Venezuela.
- Provision of a specialized instructor for two U.S. Department of State-sponsored AML Anti-Terrorist Financing schools, one for Latin American students in Panama City and a second for representatives from Asia which took place in Hawaii.
- Participated with the U.S. Department of State in two Financial Systems Assessment Teams (FSATs) in the Philippines and Kenya.

Overseas Prosecutorial Development Assistance and Training & the Asset Forfeiture and Money Laundering Section (OPDAT and AFMLS)

Training and Technical Assistance

During 2003, the Justice Department's OPDAT and AFMLS continued to provide training to foreign prosecutors, judges and law enforcement, and assistance in drafting money laundering statutes compliant with international standards.

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 2003 included developments in money laundering legislation and investigations, complying with 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 2003, in-depth sessions on money laundering and international asset forfeiture were presented to representatives from Thailand, South Africa, Suriname, Argentina, Dominican Republic, Canada, Netherlands, Malaysia, Costa Rica, France, Greece, Bosnia, Hungary, Uzbekistan, and Kazakhstan. An AFMLS attorney worked with the RLA in Kosovo to assist the government in drafting its first money laundering law. In 2003 the RLA worked as Chief of the Special Information and Operations Unit at DOJ/UNMIK to help implement the new law.

As part of Plan Colombia, in 2003 OPDAT continued to provide assistance to enhance the capability of Colombia's National Asset Forfeiture and Money Laundering Task Force to investigate and prosecute money laundering and other complex financial crimes, and to execute the forfeiture of profits from illegal narcotics trafficking and other crimes.

Organized Crime

During 2003, OPDAT organized a number of seminars for foreign students on transnational or organized crime, which included such topics as corruption, money laundering, implementing complex financial investigations and special investigative techniques within a task force environment, international standards, legislation, mutual legal assistance, and effective investigation techniques.

In March 2003, a "Multi-disciplinary Workshop on the Courtroom Presentation of DNA/Forensic Evidence" was held in Belize to strengthen the country's ability to combat transnational organized crime.

In addition to its Resident Legal Advisor (RLA) in South Africa, OPDAT in 2003 assigned an Intermittent Legal Advisor (ILA) to assist the South African National Director of Public Prosecutions in implementing its new organized crime statute.

In Ukraine, OPDAT's grantee, the American University Transnational Crime Study and Corruption Centers, supported indigenous research and conducted training seminars on economic crimes and organized crime.

OPDAT RLAs continue to support Bosnia's Organized Crime Anti-Human Trafficking Strike Force and Serbia and Montenegro's judges, prosecutors and police through mentoring and training programs on investigating and developing organized crime case strategies.

Fraud/Anti-Corruption

In 2003, OPDAT organized a series of six training programs on anti-corruption in Mexico City to enhance law enforcement capabilities in investigating and prosecuting public corruption. The training covered organization of an anti-corruption unit, prosecutorial strategies, the role and techniques of financial and criminal fraud investigations and rules of conduct for police.

OPDAT sent teams of attorneys to Mozambique again in 2003 to provide assistance to its Prosecution Service on the skills needed in the investigation and prosecution of corruption cases. OPDAT has two major programs in Nigeria, including one exclusively focused on supporting Nigeria's nascent anti-corruption commission.

In 2003, OPDAT's RLA in Georgia continued to work closely with the Anti-Corruption Coordinating Council to implement recommendations for improving anti-corruption efforts. The RLA who arrived in Moldova in June 2003 completed a review of Moldova's current public corruption legislation to identify needed revisions. In 2003, OPDAT, through anti-corruption workshops and seminars, provided Estonian and Hungarian prosecutors with the team-building skills necessary to more effectively combat public corruption and financial crimes.

Terrorism/Terrorist Financing

OPDAT and AFMLS have intensified their efforts since 2001 to assist countries in developing 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 U.S. Interagency Working Group on Terrorist Financing, and in partnership with the Departments of State, Treasury and Commerce, and several other DOJ components.

In 2003, OPDAT assigned overseas the first of several Resident Legal Advisors supported by the Interagency Working Group on Terrorist Financing. RLAs are U.S. federal prosecutors who provide long-term technical assistance to improve the skills, efficiency and professionalism of foreign criminal justice systems. Typically, RLAs live in a country for one or two years to work with ministries of justice, prosecutors and the courts. To promote reforms in the criminal justice system, RLAs provide assistance in legislative drafting, modernizing institutional policies and practices, and training law enforcement personnel including prosecutors and judges, police and other investigative or court officials.

RLAs living in a country where terrorist cells may exist, or where terrorist activity or the financing of terrorists is suspected, focus on money laundering and financial crimes and developing antiterrorism legislation which criminalizes terrorist acts, terrorist financing, and the provision of material support to terrorist organizations. They also develop technical assistance programs for prosecutors, judges and, in collaboration with DOJ's International Criminal Investigative Training Assistance Program, police investigators to assist in the implementation of new money laundering and terrorist financing procedures.

In August 2003, OPDAT sent the first counter terrorism RLA to Paraguay to work on financial crimes and money laundering issues in the Tri-border area of Paraguay, Brazil, and Argentina. In October 2003, the RLA organized a number of conferences to finalize a draft anti-money laundering law,

which was to be presented to the Paraguayan legislature in early 2004. Also in 2003, OPDAT's RLA in Azerbaijan assisted in drafting money laundering legislation and implementing programs aimed at deterring terrorist financing. OPDAT has specific plans to place RLAs in other key countries around the world.

In March 2003, OPDAT held a money laundering seminar for prosecutors, banking officials and investigators in Qatar and in December 2003 an asset forfeiture program was conducted in Malaysia.

During the period 2002 to mid-2003, OPDAT organized eight seminars aimed at strengthening counterterrorism laws abroad. Officials from Central Asia, the Middle East, the Caucasus and Russia, Southeast Asia, South Asia, Latin America and Africa, participated in seminars focused on counterterrorism 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' counterterrorism infrastructures. Training participants came from Angola, Armenia, Azerbaijan, Bangladesh, Botswana, Chile, Cote d'Ivoire, Cyprus, Democratic Republic of the Congo, Djibouti, El Salvador, Egypt, Georgia, Guatemala, Guyana, India, Indonesia, Jordan, Kazakhstan, Kenya, Kyrgyzstan, Laos, Lesotho, Malawi, Malaysia, Maldives, Mauritius, Morocco, Mozambique, Namibia, Nepal, Pakistan, Paraguay, Peru, Philippines, Russia, Sierra Leone, South Africa, Sri Lanka, Swaziland, Tajikistan, Tanzania, Thailand, Turkey, United Arab Emirates, Uzbekistan and Zambia.

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 have participated in these programs.

OPDAT organized three training programs at the International Law Enforcement Academy (ILEA) in Budapest in 2003: Criminal Procedure and Trial Advocacy; Money Laundering and Terrorism Financing; and Combating Transnational Organized Crime. For each course, one of OPDAT's RLAs in the region took the organizational lead, drawing on expert faculty from the U.S., Europe and Asia.

AFMLS provides technical assistance in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2003, AFMLS provided such assistance to 14 countries as well as actively participating in the drafting of the UN Convention on Corruption and the terrorist financing provision of the OAS/CICAD Model Regulations. AFMLS continues to participate in the UN Working Group to draft a model non-conviction based asset forfeiture law. In 2003, AFMLS provided technical assistance to Albania, Algeria, Armenia, Pakistan, Indonesia, Philippines, Paraguay, Kosovo, Chile, Turkey, Kenya, Republic of Korea, Thailand and Argentina.

During 2003, AFMLS and OPDAT participated in four Financial Systems Assessment Teams (FSAT) led by the Department of State's Coordinator for Counterterrorism Office and the Bureau for International Narcotics and Law Enforcement Affairs. These teams traveled to three countries at to assess the capacities and skills of prosecutors and judges, and the criminal justice system in general, to effectively address terrorist financing.

Office of Technical Assistance (OTA)—United States Department of Treasury

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 crimes, corruption, organized criminal enterprises, and other criminal activities were undermining economic reforms promoted by the U. S. Government. 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 appropriations from the U.S. Congress.

The Enforcement Program is comprised of a group of 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 2003, advisors provided assistance to the governments of Albania, Armenia, Azerbaijan, Bosnia, Bulgaria, El Salvador, Ethiopia, Georgia, Guatemala, Honduras, Hungary, Iraq, Macedonia, Moldova, Montenegro, Morocco, Paraguay, Poland, Peru, Romania, Russia, Sri Lanka, Tanzania, Thailand, Uganda, Ukraine, Serbia, Zambia and the Eastern Caribbean countries. OTA's Enforcement advisor in Iraq successfully completed examinations of all the commercial banks in the country and provided compliance guidelines for the Central Bank.

OTA conducted several assessments of anti-money laundering regimes in 2003, often working in concert with the U.S. Embassies, other U.S. Government agencies 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 2003, such assessments were carried out in Argentina, Chile, Ecuador, Ethiopia, Sri Lanka, Zambia and Morocco.

The OTA Enforcement program has the ability to draw expertise from the other four "teams" in OTA. In Afghanistan, a Budget team advisor is resident with the Ministry of Finance to insure that a transparent budget is maintained for the donor funds flowing into the Afghanistan reconstruction. Financial Institution team advisors have been utilized in the Dominican Republic to assist in the bank resolution of a major bank, insolvent because of massive insider fraud. Tax advisors are employed in the creation of criminal investigation units within tax services in Croatia, and Government Debt advisors are used to design compliant stock exchanges and government securities in Uganda. This synergy within OTA's five teams allows for a macroeconomic approach to financial crimes enforcement.

Training

In 2003 a variety of training was the primary focus of OTA efforts in a number of countries around the world. In Africa, OTA specialists tailored a special course for Ethiopia bank examiners, conducted two training sessions in Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) for Moroccan government, banking and private sector officials, and trained over 300 Ugandans in eight different seminars relating to financial crimes and corruption investigation techniques. In Europe, OTA taught basic principals of financial investigation techniques to specialized Bosnian police; in Bulgaria, the relevant task force learned fundamentals of investigating and prosecuting financial

crimes, and in Armenia, OTA conducted a “train-the-trainer” program on auditing techniques for concerned officials. Elsewhere in Europe, working with FinCEN, OTA conducted a weeklong course in financial and business records analysis for analysts from the Hungarian Financial Intelligence Unit (FIU). In Poland, FIU employees and partner ministry officials received four AML/CFT courses, the new financial police unit in Macedonia was instructed in the basics of anti-money laundering techniques, and Romanian prosecutors, judges and bank examiners were trained in combating money laundering and bank fraud. Structured OTA training in South America included a “train-the-trainer” module for Honduran bank officials and special investigative techniques for Honduran police.

Support for Financial Intelligence Units (FIUs)

OTA continued its range of training and technical support for the refinement and establishment of Financial Intelligence Units (FIUs) in various regions of the world. In 2003, the primary focus was on Georgia, Bulgaria, Hungary, Montenegro, Russia, Serbia, Thailand, Guatemala, Honduras and Ukraine. In Serbia, for example, OTA experts undertook a variety of initiatives, including training for relevant public and private entities, to help the country establish an FIU and get it operational prior to its eventual application for membership to the Egmont Group. Similar assistance was provided to the Russian FIU. In Ukraine, OTA continued efforts to help streamline the national FIU to include relevant improvements in its operation to help Ukraine reach its goal of removal from the FATF list of noncooperative countries. In Central America, additional training and technical assistance was provided to FIUs in Guatemala and Honduras, and a resident advisor was placed with the FIU’s in Peru and Paraguay.

Resident Advisor Program

OTA advisors continued international support in the areas of money laundering and terrorist financing. The resident advisors in Bulgaria and Serbia continued efforts to streamline and enhance host governments’ FIUs. Supporting national efforts against financial crimes was the focus of the OTA resident advisors in Paraguay, Albania, and Romania, while the resident advisor in Thailand was tasked with advising the Department of Special Investigation of the Royal Thai Police and the Royal Thai Customs Service.

Treaties and Agreements

Mutual Legal Assistance Treaties (MLATs) allow generally for the exchange of evidence and information in criminal and ancillary matters. In money laundering cases, they can be extremely useful as a means of obtaining banking and other financial records from our treaty partners. MLATs, which are negotiated by the Department of State in cooperation with the Department of Justice 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, Belize, Brazil, Canada, Cyprus, Czech Republic, Dominica, Egypt, Estonia, France, Grenada, Greece, Hong Kong (SAR), Hungary, Israel, Italy, Jamaica, Latvia, Liechtenstein, Lithuania, Luxembourg, Mexico, Morocco, the Netherlands, the Netherlands with respect to its Caribbean overseas territories (Aruba and the Netherlands Antilles), 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 European Union and the following countries: Colombia, India, Ireland, Japan, 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 the Peoples Republic of China (PRC) and Nigeria.

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, Mexico and the United Kingdom.

Financial Information Exchange Agreements (FIEAs) facilitate the exchange of currency transaction information between the U.S. Treasury Department and other finance ministries. The U.S. has FIEAs with Colombia, Ecuador, Mexico, Panama, Paraguay, Peru, and Venezuela. Treasury's Financial Crimes Enforcement Network (FinCEN) has a Memorandum of Understanding (MOU) or an exchange of letters in place with other financial intelligence units (FIUs) 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 U.S. law, including 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-related law enforcement. The long-term goal has been to encourage governments to improve asset forfeiture laws and procedures so 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 2003, the international asset sharing program, administered by the Department of Justice, resulted in the net forfeiture in the United States of \$433,273,582.25 of which \$181,727,532.85 was shared with foreign governments which cooperated and assisted in the investigations. In 2003, the Department of Justice transferred forfeited proceeds to: Dominican Republic (\$10,000); Hong Kong (SAR) (\$2,898,755.42); and the United Kingdom (\$29,761.72). Prior recipients of shared assets (1989-2002) include: Anguilla, Argentina, the Bahamas, Barbados, British Virgin Islands, Canada, Cayman Islands, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Guernsey, Hong Kong (SAR), Hungary, Isle of Man, Israel, Liechtenstein, Luxembourg, Netherlands Antilles, Paraguay, Romania, South Africa, Switzerland, Turkey, the United Kingdom and Venezuela.

From FY 1994 through FY 2003, the international asset sharing program administered by the Department of Treasury shared \$24,097,083.00 with foreign governments which cooperated and assisted in investigations. In FY 2003, the Department of Treasury transferred forfeited proceeds to: Australia (\$44,958.00) and Canada (\$722,477.00). Prior recipients of shared assets (1995-1999) include: Aruba, the Bahamas, Cayman Islands, PRC, Dominican Republic, Egypt, Guernsey,

Honduras, Isle of Man, Jersey, Mexico, Netherlands, Nicaragua, Panama, Portugal, Qatar, Switzerland, and the United Kingdom.

Multilateral Activities

United Nations

United Nations Security Council Resolutions

UN Security Council Resolutions (UNSCR) 1267, 1390 and 1455 obligate UN Member States to impose certain measures—namely, asset freezes, travel restrictions and an arms embargo—against individuals and entities associated with Usama Bin Ladin, or members of al-Qaida or the Taliban that are included on the consolidated list maintained and regularly updated by the UN 1267 Sanctions Committee. 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 do the following: 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. UNSCR 1373 calls upon States to exchange information and cooperate to prevent the commission of terrorist acts.

UNSCR 1373 establishes 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. By the end of 2003, all 191 UN Member States had submitted reports to the CTC on their counterterrorism capabilities and steps they had taken to implement UNSCR 1373. In addition, 158 Member States had submitted follow-up second reports and 99 Member States had submitted third reports.

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 consistent with the FATF Forty Recommendations on Money Laundering. These measures, which states parties implement at their discretion, include the following: 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, 2003, 107 states had become parties to the Convention; 25 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) was signed by 125 countries, including the United States, at a high-level signing conference December 12-14, 2000 in Palermo, Italy. It 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 enters into force on the ninetieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. The Convention entered into force September 29, 2003, and the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children entered into force December 25, 2003. However, at the end of 2003, the Protocol against the Smuggling of Migrants by Land, Sea and Air had not yet entered into force. As of the end of 2003, 147 countries had signed the Convention and 59 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.

UN Convention against Corruption

The UN Convention against Corruption (Convention), signed by 96 countries, including the United States, at a high-level signing conference December 9-11, 2003 in Merida, Mexico, is the first legally binding multilateral treaty to address on a global basis the problems relating to corruption. The Convention expands on the provisions of existing regional anti-corruption instruments to prevent corruption and provides channels for governments to recover assets that have been illicitly acquired by corrupt former officials. The Convention also provides for the criminalization of certain corruption-related activities such as bribery and money laundering, and for the provision of mutual legal assistance related to those activities. As the Convention against Transnational Organized Crime does, this Convention requires parties to institute a comprehensive domestic regulatory and supervisory

regime for banks and financial institutions to deter and detect money laundering. That regime must 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 of international standards and the promotion of policies aimed at combating money laundering and the financing of terrorism.

The FATF originally was given the responsibility of examining money laundering techniques and trends, evaluating anti-money laundering measures, and recommending additional steps to be taken. In 1990, FATF first issued its Forty Recommendations on Money Laundering. These recommendations were designed to prevent proceeds of crime from being utilized in future criminal activities and affecting legitimate economic activity. Revised in 1996, and most recently in 2003, to reflect changes in money laundering patterns, these recommendations, along with the FATF Eight Special Recommendations on Terrorist Financing, are widely acknowledged as the international standards in these areas. FATF focused on several major initiatives during 2003.

FATF monitors members' progress in implementing anti-money laundering measures, examines money laundering techniques and countermeasures, and promotes the adoption and implementation of effective anti-money laundering measures globally. In performing these activities, FATF collaborates with various other international organizations, including several FATF-style regional bodies.

In June 2003, membership in the FATF expanded from 31 to 33 jurisdictions--with the addition of South Africa and Russia--and includes two regional organizations. FATF members collectively represent the major financial centers of North America, South America, Europe, Africa, Asia, and the Pacific. The FATF member delegations are drawn from a wide range of disciplines, including experts from Ministries of Finance, Justice, Interior and Foreign Affairs; financial supervisory authorities; and law enforcement agencies. Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong China, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and the United States are members of FATF.

Non-Cooperative Countries and Territories Exercise

In 2000, the FATF published its first list of jurisdictions deemed to be noncooperative in the global fight against money laundering (NCCT). Inclusion on the list was determined by an assessment of the jurisdiction against 25 distinct criteria covering the following four broad areas:

- Loopholes in financial regulations;
- Obstacles raised by other regulatory requirements;
- Obstacles to international cooperation; and,
- Inadequate resources for preventing and detecting money laundering activities.

In deciding whether a jurisdiction should be removed from the NCCT list, the FATF membership must be satisfied that a 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 may be considered. Additionally, the FATF seeks to ensure that the jurisdiction is implementing needed 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.

During 2003, the FATF removed Grenada and St. Vincent and the Grenadines from its list of noncooperative jurisdictions. In November of 2003, it called upon its membership to impose additional countermeasures on Burma, a jurisdiction on the NCCT list that had yet to address major deficiencies in its anti-money laundering regime. At the close of 2003, nine jurisdictions remained on the FATF's NCCT list: Burma, Cook Islands, Egypt, Guatemala, Indonesia, Nauru, Nigeria, Philippines and Ukraine.

Revision of the FATF Forty Recommendations on Money Laundering

The FATF Forty Recommendations on Money Laundering constitute the generally accepted international anti-money laundering standard and cover such relevant 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 a review of the FATF Forty Recommendations to ensure that they were current. This effort was concluded in June 2003, when the FATF released its latest revised Forty Recommendations. The following are among the more prominent changes in these revised recommendations:

- Expansion of Criminal Money Laundering Laws;
- Enhanced Due Diligence for Correspondent Banking;
- Increased Scrutiny for Politically Exposed Persons;
- Prohibition of Shell Banks;
- Justifying Use of Bearer Shares;
- Expansion of Definition of "Financial Institution";
- Application of AML Provisions to Gatekeepers; and
- Tightening Third Party Introducer Standards.

Combating the Financing of Terrorism

Shortly after September 11, 2001, the FATF mandate was expanded beyond money laundering to support the worldwide effort to combat terrorist financing. During an extraordinary plenary meeting in Washington, D.C. on October 29-30, 2001, FATF adopted Eight Special Recommendations on Terrorist Financing. These Special Recommendations now represent the international standard in this area.

The FATF membership has completed self-assessments against the Eight Special Recommendations, and the FATF has called upon all countries and jurisdictions to take part in a similar exercise. During 2003, the FATF worked to provide additional interpretation and guidance with respect to its recommendations on terrorist financing. Included in this effort was the issuance of an interpretive note and a best practices paper on alternative remittance systems and an interpretive note on wire transfers (Special Recommendations VI and VII respectively). More recently, the FATF issued, in October 2003, an interpretive note to Special Recommendation III, involving the freezing and confiscating of

terrorist assets. The FATF additionally offered a summary of international best practices on SR III with specific regard to the freezing of terrorist assets.

The FATF continues to work with jurisdictions that lack appropriate measures to combat terrorist financing. At the October 2003 Plenary, FATF launched an assessment initiative in collaboration with the G-8's Counter Terrorism Action Group (CTAG). At the request of CTAG, FATF has begun assessing the counterterrorist financing technical assistance needs of several jurisdictions. These assessments and follow up assistance by CTAG donor countries will assist countries in strengthening their counterterrorist financing regimes and in meeting the standards set by the FATF Eight Special Recommendations as well as the relevant UN Security Council resolutions.

The FATF and the International Financial Institutions

Money laundering and the financing of terrorism are worldwide concerns that undermine the integrity of domestic and global financial systems, increase risks and may impact national security. Since September 11, 2001, the international community has adopted a broad and comprehensive agenda to address these threats. As an important part of that effort, the International Financial Institutions (IFIs), notably the World Bank and the International Monetary Fund (IMF), have agreed to take on an enhanced role in the global fight against money laundering and the financing of terrorism.

A significant part of this enhanced role involves integrating anti-money laundering and counterterrorist financing (AML/CTF) considerations into the IFIs' financial sector assessment, surveillance and diagnostic activities. There has been increased recognition of the need for the IMF and World Bank to increase their involvement in strengthening financial regulatory frameworks and in providing technical assistance to authorities on AML/CTF matters.

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 World Bank collaborated closely with the FATF, other international standard setters (the Basel Committee of Banking Supervisors, the International Association of Insurance Supervisors, 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 adopted, and the IMF and World Bank Executive Boards agreed to use, 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 using the methodology in participation with FATF and FATF-Style Regional Bodies. The United States and other G-7 members have volunteered to be assessed using the new AML/CTF methodology. The pilot project concluded at the end of 2003 and is now under review and evaluation. Subsequent to the release in June 2003 of the new FATF Forty Recommendations, the FATF, in cooperation with the IFIs, began revising the comprehensive assessment methodology. The revised methodology is expected to be completed and adopted by the FATF in February 2004.

The FATF 2003 Typologies Exercise

The FATF conducted its annual typologies exercise (November 17 and 18, 2003, in Oaxaca, Mexico) to examine current and emerging methods, trends, and patterns in money laundering and terrorist financing, and to consider effective countermeasures. The 2003 typologies exercise focused upon

money laundering vulnerabilities in the insurance sector, nonprofit organizations and wire transfers, and their relationships to terrorist financing.

FATF-Style Regional Bodies

The FATF-style regional bodies (FSRBs), which are all observers of FATF, have similar form and functions to those of the FATF, and some FATF members are also members of these bodies. The FSRBs are regional groups that interpret and implement the international standards developed by FATF. The five currently active groups use peer pressure and mutual evaluations of member jurisdictions to encourage their laws' and practices' consistency with FATF standards and recommendations. The FSRBs monitor those whose level of compliance is determined to be less than acceptable, and coordinate and/or provide technical assistance to those and other members. Currently, there are ongoing discussions regarding the establishment of a Central Asia FSRB and a FSRB for the Middle East region. If these FSRBs were to be established, the only geographic region lacking a FSRB would be the Central Africa region.

Asia/Pacific Group on Money Laundering

The Asia/Pacific Group on Money Laundering (APG) is comprised of 26 nations from South Asia, Southeast Asia, East Asia and the South Pacific. They include Australia, Bangladesh, Brunei Darussalam, 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 and Vanuatu. There are also 13 observer jurisdictions and 13 observer international and regional organizations in the APG.

The APG's mission is to contribute to the global fight against money laundering, organized crime and terrorist financing in the Asia/Pacific region by enhancing anti-money laundering and antiterrorist financing efforts. In 2003, Australia and Korea served as co-chairs of the APG.

Major achievements during 2003 included expansion of the APG with the addition of Brunei Darussalam, adoption of revised APG mutual evaluation procedures incorporating the standard AML/CTF methodology, the completion of two mutual evaluations (South Korea and Palau) and one IMF/World Bank-led assessment of an APG member (Bangladesh), further expansion of the APG's work in the area of technical assistance and training, and a successful typologies meeting in Kuala Lumpur, Malaysia. An APG Steering Group and a Typologies Working Group were also established.

The Sixth Annual Meeting of the APG, in Macau, China in September 2003, reached agreement on a range of issues, including the adoption of a budget and business plan for 2004, the approval of two mutual evaluation reports and an IMF/World Bank-led assessment, agreement to increase the APG Secretariat staff and consideration of future technical assistance and training priorities.

The APG Annual Meeting was preceded by a one day Forum on Technical Assistance and Training, the second such gathering. The Forum provided an opportunity to address coordination and priority issues among donors and providers. In addition, bilateral meetings between priority jurisdictions and interested donors and providers were held to discuss training priorities and to promote the coordinated delivery of assistance.

The Typologies Workshop in December 2003 provided a forum to develop in-depth, practical knowledge and increase understanding of money laundering and terrorist financing methods and trends in the region. The workshop included special presentations and breakout sessions on a number of special topics including terrorist financing, the abuse of wire transfers and nonprofit organizations, and currency smuggling and corruption issues. The APG Typologies Working Group was formally

established and given its first task of producing the annual typologies report, which will be ready for the next APG annual meeting in June 2004.

After the typologies meeting, the APG held an intensive two-day training session for evaluators, in conjunction with the IMF/World Bank, to review the new standard assessment methodology. Participants included personnel with skills and experience in legal, financial and law enforcement matters who will now be ready to participate in future APG mutual evaluations or IMF/World Bank assessments of APG members.

The APG has an ambitious 2004 work program. Among other goals, the APG plans to conduct a number of new mutual evaluations/assessments, which will include Pakistan, India, Nepal, Sri Lanka, Niue, Marshall Islands, and Brunei Darussalam; and to coordinate and deliver increased technical assistance and training, which will be discussed at a Training and Technical Assistance Forum held at the Seventh Annual Meeting in Seoul in June 2004. The APG will also continue to cooperate with related organizations and bodies, including the FATF, other regional anti-money laundering bodies, international and regional financial institutions, the Egmont Group, 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) continues to advance its anti-money laundering initiatives within the Caribbean basin. In October 2003, El Salvador became a full member of the CFATF, increasing its membership to 30 jurisdictions. CFATF members include Anguilla, Antigua and Barbuda, Aruba, Commonwealth of the Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, 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. In October 2003, Antigua and Barbuda assumed Chairmanship of the CFATF and the Egmont Group of Financial Intelligence Units was granted observer status to the CFATF.

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 Eight Special Recommendations on Terrorist Financing and 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 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 2003, the CFATF's Council of Ministers approved two mutual evaluation reports, Antigua and Barbuda and the Turks and Caicos Islands. The Council of Ministers also reviewed the mutual evaluation report on Barbados. Mutual evaluation reports on Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, for which on-site visits were conducted during 2002, will be presented and discussed at the April 2004 CFATF Plenary in Trinidad and Tobago. These evaluations were conducted jointly with the World Bank using the common Anti-Money Laundering/Counter Financing of Terrorism (AML/CTF) Methodology. In 2003, the CFATF, IMF and World Bank jointly conducted several workshops for mutual evaluation examiners.

The CFATF has established an initiative to compile annual country reports on each member to assess compliance with the international anti-money laundering and counterterrorist financing standards. This

project is intended to complement the mutual evaluation program and to enhance the CFATF's monitoring capacity. The first set of country reports has been drafted and is expected to be adopted and published in 2004.

In March 2003, the CFATF and the South American Financial Action Task Force (GAFISUD) conducted a joint two-day typologies exercise in Panama City, Panama, focused on terrorist financing and money laundering. During this exercise, 13 presenters from nine countries and one international organization shared expertise focused on detecting and combating terrorist financing and money laundering.

In October 2003, the Council of Ministers endorsed the revised 2003 FATF Forty Recommendations, FATF Interpretative Notes to Special Recommendations III and VI, and the FATF Best Practices Paper on Freezing Terrorist Assets. The Ministers further agreed that the 2003 FATF Forty Recommendations and the FATF Eight Special Recommendations on Terrorist Financing would serve as the benchmarks for the CFATF's third round of mutual evaluations.

Council of Europe MONEYVAL

MONEYVAL generally includes within its membership those Council of Europe member states that are not members of the FATF. MONEYVAL members include Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Macedonia, Malta, Moldova, Monaco, Poland, Romania, the Russian Federation, San Marino, Serbia and Montenegro, Slovakia, Slovenia and Ukraine. The terms of reference for the MONEYVAL Committee of the Council of Europe were amended in 2003 to permit the Russian Federation to continue its membership even after its accession to the FATF. 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. MONEYVAL's mandate was most recently extended through the end of 2007.

In 2003, MONEYVAL worked to conclude its second round of mutual evaluations as well as certain first round evaluations of new members. MONEYVAL held three plenary sessions in 2003 during which mutual evaluation reports regarding Azerbaijan, Lithuania, Liechtenstein, Malta, Macedonia, Monaco, Poland, Romania and Slovakia were discussed and adopted. The mutual evaluation of Azerbaijan was notable in that it was conducted using the common assessment methodology agreed to by the FATF and the international financial institutions. MONEYVAL anticipates commencing its third round of mutual evaluations during the second half of 2004, after a revised common assessment methodology has been adopted.

At the close of 2003, MONEYVAL continued to list Georgia as subject to its compliance enhancing procedures due to the existence of continued identified deficiencies in Georgia's anti-money laundering control programs. Under these special procedures, MONEYVAL's actions can range from requiring regular reporting to the delivery of high-level warnings.

Like the FATF, MONEYVAL has taken on additional responsibilities in the area of counterterrorist financing. In 2002, the Council's European Committee on Crime Problems revised MONEYVAL's terms of reference to specifically include the issue of financing terrorism. The current text recognizes the FATF Eight Special Recommendations on Terrorist Financing as international standards and authorizes the evaluation of the performance of MONEYVAL member states in complying with these standards. The Council's Multidisciplinary Group on International Action Against Terrorism has pointed to MONEYVAL's evaluation work as a priority for Council of Europe action. The Council of Europe's Parliamentary Assembly, in its Recommendation 1584, has similarly recognized the importance of MONEYVAL's monitoring and evaluation of all aspects connected with the financing of terrorism.

During 2004, in addition to its ongoing evaluation responsibilities, MONEYVAL will participate in the Committee of Experts on the revision of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, more commonly known as the Strasbourg Convention. The feasibility of including preventive measures and counterterrorist financing in the Strasbourg Convention will be examined.

With funding provided by the European Commission, MONEYVAL has organized technical assistance programs for two member states—the Russian Federation and Ukraine. By December 2003, MONEYVAL had placed a resident advisor in Kiev.

Eastern and Southern African Anti-Money Laundering Group

The Eastern and Southern African Anti-Money Laundering Group (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, Uganda, Botswana, Lesotho, Zambia and Zimbabwe. The United States, United Kingdom, Commonwealth Secretariat, United Nations and World Bank serve as cooperating nations and organizations.

The ESAAMLG continued its development as a FSRB in 2003 with the following achievements:

- Expanded the ESAAMLG membership to formally include Botswana, Lesotho, Zambia and Zimbabwe as signatories to the ESAAMLG Memorandum of Understanding;
- Conducted mutual evaluation workshops in Bagamoyo, Tanzania, in January 2003 and Dar es Salaam, Tanzania, in May 2003;
- Hired an Executive Secretary in February 2003;
- Assisted in the FATF's mutual evaluation of South Africa and Swaziland in April and August of 2003, respectively;
- Established regional standing sub-groups of experts on legal, law enforcement and financial issues at the August 2003 meeting of the Task Force of Senior Officials;
- Held the first meetings of the expert sub-groups and incorporated their findings and recommendations into the ESAAMLG Work Plan for 2003/2004;
- Adopted the revised FATF Forty Recommendations and the common methodology agreed upon by the FATF, the IMF and the World Bank for conducting evaluations against the FATF Forty Recommendations;
- Held the 2003 annual meeting in August of the ESAAMLG's Ministers in Kampala, Uganda; and,
- Secured continued support and funding from Supporting and Cooperating Nations and Organizations, including a donation of \$70,000.00 by the U.S. Government for programs against terrorist financing.

In accordance with the ESAAMLG Work Plan for 2003/2004, the ESAAMLG anticipates undertaking the following initiatives in 2004:

- Completing a mutual evaluation training session at the end of January 2004 in Zambia (countries sending trainees are Botswana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Tanzania, Uganda);

- Piloting a computer-based Modular Anti-Money Laundering Training Program developed by the UN Global Programme against Money Laundering in Zambia in February 2004;
- Completing mutual evaluations scheduled for Lesotho, Malawi and Namibia by the end of April 2004;
- Working with World Bank First Initiative to fund a workshop in South Africa in May 2004 to assist all ESAAMLG members in developing a strategy outlining how they will go forward on developing an AML/CTF program; and,
- Coordinating technical assistance to ESAAMLG members in developing and implementing AML/CTF strategies.

These initiatives will be reviewed and discussed at a meeting of the Task Force of Senior Officials in March 2004 and the annual Ministerial Meeting in August 2004.

Financial Action Task Force Against Money Laundering in South America

The Memorandum of Understanding establishing the Financial Action Task Force Against Money Laundering in South America, (Grupo de Acción Financiera de Sudamerica Contra el Lavado de Activos or 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. GAFISUD is 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.

At the July 2003 Plenary of GAFISUD, Venezuela was admitted as a new member, increasing GAFISUD membership to 10 governments. Argentina was elected to serve as President of GAFISUD in 2004, following Uruguay's Presidency in 2003. The Egmont Group of Financial Intelligence Units was admitted as an observer in December 2003.

Also at the July 2003 Plenary in Buenos Aires, GAFISUD finalized and adopted Mutual Evaluation Reports on Chile, Ecuador, Paraguay, and Peru. This concluded GAFISUD's first round of mutual evaluations. The second round of mutual evaluations is scheduled to begin in summer 2004. Additionally, GAFISUD has adopted an Action Plan to Counter Terrorism and has endorsed the FATF Eight Special Recommendations on Terrorist Financing. GAFISUD has also endorsed the common AML/CTF Methodology for assessing compliance with the FATF Recommendations.

GAFISUD has been increasingly active in training and technical assistance. In March 2003, GAFISUD and CFATF organized a joint two-day typologies exercise in Panama City, Panama, that focused on terrorist financing and money laundering. During this exercise, 13 presenters from nine countries and one international organization shared expertise focused on detecting and combating terrorist financing and money laundering. This was the second joint GAFISUD-CFATF typologies exercise.

Also during 2003, GAFISUD, jointly with the IMF and the World Bank, conducted training for GAFISUD mutual evaluation examiners. In December 2003, GAFISUD conducted a Forum for Financial Institution Supervisors to provide training on implementation of the revised FATF Forty

Recommendations. GAFISUD has also adopted a training work plan for 2004 that will focus on advanced training for financial investigators as well as enhancing legislation to more broadly permit the use, with appropriate safeguards, of special investigative techniques such as informants, undercover operations, task forces and electronic surveillance.

Inter-Governmental Action Group against Money Laundering (GIABA)

The Heads of State and Government of the Economic Community of West African States (ECOWAS) established the Inter-Governmental Action Group against Money Laundering (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 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 and did not hold a plenary session in 2003.

Other Multi-Lateral Organizations & Programs

Caribbean Anti-Money Laundering Programme

The U.S. Government, in partnership with the European Union and the UK Government, launched the Caribbean Anti-Money Laundering Programme (CALP) on March 1, 1999. The Programme is 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 advisor responsible for delivering this sub-program is heavily involved in worldwide research of anti-money 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 changes to their legislation. Within this sub-program, training is given to prosecutors, magistrates and judges. Awareness training also is given to 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. This model legislation is being considered for adoption by other Commonwealth countries, and particularly by member countries of the Eastern and Southern African Anti-Money Laundering Group.

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 sub-program 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. Particular targets are compliance officers within the financial industry who are normally responsible for some staff training. Most 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 for such establishments is 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 (FIUs), 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 anti-money laundering case to completion. As a consequence, most investigators, prosecutors and judges had no experience with such cases.

The CALP’s major thrust for 2003 was to assist countries of the Eastern Caribbean to improve their anti-money laundering systems and working practices so as to allow them to be removed from the FATF Non Cooperating Countries and Territories (NCCT) list. With the removal of St. Vincent and the Grenadines in June 2003, this has now been entirely accomplished. Along with a number of other countries, St. Vincent and the Grenadines has now been accepted as a member of the Egmont Group.

At the end of 2003, only two countries, Haiti and Guyana, lacked operational FIUs. However, both nations had established office space for the FIUs and vetted appropriate personnel to staff them, with the expectation that they would be operational by the middle of 2004.

In 2003, CALP undertook a variety of law enforcement and legal/judicial training initiatives in accord with the Programme's primary objective of helping to ensure program sustainability in the region. Jamaica has accepted full responsibility for basic training for financial investigators at its Regional Police Training Center after the CALP terminates. Looking to the future, "train the trainer" and Advanced Investigators Training courses are scheduled for implementation in 2004 at the Regional Police Training School in Barbados. Moreover, "train the trainer" initiatives in the financial sector have been augmented with the updating of CALP's five training videos/CDs so that relevant financial organizations in the region may undertake their own training in the future.

In the legal/judicial sector, the University of the West Indies and the University of Florida have developed a legal faculty in anti-money laundering laws and practices. Via Internet on-line course work, aimed at lawyers, police officers and bankers, successful students will be awarded a diploma, which they may then apply to further study for a university degree. At end of 2003, a British consulting company was completing an evaluation of the CALP, to include an assessment of future training needs for the region.

The Egmont Group of Financial Intelligence Units

An important component of the international community's approach to combating money laundering is the global network of financial intelligence units (FIUs). 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 crimes, terrorist financing, and money laundering. Since 1995, a number of FIUs have been 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). Since the first meeting, the number of established FIUs has grown dramatically. At the first Egmont Group meeting in 1995, 20 units met in Brussels; today there are 84 recognized members of the Egmont Group. The following FIUs joined the Egmont Group in 2003: Albania, Anguilla, Antigua and Barbuda, Argentina, Bahrain, Dominica, Germany, Guatemala, Lebanon, Malaysia, Malta, Mauritius, Serbia, South Africa, and St. Vincent and the Grenadines.

The Egmont Group is an international network designed to improve interaction among FIUs in the areas of communications, 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 money laundering, terrorist financing and other 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 Internet system permits members to communicate with one another via secure e-mail, requesting and sharing case information as well as 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 74 FIUs connected to the ESW.

In response to the rapid growth of the Egmont Group, in 2002 at the Plenary in Monte Carlo, the group established the "Egmont Committee." The Committee addresses the administrative and operational issues facing the group and is comprised of 13 members: six permanent members and seven regional representatives based on continental groupings (i.e., Asia, Europe, the Americas, Africa and Oceania). The Egmont Committee usually meets three times a year; however, additional meetings may be organized if needed.

Within the Egmont Group, there are four working groups (Legal, Operational, Training/Communications, and Outreach). The Legal Working Group reviews the candidacy of potential members and handles all legal aspects and matters of principle within the Egmont Group. 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. In 2002, the Training/Communications Working Group co-hosted a FIU training seminar for analysts in Mexico, and in 2003, Britain's FIU, the National Criminal Intelligence Service, 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 concentrates on expanding and developing the FIU global network by identifying countries that have established or are establishing FIUs. Outreach is responsible for making initial contact with potential candidate FIUs, and conducts assessments to determine if an FIU is ready for Egmont membership.

The fourth and newest working group, the Operational Working Group, was created in 2003. It is designed to foster increased cooperation among the operational divisions of the member FIUs and coordinate the development of studies and typologies—using data collected by the FIUs—on a variety of subjects useful to law enforcement. These include such topics as trafficking in women, money laundering using precious metals, and arms smuggling. The Egmont Group took steps to educate the public about its important programs and its role in the global fight against financial crimes by developing an Egmont web site (www.egmontgroup.org) that became available in September 2003. This public site makes available to the general public documents and information about upcoming meetings of the Egmont Group. It also creates a forum for a public dialogue on the functions and operations of FIUs.

As of December 2003, the members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, El Salvador, Estonia, Finland, France, Germany, Greece, Guatemala, Guernsey, Hong Kong, Hungary, Iceland, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Malaysia, Malta, Marshall Islands, Mauritius, Mexico, Monaco, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, St. Vincent & the Grenadines, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Vanuatu and Venezuela.

The Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Group of Experts to Control Money Laundering

The Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) is responsible for combating illicit drugs and related crimes, including money laundering. In 2003, the commission carried out a variety of anti-money laundering and counterterrorist financing initiatives. These included amending model regulations for the Hemisphere to include techniques to combat terrorist financing, developing a variety of associated training initiatives and participating in a number of money laundering/counter terrorism meetings. This work in the area of money laundering and financial crimes also figures prominently in CICAD's Multilateral Evaluation Mechanism (MEM), which involves the participation of all 34 member states, and in 2003, included the updating and revision of some 80 questionnaire indicators through which the countries mutually evaluate regional efforts and projects.

CICAD's Group of Experts on Money Laundering met in June and November 2003 and developed modifications to the model money laundering legislation, which was approved by the 34th session of the OAS General Assembly. The new legislative guidelines include language on the control of

alternative remittance systems, criminalizing the financing of terrorism, freezing terrorist-related assets and measures for effective asset forfeiture. The two meetings of the money laundering group also reviewed a variety of case studies from the Hemisphere involving, for example, corruption and the effective conduct of money laundering investigations based on suspicious transaction reporting.

In other activity, CICAD worked with the International Development Bank (IDB) and with the Government of France to carry out training for a variety of countries on combating money laundering, effective financial investigations and recovering financial and other assets as the result of corrupt practices. For example, training seminars for prosecutors and judges focused on new trends in prosecution, in particular, the autonomy of the offense, evidence and judicial cooperation, were held in Argentina and Uruguay in 2003, and are still on-going in Brazil and Colombia. Similarly, course work on financial investigations, focused on investigating the assets of criminal organizations, was provided to law enforcement officials from Bolivia, Argentina and Uruguay. In Argentina, CICAD-sponsored training for judges and prosecutors focused on different aspects of recovering assets, including predicate offenses, money laundering and effective international cooperation to combat corruption.

Based upon an agreement for nearly \$2 million concluded in 2002 with the Inter-American Development Bank (IADB), CICAD is currently conducting a two-year project to strengthen financial intelligence units (FIUs) in Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay and Venezuela. In 2003, activities included evaluation of strategic plans for the various FIUs, development of training modules based upon local circumstances, basic preparatory work for establishment of an FIU in Peru (legal framework, institutional development, training and communications), and the hiring of experts to advance development of FIUs in Argentina, Chile and Venezuela.

In other activity in 2003, CICAD advised Ecuador on the drafting of its new law against money laundering and served in an observer capacity in the formal evaluation of Ecuador conducted by the Financial Action Task Force of South America Against Money Laundering (GAFISUD).

CICAD participated in a variety of meetings and conferences in 2003, focused on money laundering and financial crimes. These included two GAFISUD conferences, a meeting of the Egmont Group in Australia, CFATF meetings in Panama and Antigua and Barbuda and an International Symposium on Organized Crime in Brazil.

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. The heads of member governments hold annual meetings, followed by dialogue at the ministerial level with partners Canada, China, European Union, France, Indonesia, Japan, Korea, Malaysia, Philippines, United Kingdom and 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 people of South Pacific 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 Programme Against Money Laundering, the United States, Australia, New Zealand and France are providing

assistance to the PIF members through the PIF Secretariat. In 2003, border control training sessions were held for the member jurisdictions. In addition, a program was initiated to help maintain stability in the region by promoting regional cooperation through the development of laws and procedures to prevent terrorism and transnational crime, and to comply with the provisions of UNSCR 1373 and the FATF Eight Special Recommendations on Terrorist Financing. A multi-lateral legal experts working group was established to achieve these goals. The group discussed a regional framework, including model legislation, to address terrorism and organized crime. The draft model law was endorsed at the Forum Leaders meeting in August 2003, and member jurisdictions were urged to enact the legislation as soon as it was finalized.

A new Coordinating Office for the Participating Countries Anti-Money Laundering Initiative (COAMLI) is being established. COAMLI will consist of the PIF Secretariat and the Asia/Pacific Group on Money Laundering (APG) Secretariat in collaboration with the IMF Legal Department. COAMLI will coordinate with the APG to prevent overlapping of activities and projects within the region. PIF is proposing a yearlong project to assist with the development of financial intelligence units (FIUs) in the jurisdictions. The project calls for a team of mentors to provide assistance and training in the establishment and operation of FIUs in the Cook Islands, Fiji, Kiribati, Nauru, Niue, Samoa and Vanuatu. The team would eventually evolve into a central regional contact source for information requests and technical assistance for individual FIUs. COAMLI will also oversee and assist with the establishment of, and obtain funding, for FIUs.

United Nations Global Programme against Money Laundering

The United Nations is one of the most experienced global providers of anti-money laundering (AML) training and technical assistance. The United Nations Global Programme against Money Laundering (GPML), part of the United Nations Office on Drugs and Crime (UNODC), was established in 1997 to assist Member States to comply with the UN Conventions and other instruments that deal with money laundering. These now include the United Nations Convention against Trafficking in Narcotics and Psychotropic Substances (the Vienna Convention), the United Nations Convention against Transnational Organized Crime (the Palermo Convention), which entered into force on April 10, 2003, and the United Nations Convention against Corruption, which was opened for signature in Mérida, Mexico, in December, 2003. GPML is the focal point for AML within the UN system and provides technical assistance and training in the development of related legislation, infrastructure and skills, directly assisting Member States in the detection, seizure and confiscation of illicit proceeds.

Since 2001, the GPML has broadened this work to help Member States counter the financing of terrorism. GPML now incorporates a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2003, GPML completed model CTF legislative provisions for common law systems, and continued to work closely with the U.S. Department of Justice and the Organization for Security and Cooperation in Europe (OSCE) to deliver CTF training, particularly in the Central Asia region and Africa.

Highlights of GPML's work in the first half of 2003 included the launch of its global computer-based training (CBT) initiative. The initiative, based in Bangkok, produced some 12 hours of interactive AML/CTF training for global delivery in the last quarter of 2003 and in 2004. Delivery began in the Pacific Region with a pilot program in Fiji for a wide range of officials, including law enforcement, legal, and financial personnel, and with a needs assessment exercise in eastern and southern Africa, and francophone western Africa. The training program has flexibility in terms of language, level of expertise, target audience and theme. Computer-based training is particularly applicable in countries

and regions with limited resources and law enforcement skills as it can be used for a sustained period of time. As an approach, CBT lends itself well to GPML's global technical assistance operations.

GPML provided technical assistance and training to more than 50 countries and jurisdictions throughout the world in 2003. The UN mentor based in Tanzania, with the Secretariat of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), provided training to 14 countries and assisted the Secretariat and Member States in preparing for FATF-style mutual evaluations. Other UN mentors based in the Eastern Caribbean, covering six jurisdictions, assisted in the upgrade of the jurisdictions' AML regimes to meet international standards. The mentor based in the Pacific region, a joint initiative with the Commonwealth Secretariat and the Pacific Islands Forum Secretariat, gave financial investigations technical assistance to the Cook Islands, Marshall Islands, Fiji, Nauru and Vanuatu, offshore financial center jurisdictions at high risk for abuse by money launderers. Mentors and experts also gave support to the development of the legal, administrative, analytical and international co-operation capacity of other national governments, including Canada, Guatemala, Iran, Pakistan, and Russia. In addition, GPML assisted in legislative drafting for many countries, including Kyrgyzstan, Kazakhstan Azerbaijan and South Africa, and conducted a two-day workshop on AML/CTF compliance for Israeli banking, insurance and securities supervisors and regulators.

The GPML's Mentor Programme is one of the most successful and well-known activities of international AML/CTF technical assistance and training, and is increasingly serving as a model for other organizations' initiatives. It is one of the core activities of the GPML technical assistance program. In 2003, GPML consolidated the program, providing on-the-job training that adapts international standards to specific local/national situations, rather than traditional, 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 GPML'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.

GPML was among the first technical assistance providers to recognize the importance of countries' creating a financial intelligence capacity, and the program's mentors worked extensively with the development and the implementation phases of financial intelligence units (FIUs) in several countries in the Eastern Caribbean and the Pacific regions. Both the Mentor Programme and the CBT program make a priority of technical assistance and training to FIUs, among other institutions. In 2003, the GPML also continued its support of the Egmont Group of FIUs, co-organizing the Egmont Group/GPML Training Workshop for FIU personnel.

GPML runs the Anti-Money Laundering International Database (AMLID) on the International Money Laundering Information Network (IMoLIN), an online, password-restricted analytical database of national AML legislation, available only to public officials. In 2003, a UN team, including the GPML, began a complete technical and substantive renovation of AMLID, scheduled for completion in March 2004. GPML also maintains an online AML/CTF legal library. 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 UN 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 GPML is constantly updating the relevant information on international/national measures, conventions and legislation.

The World Bank and the International Monetary Fund

The World Bank (Bank) and the International Monetary Fund (Fund) conduct two major activities with respect to anti-money laundering (AML)/counterterrorist financing (CTF). First, both institutions cooperate in the provision of technical assistance, and secondly, they cooperate on joint Financial Sector Assessment Programs of countries. The Financial Sector Assessment Program (FSAP) is a joint initiative of the Bank and the Fund that measures and analyzes the depth, development, diversity and durability of a financial system, and formulates ways to strengthen it. In October 2002, the Bank and the Fund launched a pilot program to assess countries' legal and institutional frameworks to fight money laundering and terrorist financing according to the FATF international standards. These assessments typically take place as part of the FSAP. The Bank and the Fund conducted 27 AML/CTF assessments from January to December 2003. The Bank was involved as a technical assistance provider in five of the 15 FATF/FATF-Style Regional Body (FSRB) mutual evaluations in 2003.

The Bank and Fund work closely with FATF and all FSRBs to help member countries build and improve AML/CTF Regimes. The Bank considers its participation in FSRB meetings particularly important in this regard. In the past year, the Bank, Fund, FATF and FSRBs worked together to devise and adopt a Global AML/CTF Methodology which is used worldwide by all organizations which conduct AML/CTF Assessments, to ensure that all assessments are conducted according to a uniform standard. This Methodology is currently being revised following the revision of the FATF Forty Recommendations in June 2003. The Bank and the Fund are working together with FATF on the revision process and working to ensure broader consultation with FSRBs. It is expected that the revision will be concluded by March 2004.

The Bank and the Fund have undertaken a number of steps to raise awareness of AML/CTF issues in member countries and are providing technical assistance to countries to strengthen AML/CTF regimes.

One of the more innovative AML/CTF training programs piloted by the World Bank was a training series delivered by the Global Distance Learning Network (GDLN). Such training programs are delivered over videoconference facilities, and a successful program series was designed specifically for four Central Asian countries and delivered between May and December 2003.

In 2003, the Bank continued 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. Five Global Dialogues have been held since January 2003 for countries in the Middle East and North Africa, Latin America and Caribbean, and East Asia and the Pacific. Government officials from a total of 24 countries have participated in these Dialogues.

In February 2003, the Bank organized a targeted AML/CTF workshop in Ljubljana, Slovenia, for countries of southeast Europe. This conference was sponsored by the Center for Excellence in Finance, the Slovenian FIU and the Bank. The workshop was focused on helping this group of countries learn "best practices" in building AML/CTF regimes incorporating first-hand experiences about the particular challenges in their region.

During calendar year 2003, the Bank/Fund organized and participated in training programs for ESAAMLG, CFATF, APG, GAFISUD, and GIABA (the nascent FSRB in West Africa). These training programs are expected to continue during 2004 as the FSRBs adopt the revised FATF Recommendations and assessment methodology. In addition to training for FSRBs (which involved legal, regulatory and FIU training), an increasing number of regional projects also involved capacity building for financial sector regulators as well as legislative drafting training on CT.

In addition to regional conferences, the Bank/Fund provides technical assistance to client countries in response to specific requests or following an AML/CTF assessment. Examples of such assistance include the following: reviewing and advising about draft AML/CTF legislation or regulations; training officials and regulators involved in the development and enforcement of AML/CTF systems; and providing advice on the establishment of financial intelligence units. The Bank has also devoted resources to technical assistance projects of wider application such as the production of the first “Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism” and its translation into four languages besides English.

In August 2003, the Bank launched an external AML/CTF website (www.amlctf.org) which hosts information on the Bank’s programs, upcoming capacity building activities, resource materials, helpful links, and news and current events. The website is kept current with the latest publications, best practices and themes in this area, and provides contact information for individuals or organizations interested in learning more about AML/CTF.

Continuing the Bank’s ground breaking research initiated with its study on the hawala system, and at the request of the Asian Pacific Economic Cooperation (APEC) Alternative Remittance Systems (ARS) Working Group, the Bank prepared a technical paper entitled “Informal Funds Transfer Systems in the APEC Region: Initial Findings and a Framework for Further Analysis”. The paper, presented as a draft report to 21 Finance Ministers and Deputies in Thailand in September 2003, provides country clients with a uniform framework to estimate remittances so they can begin to perform in-depth investigations into ARS flows. In addition, it highlights the benefits of utilizing formal money remittance channels and provides recommendations on how to encourage greater flows of funds through such channels. The paper provides a first indication of the direction and volume of ARS flows from and to APEC economies, which can serve as a basis for future research. Ultimately, the draft report aims to help governments devise strategies that strike an appropriate balance between regulations and creating incentives to encourage greater use of formal remittance channels.

The Bank and the Fund continue to look for new and innovative ways to provide AML/CTF technical assistance to countries which request it. In this regard, the Bank and Fund are seeking to partner with other organizations and donor countries to coordinate technical assistance efforts to meet the needs of countries that want to improve their AML/CTF regimes.

Offshore Financial Centers

The pressure exerted on the offshore financial centers (OFCs) to comply with anti-money laundering standards continued to yield positive results in 2003. Since the beginning of the Financial Action Task Force’s (FATF) Non-Cooperative Countries and Territories (NCCT) exercise in 2000, FATF has identified 23 jurisdictions as NCCTs. Sixteen of the NCCTs have either been OFCs or jurisdictions that offer services commonly associated with OFCs. As of December 31, 2003, however, of the nine remaining NCCT jurisdictions, only three offered offshore financial services: Cook Islands, Guatemala and Nauru. All three have made significant progress in remedying FATF-identified deficiencies. The Cook Islands established a financial intelligence unit; Guatemala strengthened its licensing, registration and regulatory procedures for its offshore banks; and, Nauru reportedly canceled the licenses of its nearly 400 shell banks. The USA PATRIOT Act provision that prohibits transactions

(directly or indirectly) between U.S. financial institutions and foreign shell banks played a key role in Nauru's decision to cancel the licenses of shell banks in its jurisdiction and, undoubtedly, was a major factor contributing to the decrease noted globally in the number of offshore banks.

While there are well-regulated OFCs, located primarily in the larger, wealthier jurisdictions offering offshore financial services, the primary attraction of the offshore sector remains the frequent existence of legal frameworks designed to obscure the identity of beneficial owners, to promote regulatory and supervisory arbitrage, and to provide mitigation or evasion of home-country tax regimes. In the majority of OFCs a wide range of regulations normally imposed on onshore banks are not applicable. In many OFCs, banks with minimal or no capital requirements can be formed, registered and their ownership placed in the hands of nominee directors via the Internet. Often, there are few, if any, disclosure requirements and bank transactions are free of exchange and interest rate restrictions.

Some OFCs offer the ability to form and maintain a variety legal entities such as international business companies (IBCs), "exempt" companies, trusts, investment funds and insurance companies. To maintain the anonymity of the true beneficial owner of these entities, many are formed with nominee directors, nominee officeholders and nominee shareholders. When combined with the use of bearer shares (shares that do not name the owner, rather, 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. The continued selling of "economic citizenship," (passports sold to foreigners who promises to invest in the country) if improperly controlled, creates yet another impediment to law enforcement., as frequently the purchaser of such as a passport can also purchase a new name on the new passport.

Since 2002, the International Monetary Fund (IMF) has conducted assessments of nearly 40 offshore financial sectors. A progress report on the ongoing assessments completed in July 2003 concludes that, in general, supervisory and regulatory regimes need to be strengthened. In many regimes, the technical skills required to effectively supervise compliance with anti-money laundering/counterterrorist financing rules are lacking, as is the ability to address increasingly complex financial instruments. The IMF notes that regulation of banks in the OFCs is generally stronger than the regulation of insurance sectors, while in the securities business, about two-thirds of the assessed OFCs have implemented adequate principles relating to information sharing and cross-border cooperation. The IMF concludes that, in general, many of the assessed OFCs lack effective compliance programs—frequently because of inadequate legislation or lack of resources. The IMF study also concludes that compliance with recommendations regarding terrorist financing is weaker than that regarding money laundering recommendations.¹

As global use of the Internet continues to expand, so too does the ability of criminals to instantaneously transfer funds, providing further opportunities for poorly regulated OFCs to increase their customer bases. The Internet also provides criminals additional opportunities to engage in the placement and layering of illicitly gained funds as well as providing terrorist organizations the opportunity to elude law enforcement efforts to interdict funds.

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. Virtual casinos can be extremely profitable for governments that sell the licenses but that exert inadequate controls, and may, in fact, share in the operator's profits. In 2003, 30 OFCs were observed on the Internet as having virtual gambling sites—more than doubling the number of OFCs reported to have Internet gambling sites in 2002. These sites represent a particularly difficult problem for law

¹ International Monetary Fund, "Offshore Financial Centers, The Assessment Program: A Progress Report and the Future of the Program" July 2003. The report is located on the IMF's website.

enforcement, as the Internet server frequently is located in a country other than the country that has licensed the website.

While the USA PATRIOT Act has had a dramatic impact in reducing the number of shell banks globally, and more OFCs appear to be strengthening their regulatory capacity, the lack of transparency that characterizes the offshore sector makes OFCs attractive places for those who want to hide the movement of their funds. At a time when criminal and terrorist organizations threaten political and economic stability, concerted efforts to effectively supervise and regulate OFCs are essential.

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 nonexistence (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.

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 noncooperative; R indicates that the jurisdiction was reviewed and was not identified as noncooperative; 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

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	Y	3,041	Y	Y	Y	N	Y	BD		C, IO ¹
Antigua and Barbuda	15	Y	13,500	N	Y	Y	N	Y	BD	R	C, OC
Aruba	2	Y	4,320	Y	N	Y	N	N	BD		C, F, O, IO, EG
Bahamas	301	Y	47,040	N	Y	Y	N	Y	BD	RM	C, O, OC, I, S, EG
Barbados	56	Y	4,673	N	Y	Y	N	N	BD		C, O, OC, S, EG
Belize	8	Y	22,425	Y	Y	Y	N	Y	BD	R	C, OC, IO
Bermuda	N	Y	13,337	N	Y	Y	N	N	BD	R	C, O, EG
British Virgin Islands	13	Y	360,000	N	Y	Y	N	N	BD	R	C, EG
Cayman Islands	580	Y	30,000	N	Y	Y	N	Y	BD	RM	C, O, I, EG
Costa Rica	8	Y	Y	N	N		N	Y	BD	R	C, OC, S, EG
Dominica	1	Y	8,601	N	Y	Y	Y	Y	BD	RM	C, OC
Grenada	2	Y	2,293	N	Y	Y	N	Y	BD	RM	C, OC
Guatemala	13	N		Y	N			Y	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	11		22	Y		N	N	N	BD		C
Netherlands Antilles	39	Y	18,750	Y	N		N	Y	BD		C, EG, O, I
Panama	34	Y	370,000	Y	Y	Y	N	Y	BD	RM	C, O, OC, S, EG
St. Kitts & Nevis	1	Y	13,800	Y	Y	N	Y	Y	BD	RM	C, OC
(St. Kitts)	N	Y	450								
(Nevis)	1	Y	17,000								
St. Lucia	2	Y	1,052	N	Y	Y	N	Y	BD	R	C, OC
St. Vincent & The Grenadines	10	Y	6,342	N	Y	Y	N	Y	BD	RM	C, OC, EG
Turks and Caicos	8	Y	13,952	N	Y	Y	N	Y	BD	R	C, I
Uruguay	12	N	Y	Y	N	Y	N	N	BD	R	OC, S
Europe											
Andorra											
Cyprus	29	Y	57,600	N	Y	Y	N	Y	BD	R	CE, O, S, EG
Gibraltar	18	Y	8,464	Y	Y	Y	N	Y	BD	R	O, I
Guernsey ¹	65	Y	16,340	N	N	Y	N	N	BD	R	O, I, S, EG
Alderney	N	Y	455		N		N	Y			
Sark	N	Y			N		N	N			
Hungary	N	N	600	Y	N	N	N	Y	BD	RM	CE, EG
Ireland	Y	Y	400	N	N	Y	N	Y	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.

Money Laundering and Financial Crimes

Jurisdictions	Offshore Banks	Trust & Management Companies	IBCs/Exempt and/or Restricted Companies	Bearer Shares	Asset Protection Trusts	Insurance and Re-insurance	Sells Economic Citizenship	Internet Gaming	Criminalized Drug Money Laundering (D) & Beyond Drugs (BD)	FATF Noncooperative Exercise	Membership in International Organizations (A, C, CE, F, O, OC, I, S)
Isle of Man	57	Y	Y	Y	N	Y	N	Y	BD	R	O, I, S, EG
Jersey	Y	Y	30,000	N	N	Y	N	N	BD	R	O, I, S, EG
Latvia	N	N	Y	N	N	N	N		BD		CE, EG
Liechtenstein	17	Y	75,000	Y	N	Y	N	Y	BD	RM	CE, EG
Luxembourg	200	Y	68,000	Y	N	Y	N	N	BD		F, S, EG
Malta	N	Y	101	N	N	Y	N	N	BD	R	CE, S
Monaco	N	Y	Y		N		N	N	BD	R	EG
Switzerland	500	Y	Y	Y	N		N	N	BD		F, S, EG
“Turkish Republic of No. Cyprus”	33	N	54		N	N	N	N	D		
Africa & Middle East											
Botswana	1	Y	N	N				N			E
Bahrain	52	Y	Y	N	N	N	N		BD		O, S
Liberia			Y	Y	Y		N	Y	N		
Mauritius	11	Y	10,700	Y	Y		N	Y	N	R	E, O, S
Madeira (Portugal)	27	Y	6,500	N	N	Y	N	N	BD		
Seychelles	Y		4,800	Y	Y	Y	N	Y	BD	R	E
Tunisia	12		1,200	N	N		N	N	N		S
Asia											
Brunei			370	N		Y			BD		A
Hong Kong	Y		500,000		N	Y	N	N	BD		A, F, O, EG
Labuan (Malaysia)	54	Y	4,000	N	Y	Y	N	N	BD		A, I, O, S, EG

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)
Macau	Y		Y		N	Y	N	N	BD		A, O
Singapore	50	N	Y	N	N	Y	N	N	BD		A, F, O, S, EG
Pacific											
Cook Islands	25	Y	1,200	Y	Y	Y	N	Y	BD	NC	A
Marshall Islands	N	Y	4,000	Y	N	N	N	N	BD	RM	A, EG
Nauru	Y	Y	Y	Y	N	Y	Y	N	N	NC	
Niue	N	N	9,220	Y	Y	N	N	N	BD	RM	A
Samoa	8	Y	7,553	Y	Y	Y	N	N	BD	R	A, IO
Vanuatu	55	Y	2,500	Y	N	Y	N	Y	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 2003 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. Additionally, given concerns about the increasing interrelationship between inadequate money laundering legislation and terrorist financing in 2003, terrorist financing was an additional factor considered in making a determination as to whether a country should be considered an "Other Jurisdiction Monitored" or a "Jurisdiction of Concern". 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 nonbank 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 nonbank 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, under-skilled or uncommitted.

- Well-established offshore financial centers or tax-haven banking systems, especially jurisdictions where such banks and accounts can be readily established with minimal background investigations.
- Extensive foreign banking operations, especially where there is significant wire transfer activity or multiple branches of foreign banks, or limited audit authority over foreign-owned banks or institutions.
- Jurisdictions where charitable organizations or alternate remittance systems, because of their unregulated and unsupervised nature, are used as avenues for money laundering or terrorist financing.
- 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.

Changes in INCSR Priorities, 2003-2004

Jurisdiction moving from the Primary Concern Column to the Concern Column: **Dominica**

Jurisdictions moving from the Concern Column to the Other Column: **Marshall Islands, Niue**

Jurisdictions moving from the Concern Column to the Primary Concern Column: **Bosnia and Herzegovina, and Latvia**

Jurisdictions moving from the Other Column to the Concern Column: **Afghanistan, Bangladesh, Belarus, Cote d'Ivoire, Iran, Jordan, Kenya, Kuwait, Morocco, Qatar, Saudi Arabia, Sierra Leone, Syria, and Tanzania.**

The following countries were added to the Money Laundering & Financial Crimes report this year and are included in the "Other" Column: **Burundi, Djibouti, East Timor, Guinea-Bissau, Rwanda, and San Marino.**

In the *Country/Jurisdiction Table* on the following page, "major money laundering countries" that are included in the "jurisdictions of primary concern" list are identified for purposes of statutory 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; its role in the terrorist financing problem; or the degree of its cooperation in the international fight against money laundering, including terrorist financing. These factors, however, are included among the vulnerability factors when deciding whether to place a country in the "concern" or "other" column.

Country/Jurisdiction Table

Countries/Jurisdictions of Primary Concern		Countries/Jurisdictions of Concern		Other Countries/Jurisdictions Monitored	
Antigua and Barbuda	Singapore	Afghanistan	Portugal	Algeria	Malawi
Australia	Spain	Albania	Qatar	Andorra	Maldives
Austria	Switzerland	Argentina	Romania	Angola	Mali
Bahamas	Taiwan	Aruba	Samoa	Anguilla	Malta
Bosnia and Herzegovina	Thailand	Bahrain	Saudi Arabia	Armenia	Marshall Islands
Brazil	Turkey	Bangladesh	Serbia and Montenegro	Azerbaijan	Mauritius
Burma	Ukraine	Barbados	Seychelles	Benin	Micronesia FS
Canada	United Arab Emirates	Belarus	Sierra Leone	Bermuda	Moldova
Cayman Islands	United Kingdom	Belgium	Slovakia	Botswana	Mongolia
China, People Rep	USA	Belize	South Africa	Brunei	Montserrat
Colombia	Uruguay	Bolivia	St. Kitts & Nevis	Burkina Faso	Mozambique
Costa Rica	Venezuela	British Virgin Islands	St. Lucia	Burundi	Namibia
Cyprus		Bulgaria	St. Vincent	Cameroon	Nepal
Dominican Republic		Cambodia	Syria	Chad	New Zealand
France		Chile	Tanzania	Congo, Dem Rep of	Niger
Germany		Cook Islands	Turks and Caicos	Congo, Rep of	Niue
Greece		Cote d'Ivoire	Vanuatu	Croatia	Norway
Guernsey		Czech Rep	Vietnam	Cuba	Oman
Haiti		Dominica	Yemen	Denmark	Papua New Guinea
Hong Kong		Ecuador		Djibouti	Rwanda
Hungary		Egypt		East Timor	San Marino
India		El Salvador		Eritrea	Sao Tome & Principe
Indonesia		Gibraltar		Estonia	Senegal
Isle of Man		Grenada		Ethiopia	Slovenia
Israel		Guatemala		Fiji	Solomon Islands
Italy		Honduras		Finland	Sri Lanka
Japan		Iran		Gabon	Suriname
Jersey		Ireland		Gambia	Swaziland
Latvia		Jamaica		Georgia	Sweden
Lebanon		Jordan		Ghana	Tajikistan
Liechtenstein		Kenya		Guinea	Togo
Luxembourg		Korea, North		Guinea-Bissau	Tonga
Macau		Korea, South		Guyana	Trinidad and Tobago
Mexico		Kuwait		Iceland	Tunisia
Nauru		Malaysia		Kazakhstan	Turkmenistan
Netherlands		Monaco		Kyrgyzstan	Uganda
Nigeria		Morocco		Laos	Uzbekistan
Pakistan		Netherlands Antilles		Lesotho	Zambia
Panama		Nicaragua		Liberia	Zimbabwe
Paraguay		Palau		Lithuania	
Philippines		Peru		Macedonia	
Russia		Poland		Madagascar	

Introduction to Comparative Table

The comparative table that follows the Glossary of Terms below identifies the broad range of actions, effective as of December 31, 2003 that jurisdictions have, or have not, taken to combat money laundering. 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.

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 nondrug-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. On the Comparative Table the letter “M” signifies mandatory reporting.
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 nonbank 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, 2003, 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 The United Kingdom extended its application of the 1988 Convention and the United Kingdom Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Gibraltar, Montserrat, Turks and Caicos, Isle of Man, Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended. Neither Niue nor Taiwan are members of the United Nations.

Comparative Table

Actions by Governments	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Asset s	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Government/Jurisdiction																
Afghanistan	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	N	Y
Albania	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Algeria	N	N	N	N	M	N	N	N	N	Y	N	N	Y	Y	Y	Y
Andorra	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	N
Angola	Y	N	N	N	N	N	N	N	N	N	Y	N	N	N	N	N
Anguilla	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Antigua & Barbuda	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Argentina	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Armenia	Y	Y	N	Y	M	N	N	N	N	N	Y	N	Y	Y	N	N
Aruba	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Australia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Austria	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Azerbaijan	Y	N	N	Y	N	N	N	N	N	Y	Y	N	N	Y	Y	Y
Bahamas	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Bahrain	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y		N
Bangladesh	Y	Y	N	Y	M	N	N	N	N	N	Y	N	N	Y	N	N
Barbados	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Belarus	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Belgium	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Belize	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Benin	Y	N	Y	N	M	N	Y	N	Y	Y	N	N	Y	Y	N	N
Bermuda	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Bolivia	Y	Y	N	Y	M	Y	Y	N	N	N	Y	N	Y	Y	N	Y
Bosnia & Herzegovina	Y	Y	N	Y	M	N	Y	N	N	N	N	N	N	Y	N	Y

Money Laundering and Financial Crimes

Actions by Governments																
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Botswana	Y	Y	Y	Y	M	N	Y	Y		N	Y	N		Y	N	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
British Virgin Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Brunei Darussalam	Y	Y	N	Y	M	N	Y	N		N		Y	N	Y	Y	Y
Bulgaria	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Burkina Faso	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y
Burma	Y	Y	N	Y	M	N	Y	N	N	N	N	Y	N	Y	N	N
Burundi	N	N	N	Y	N	N	N	N	Y	N	N	N	N	Y	N	N
Cambodia	Y	N	Y	Y	M	N	N	N	Y	Y	N	N	N	N	N	N
Cameroon	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Canada	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cayman Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Chad	Y	Y	Y	Y	M	N	Y			Y	N	Y	N	Y	N	N
Chile	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	N	Y	Y	Y
China (PRC)	Y	Y	Y	N	M	N	Y	N	Y	Y	Y	N	N	Y	Y	N
Colombia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	N	Y	Y	N	N
Comoros	N	N	N	N	N	N				N		N	N	Y	N	Y
Congo (Dem. Republic)	N	N	Y	N	N	N	N	N	N	N	N	N	N	N	N	N
Cook Islands	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	N	N
Congo (Republic)	Y	Y	N	N	N	N	N	N	N	N	N	N	N	N	Y	N
Costa Rica	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Cote D'Ivoire	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	N	Y
Croatia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Cuba	Y	Y	N	N	P	N	Y	N	N	Y	N	N	N	Y	N	Y
Cyprus	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N

Actions by Governments	Criminalized Drug Money Laundering															
	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection	
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Djibouti	Y	Y		Y	M	N	N	N	Y	N	Y	Y	Y	Y	N	N
Dominica	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Dominican Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
East Timor	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Ecuador	Y	N	Y	Y	M	N	N	Y	N	N	Y	N	N	Y	N	Y
Egypt	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
El Salvador	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Eritrea	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Estonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Ethiopia	N	N	Y	Y	M	N	N	N	N	N	N	N	N	Y	N	N
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	N	N
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
France	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Gabon	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Gambia	Y	Y	N	Y	M	N	Y	N	N	N	N	N	N	Y	N	N
Georgia	Y	Y	N	N	M	N	N	N	N	N	Y	N	N	Y	Y	Y
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Ghana	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Gibraltar	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	Y	N	Y	N
Greece	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y		N
Grenada	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Guatemala	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Guernsey	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	N	Y	Y	N
Guinea	Y	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y

Money Laundering and Financial Crimes

Actions by Governments																
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Guinea-Bissau	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Guyana	Y	Y	N	Y	M	N	Y	N	N	Y	Y	N	Y	Y	N	N
Haiti	Y	Y	Y	Y	M	N	Y	N	N	Y	N	Y	Y	Y	N	N
Honduras	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Hong Kong	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Hungary	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Iceland	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
India	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Indonesia	Y	Y	N	Y	M	N	N	N	Y	Y	Y	N	N	Y	Y	N
Iran	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	N	N
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Isle of Man	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Israel	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Italy	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Jamaica	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Japan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Jersey	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Jordan	Y	Y	N	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	Y
Kazakhstan	Y	N	N	Y	P	N	N	N	N	Y	Y	N	N	Y	N	Y
Kenya	Y	N	Y	Y	P	N	Y	N	Y	Y	Y	N	N	Y	N	Y
Korea (DPRK)	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Korea (Republic of)	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Kosovo	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Kyrgyzstan	N	N	N	N	P	N	Y	N	N	N	N	N	N	Y	N	Y
Laos	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N

Actions by Governments	Criminalized Financing of Terrorism															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Latvia	Y	Y	Y	Y	M	Y	N	N	Y	N	Y	Y	Y	Y	N	Y
Lebanon	Y	Y	Y	Y	M	Y	Y	N	N	N	Y	Y	Y	Y	Y	N
Lesotho	N	N	Y	Y	M	N	N	N	Y	N	Y	N	N	Y	N	Y
Liberia	N	N	N	N	N	N	N	N	N	Y	N	N	N	N	N	Y
Liechtenstein	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Lithuania	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y
Luxembourg	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Macau	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Macedonia	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Madagascar	Y	N	N	N	N	N	N	N		N	N	N	N	Y	N	Y
Malawi	N	N	Y	Y	P	N	N	N		N	N	N	N	Y	N	Y
Malaysia	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	N	N	N	N	N	N		N		N	N	Y	Y	N
Mali	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y
Malta	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	N	Y	Y	Y
Marshall Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Mauritius	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	N
Mexico	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	Y
Micronesia	Y	Y	N	Y	N	N	Y	N	Y	N	Y	N	N	N	N	Y
Moldova	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Monaco	Y	Y	N	Y	M	Y	Y		Y	Y	Y	Y	Y	Y	Y	Y
Mongolia	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Montenegro	Y	Y	Y	Y	M	N	N	N	Y	N	Y	N	Y	Y	N	Y
Montserrat	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Morocco	N	N	N	Y	M	N	N	N	N	N	Y	N	N	Y	Y	Y
Mozambique	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	Y	Y	Y	N	Y

Money Laundering and Financial Crimes

Actions by Governments	Criteria															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Namibia	N	N	Y	Y	M	N	N	N	N	N	N	N	Y	N	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	N	N	N
Nepal	N	N	N	Y	N	N	Y	N	Y	N	N	N	N	Y	N	N
Netherlands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Netherlands Antilles	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	N	N
New Zealand	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Nicaragua	Y	N	Y	Y	M	N	Y	N	Y	Y	Y	N	N	Y	N	Y
Niger	N	N	Y	N	P	N	Y	N	Y	N	N	N	N	Y	N	N
Nigeria	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Niue	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	NA	N	N
Norway	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Oman	Y	Y	Y	Y	M	N	Y		Y	N	Y	Y		Y	N	N
Pakistan	Y	N	N	Y	N	N	Y	N	N	N	Y	N	Y	Y	N	N
Palau	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	N	N	N	Y
Panama	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Papua New Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y
Paraguay	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	N
Peru	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	N	Y
Philippines	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Poland	Y	Y	Y	Y	M	Y	N	N	Y	Y	Y	Y	Y	Y	N	Y
Portugal	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Qatar	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Romania	Y	Y	Y	Y	M	Y	N	N	N	N	Y	Y	Y	Y	Y	Y
Russia	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Rwanda	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y
Samoa	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y

Actions by Governments	Criminalized Financing of Terrorism															
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
San Marino	Y	Y	N	Y	M	N								Y	N	Y
Sao Tome & Principe	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
Saudi Arabia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	N
Senegal	Y	N	N	Y	M	N	Y	N		N	Y	N	N	Y	N	N
Serbia	Y	Y	Y	Y	M	Y	N	Y	Y	N	Y	Y	Y	Y	N	Y
Seychelles	Y	Y	N	Y	M	N	Y	N		N	Y	Y	Y	Y	N	N
Sierra Leone	N	N	N	Y	P	N	N	N	N	N	N	N	N	Y	N	Y
Singapore	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Slovakia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Slovenia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Solomon Islands	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
South Africa	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
Spain	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Sri Lanka	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	Y	Y
St Kitts & Nevis	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
St. Lucia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	N	N
St. Vincent/Grenadines	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Suriname	Y	Y	N	Y	M	N	Y		N	N	Y	Y	Y	Y	N	N
Swaziland	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Sweden	Y	Y	Y	Y	M	Y	Y		Y	N	Y	Y	Y	Y	Y	Y
Switzerland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Syria	N	N	N	N	N	N	Y	N	N	N	Y	N	N	Y	N	N
Taiwan	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	NA	N	N
Tajikistan	Y	Y	N	N	N	N	N	N	N	Y	Y	N	N	Y	N	N
Tanzania	Y	N	Y	Y	P	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Thailand	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N

Money Laundering and Financial Crimes

Actions by Governments																
	Criminalized Drug Money Laundering	Criminalized Beyond Drugs	Record Large Transactions	Maintain Records Over Time	Report Suspicious Transactions (NMP)	Financial Intelligence Unit	System for Identifying/Forfeiting Assets	Arrangements for Asset Sharing	Cooperates w/International Law Enf.	Int'l. 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 Connection
Togo	Y	N	Y	Y	N	N	Y	N		N		N	Y	Y	Y	Y
Tonga	Y	Y	Y	Y	N	N	Y	N	Y	Y	N	N	N	Y	N	Y
Trinidad & Tobago	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	N	N
Tunisia	N	N	N	Y	N	N	Y	N	N	Y	N	N	N	Y	Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	N	Y	N	Y
Turkmenistan	Y	Y	N	N	N	N	N	N	N	Y	N	N	N	Y	N	N
Turks & Caicos	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Uganda	Y	N	N	N	N	N	N	N		N	N	N	N	Y	Y	Y
Ukraine	Y	Y	Y	Y	M	N	N	N	Y	Y	Y	Y	Y	Y	N	Y
United Arab Emirates	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
United Kingdom	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	Y
United States	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y
Uruguay	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	N	Y
Uzbekistan	Y	Y	Y	Y	M	N	Y	N	N	Y	Y	N	N	Y	Y	Y
Vanuatu	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	N
Venezuela	Y	N	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Vietnam	Y	Y	N	Y	N	N	Y	N	N	N	Y	N	Y	Y	N	Y
Yemen	Y	Y	N	Y	M	N	N	N	N	N	Y	Y	N	Y	N	N
Zambia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	N	N	Y	N	N
Zimbabwe	Y	N	N	N	N	N	Y	N	N	N	N	N	N	Y	N	N

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 and little expertise to combat financial crimes. While the general security situation has been a substantial obstacle to efforts by the central government to establish and regulate basic financial structures, the more fundamental obstacles are legal, cultural and historical antipathy to modern, Western-style institutions such as commercial banks.

Afghanistan currently does not have commercial banks, and its Central Bank has only been reestablished about a year. The economy is almost exclusively based upon cash transactions. 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 and in 2003 its internal production of opium increased. Opium gum itself is often used as a currency. It is used as a storehouse or bank of value in prime production areas. The International Monetary Fund and the World Bank estimate as much as 50 percent of the GNP of Afghanistan is derived directly from narcotics activities. Recycling of money generated from the drug trade is reputed to have fueled a significant real estate boom in Kabul, as well as a sharp increase in capital investment in rural poppy growing areas.

Afghan 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 outside the country 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 in certain areas is a color television set. A barter system has developed whereby 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 and informal currency exchanges networks take the place of banks. Commodities are often used to provide countervaluation in trade-based hawala transactions.

There is clear evidence throughout Afghanistan that large amounts of cash generated from narcotics activities are available to and used by organizations and factions opposed to the coalition and GOA. Many of the areas of the country where Taliban and extremist influence and activities are highest (Hilmand and Nangahar, for example) coincide exactly with extensive narcotics activities in the same areas.

Afghanistan is a party to the 1988 UN Drug Convention. Afghanistan is a party to both the UN Convention against Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism.

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 antiterrorist finance legislation that complies with international standards. Italy, as the lead coalition partner on law reform, has not concentrated on financial crime because of the more immediate need for basic criminal procedure laws and because there is no financial system to regulate. The narcotics trade and money laundering are inextricably linked in Afghanistan. The proceeds of narcotics have

permeated into all levels of the economy. In order to combat money laundering and terrorist financing, Afghanistan must successfully combat narcotics trafficking.

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, sending large sums of illegitimately earned money back to Albania. The proceeds from these activities are easily laundered in Albania because of weak government controls. Money laundering is believed to be occurring through the investment of tainted money in real estate and business development projects, and through other means, including the direct purchase of treasury bills by individuals from the Central Bank in unregulated window transactions. Customs controls on large cash transfers are not believed to be effective due to lack of resources and corruption of customs officials.

Albania's economy is primarily cash-based. Electronic and ATM transactions are rare to nonexistent. According to the Bank of Albania, the Central Bank, 33 percent of the money in circulation is outside of the banking system, compared to an average of 10 percent in other Central and Eastern European transitioning economies. The Government of Albania (GOA) pays its own civil servants in cash. There are 15 banks, but only seven of them are considered to be major players in the system. In 2003 the Bank of Albania held a roundtable discussion with the Bankers' Association and the Ministry of Finance and Economy to determine the best way to promote the use of the banking system and lure people away from cash circulation.

Albania criminalized all forms of money laundering through Article 287 of the Albanian Criminal Code of 1995. 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 GOA's efforts to detect and prevent money laundering. The Agency for Coordinating the Combat of Money Laundering (ACCML) is Albania's financial intelligence unit (FIU). 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. In the first six months of 2003, ACCML received more than 265 reports, including seven which were passed to the state police for further investigation, and three which went to the prosecutor's office.

In June 2003, Parliament approved Law No. 9084, strengthening the old Law No. 8610, as well as improving the Criminal Code and the Criminal Procedure Code. The new law redefines the legal concept of money laundering, harmonizing the Albanian definition with the EU's and bringing it into line with EU and international conventions. The law mandates identification of beneficial owners and increases FIU responsibility. Under the revised Criminal Code, authorizing confiscation of accounts, defining money laundering, prohibiting anonymous accounts and criminalizing, with strong penalties, the financing of terrorism, by identifying terrorism financing and other support activities focused at terrorist actions and organizations as criminal acts, are expanded and improved. The Code of Criminal Procedure vastly improves the Albanian confiscation regime.

Law 9084 also clarifies and improves the role of the FIU. It has been given additional status by its designation as the national center for the fight against money laundering. Also, the duties and responsibilities for the FIU are better specified. The law also establishes a legal basis for increased cooperation between the FIU and the General Prosecutor's Office, while creating an oversight mechanism over the FIU to ensure it fulfills, but does not exceed, its responsibilities and authority. Previously, coordination against money laundering and terrorist financing among agencies was sporadic.

Banking groups have objected to the implementation of some aspects of the law, especially with regard to what they see as onerous reporting requirements (currently a 61-question form must be filled out for all transactions, including bank-to-bank transfers, above \$200,000). There is some concern that the sheer length of the form will discourage new clients. In addition, financial institutions that submit reports are required to do so within 72 hours. Aside from banks, bureaux de change, casinos, tax and customs authorities, accountants, postal services, insurance companies, and travel agencies are also obligated entities for threshold reporting. The new law may also cover informal value transfer systems.

There has been one prosecution initiated under the new Law No. 9084. In the two years preceding that law, there were seven prosecutions brought under the old law. Of these eight prosecutions, two are pending in the courts and six have yet to be brought to trial.

Albanian law does not allow for asset forfeiture without a court decision requiring the measure. However, the GOA has used its anti-money laundering law to freeze the assets of individuals and organizations on the UN Security Council terrorism list. Albania is currently working on a confiscation regime, with draft legislation under review. Although the GOA has not taken steps against alternative remittance systems or charitable organizations, such informal transactions are believed covered under the new law. Additionally, although the GOA does not normally monitor the use of funds by charitable organizations, the Ministry of Finance has explored additional legislation that would include such oversight, but has not yet proposed amendments. The GOA has aggressively acted against suspected charitable organizations, resulting in their removal from the country. The GOA has seized \$840,000 in liquid criminal and terrorist assets, and about \$1.5 million in real estate (some estimates of value are much higher) in the past two years (mostly related to actions against terrorist financiers). In 2003, approximately \$700,000 was seized (all related to criminal, as opposed to terrorist, activities).

The ACCML became a member of the Egmont Group in July 2003, and continues to cooperate with its counterparts, signing MOUs with Slovenia and Bulgaria and participating in exchanges for training purposes. The GOA has also agreed to fight corruption jointly with Italy.

Albania is 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 April 10, 2002. On August 21, 2002, Albania ratified the UN Convention against Transnational Organized Crime. Albania is a party to the 1988 UN Drug Convention and in December 2003 signed the UN Convention Against Corruption. Albania is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and participates in the Southeastern Europe Cooperative Initiative (SECI).

The GOA should continue to implement all aspects of the new legislation, work to hone its asset forfeiture regime, clarify interagency anti-money laundering responsibilities and provide adequate legal and financial resources to the ACCML.

Algeria

Algeria is not a financial center and the extent of money laundering through formal financial institutions is believed to be minimal due to stringent exchange control regulations and an antiquated banking sector. 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 Financial Intelligence Unit (FIU) within the Ministry of Finance. Articles 104-110 of the Finance Law of 2003 require financial institutions to report all suspicious activities to the CTRF. All financial institutions are obligated to comply with requests from the CTRF or face criminal penalties. The legislation also allows assets to be frozen for up to 72 hours on the basis of suspicious activity. Information collected by the CTRF is governed under the laws protecting professional privacy. State protection is provided for both officials and informants. The partial convertibility of the Algerian dinar enables the Central Bank to monitor 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 is not an offshore financial center.

Algeria has drafted but not yet implemented anti-money laundering legislation. It is expected that the draft law will be introduced for consideration by the Algerian Parliament during the second half of 2004. Algeria has not yet prosecuted any money laundering cases because of the current lack of a legal framework under which to do so.

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 entered into force in September 2003.

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 an attractive destination for those seeking to undertake money laundering operations. Despite this, though, Andorra is a very small country with just seven banks.

Predicate offenses for money laundering are defined in the criminal code and include drug trafficking, hostage taking, sales of illegal arms, prostitution, and terrorism. Andorra complies with the Financial Action Task Force (FATF) 40 recommendations plus the Special Recommendations on Terrorist Financing. 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 (December 2000 Act). Essentially, this law imposes reporting obligations upon Andorran financial institutions, insurance and re-insurance companies, and natural persons or entities whose professions or business activities involve the movement of money or securities that may be susceptible to laundering. It specifically covers external accountants and tax advisors, real estate agents, notaries, and other legal professionals when they are acting in certain professional capacities, as well as casinos and dealers in precious stones and metals. Reports of suspicious transactions (STRs) are made to the Unit for the Prevention of Laundering Operations (UPB), Andorra's financial intelligence unit (FIU). Article 49 of the December 2000 Act 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 December 2000 Act 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 applicable transaction. Records verifying identity must be kept for a period of at least ten years from the date when the business relationship ends.

In 2003, Andorra set up a legislative commission that reviewed the Criminal Code and anti-money laundering laws. The explicit criminalization of terrorism financing was included in this review, as were general modifications to hone the banking sector regulations. The Parliament is currently working on changes to the Criminal Code. In addition, Andorra is bringing its customer identification processes up to international standards. The new Loi de l'INAF (Institut Nacional Andorrà de Finances) was passed by the Parliament on October 23, 2003, and became effective on November 27, 2003. INAF, which replaced the old Commission Supérieure de Finances (CSF), is a totally independent monitoring body, responsible for monitoring and supervision of the financial system, management of public debt, carrying out field inspections, and taking disciplinary action. Although it does not have supervisory authority over the insurance sector yet, INAF will present a bill to the Parliament during the first quarter of 2004 that will integrate the insurance sector with the other financial sectors—thus bringing the insurance sector under INAF authority as well.

The UPB was established in 2001. UPB, with a staff of five, is an administrative unit with no law enforcement powers of its own. UPB acts in a supervisory role, and provides education regarding compliance and money laundering prevention to financial services providers. In 2003 UPB inspected the two main banks in Andorra, and was instrumental in coordinating outreach. In 2003, UPB organized a training program for notaries and lawyers in conjunction with Spain's SEPBLAC, and, with the Andorra Banking Association, held training seminars for banks and police. UPB also organized joint training with KPMG for 180 gatekeepers. UPB works closely with the banking community, including providing training in recognizing questionable transactions; as a result, banks have become more cooperative with UPB as well.

In 2003, UPB documented significant progress. It received 34 STRs—26 from banks, 2 from nonbank financial intermediaries, 3 from legal professionals, two from notaries and one from a realty agent. Twelve of these cases were prosecuted, with seven going to the Prosecutor General. The year 2003 saw Andorra's first money laundering conviction as well as its first asset confiscation: On February 26, 2003, three Spaniards were convicted for a major money laundering offense in connection with drug trafficking in Spain. Two of the convicted received 5 years' imprisonment and a fine of 150,000 euros, and the third received three years' imprisonment and a 50,000 euros penalty. Andorra also invoked provisional measures, freezing three bank accounts totaling 20 million euros and another bank account of 1.3 million euros, and seizing an additional bank account along with a building.

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 UPB can freeze assets administratively for five days without a judicial order. If the assets need to be held for a longer period, the UPB can seek a judicial order, which normally occurs within the five-day period the UPB is authorized to hold the accounts. Judicial freeze orders can be effective for an indefinite period of time.

The entirety of Title I of the December 2000 Act 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.

UPB is the agency that would deal with terrorism financing, but the crimes it has detected run toward drug trafficking and fraud, rather than to terrorism financing. To date it has not dealt with any cases involving terrorism.

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. Andorra has signed and intends to ratify the European Convention on Mutual Legal Assistance in 2004. Andorra is a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

Although not a member of the European Union, Andorra has very close cultural and geographic ties to Spain and France. The UPB works closely with its Spanish and French counterparts and has signed cooperation agreements with these jurisdictions as well as with Belgium. 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. The UPB is a member of the Egmont Group. In addition, Andorra is a strong participant in the Council of Europe's MONEYVAL Committee, and underwent that organization's second round mutual evaluation last year. Despite its progress and cooperation concerning money laundering, the OECD continues to cite Andorra on its black list as a "tax haven" due to its low or nonexistent taxes, and maintains that Andorra still needs to make its banking system more transparent. Andorra is working on hosting a typologies seminar for anti-money laundering and countering the financing of terrorism.

Andorra should continue to enhance its anti-money laundering regime by broadening its definition of money laundering to expand the list of predicate offenses. Andorra should enact and fully implement the changes to the criminal code it is considering, including a provision to criminalize terrorist financing.

Angola

Angola is not a regional or offshore financial center and has not prosecuted any known cases of money laundering. Yet the laundering of funds derived from pervasive 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 through domestically implemented national 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. The Central Bank of Angola does have some authority to freeze assets and legislation was pending at the end of the year to improve protections against money laundering. Angola currently does not have a clear system for identifying, tracing, or seizing assets.

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. Angola has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

Angola should become party to the 1988 UN Drug Convention, UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. It should criminalize terrorist financing and money laundering related to all serious crimes. Angola should develop viable anti-money laundering and anti-corruption programs. Law enforcement and customs should be cognizant of how trade is misused to launder money.

Anguilla

Anguilla is a United Kingdom (UK) overseas territory with a population of approximately 12,738. The economy depends greatly on its growing offshore financial sector and tourism. The financial sector is small in comparison to other jurisdictions in the Caribbean, but growing substantially, which makes Anguilla vulnerable to money laundering.

Anguilla has 4 domestic banks and 20 registered insurance companies. The Eastern Caribbean Central Bank supervises the four domestic banks, and signed a memorandum of understanding in 2002 with the Governor of Anguilla to supervise the two licensed offshore banks. The offshore sector also includes approximately 3,041 international business companies (IBCs), 128 limited liability companies, 7 limited partnerships, 1,466 ordinary companies, 29 licensed company managers, and 12 trust companies. There is one entity operating in securities and one unit trust operating under a trust license. The Anguilla Commercial Online Registration Network (ACORN) enables instant electronic incorporation and registration of companies and trusts. Operational since November 1998, ACORN is available 24 hours a day and accessible in various languages. The Financial Services Department (FSD), which is part of the Ministry of Finance, conducts due diligence of ACORN on behalf of the Registrar of Companies. IBCs may be registered using bearer shares that conceal the identity of the beneficial owner of these entities; however, legislation is being drafted to immobilize bearer shares.

In November 2003, the Financial Services Commission (FSC) Act was passed. The FSC Act creates an autonomous regulatory agency that will assume most of the FSD supervisory authority. The Act empowers the agency to approve the appointment of compliance officers of licensees, conduct compliance inspections, monitor activity within the financial sector, and undertake enforcement actions against persons involved in unlawful activity. The agency will also monitor compliance with the Anti-Money Laundering Regulations of 2000, and guidance notes, and will recommend new laws or legislative amendments. The agency will be governed by a board of directors and is expected to become operational in February 2004.

The Proceeds of Criminal Conduct Act (PCCA) of 2000 extends the predicate offenses for money laundering to all indictable offenses and allows for the forfeiture of criminally derived proceeds. The Act provides for suspicious activity reporting and a safe harbor for this reporting. In July 2000, the Money Laundering Reporting Authority Act came into force, and amended the Drugs Trafficking Offenses Ordinance of 1988. The Act requires persons involved in the provision of financial services to report any suspicious transactions derived from drugs or criminal conduct, and establishes requirements for customer identification, record keeping, reporting, and training procedures. The Act establishes the Money Laundering Reporting Authority (MLRA) as Anguilla's financial intelligence unit. The MLRA, with a staff of five, will receive suspicious transaction reports (STRs) and will be empowered to disclose information to any Anguillan or foreign law enforcement agency.

The Criminal Justice (International Co-operation) (Anguilla) Act, 2000 enables Anguilla to directly cooperate with other jurisdictions through mutual legal assistance. The U.S./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to Anguilla in November 1990. Anguilla is also subject to the U.S./UK Extradition Treaty. Anguilla is a member of the Caribbean Financial Action Task Force (CFATF), and is subject to the 1988 UN Drug Convention. The MLRA joined the Egmont Group in June 2003.

Anguilla should continue to strengthen its anti-money laundering regime by adopting measures to immobilize bearer shares and ensure that beneficial owners of IBCs are identifiable. Anguilla should also enhance the MLRA standard operating procedure for receiving and analyzing STRs. Furthermore, Anguilla should provide analytical training to staff at the MLRA and law enforcement agencies that investigate financial crimes. Anguilla should criminalize the financing of terrorists and terrorism and take measures necessary to implement the FATF Eight Special Recommendations on Terrorist Financing.

Antigua and Barbuda

Antigua and Barbuda (A&B) 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. Money laundering in the region is related both to narcotics and fraud schemes, as well as to other crimes, but money laundering appears to occur more often in the offshore sector than in the domestic financial sector.

In April 1999, both the United States and the United Kingdom (UK) issued financial advisories recommending that their respective financial institutions give enhanced scrutiny to all financial transactions routed into or out of A&B. 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. The MLPA is currently being amended to broaden the definition of supervised financial institutions to cover nonbanking institutions. In August 2001, as a result of the enactment of new laws and their substantial implementation, both the U.S. and the UK lifted their April 1999 financial advisories

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 IBCs, and to disclose such information to authorities upon request. In September 2002, the GOAB issued anti-money laundering guidelines for financial institutions requiring banks to establish the true identities of account holders and to verify the nature of an account holder's business and beneficiaries.

Unlike some of the other countries in the Eastern Caribbean, the GOAB has not 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. The ECCB is not currently able to share examination information directly with foreign regulators or law enforcement personnel. Legislation to permit such sharing is being developed, but to be universal it must be passed by all eight of the ECCB jurisdictions.

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 unify the regulatory structure of A&B's financial services sector. FSRC is responsible for the regulation and supervision of the offshore banking sector and Internet gaming. The FSRC issues licenses for international business corporations and maintains the register of all corporations, of which there are 13,500, with 7,500 active in 2003. 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 conduct, the names of shareholders and number of shares they will hold. Service providers are required by law to know the names of beneficial owners. The FSRC conducts 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. From 1999 through 2003, the GOAB conducted an extensive review of the offshore banking sector. As a result, over 30 offshore banks had their licenses revoked, were dissolved, placed in receivership or otherwise put out of business. Currently, A&B has 15 licensed offshore banks in operation. Of these, however, several may not meet international physical presence standards.

The Office of National Drug Control and Money Laundering Policy (ONDCP), which is the financial intelligence unit (FIU), directs the GOAB's anti-money laundering efforts in coordination with the FSRC. The ONDCP is a department in the Prime Minister's office and has primary responsibility for

the enforcement of the MLPA. The ONDCP Act of 2003 establishes the FIU as an independent organization and the Director of ONDCP as the supervisory authority under the MLPA. Additionally, the ONDCP Act of 2003 authorizes the Director to appoint officers to investigate drug trafficking, fraud, money laundering, and terrorist financing offenses. Auditors of financial institutions review their compliance program and submit a report to the ONDCP for analysis and recommendations. Memoranda of understanding have been drafted to cover all aspects of the relationship between the ONDCP, Royal Antigua and Barbuda Police Force, Customs, Immigration, and the Antigua and Barbuda Defense Force. By October 2003, the ONDCP had received 47 suspicious activity reports.

A training program and information kit on anti-money laundering for magistrates and other judicial officers is currently in draft form, and training is scheduled for 2004. 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.

Casinos and sports book-wagering operations in Antigua and Barbuda's Free Trade Zone are supervised by the ONDCP and the Directorate of Offshore Gaming (DOG), housed in the FSRC. The DOG has 13 employees. Antigua and Barbuda has seven domestic casinos, which are required to incorporate as domestic corporations. Internet gaming operations are required to incorporate as IBCs; official sources indicate there are 34 such entities. The GOAB adopted in 2001 regulations for the licensing of interactive gaming and wagering in order to address possible money laundering through client accounts of Internet gambling operations. 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. Internet gaming companies are required to enforce know-your-customer verification procedures and maintain records relating to all gaming and financial transactions of each customer for six years. Suspicious activity reports from domestic and offshore gaming are sent to the ONDCP and FSRC. Reportedly, they are receiving two to three each week. The FSRC and DOG have issued Internet Gaming Technical Standards and guidelines. 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.

In 2003, the GOAB submitted a case to the World Trade Organization's (WTO) Dispute Settlement Body requesting the establishment of an independent panel to adjudicate a dispute with the U.S. The GOAB contends that the U.S. is in violation of the WTO-General Agreement on Trade in Services because the U.S. prohibits residents from engaging in Internet gaming and betting services, and credit card companies and banks from facilitating the transactions. The WTO is currently conducting hearings on the matter. The GOAB has stated that U.S. MLAT requests for information on cases involving Internet gaming will not be honored, as Internet gaming is not illegal in A&B. The GOAB receives approximately four million U.S. dollars per year from license fees and other charges related to the Internet gaming industry.

Amendments to the MLPA in 2000, 2001, and 2002 enhanced international cooperation, strengthened asset forfeiture provisions and created civil forfeiture powers. Despite the comprehensive nature of the law, Antigua and Barbuda has yet to prosecute a money laundering case on its own but is presently seeking the extradition of two individuals from the UK and Canada, respectively, on money laundering charges. Approximately \$3.4 million has been frozen in Antigua in connection with the case.

In October 2001, Antigua and Barbuda 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 covers any finances in any way related to terrorism. Antigua circulates lists of terrorists and terrorist entities to all financial institutions in Antigua. 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 nonprofit entities.

In 1999, a Mutual Legal Assistance Treaty and an Extradition Treaty with the United States entered into force. The GOAB signed a Tax Information Exchange Agreement with the United States in December 2001 that allows the exchange of tax information between the two nations. In 2002, the GOAB assisted in the FBI's investigation into the activities in A&B of John Muhammed, the convicted Washington, D.C. area sniper. In 2003 the GOAB continued its bilateral and multilateral cooperation in various criminal and civil investigations and prosecutions. Because of such assistance, the GOAB has benefited through an asset sharing agreement with Canada and has received asset sharing revenues from the U.S. Despite its own civil forfeiture laws, currently, GOAB can only provide forfeiture assistance in criminal forfeiture cases. Even so, over the last 5 years, the GOAB has frozen approximately \$6 million in A&B financial institutions as a result of U.S. requests and repatriated approximately \$4 million. The GOAB has frozen, on its own initiative, over \$90 million that it believed to be connected to money laundering cases in the U.S. and other countries.

Antigua and Barbuda is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), and the Caribbean Financial Action Task Force (CFATF), of which it assumed the chair for 2003 and 2004. The GOAB underwent its second round CFATF Mutual Evaluation in October 2002. The CFATF found that Antigua and Barbuda's anti-money laundering framework was consistent with international standards and is being enforced. Antigua and Barbuda is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. In June 2003, the ONDCP joined the Egmont Group.

The GOAB should continue its international cooperation and rigorously implement and enforce all provisions of its anti-money laundering legislation. The GOAB should 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 anti-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, consistent with international standards.

Argentina

Argentina is neither an important regional financial center nor an offshore financial center. Money laundering related to narcotics trafficking, corruption, contraband, and tax evasion is believed to occur throughout the financial system, in spite of the efforts of the Government of Argentina (GOA) to stop it. The financial crisis and capital controls of the past three years may have reduced the opportunities for money laundering through the banking system. However, transactions conducted through nonbank 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 problems that continued in Argentina during 2003, the GOA made efforts to implement the regulations for anti-money laundering law 25.246 of May 2000. Law 25.246 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), the Unidad de Informacion Financiera (UIF), under the Ministry of Justice and Human Rights. Under this law, requirements for customer identification, record keeping, and reporting of suspicious transactions by all financial entities and businesses are supervised by the Central Bank, the Securities Exchange Commission (Comisión Nacional de Valores or CNV), and the Superintendencia of Insurance (Superintendencia de Seguros de la Nación or SSN). 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.

Resolutions 6, 7, 8, 9, 11, 15, and 17 issued by the UIF in 2003 detail procedures for the reporting of suspicious or unusual transactions by the following entities: the Central Bank, CNV, and SSN; the tax authority (Administración Federal de Ingresos Públicos or AFIP); banks; currency exchange houses; casinos; securities dealers; registrars of real estate; dealers in art, antiques, and precious metals; insurance companies; issuers of travelers checks; credit card companies; postal money transmitters; notaries; and certified public accountants. The resolutions provide guidelines for identifying suspicious or unusual transactions, and require the reporting of those whose value exceeds 50,000 pesos. Obligated entities are required to maintain a database of all suspicious or unusual transaction reports for at least five years, and must respond to requests from the UIF for further information within 48 hours. Due to continued budget constraints, only suspicious transactions over 500,000 Argentine pesos (approximately \$140,000) are reported 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 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.

On October 21, 2003, draft legislation to criminalize terrorist financing was introduced to the Argentine Chamber of Deputies. The draft law, which modifies the Penal Code, criminalizes the financing of acts of terrorism and provides penalties for the violation of international conventions, including the United Nations International Convention for the Suppression of the Financing of Terrorism. The legislation will be considered when the new congressional session begins in March 2004. The GOA reportedly will present its own counterterrorism bill, which likely will include a provision on the financing of terrorism. The legislation, when approved, will bring Argentina into compliance with the recommendations of the UN, the Organization of American States, and the Financial Action Task Force (FATF) with regard to terrorist financing.

The GOA remains 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. 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 FATF as well as the South American Financial Action Task Force (GAFISUD). In 2004, the GOA will serve as head of GAFISUD, whose Secretariat is based in Buenos Aires.

In July 2003 Argentina was accepted into the Egmont Group. 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 have been frozen, the Central Bank continues to monitor the financial institutions.

With strengthened mechanisms available under the Law 25.246, proposed terrorist financing legislation, and increased reporting requirements issued by the UIF, Argentina seems poised to prevent and combat money laundering effectively. Disputes over information sharing between the UIF, the Central Bank and the tax agency (AFIP) also need to be resolved for anti-money laundering efforts to succeed. 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. The GOA should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Armenia

Armenia is not a major financial center. Armenia has no offshore banks and few nonbanking financial institutions. Nevertheless, Armenia's high unemployment, low salaries, corruption, a large shadow economy and the presence of organized crime contribute to Armenia's vulnerability to money laundering. Armenia's large shadow economy is largely unrelated to criminal activity other than tax evasion itself, but schemes that are commonly used in Armenia to avoid taxation are similar to those used for money laundering, including the fraudulent invoicing of imports, double bookkeeping and misuse of the banking system. There are also about 30 casinos on the outskirts of Yerevan that will be subject to the new anti-money laundering regulations proposed by the government.

The Government of Armenia (GOA) has made important progress in 2003 to bring legislation and structural capacity up to international standards in the area of money laundering and terrorist finance, especially with respect to oversight of commercial banking. The lack of reports of money laundering or investigations makes it hard to tell how effective Armenia's implementation of this new legal regime will be in fighting financial crimes.

The Criminal Code prohibits the exchange of criminally obtained money with intent to obscure the money's origin. The Law on Banks and Banking and Central Bank regulations civilly prohibit transactions involving unlawfully acquired assets in Armenia and require financial institutions in Armenia to demand proof of origin and legality for deposits greater than 10 million dram (about \$17,500). Under banking laws amended in October and November 2002, the Central Bank requires banks to demand certain information from people and businesses making large deposits in order to confirm the identity of clients wishing to open a bank account. Upon suspicion of money laundering or terrorist finance, banks must also report transactions to the Central Bank within one working day and freeze the account. Failure to comply with any Central Bank requirement subjects the commercial bank to civil liability. The law gives financial institutions immunity from civil liability for cooperating with investigations.

The GOA has drafted a new comprehensive money laundering law, The Law on Prevention of Illegally Received Income Legalization and Terrorist Financing, which consolidates old laws into a single piece of legislation and adds new structures of regulation. The new law on money laundering will apply to nonprofit organizations and gambling enterprises, as well as nonbanking financial institutions. The government will submit the draft to Parliament in early 2004.

The current draft of the proposed legislation creates five financial intelligence units (FIU), each regulating in discrete areas. The lack of a single FIU will likely impair Armenia's money laundering regime; casinos, for example, may have less assiduous oversight from the gambling board than the Central Bank or Ministry of Justice could provide.

The Government of Armenia has recently sought U.S. cooperation in some of its money laundering investigations, seeking information about specific transfers between Armenian and American banks.

Armenia currently has no special article of the Criminal Code that addresses the financing of terrorism, although the Criminal Code provides adequate legal basis to prosecute and freeze accounts of suspected terrorist financiers. The Central Bank has circulated lists of those named on the UN 1267 Sanctions list as associated with terrorist organizations among all the banks and has instructed them to freeze related accounts. To date, there have been no matches.

Armenia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). Armenia is a party to the 1988 UN Drug Convention and the European Convention on Mutual Assistance in Criminal Matters. Armenia became a party to the UN Convention against Transnational Organized Crime on July 1, 2003, and to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime on November 24, 2003. Armenia intends to ratify the UN International Convention for the Suppression of the Financing of Terrorism by the end of the year, which will require a specific provision of the Criminal Code prohibiting financing terrorism.

Armenia should continue to strive to create a comprehensive anti-money laundering/antiterrorist financing regime. The GOA should extend coverage of applicable laws to nonbank financial institutions and gatekeepers, such as accountants and attorneys. The GOA should establish one centralized FIU to receive, analyze and disseminate information on money laundering and terrorist financing. The GOA should specifically criminalize the financing of terrorism.

Aruba

Aruba is a largely self-governing Caribbean island dependency of the Netherlands. As a transit country for cocaine and heroin, Aruba is both attractive and vulnerable to money launderers. The island has an offshore sector, with approximately 560 limited liability companies and 3,760 offshore tax-exempt companies referred to as Aruba Exempt Companies (AEC). Both types of companies can issue bearer shares. There are also 11 casinos, 13 banks (five commercial and two offshore), two credit unions, and approximately 30 money transmitters and exchange offices. Additional financial sector entities include eight life insurance companies, 12 general insurance companies, two captive insurance companies, and 10 company pension funds.

Aruba's offshore industry constitutes about one percent of the GDP and is due to be phased out by the end of 2005 as part of the Government's May 2001 commitment to the Organization for Economic Cooperation and Development (OECD) in connection with the Harmful Tax Practices initiative. The Government of Aruba (GOA) initiated in 2002 a new fiscal framework that contains dividend tax and imputation credits. The proposal must be consistent with the OECD Harmful Tax Practices standards. In November 2003, the Prime Minister of Aruba signed a tax information exchange agreement with the United States. Implementing legislation is currently pending before Parliament, and a bilateral double taxation agreement is under consideration.

Aruba's offshore services include the offshore Naamloze Vennootschap (NV) or limited liability company, which is a low-tax entity, and the AEC. A local director, usually a trust company, must represent offshore NVs. A legal representative that must be a trust company represents AECs. AECs pay an annual registration fee of approximately \$280, and must have a minimum authorized capital of approximately \$6,000. AECs cannot participate in the economy of Aruba, and are exempt from several obligations: all taxes, 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, or other creditors. In May 2000, the GOA issued guidance notes on corporate governance practices. The GOA has prepared a State

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Ordinance for the supervision of trust companies, that is currently pending in Parliament. The draft Ordinance provides for the oversight of thrift companies to ensure that they follow know your customer procedures.

Following the July 4, 2000, Parliamentary approval of the State Ordinance Free Zones Aruba (FZA), in July 2001 the Parliament unanimously approved the designation of the 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. Aruba took the initiative in the Caribbean Financial Action Task Force (CFATF) to develop regional standards for free zones, in an effort to control trade-based money laundering. The guidelines were adopted in April 2001 at the CFATF Plenary, and in October the CFATF Ministerial Council followed. As a result, the tougher standards resulted in a 65 percent drop in free zone business.

The anti-money laundering legislation in Aruba extends to all crimes including tax offenses. In most cases, money laundering is incorporated into the investigation as the underlying offense. All financial and nonfinancial institutions are obligated to report unusual transactions to Aruba's financial intelligence unit (FIU), the Meldpunt Ongebruikelijke Transacties (MOT). In 2002, authorized staffing for MOT was increased from six to 12. During 2003, three of seven vacancies were filled, and recruiting is underway for the remaining positions. MOT is not linked electronically to the police or prosecutor's office. The MOT 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 also authorized onsite 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. Life insurance companies' obligation to report suspicious transactions became effective February 19, 2002. A State Ordinance of August 12, 2003, places money transfer companies under effective banking supervision with quarterly reporting requirements effective January 1, 2004.

During 2003, there was an out-of-court settlement in a case involving three linked supermarkets engaged in money laundering and banking violations, and two money laundering convictions occurred. One case involved a money transfer company and the other involved a group from the Dominican Republic, convicted for using smurf-like transactions to launder funds. In April 2003, a money laundering conviction of a free zone company was overturned on appeal.

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.

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 also applies to express courier mail services. There were two airport seizures of undeclared excess currency between April and September 2003.

Aruba, which has autonomous control over its internal affairs, is a part of the Kingdom of the Netherlands, and through the Netherlands, Aruba participates in the Financial Action Task Force (FATF) and, therefore, participates in the FATF mutual evaluation program. The GOA has a local FATF committee that oversees the implementation of the FATF recommendations, 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. By December 2003, Aruba was in compliance with seven of the recommendations. 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 Mutual Legal Assistance Treaty between the Netherlands and the United States applies to Aruba, though it is not applicable to requests for assistance relating to fiscal offenses addressed to Aruba.

The MOT is a member of the Egmont Group. A draft law, which would authorize the MOT to share information with foreign counterpart organizations with a memorandum of understanding (MOU), is pending before Parliament. In June 2001, the MOT signed an agreement with the FIUs of the Netherlands and the Netherlands Antilles to exchange information. On April 2, 2003, MOT signed an information exchange agreement with the Aruba Tax Office, which is in effect and being implemented.

The GOA has shown a commitment to combating money laundering by establishing a solid anti-money laundering regime that is generally consistent with the recommendations of the FATF and the CFATF. The GOA should immobilize bearer shares under the new fiscal framework. The GOA should also pass and implement legislation, regulations, and MOUs to improve information sharing by MOT and, if it has not specifically done so, criminalize terrorist financing.

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. Estimated activity across Australian exchange and over-the-counter financial markets amounted to over \$40 trillion in 2003. The market capitalization of domestic equities listed on the Australian Stock Exchange as of September 2003 was \$389 billion. The Government of Australia (GOA) has maintained 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.

The Australian Federal Police (AFP) has previously estimated that crime in Australia is worth between \$3.5 and \$4.2 billion, annually, based on intelligence assessments of major fraud and narcotics crimes. A report commissioned by the Australian Transaction Reports and Analysis Centre or AUSTRAC, Australia's financial intelligence unit (FIU), has previously estimated that money laundering in and through Australia is estimated at around \$3.5 billion per annum.

Australia criminalized money laundering related to serious crimes with the enactment of the Proceeds of Crime Act 1987. This legislation also contains provisions to assist investigations and prosecution in the form of production orders, search warrants, and monitoring orders. The Proceeds of Crime Act 2002 came into force on January 1, 2003. This Act provides for civil forfeiture of proceeds of crime as well as for continuing and strengthening the existing conviction-based forfeiture scheme that was in the Proceeds of Crime Act 1987. The Proceeds of Crime Act 2002 also enables freezing and confiscation of property used in, intended to be used in, or derived from, terrorism offenses. It implements obligations under the UN International Convention for the Suppression of the Financing of Terrorism and resolutions of the UN Security Council relevant to the seizure of terrorism-related property. The Act also provides for forfeiture of literary proceeds where these have been derived by a person from commercial exploitation by the person of notoriety gained from committing a criminal

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offense. The Proceeds of Crime Act 1987 will continue in force until all court proceedings which had been commenced under it prior to January 1, 2003, are completed.

The Proceeds of Crime (Consequential Amendments and Transitional Provisions) Act 2002, which also came into force on January 1, 2003, repealed the money laundering offenses which had previously been in the Proceeds of Crime Act 1987 and replaced them with updated offenses which have been inserted into the Criminal Code. The new offenses are graded according both to the level of knowledge required of the offender and the value of the property involved in the dealing constituting the laundering. As a matter of policy all very serious offenses are now being progressively placed in the Criminal Code. The Criminal Code contains the general principles by which offenses are interpreted as well as other serious offenses, which in many cases will be relevant to the money laundering offenses.

The Financial Transaction Reports Act (FTR Act) of 1988 was enacted to combat tax evasion, money laundering, and serious crimes. The FTR Act requires banks and nonbanking financial entities (collectively referred to as cash dealers) to verify the identities of all account holders and signatories to accounts, and to retain the identification 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 (approximately \$7,500 as of December 2003) and international funds transfers equivalent to or exceeding Australian \$10,000. FTR reporting also applies to nonbank 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 Act also provides the GOA broad powers to seize, declare forfeit, or otherwise deny to persons the benefit of unlawful activity. The Act also creates a national Confiscated Assets Account from which the GOA may transfer assets to other governments.

AUSTRAC, Australia's FIU, was established under the FTR Act to collect, retain, compile, analyze and disseminate FTR information and to monitor compliance with reporting requirements. AUSTRAC also provides advice and assistance to revenue collection and law enforcement agencies and issues guidelines to cash dealers in terms of their obligations under the FTR Act and regulations. The Australian Taxation Office reported that more than \$99 million in assessments and penalties were directly attributed to the use of AUSTRAC intelligence and that there were more than 1,500 investigations collectively reported by law enforcement agencies that involved the use of AUSTRAC's intelligence. For the year ending June 30, 2003, AUSTRAC received 8054 suspicious transaction reports, an increase of three percent over the previous year.

In June 2002, Australia passed the Suppression of the Financing of Terrorism Act 2002 (SFT Act). The aim of the SFT Act 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 SFT Act 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 SFT Act 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. The GOA froze three accounts in the name of a United Nations listed terrorist entity, the International Sikh Youth

Federation in September 2002. There have been no prosecutions or arrests under this legislation to date. The Security Legislation Amendment (Terrorism) Act 2002 was inserted into the Criminal Code offenses of receiving funds from, or making funds available to, a terrorist organization.

A significant milestone in the enhancement of AUSTRAC's international efforts came with the SFTA amendments to the FTR Act. These amendments provided the Director of AUSTRAC the ability to establish agreements with international counterparts to directly exchange intelligence, spontaneously and upon request. 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.

In 2003, AUSTRAC has seen an increase in cash dealers' reporting electronically, using the EDDWeb system (electronic data delivery system), by 356 percent, from 42 users to 160. By encouraging cash dealers to fulfill their reporting requirements through electronic means, AUSTRAC is able to provide high quality data to its partner agencies in a timely manner. The increasing volume of reports submitted to AUSTRAC and the number of cash dealers using the EDDWeb system significantly increases both the volume of FTR intelligence available to partner agencies and the speed with which those agencies can access that intelligence.

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 24 countries, with approximately 30 additional memoranda of understanding (MOUs) in various stages of negotiation. MOUs have recently been signed with Croatia, Mauritius, and Slovenia. Other MOUs are with Belgium, Canada, Denmark, France, Guernsey, Isle of Man, Israel, Italy, Korea, Lebanon, Malaysia, New Zealand, Poland, Portugal, Singapore, South Africa, The Netherlands, United Kingdom, United States, Vanuatu and Venezuela. In September 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force.

Following the bombings in Bali in October 2002, the Australian Government announced an Australian \$10 million initiative managed by AusAID, to assist in the development of counterterrorism capabilities in Indonesia. As part of this initiative, AUSTRAC has embarked upon a long-term technical assistance program to assist Indonesia in developing an effective financial intelligence unit (FIU). AUSTRAC conducted a project with the Government of Vanuatu to identify current issues facing the Vanuatu FIU and the potential strategies to meet these issues and enhance its operations.

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 is a party to 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 revised FATF Forty Recommendations and the Special Recommendations on Terrorist Financing. In December 2003, the Australia's Minister of Justice announced that the government will proceed with a fundamental legislative overhaul to implement fully the FATF's revised Forty Recommendations. The new standards will oblige Australia to expand customer due diligence to requirements for financial institutions and extend anti-money laundering obligations to nonfinancial businesses and professions such as real estate agents, dealers in precious metals and stones, accountants, trust and company service providers, legal professionals and notaries. 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. Australia should become a party to the UN Convention against Transnational Organized Crime.

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 nonfinancial institutions are vulnerable to money laundering. The Austrian Interior Ministry's crime statistics show an increase in many areas of financial crime in Austria in 2002. Fraud, money laundering, and organized crime have all increased and all have a cross-border dimension. The percentage of undetected organized crime is believed to be enormous, with much of it coming from the former Soviet Union. Many of the former-Soviet crime groups are 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. Criminal groups seem to increasingly use money transmitters and informal money transfer systems to launder money. Organized crime is involved in money laundering in connection with narcotics trafficking and trafficking in persons, but apparently not in connection with contraband smuggling.

Austria criminalized money laundering in 1993. Predicate crimes are listed and include terrorist financing and many financial and other serious crimes. Regulations are stricter for money laundering by criminal organizations and terrorist groupings, in which cases no proof is required that the money stems directly or indirectly from prior offenses.

Currently Austria only spot checks for currency crossing the border. But the problem of international transportation of illegal-source currency and monetary instruments is being addressed by an amendment which will require declarations of cash and equivalent payment instruments in excess of 15,000 euros. Travelers will also be asked about the source of the funds, the beneficial owner, and the use of the funds, and interim seizure of funds will be allowed in the case of suspected money laundering. The government plans to send the bill to Parliament for approval in early 2004.

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 and insurance companies underwriting life policies. 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, 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. The Austrian financial intelligence unit (AFIU) is, however, providing information to banks to raise awareness of large cash transactions.

Since October 2003, tighter identification procedures, requiring all customers appearing in person to present an official photo ID, have been adopted by financial institutions. These procedures also apply to trustees of accounts, who are now required to disclose the identity of the account beneficiary. However, the new procedures still allow customers to carry out non face-to-face transactions, including Internet banking, on the basis of a copy of a picture ID.

Some years ago the Government of Austria (GOA) was brought to task by the Financial Action Task Force (FATF) and the European Union (EU) for the existence of anonymous numbered passbook savings accounts. The Austrians temporarily “grandfathered” existing accounts, but they have nearly all been closed in the meantime. Since 2000 new passbook savings accounts and deposits to existing accounts require customer identification.

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.”

Amendments to the Austrian Gambling Act and the Business Code, taking effect June 15, 2003, introduces 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; as well as for casinos and dealers. Amendments to the Austrian law governing lawyers and notaries took effect October 29, 2003, subjecting lawyers and notaries to money laundering and terrorism financing provisions. Similar regulations, including prohibitions on money laundering, became effective Jan. 1, 2004 for certified public accountants and auditors.

The Banking Act created the 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. During the first eleven months of 2003, banks reported 264 suspicious transactions, and fielded 107 requests from Interpol and 73 requests from the Egmont Group for information. This represents a slight increase from the 215 suspicious transactions reported by banks in 2002, which led to seven convictions for money laundering. In 2001, 248 suspicious transactions were filed, resulting in four convictions for money laundering. Criminals are often convicted for other crimes, however, with money laundering serving as additional grounds for conviction.

Legislation implemented in 1996 allows for asset seizure and the forfeiture of illegal proceeds. The banking sector generally cooperates with law enforcement efforts to trace funds and seize illicit assets. The distinction between civil and criminal forfeiture in Austria is different from the U.S. legal system. However, Austria has regulations in the Code of Criminal Procedure that are similar to civil forfeiture, such as forfeiture in an independent procedure. Courts may freeze assets in the early stages of an investigation. However, there is little evidence of enforcement to date, as law enforcement units tend to be understaffed. In the first eleven months of 2003, Austrian courts froze assets worth 2.2 million euros, and banks temporarily postponed transactions totaling 350,938 euros, under instructions from the AFIU. This is lower than the 8.1 million euros in assets frozen by the courts in 2002, and the 22.5 million euros frozen in 2001.

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. With regard to terrorism financing, forfeiture regulations cover funds collected or held available for terrorism financing, and permit freezing and forfeiture of all assets that are in Austria, regardless of the place of the crime and the whereabouts of the criminal. 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.

As of January 1, 2004, money remittance businesses will require a banking license from the Financial Market Authority and will be subject to supervision. Informal remittance systems like hawala do exist in Austria, but are subject to administrative fines for carrying out banking business without a license.

The GOA has undertaken some initial efforts that may help thwart the misuse of charitable and/or nonprofit entities as conduits for terrorist financing. The new law on associations (*Vereinsgesetz*, published in Federal Law Gazette No. I/66 of April 26, 2002) came into force on July 1, 2002, and covers charities and all other nonprofit 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 nonprofit 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, it may officially prohibit the association from operating. In 2003, the GOA took additional steps to implement the FATF's Eight Special Recommendations on Terrorist Financing, by its amending of the Banking Act. Austria has not implemented certain aspects of the recommendations regarding nonprofit organizations and wire transfers, because it is waiting on wider agreement on the necessary procedures.

Austria has not enacted legislation that provides for sharing forfeited 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. As of July 2003, Austria became a party to the MLAT between the EU and the U.S. The U.S. Government and the GOA are working on implementing regulations for this treaty to supplement the bilateral MLAT between the GOA and the United States which has been in force since August 1, 1998, and which contains a provision on asset sharing. The GOA has been extremely cooperative with U.S. law enforcement investigations. The Austrian FMA and the Office of the Comptroller of the Currency are negotiating a bilateral agreement regarding bank supervision information exchange (including on-site examinations in the host country). Austria has a bilateral agreement with Hungary concerning the exchange of information related to money laundering. 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. Austria ratified the UN International Convention for the Suppression of the Financing of Terrorism on April 15, 2002. Austria has endorsed fully the Basel Committee's "Core Principles for Effective

Banking Supervision". Austria is a member of the FATF. Austria is also a member of 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). 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. Austria is very cooperative with U.S. authorities in money laundering cases. But some improvements could still be made. There remains a need for identification procedures for customers in "non-face to face" banking transactions. The criminal code should be amended to penalize negligence in reporting money laundering and terrorism financing transactions. The AFIU should be provided with sufficient resources to adequately perform its functions. AFIU and other government personnel should be protected against damage claims because of delays in completing suspicious transactions. Additionally, the GOA should adequately regulate its charitable and nonprofit entities to reduce their vulnerability to misuse by criminal and 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 problem, due to existing bank secrecy laws and the number of "pocket banks." The large number of cash transactions, as well as the legacy of corruption and tax evasion, compounds the problem.

The Government of Azerbaijan (GOAJ) criminalized money laundering relating to narcotics trafficking in 2000. Additionally, Parliament has made amendments to its banking and currency laws to prevent money laundering activities. In November 2001, Azerbaijan established a threshold sum of \$50,000 for reporting to its Customs agency currency transfers abroad. Funds transfers abroad in excess of \$10,000 must have approval of the National Bank of Azerbaijan (NBA).

In May 2003, the GOAJ established an inter-ministerial experts group responsible for drafting anti-money laundering and antiterrorist finance legislation. The experts group, led by the National Bank of Azerbaijan, is preparing a proposal to the government on anti-money laundering legislation that would include establishment of a Financial Intelligence Unit (FIU) and would expand the predicate crimes for money laundering beyond narcotics trafficking.

The NBA issues licenses and supervises commercial banks, foreign exchange offices and money remitters. To further its regulatory role, it issues binding regulations for the banking sector; however, neither regulations nor guidance notes have been issued specifically addressing anti-money laundering measures. Numbered accounts are allowed. The NBA has issued "know your customer" directives to banks. The requirements include identification procedures and record keeping. Similar rules do not apply to the insurance or securities sectors. There is no requirement to report suspicious transactions, although some banks voluntarily report such transactions to the NBA.

The Ministry of Finance supervises insurance companies. The Insurance Department at the Ministry follows the anti-money laundering program coordinated by the NBA. The Ministry conducts annual audits of insurance companies; one of the objectives of the audit is to check for money laundering activity. The State Securities Committee, which regulates the securities market, has issued anti-money laundering directives. However, implementation is weak due to the large number of cash transactions and the reliance on the banks' due diligence for some pre-funded transactions.

Article 214-1 of Azerbaijan's Criminal Code criminalizes the financing of terrorism. The NBA distributes the lists of individuals and entities prepared in accordance with U.S. Executive Order 13224 and pursuant to UNSCRs 1267 and 1390. To date, NBA has identified and frozen the assets of at least one designated entity.

The GOAJ does not have in place a formalized regime to seize and confiscate assets. Investigators can issue seizure orders in urgent cases with no subsequent judicial approval necessary. The NBA has the authority to freeze accounts, but freezing without delay cannot be done readily. Confiscation of assets is an optional action in prosecutions. Mutual legal assistance is limited to narcotics-related offenses.

Azerbaijan is party to the 1988 UN Drug Convention. In October 2001, Azerbaijan ratified 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 of Crime. In 2003, Azerbaijan ratified the UN Convention against Transnational Organized Crime. Azerbaijan submitted the Financial Action Task Force (FATF) Terrorist Finance Self-Assessment Questionnaire in October 2002. In May 2003, Azerbaijan was the subject of a mutual evaluation by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), of which it is a member.

The GOAJ should enact anti-money laundering legislation that establishes a viable anti-money laundering regime, to include expansion of the definition of money laundering beyond narcotics trafficking, reporting suspicious transactions to a financial intelligence unit and the establishment of appropriate mechanisms to seize, freeze and confiscate assets without delay. Additionally, the GOAJ should provide awareness programs and training to its law enforcement and prosecutorial agencies.

Bahamas

The Commonwealth of the Bahamas is an important regional and offshore financial center. Financial services account for approximately 15 percent of the gross domestic product. The U.S. dollar circulates freely in the Bahamas, and is accepted everywhere 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; the proceeds of such funds have been linked to numerous Bahamian drug trafficking organizations. A substantial portion of laundered funds is also likely related to financial fraud. According to the Royal Bahamas Police Force (RBPF), two trends characterized money laundering in the Bahamas in 2002: an increasing use of professionals in the business and financial sectors; and the prevalent use of cash-intensive businesses, such as restaurants, small hotels, bars, nightclubs, retail outlets, construction companies, and concert performances, as fronts for commingling illegal gains with legitimate receipts. 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 family members; and attempting to smuggle money into the Caribbean and the United States in boxes, luggage, or strapped to the body.

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. 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). The number of banks and trusts declined from 415 in 1999 to 301 in 2003 due to the Central Bank's 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.

The Bahamas has two casinos in Nassau and one in Freeport/Lucaya, and a fourth is scheduled to open in January 2004 as part of a new resort in Exuma. Cruise ships that overnight in Nassau may operate

casinos. There are reported to be over 10 Internet gaming sites based in the Bahamas. Under Bahamian law, Bahamian residents cannot gamble in the casinos.

A total of 2,529 international business companies (IBCs) were incorporated in the Bahamas from January to August 2003, which is a decrease of 13.5 percent from 2002. By August 2003, the Government of the Commonwealth of the Bahamas (GCOB) had grossed approximately \$16.59 million from IBCs. The International Business Companies Act 2000 eliminated anonymous ownership of IBCs by prohibiting bearer shares and imposing know your customer (KYC) requirements. As a result, the Bahamas became less attractive to both potential and existing IBC owners.

During 2001, the 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 noncooperative countries and territories in the fight against money laundering (NCCT). The United States and Canada also withdrew financial advisories for the Bahamas. Although the Bahamas was removed from the NCCT list, the FATF continues to monitor the progress of the Bahamas in implementing its anti-money laundering regime. During 2003, the GCOB's implementation and enforcement of legislative reforms progressed; however, the GCOB continues to face international criticism in regard to the effectiveness and speed with which these measures are being implemented and its response to international requests for assistance.

The Financial Transaction Reporting Act 2000 requires financial institutions (such as banks and trusts, insurance companies, real estate brokers, casino operators, and others which hold or administer accounts for clients) to verify the identity of account holders. The Act also requires financial institutions to report suspicious transactions to the financial intelligence unit (FIU) and the police. The Act furthermore establishes KYC requirements. By December 31, 2001, financial institutions were obliged to verify the identities of all their existing account holders and of customers without an account conducting transactions over \$10,000. All new accounts established in 2001 or later have to be in compliance with KYC rules before they are opened. As of October 2002, only 42 percent of holders of existing accounts had been verified. 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.) 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.

In October 2002, the Minister of Financial Services and Investments, a post created by the Progressive Liberal Party 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 GCOB declined banking officials' recommendations to apply a risk-based approach to "grandfather" Bahamas-based accounts considered to be in compliance, and instead extended the compliance deadline, yet again, to April 1, 2004.

In 2002, the Bahamian Court of Appeal reversed a controversial lower court decision that had held unconstitutional a provision of the FIU Act 2000, which created Bahamas' FIU. 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 Tracing and Forfeiture/Money Laundering Investigation Section of the Drug Enforcement Unit of the RBPF is the primary financial law enforcement agency in the Bahamas, with the responsibility for

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investigating suspicious transaction reports received from the FIU. This agency is also responsible for investigating all reports of money laundering received from law enforcement agencies or the public, matters of large cash seizures, and local drug traffickers and other serious crime offenders, to determine whether they benefited from their criminal conduct. Police authorities confirm that the increased tightening of the rules on financial services is paying-off as it has driven drug traffickers to keep cash in their homes and vehicles, as supported by police seizures of more than \$2.8 million in 2003.

In October 2003, the GCOB introduced the “Terror Bill” in Parliament to discourage terrorist financing. If enacted, the bill will place the Bahamas in compliance with international counterterrorism conventions and would obligate Bahamian law enforcement agencies to forfeit or confiscate assets. The bill also includes measures that criminalize providing financial or other related services for the commission of terrorist acts; providing, collecting, or making available property to commit terrorist acts; and knowingly entering into arrangements which facilitate the acquisition, retention, or control by or on behalf of another person or terrorist, whether by concealment, removal out of the jurisdiction, or any other way.

As a matter of law, the GCOB seizes assets derived from international drug trade and money laundering. Over the years, joint U.S./GCOB investigations have resulted in the seizure of cash, vehicles and boats. These seizures are in the custody of the GCOB. Some are in the process of confiscation while some remain uncontested. The Attorney General’s Office is preparing a protocol to guide the utilization of narcotics-related confiscated assets. In June 2003, the Embassy requested of the GCOB a list of the status of these assets and offered assistance in putting it together. The GCOB has not yet provided this listing.

There are currently more than 20 U.S. extradition requests pending resolution with the GCOB, which all involve money laundering and drug smuggling offenses. A 1994 U.S.-Bahamas treaty permits the extradition of Bahamian nationals to the U.S. However, defendants can appeal a magistrate’s decision at local court and, subsequently, to the Privy Council in London. The Bahamas has a Mutual Legal Assistance Treaty with the United States, which entered into force in 1990, and also has agreements with the United Kingdom and Canada. The Attorney General has established the Office for International Affairs. The unit, charged with managing multilateral information exchange requests, has come into criticism by its international partners for the paucity with which it responds to requests for financial information on suspected money launderers and drug traffickers. Such criticism was echoed during a meeting in October 2003 of the America’s Review Group of the FATF. The GCOB has since re-doubled efforts to reduce the back log of information requests.

The Bahamas FIU became a member of the Egmont Group in June 2001. The Bahamas FIU has signed memorandums of understanding with the FIUs of Belgium and Guatemala to exchange information. 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 FIU is now able to cooperate and render assistance to any foreign FIU that performs functions similar to the Bahamas FIU. During 2003, the FIU continued to share financial information with its foreign counterparts.

On October 2, 2001, the Bahamas signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism. In April 2001, the Bahamas signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The Bahamas is a party to the 1988 UN Drug Convention, chaired the Caribbean Financial Action Task Force (CFATF) in 2003, 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; however, it must steadfastly and effectively implement those reforms. The GCOB should continue to further its anti-money laundering efforts by criminalizing the financing of terrorists

and terrorism. The Bahamas should provide adequate resources to its law enforcement and prosecutorial/judicial personnel to ensure investigations and prosecutions are satisfactorily completed and requests for international cooperation are efficiently processed.

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 355 diverse financial institutions, including 183 banks of which 51 are 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 changers, four money brokers, and several other investment institutions, including 80 insurance companies and 13 capital market brokerages. 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 disguise of 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 five years.

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 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, which is under the chairmanship of the Undersecretary of Finance and National Economy, includes members from the BMA, the Bahrain Stock Exchange, and the Ministries of Finance and National Economy, Interior, Justice, and Commerce, Labor and Social Affairs, and Foreign Affairs. The 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 execute decisions, orders, and decrees issued by the competent courts in offenses related to money laundering. Bahrain's AMLU was granted membership into the Egmont Group of FIUs in July 2003.

The AMLU receives suspicious transaction reports (STRs) from banks and other financial institutions, investment houses, broker/dealers, money changers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions must also file STRs with the BMA, which supervises these institutions. However, BMA does not do analyses of the STRs---it maintains

records of them, and may call a particular STR to the attention of AMLU if it seems particularly noteworthy. AMLU is the sole Bahraini agency that analyzes STRs. There is reportedly good cooperation between BMA and AMLU. Both agencies describe the double filing of STRs as a backup system.

There are 52 BMA-licensed offshore banking units (OBUs) that are branches of international commercial banks. OBUs are prohibited from accepting deposits from citizens and residents of Bahrain, and from undertaking transactions in Bahraini dinars (with certain exemptions, such as dealings with other banks and government agencies). In all other respects, OBUs are regulated and supervised in the same way as is the domestic banking sector. They are subject to the same regulations, on-site examination procedures, and external audit and regulatory reporting obligations.

Bahrain law permits the formation of offshore resident companies and offshore nonresident 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. All IBCs that conduct insurance-related business in Bahrain are subject to supervision of the BMA.

In November 2001, Bahrain signed the UN International Convention for the Suppression of the Financing of Terrorism. Ratification of the Convention was approved by the Bahrain Parliament in December 2003 and is expected to pass into law in early 2004. The BMA in January 2002 issued a circular implementing the FATF Special Eight Recommendations on Terrorist Financing as part of the BMA's AML regulations, and subsequently froze two accounts designated by the UN 1267 Sanctions Committee and one account 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 penalty 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.

Decree No. 21 of 1989 governs the licensing of nonprofit organizations. The Ministry of Labor and Social Affairs (MLSA) is responsible for licensing and supervising the charity organization in Bahrain. As part of its efforts to strengthen the regulatory environment and fight potential terrorist financing, Bahrain's Cabinet approved a draft document in December 2003 to regulate the collection of donated funds through charities and their eventual distribution, to help confirm the charities' sole humanitarian objectives. The regulations are aimed at tracking money that is entering and leaving the country. The new regulations will require organizations to keep records of sources and uses of financial resources, organizational structure, and membership. Charitable societies will also be required to deposit their funds with banks located in Bahrain. 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. The sector has grown considerably since the licensing of the first Islamic bank in 1979. Bahrain has 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 it does with respect to conventional banks. In March 2002, the BMA introduced a comprehensive set of regulations for Islamic banks called the Prudential Information and

Regulatory Framework for Islamic Banks (PIRI). The framework was designed to monitor certain banking aspects, such as capital requirements, governance, control systems, and regulatory reporting.

Bahrain has demonstrated a commitment to put in place a strong anti-money laundering regime and is determined to engage its large financial sector in this effort. The government should follow through by aggressively enforcing the law and developing and prosecuting anti-money laundering cases. Its officials have attended and should continue to attend orientation and training sessions in Bahrain and international locations. The AMLU should continue with its efforts to gain the necessary expertise in tracking suspicious transactions and in investigating and initiating investigations in 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 money laundering vulnerability remains the widespread use of the underground hawala or hundi system to transfer value outside the formal banking network. The vast majority of hawala transactions in Bangladesh are used to repatriate wages from Bangladeshi workers abroad. However, the hawala system is also used to avoid taxes, customs duties and currency controls and as a compensation mechanism for the significant amount of goods smuggled into Bangladesh. Traditionally, trade goods provide countervaluation in hawala transactions. An estimated \$1 billion dollars of dutiable goods are smuggled every year from India into Bangladesh. There is a comparatively small amount of goods smuggled out of the country into India. As a result, there is a concomitant flow of hard currency or other assets out of Bangladesh to support the smuggling networks. Corruption is a major area of concern in Bangladesh. The nonconvertibility of the local currency (the taka) coupled with intense scrutiny on foreign currency transactions in formal financial institutions also contribute to the popularity of hawala and money exchange through the black market. Money exchanges outside the formal banking system are illegal. Offshore financial accounts are not permitted in Bangladesh. During the last year, there has been a significant increase in the amount of money transferred through the formal banking system as a result of the efforts by the Bangladesh Government to increase the efficiency of the process.

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 requires financial institutions to preserve customer information while an account is open and for five years from the date the account is closed. Financial institutions must supply this information to Bangladesh Bank upon request and inform the Central Bank of any suspicious transactions. 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. Banks in Bangladesh are still establishing implementing procedures and "know your customer" practices as required by the MLPA. Since Bangladesh does not have a national identify card and because most Bangladeshis do not have a passport, there are difficulties in enforcing customer identification requirements. In most cases, banking records are maintained manually with little support technology. Accounting procedures used by Bangladesh Bank may not in every respect achieve international standards. Bangladesh does not have "due diligence" or "banker negligence" laws that make individual bankers responsible if their institutions launder money.

Bangladesh does not have a Financial Intelligence Unit (FIU). However, the Money Laundering Prevention Department of Bangladesh Bank acts as a defacto FIU and would act to seize assets. During the last year, there have been three or four arrests under the MLPA but no prosecutions for money laundering.

Bangladeshis are not allowed to take more than 3,000 taka (approximately \$50) out of the country. There is no limit as to how much currency can be brought into the country, but amounts over \$5,000 must be declared. Customs is primarily a revenue collection agency, accounting for 40-50 percent of annual Bangladesh government income.

Bangladesh does not have a law that makes terrorist financing a crime. In 2003, Bangladesh froze a nominal sum in an account of a designated entity on the UN 1267 Consolidated List and identified an empty account of another entity. 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. Customs and law enforcement agencies should be more cognizant of money laundering in general and trade-based money laundering specifically. Judicial and prosecutorial reforms will be necessary to counteract case backlog and current lengthy delays in dispensing justice.

Barbados

As a transit country for illicit narcotics, 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.

As of November 2003, the Barbados financial sector consists of 6 domestic banks and 56 offshore banks that are regulated and supervised by the Central Bank. In 2003, the Central Bank estimated that there is approximately \$32 billion worth of assets in Barbados' offshore banks. The offshore sector also includes 4,673 international business companies (IBCs), 453 exempt insurance companies, and 2,789 foreign sales corporations (FSCs), which are specialized companies that permit persons to engage in foreign trade transactions from within Barbados. The Foreign Sales Corporation Act, which authorizes establishment of FSCs, was repealed in 2000.

The GOB initially criminalizes drug money laundering in 1990 through the Proceeds of Crime Act, No. 13, which also authorizes asset confiscation and forfeiture, permits suspicious transaction disclosures to the Director of Public Prosecutions, and exempts such disclosures from civil or criminal liability. The Money Laundering (Prevention and Control) Act 1988 (MLPCA) criminalizes the laundering of proceeds from unlawful activities that are punishable by at least one year's imprisonment. The MLPCA makes 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 MLPCA applies to a wide range of financial 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, report and maintain records of all transactions exceeding BDS 10,000 (approximately \$5,000), and report suspicious transactions to the Anti-Money Laundering Authority (AMLA), established in August 2000 to supervise financial institutions' compliance with the MLPCA and issue training requirements and regulations for financial institutions. Financial institutions must also establish internal auditing and compliance 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 are subject to the requirements of the MLPCA.

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. The 2001 International Business (Miscellaneous Provisions) Act required more information than previously to be provided by IBC license applicants or renewals to enhance due diligence efforts by the GOB.

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 (1985) gives the Central Bank authority to supervise and regulate offshore banks, in addition to domestic commercial banks. The International Financial Services Act replaced the 1985 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 off-site surveillance system of reviewing anti-money laundering policy documents and analyzing prudential returns. The Central Bank may also refer suspicious activity reports (SARs) to the Barbados financial intelligence unit (FIU). 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. The aforementioned agencies also supervise compliance with the MLPCA and AMLA. The GOB announced in 2003 that it is considering a consolidation of financial supervision, in which the Central Bank would retain bank supervision and a financial services commission would regulate other financial services.

The FIU, located within the AMLA, was established in September 2000. The FIU was first established by administrative order, but subsequently implemented in statute by the MLPCA (Amendment) Act, 2001. The FIU is fully operational. By the end of October 2003, the FIU had received 29 SARs. The FIU forwards information to the Financial Crimes Investigation Unit of the police if it has reasonable grounds to suspect money laundering. The GOB cooperated with the U.S. law enforcement on a significant organized crime money laundering case in 2003.

The MLPCA also provides 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 Barbados Anti-Terrorism Act, 2002-6, Section 4, gazetted on May 30, 2002, criminalizes the financing of terrorism. The GOB circulates lists of terrorists and terrorist entities to all financial institutions in Barbados. During 2003, no evidence of terrorist financing was discovered in Barbados.

The GOB has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities.

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 U.S. and the GOB discussed amendments to their bilateral tax treaty in 2003. 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 U.S. and the GOB 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. The FIU was admitted to the Egmont Group in 2002. Barbados is a party to the 1988 UN Drug Convention. Barbados signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Barbados is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The Barbados Association of Compliance Professionals, along with the Compliance Associations from Trinidad and Tobago, the Bahamas, the Cayman Islands, and the British Virgin Islands, formed the Caribbean Regional Compliance Association in October 2003.

The GOB should maintain strict control over vetting and licensing of offshore entities. The GOB should continue to provide resources to its FIU and the AMLA in order to continue strengthening its efforts to prosecute and convict money launderers.

Belarus

Belarus is not a regional financial center. A general lack of transparency in industry and banking sectors makes it difficult to assess the level of or potential for money laundering and other financial crimes. Belarus faces problems with organized crime and therefore is potentially vulnerable to money laundering. Due to persistent inflation and a high level of dollarization of the economy, a significant volume of foreign-currency cash transactions eludes the banking system. Casinos and gaming establishments are abundant. Economic decision-making in Belarus is highly concentrated within the top levels of government. Government agencies have broad powers to intervene in the management of public and private enterprises.

In July 2000, Belarus' Law on Measures to Prevent the Laundering of Illegally Acquired Proceeds (AML Law) entered into force. The present version of the law was last amended on January 4, 2003. According to Government of Belarus (GOB) officials, the AML Law criminalizes drug and nondrug related money laundering, although this is not explicitly stated in the law. Article 235 of the Belarusian criminal code ("Legalization of illegally acquired proceeds") stipulates that money laundering crimes may be punishable by fine or prison terms of up to ten years. The law defines "illegally acquired proceeds" as money (Belarusian or foreign currency), securities or other assets, including property rights and exclusive rights to intellectual property, obtained in violation of the law.

The AML measures described in the law apply to all entities able to conduct financial transactions in Belarus. Such entities include bank and nonbank credit and finance institutions; stock and currency exchanges; investment funds and other professional dealers in securities; insurance and reinsurance institutions; dealers' and brokers' offices; notarial offices (notaries); casinos and other gambling establishments; pawn shops; and other organizations conducting financial transactions. Under the law, natural and legal persons, government entities, and entities without legal status are subject to criminal liability.

The AML Law authorizes the following government bodies to monitor financial transactions for the purpose of preventing money laundering: the State Control Committee; the Ministry of Foreign Affairs; the Ministry of State Property and Privatization; the Ministry of Finance; the National Bank;

the State Committee for Financial Investigations; the National Tax Inspectorate; the State Committee for Securities; the State Customs Committee; and other State bodies. The law does not ascribe specific areas of responsibility to each agency, or a mechanism through which the AML activities should be coordinated.

The Belarusian banking sector consists of 28 banks, 12 of which are foreign institutions. The State-owned Belarus Bank is the largest, most influential bank in Belarus. Four other state banks and one private bank comprise the majority of the remaining banking activities in the country. Financial institutions are obligated to register transactions subject to special monitoring and transmit the information to the relevant monitoring agency. Financial transactions that are subject to special monitoring include cash and deposit transfers, bank account operations, international transfers, wire transfers, asset transfers, transactions involving loans, transfers of movable and immovable property, property donations and grants. A one-time transaction subject to special monitoring which exceeds approximately \$15,350 for natural persons, or approximately \$153,500 for legal persons and entities must be registered in accordance with the law. If the total value of transactions conducted in one month exceeds the abovementioned thresholds, and there is reasonable evidence suggesting that the transactions are related, then the transaction activity must be registered.

Financial institutions conducting transfers subject to monitoring are required to submit information about such transfers in written form. Financial institutions should identify the natural or legal person ordering the transaction and/or identify the person on whose behalf the transaction is being placed; disclose information about the beneficiary of a transaction; account and document details used in the transaction; the type of transaction; the name and location of the financial institution conducting the transfer; and the date, time and value of the transfer. The law does not specify required timeframes for reporting, or penalties for noncompliance. The law provides “safe harbor” for banks and other financial institutions that provide otherwise confidential transaction data to investigating authorities, provided that the information is given in accordance with the procedures established by law.

Failure to register and transmit information regarding such transactions may subject the bank or financial institution to criminal liability. For the majority of transactions conducted by banking and financial institutions, the relevant monitoring agency is the National Bank of Belarus. According to the National Bank, information on suspicious transactions should be reported to the Bank’s Department of Bank Monitoring. Although the banking code stipulates that the National Bank has primary regulatory authority over the banking sector, in practice, the Presidential Administration exerts significant influence on central and state commercial bank operations.

The State Control Committee (SCC), the National Tax Inspectorate, and the Ministry of Interior have the legal authority to monitor and investigate suspicious financial transactions. In September 2003, President Lukashenko decreed the establishment of a financial intelligence unit (FIU) within the SCC and named the FIU as the primary government agency responsible for gathering, monitoring and disseminating financial intelligence. Belarus’ FIU is not a member of the Egmont Group of FIUs. According to a GOB official, Russia represented Belarus at the Egmont Group meeting in October 2003 and agreed to sponsor Belarus’ membership.

Terrorism is considered a serious crime in Belarus. Under the Belarusian Criminal Code, the willful provision or collection of funds in support of terrorism by nationals of Belarus or persons in its territory constitutes participation in the act itself in the form of aiding and abetting. Belarus’ law on counterterrorism also states that knowingly financing or otherwise assisting a terrorist organization or group constitutes terrorist activity.

Belarus does not have a separate law criminalizing the financing of terrorism. Belarus’ anti-money laundering law refers to the laundering of all proceeds obtained in violation of the law. The law does not make specific mention of terrorism. In a 2002 report to the UN Security Council Counter

Terrorism Committee established pursuant to UNSCR 1373, the GOB refers to its AML legislation as a measure to combat terrorist finance.

The seizure of funds or assets held in a bank requires a court decision, a decree issued by a body of inquiry or pre-trial investigation, or a decision by the tax authorities. In January 2002, the Board of Governors of the National Bank passed a decision on suspending debit and credit operations on accounts of terrorists, terrorist organizations and associated persons. The decision outlines a process for circulating to banks the list of individuals and entities included on the UN 1267 Sanctions Committee's consolidated list. The National Bank is required to disseminate to banks list updates and other information related to terrorist finance as it is received from the Ministry of Foreign Affairs. The decision gives banks the authority to freeze transactions in the accounts of terrorists, terrorist organizations and associated persons. Belarus has not identified assets belonging to individuals or entities included on the UN 1267 Sanctions Committee's consolidated list.

Belarus has signed bilateral treaties on law enforcement cooperation with Bulgaria, Lithuania, People's Republic of China, Poland, Romania, Turkey, the United Kingdom, and Vietnam. Belarus is also a party to five agreements on law enforcement cooperation and information sharing among CIS member States, including the Agreement on Cooperation among CIS Member States in the Fight against Crime and the Agreement on Cooperation among Ministries of Internal Affairs in the Fight against Terrorism. In June, Belarus ratified the UN Convention against Transnational Organized Crime. Belarus is a party to the 1988 UN Drug Convention and nine of the 12 conventions on counterterrorism. Belarus has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

The GOB has taken initial steps to construct an anti-money laundering/antiterrorist financing regime. Belarus should continue to enhance and implement its current legislation and should amend its AML Law in order to meet the revised FATF Forty Recommendations. The GOB should provide adequate resources to enable its designated FIU to operate efficiently and should establish a mechanism to improve the coordination between agencies responsible for enforcing anti-money laundering measures. The GOB should criminalize the financing of terrorism and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Belgium

Belgium has a very comprehensive anti-money laundering regime, which was upgraded at the end of 2003 by new legislation. Despite this strong legislation, Belgium remains vulnerable to money laundering. Belgium had been criticized by the European Union (EU) for some of its banking secrecy policies, but in January 2003 the EU dropped its demands that Belgium abandon its banking secrecy. Since the current system was introduced in 1993, most of the money laundering cases detected in Belgium have been related to narcotics trafficking, particularly with its neighboring countries, the Netherlands, Luxembourg, Germany, and France. However, according to authorities from Belgium's financial intelligence unit (FIU), the Financial Intelligence Processing Unit (CTIF-CFI), the underlying predicate offenses have changed in recent years. The largest share of money laundering cases as of June 30, 2003, was connected to the unlawful trafficking in goods and merchandise, mainly automobiles, alcohol, and tobacco, as well as fiscal fraud. There were also a growing number of cases tied to organized crime, exploitation of prostitution, and human trafficking.

The main money laundering transactions are manual exchange transactions and international fund transfers and payments. The top three venues are bureaux de change, credit establishments, and brokerage firms. Funds are also laundered through the nonbank financial sector, such as casinos, notaries, lawyers or accountants, as well as through the diamond industry, real estate, offshore companies, gambling or amusement halls, and banks. Because 90 percent of all crude diamonds and 50 percent of all cut diamonds in the world pass through Antwerp, Belgium has recognized the

particular importance of the diamond industry, as well as its vulnerabilities. The Government of Belgium (GOB) has distributed case analyses of its experiences in pursuing money laundering cases utilizing the diamond trade, especially those incorporating African conflict diamonds. Historically related to the “placement” stage, the majority of recent cases transmitted to judicial authorities now relate to the “layering” stage. The majority of layering-type cases relate to fiscal fraud, such as VAT fraud, as well as organized crime and terrorism.

Belgium remains one of the few European countries permitting bearer bonds (“titres au porteur”), which are widely used to transfer wealth between generations and avoid taxes. Belgian authorities are planning legislation that will end issuance of bearer bonds by 2007.

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 with values disproportionate to the socio-economic status of the client, and creating a large number of companies in a short space of time

Money laundering in Belgium was criminalized through the Law of 11 January 1993, On Preventing Use of the Financial System for Purposes of Money Laundering, as amended, and Article 505 of the penal code, which sets penalties of up to five years imprisonment for money laundering. The law also mandated reporting of suspicious transactions by financial institutions and provided for an FIU, CTIF-CFI, to receive, process and analyze the reports. The government of Belgium criminalized money laundering related to all crimes in the Act of 17 July 1990. Accounts can be frozen on a case-by-case basis under Belgium’s 1993 anti-money laundering law, if there is sufficient evidence that a money laundering crime has been committed. CTIF-CFI is charged with enforcing this law. Banks must submit to CTIF-CFI a written report regarding any transaction of any amount that they suspect may be linked to money laundering. CTIF-CFI has the legal authority to suspend a transaction for a period of up to 24 hours, while its analysts determine whether there is a sufficient legal basis under the 1993 law to hand over the file to judicial authorities.

The GOB passed a law on May 3, 2002, giving Belgium the authority to invoke countermeasures against countries and territories declared as noncooperative by the Financial Action Task Force (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. A Royal Decree on December 15, 2003, similarly targets Burma as a noncooperative jurisdiction.

On December 4, 2001, under the Belgian EU presidency, the European Parliament and Council adopted the Second EU Anti-Money Laundering Directive (2001/97/EC), amending the previous 1991 Directive. In July 2002, the Belgian Council of Ministers approved the establishment of this Directive as part of Belgian domestic law. On December 19, 2003, the Belgian Parliament adopted a bill transposing into national law EU Directive 2001/97/EC on the prevention of the use of the financial system for the purpose of money laundering, and bringing Belgium’s anti-money laundering legislation into conformity with the revised FATF Forty Recommendations. This law entered into force in January 2004.

Additional legislation, passed December 19, 2003, implemented the Second Directive further, broadening the scope of money laundering predicate offenses beyond drug trafficking, and imposing reporting obligations on certain legal professionals such as lawyers and accountants. The December 19, 2003 legislation also prohibits cash payments exceeding 15,000 euros for goods and real property. The intent of this law is to limit the use of property and real estate purchases as a medium for money laundering. This legislation also includes merchants of “high value commerce” among those persons required to report suspicious activities to CTIF-CFI. This law explicitly targets the diamond trade,

whose largest venue for global trading is Antwerp. The GOB seeks to close off the use of diamond trading to accomplish money laundering, through this law. This is important because Belgium has already logged cases of terrorist groups attempting to use the diamond trade.

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. Current law extends this reporting obligation to funds suspected of being derived from the financing of terrorism.

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. All persons required to report suspicious transactions to CTIF-CFI are required to keep records of such transactions for five years. Financial institutions are also required to train their personnel in the detection and handling of suspicious transactions that could be linked to money laundering. Failure to comply with the requirements of the 1993 law, including failure to report, is punishable by a fine of up to 1.25 million euros. No civil, penal, or disciplinary actions can be taken against institutions, or their employees or representatives, for reporting such transactions in good faith. April 8, 2002, saw legislation passed that enhanced the protections accorded to witnesses, including bank employees, who report suspicions of money laundering or come forward with information about money laundering crimes.

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. Under the new expedited procedure, 38 cases were handed to the Prosecutors. Since the founding of CTIF-CFI on December 1, 1993, more than 659 individuals have been successfully prosecuted under Belgian law, receiving combined total sentences of 1,332 years and 14.2 million euros in fines. During the same time period Belgian authorities halted 116 transactions and confiscated nearly 360 million euros. From July 2002, through June 2003, CTIF-CFI received 11,063 disclosures representing 1.877 million euros. Of these, 1,712 have become cases, and 832 have been forwarded to the public prosecutor.

In combating terrorism financing, Belgium issues asset freeze orders for individuals and entities designated by the UNSC 1267 Committee. Belgium also implements freeze orders for all individuals and entities designated by the EU. New domestic legislation implementing the June 13, 2002, EU Council Framework Decision on Combating Terrorism came into effect on January 8, 2004. The legislation specifically criminalizes terrorist acts and material support (including financial support) for terrorist acts, but does not create any mechanism for administratively freezing the assets of terrorists or their supporters. UN or EU designation continues to be prerequisite for any administrative action in Belgium.

CTIF-CFI is actively involved in the fight against terrorist financing. 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 funds 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 June 30, 2003, a total of 66 such cases have been transmitted to the Public Prosecutor—60 of them since September 11, 2001. According to a CTIF-CFI report, there is growing evidence that some Belgian-based nongovernmental organizations (NGOs) are being used to funnel terrorist funds. CTIF-CFI believes it has identified

financial links in Belgium to al-Qaida, and the FIU has indicated that addressing the problem of terrorist financing has become one of its highest priorities

Belgium 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. On December 10, 2003, Belgium signed the UN Convention Against Corruption. Ratification of the UN International Convention for the Suppression of the Financing of Terrorism has passed the senate of the Belgian Parliament but awaits action by the lower chamber. Belgian Justice Ministry officials expect that the Convention will be ratified by February 2004. 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 FATF and the European Union. The CTIF-CFI is active among its European colleagues in sharing information and is a member of the Egmont Group, maintaining a cooperative relationship with over 80 foreign FIUs worldwide.

Belgium has criminalized terrorist financing and enhanced its comprehensive anti-money laundering regime in this regard. 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 an avenue by which it is easy to move value 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. The GOB should ratify and implement the UN International Convention for the Suppression of the Financing of Terrorism. In addition, Belgium should continue to work toward the elimination of bearer bonds.

Belize

Belize's proximity to Mexico and Guatemala has made it a significant transshipment point for illicit drugs, notably cocaine and marijuana. Belize is not considered a major financial center, however, its growing offshore sector has eight banks, an unknown number of international trusts, over 22,000 international business companies (IBCs), and one insurance company. Currently, there are no offshore casinos operating within Belize. It is believed that there are a number of undisclosed Internet gaming sites operating from within Belize; because such gaming sites are not regulated, the exact number is not known. The transshipment of drugs and the expanding offshore sector, regulated by those who promote it, make Belize vulnerable to money laundering. Although Belize is not experiencing any significant increase in financial crimes, there has been an increase in the number of forged checks cashed. Criminal proceeds laundered in Belize are believed to be derived primarily funds derived from foreign criminal activities related to narcotics trafficking and contraband smuggling moving through the offshore sector; there is additional evidence that casas de cambio also facilitate money laundering activity.

The Money Laundering Prevention Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes including arms and drug trafficking, fraud, extortion, terrorism, blackmail, and certain theft involving more than approximately \$10,000. The Act also provides mechanisms for the freezing and forfeiture of assets; mandates reporting of suspicious transactions by banks (including offshore banks), exchange houses, nonbank financial institutions and intermediaries, such as attorneys and accountants—but not casinos; specifies penalties for covered entities who assist and collaborate in money laundering; and authorizes international cooperation in money laundering cases. Additionally, persons departing Belize must declare BZ 10,000 (approximately \$5,000) or more in cash or negotiable bearer instruments.

Financial institutions are required to know their customers, monitor their customers' activities and report any complex, unusual, or large business transactions to the to the financial intelligence unit (FIU). Supporting Regulations and Guidance Notes were issued by the Central Bank in 1998. Financial institutions are required to retain records for a minimum of five years, and can lose their

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licenses and face a maximum fine of approximately \$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. 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 both the private and public sectors. 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 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. Before an offshore bank is licensed, the Central Bank must be satisfied that the shareholders and directors of the proposed bank are fit and proper. 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 cases of large credit exposures.

Offshore trusts are also prevalent in Belize and registration with a regulatory body is not required. Offshore trusts are governed under the Belize Trust Act, 1992. 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; nominee trustees are permitted. The authorities do not know how many trusts are in operation; and no additional measures are being contemplated to thwart the potential misuse of charitable and/or nonprofit entities, such as charitable trusts, that can be used as conduits for the financing of terrorism.

IBCs are regulated under the International Business Companies Act of 1990 and amendments to the Act issued in 1995 and 1999. The 1999 amendment to the IBC Act allows properly licensed IBCs to operate as banks and insurance companies. Registered agents have primary responsibility for the registration and on-going operations of the IBCs registered in Belize. Registered Agents of IBCs must satisfy the IFSC that they conduct due diligence background checks before IBCs are allowed to register. In addition, registered agents must satisfy certain criteria to obtain licenses in order to perform offshore services. Although IBCs are allowed to issue bearer shares, the registered agents of such companies must know the identity of the beneficial owner of those shares.

Belize's Police Department (BPD) has assigned five persons to investigate money laundering cases. This unit serves as the FIU. An office space, separate from the police department, has been designated for this unit. Recent arrests involve forged checks. The subjects also are expected to be charged with money laundering. The authorities have also issued a warrant for the arrest of individuals alleged to be engaged in the forging of Belizean passports. These individuals are also expected to be charged with money laundering offenses.

Under Belizean law all assets related to money laundering may be forfeited. This includes vessels, vehicles, aircraft and other means of transportation or communication, and legitimate businesses. 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. There are no legal loopholes that allow traffickers and supporters of terrorist organizations to shield assets. However, there are deficiencies in the investigation process and the gathering of sufficient evidence to link an asset to a money laundering related offense, and the law enforcement entities lack resources to trace and seize assets. With the establishment of the FIU, it is hoped that the deficiencies in the investigation process and the gathering of evidence to link an asset to a money laundering offense will be addressed. The Belize Police Department reported that during the past year, the amount of assets forfeited and/or seized amounted to BZ \$513,000. There are no specific provisions allowing for sharing of seized assets between cooperating foreign authorities.

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 recent amendments to the MLPA eliminate the requirement for an MLAT or bilateral agreement for an exchange of information or for providing any other forms of judicial and legal assistance to the United States or any other country. 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. A Mutual Legal Assistance Treaty (MLAT) is in force between the United States and Belize. Belize also has bilateral agreements with the United Kingdom and Canada.

Belize is a party to the 1988 UN Drug Convention. In December 2003, Belize became a party to the UN International Convention for the Suppression of the Financing of Terrorism. Belize is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD).

The GOB will remain vulnerable to money launderers as long as IBCs can issue bearer shares without disclosure of the beneficial owner. The GOB should monitor the Internet and casino gaming industry and require suspicious activity reporting to prevent potential money launderers.

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. 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 internationally for the integrity of its financial regulatory system. The government of Bermuda (GOB) cooperates with the United States and the international community to counter money laundering and terrorist financing and continues to update its legislation and procedures in conformance with international standards.

Consistent with the GOB's anti-money laundering and antiterrorist financing policy, Bermuda welcomed the March 2003 visit of the International Monetary Fund (IMF). The IMF examined Bermuda's financial sector and regulatory regime, as it has other offshore financial centers that choose to participate in the voluntary review program. The final report is due to be released in March 2004.

In further demonstration of the GOB's commitment, Bermuda's National Anti-Money Laundering Committee (NAMLC), of which the Bermuda Monetary Authority (BMA)—Bermuda's independent financial regulatory body—is a member, held hearings in 2003 on the island's anti-money laundering laws as set out in the Proceeds of Crime Act (PCA) and other legislation, regulations, and procedures. The purpose of the hearings and other consultations was to thoroughly review current law as it relates to the June 2003 recommendations of the Financial Action Task Force (FATF), with the aim of meeting new international requirements. As a result of the hearings, the GOB intends to make a number of amendments to the PCA in 2004. Additionally, the NAMLC has reworked and updated the guidance notes for financial institutions under the PCA, which will be circulated in the community for comment.

The GOB first enacted specific money laundering legislation in 1997, passing the PCA to apply 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 judged susceptible to the risk of money laundering abuse. Amendments in 2000, effective June 1, 2001, expanded the scope of the legislation to cover the proceeds of all indictable offenses, including tax evasion, corruption, fraud, counterfeiting, theft and forgery.

In December 2002, Parliament passed the Bermuda Monetary Authority Amendment Act 2002, expanding the list of BMA objectives to include action to combat financial crime. It underpins the BMA's existing role in checking systems and controls in financial institutions and paves the way for the BMA to expand its role in administering UN sanctions and other measures on a delegated basis. In order to implement provisions of relevant UN Security Council antiterrorism resolutions, the act—among other provisions—prescribes the manner by which the finance minister may delegate to the BMA the power to block accounts.

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 are also relevant to money laundering.

The Criminal Justice (International Co-Operation) (Bermuda) Act 1994, as amended in 1996, authorizes the provision of assistance to foreign entities upon their request, including securing of evidence in Bermuda and overseas. Legislation assigns responsibility for the criminal aspects of financial crime to the Financial Investigation Unit (FIU) of the Bermuda Police Service, whereas tax offenses fall under the purview of the attorney general.

The power to regulate investment providers is legislated through the Investment Business Act 1998 (IBA). The Act authorizes the 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.

Parliament passed legislation to strengthen provisions of the IBA in the winter of 2003. The Investment Business Act 2003 enhances the regulatory powers of the BMA. Among the provisions of the act are measures to strengthen criminal and regulatory penalties. Also, under the Act, oversight of stock exchanges will come under the purview of the BMA, and the BMA's authority to cooperate with foreign regulatory bodies will be enhanced. The legislation imposes licensing obligations on investment business conducted from within Bermuda while also empowering the finance minister to define other circumstances where licensing may be required.

The GOB is expected to propose other amendments to BMA legislation, offering a definition that will link terrorist-related crimes to "serious crimes" under an amended PCA, consistent with FATF guidelines. Relevant changes to Bermuda's criminal code are also planned. In the interim, the BMA instructed financial institutions to treat suspected instances of terrorist financing as if covered by PCA and to report accordingly. Financial institutions were 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 were found.

Another mandate of the BMA is the licensing and supervision of deposit-taking institutions, including the worldwide operations of Bermudian banks, as provided by the Banks and Deposit Companies Act 1999. That Act implements the Basel Committee's "Core Principles for Effective Banking Supervision." As part of its oversight responsibilities, the BMA conducts on-site reviews and detailed compliance testing of banks' anti-money laundering controls. The BMA may require reports from auditors, accountants or other persons with relevant professional skills on matters pertinent to the BMA's responsibilities. The BMA has not recently been required to employ its formal enforcement powers to investigate suspicions of illegal deposit taking.

Banks and other financial institutions are required to 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, like the UK, operate under a banker's common law duty of confidentiality.

Know-your-customer requirements are basic to the PCA, which also provides for the monitoring of accounts for suspicious activity. Additionally, Bermuda reviews the fitness of persons seeking to undertake business on the island. 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 incorporation. 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.

The BMA is also charged with oversight responsibility of trusts. Bermuda's Trusts (Regulation of Trust Business) Act 2001 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.

Collective investment schemes (CISs) are currently regulated pursuant to general regulations of the Bermuda Monetary Authority Act, and fund administrators are regulated persons for the purposes of the PCA. To strengthen regulation, however, CISs, including hedge funds, will be the subject of legislation anticipated for the summer 2004 session of Parliament. The proposed legislation will expand the definition of collective investment schemes to include, in addition to mutual funds and unit trusts, other business vehicles that pool and manage investment monies. It will require the licensing of fund administrators who will then be subject to minimum standards and a code of practice. The BMA will also be able to conduct compliance checks of PCA procedures as carried out by CIS administrators. However, the BMA will continue to apply differentiated requirements involving lighter regulation of schemes catering to institutional and sophisticated investors, with greater reliance on transparency and disclosure.

International business forms the backbone of Bermuda's economy. As noted above, the BMA reviews all proposals to incorporate companies and set up partnerships and also vets beneficial owners. As of December 31, 2002, records indicate that 13,337 international businesses were registered in Bermuda, compared to 2,758 local companies. Of the international businesses, there were 12,101 exempt companies, 578 exempt partnerships, 639 nonresident international companies (incorporated elsewhere to do business in Bermuda), and 19 nonresident insurance companies. As of November 2003, there were 1,650 insurance companies. At the end of 2002, there were 1,294 mutual fund companies and 132 unit trust companies in Bermuda. Offshore banking is not permitted in Bermuda.

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 exempt companies can be established or any shares transferred between nonresidents. The register of members is open to public inspection.

Neither casinos nor Internet gaming sites are allowed in Bermuda, although there is a growing groundswell—especially among those in the tourism industry—to legalize some form of gambling. The GOB has withstood that pressure so far.

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 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 Organization for Economic Cooperation and Development (OECD).

The FIU serves as the island's financial intelligence center. It has been a member of the Egmont Group since 1999. The FIU is the designated recipient of suspicious activity reports (SARs) in Bermuda. In the past, the majority of SARs were related primarily to conversion of suspected local drug profits to U.S. dollars via the island's Western Union money transmission service, which ceased doing business on 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.

SAR statistics reflect the closure of the island's single money transmission service. In 2001, 2,827 SARs were filed with the FIU, decreasing to 2,570 in 2002, and just 261 in 2003. Non-money-transmitting SARs ranged from 34 in 2001 to 501 in 2002 and 261 in 2003. In 2001, there were two arrests for money laundering; in 2002, eight arrests representing three cases; and in 2003, six arrests.

To date there have been no convictions for money laundering, although there is one case awaiting trial and several others close to being charged. There were 25 bank fraud cases in 2002, and 20 cases in 2003.

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. However, Bermuda recognizes the need for legislation to create the offense of “domestic terrorism.”

The PCA establishes procedures for identifying, tracing, and freezing the proceeds of narcotics 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 issued no confiscation orders in 2000, 2002, or 2003, and only one in 2001 for approximately \$62,000. Forfeitures under the Misuse of Drugs Act totaled three in 2003, for a total value of almost \$14 million. Cash seized in 2003 under PCA detention orders exceeded \$173,000, and restrained assets were valued at over \$4.7 million.

The Bermuda Police Service and the courts enforce existing drug-related asset tracing/seizure/forfeiture laws. The PCA will likely be amended in 2004 to provide measures to detect/monitor cross-border transportation of cash and to cover gatekeepers, such as attorneys and accountants. Currently, if there are reasonable grounds for suspicion, Her Majesty’s Customs is authorized to seize cash and instruments; monies can also be seized if travelers fail to report the transportation of cash in excess of \$10,000.

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.

Bermuda is a member of the Caribbean Financial Action Task Force (CFATF) and the Offshore Group of Banking Supervisors. Through the UK by extension, Bermuda is a party to the 1988 UN Drug Convention and the U.S./UK Extradition Treaty. Although the UK is a signatory to the UN International Convention for the Suppression of the Financing of Terrorism, those provisions have not yet been formally extended to Bermuda.

The GOB should modify its domestic legislation to ensure it implements the FATF Special Eight Recommendations on Terrorist Financing and the new international anti-money laundering standards. The GOB also should consider enacting measures to detect/monitor cross-border transportation of cash and monetary instruments to include gatekeepers, such as accountants and attorneys, as covered entities under its anti-money laundering laws.

Bolivia

Bolivia is not an important regional financial center, but it occupies a geographically significant position in the heart of South America. Most money laundering in Bolivia is related to public

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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 year 2003 was marked by political instability and social violence culminating in the October resignation of the president.

Law 1768 of 1997, which modified the penal code, criminalized money laundering related to narcotics trafficking, organized criminal activities, and public corruption, provided for a penalty of one to six years for money laundering—however, it must be directly tied to one of the substantive crimes of narcotics trafficking, corruption or organized criminal activities to apply—and defined the use of asset seizure beyond drug-related offenses.

Law 1768 also created a financial intelligence unit, the Unidad de Investigaciones Financieras (UIF), within the Office of the Superintendence of Banks and Financial Institutions. The attributions and functions of the UIF, which began operations in 1999, are defined under Supreme Decree 24771. The primary responsibility of the UIF is to analyze information and transactions, and detect irregularities in the banking system. The UIF is responsible for implementing anti-money laundering controls and has the ability to sanction financial institutions for noncompliance. 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). The UIF is obligated to report all detected criminal activity to the Public Ministry, the office responsible for prosecuting money laundering, and to request additional information from the financial sector in order to assist the Public Ministry in any of its cases.

In 2002, the Special Group for Investigation of Economic Financial Affairs (GIAEF) was created within Bolivia's Special Counternarcotics Force (FELCN) to work in coordination with the UIF. So far, the GIAEF has primarily provided financial investigative support to counternarcotics investigations. In 2002 the UIF, the Public Ministry, the National Police, and FELCN established mechanisms for the 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 Bolivia's anti-money laundering regime. The Government of Bolivia (GOB) has shown little enthusiasm for strengthening the UIF, and there is continued confusion over its legal role and weaknesses in its regulatory framework that hamper the UIF's effectiveness as a financial intelligence unit. The GOB's anti-money laundering system is also undermined by the lack of 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, and there have been few convictions for money laundering.

In order to address the problems faced by Bolivia's anti-money laundering regime, the UIF has proposed various changes that will amend Law 1768 and the UIF regulations to make money laundering an autonomous crime, penalized by a minimum prison term of fifteen years. This draft law would also require financial institutions to file cash transaction reports and the customs authority to provide the UIF with information regarding the movement of cash or monetary instruments into or out of Bolivia. The draft law would also criminalize terrorist financing. The GOB has not moved forward on this draft law as yet.

The GOB currently 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 explicit domestic laws that criminalize the financing of terrorism or grant the GOB the authority to identify, seize, or freeze terrorist assets. Nevertheless, the UIF regularly receives and maintains information on terrorist groups and can freeze suspicious assets under its own authority, as it has done in counternarcotics cases. There have been no terrorist financing cases, however.

Traditional asset seizure continues to be employed by counternarcotics authorities; the eventual forfeiture of assets can 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 Directorate General for Seized Assets (DIRCABI) is responsible for confiscating, maintaining, and disposing of the property of persons either accused or convicted of violating Bolivia's narcotics laws. DIRCABI has been poorly managed for years, and it auctions confiscated goods at a very slow pace.

Bolivia is a party to the 1988 UN Drug Convention, and has signed but not yet ratified the UN Convention against Transnational Organized Crime, which entered into force internationally on September 29, 2003. On December 9, 2003, Bolivia signed the UN Convention Against Corruption. Bolivia is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and holds the presidency of the group in 2004. 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 a member of the Egmont Group. The GOB and the United States in June 1995 signed an extradition treaty, which entered into force in November 1996.

The GOB should 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 requiring a connection to other illicit activities, expand the list of predicate offenses, criminalize terrorist financing, and expeditiously block terrorist assets. The jurisdiction of the UIF must also be expanded to cover reporting by nonbanking 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 and Herzegovina is neither an international, regional, nor offshore financial center. Bosnia and Herzegovina (BiH) is a significant market and transit point for illegal commodities including cigarettes, firearms, and fuel oils. Foregone customs revenues due to black-marketeering are estimated at \$500 million per annum. By some accounts the majority of economic activity in BiH is in the gray market. International observers believe the laundering of illicit proceeds from criminal activity and for political purposes through existing financial institutions is widespread. However, the proceeds of narcotics trafficking tend to be diverted outside of Bosnia. Money laundering tends not to involve U.S. currency or proceeds from narcotics sales in the U.S. Although the economy is primarily cash-based, with 40 percent of citizens lacking a bank account, deposits into banks have increased by 200 percent, indicating that citizens are beginning to trust the banking system and its currency and institutions. Legal entities are required to maintain bank accounts.

There are multiple jurisdictional levels in Bosnia and Herzegovina: the State (or federal) level, which has a less-developed program; the entity (or state) level, which includes two entities, the Federation of Bosnia and Herzegovina (Federation) and Republika Srpska (RS); a District Brcko, which is not at the same level as the entities but acts as an independent entity nonetheless; cantons in the Federation; and, municipal governments in both entities and the Brcko District. Each jurisdiction has its own (for the most part) parallel institutions, criminal codes, criminal procedure codes, supporting laws and

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regulations and enforcement bodies. Although the institutions at the entity level cooperate with one another and with counterparts in other countries, there is a fair amount of confusion regarding jurisdictional matters between the entities and State level institutions. Entity, Brcko and State-level Criminal and Criminal Procedure Codes were harmonized in 2003. Subordinating the entities' reach to the State level institutions is a priority for the UN's Office of the High Representative (OHR), which has final say over the administration of the country.

Money laundering is a criminal offense in all State and entity criminal codes. New criminal procedure and criminal codes were enacted at the State level on March 1, 2003 (corresponding criminal codes at the entity level became effective in summer 2003), with tougher provisions against money laundering, though significant time and resources will be needed to fully implement and enforce this new legislation and to develop even the most rudimentary of anti-money laundering regimes. While some legal elements for anti-money laundering measures exist, the expertise, capability, and will to control drug-related transactions do not. At the State level, BiH still lacks a financial intelligence unit (FIU) and comprehensive money laundering, terrorist financing, and asset forfeiture legislation. To date, existing asset seizure and forfeiture statutes have neither been pursued by prosecutors nor imposed by judges. There is no established mechanism to identify, trace, or share narcotics-related assets.

Legislation is before the RS and Federation parliaments to transfer Customs competency from the entities to the State-level Indirect Tax Authority (also to house the yet to be implemented Value Added Tax). Currently, the RS, the Federation and the Brcko district have separate customs agencies that administer the federal-level customs law. In practice, this has led to uneven interpretation of customs law and created greater opportunities for smuggling into and out of BiH, which makes it an attractive logistical base for terrorists and their supporters. A State-level customs service is expected to be fully operational in the first half of 2004.

Current civil statutes governing money laundering are inadequate and inadequately enforced in an economy that is primarily cash-based and largely unregulated. There is significant ambiguity and overlap in the authorities of investigative and regulatory agencies including the interior ministries, tax and customs administrations, banking agencies, the RS Ministry of Finance Money Laundering Unit and the Federation Financial Police (FFP), soon to be renamed the Federation's Anti-Fraud Service under OHR-proposed draft legislation. All have been subject to political interference and/or direct intimidation in the conduct of their duties. Governmental authorities throughout all three entities are primarily concerned with tax evasion and customs evasion, and concentrate resources allocated for combating all financial crimes (including money laundering) on those two issues.

There are 27 banks chartered in the Federation and 10 in RS. Currently, control over the banking sector is vested at the entity rather than the State level, with both the Federation and the RS maintaining separate, but roughly parallel, banking agencies. Since there are no banks chartered in District Brcko, there is no banking supervisor located there. (Authority over the 15 bank branches in Brcko is held by the banking agencies in the entities where they are chartered.) A number of banks, including all within the Federation, do have compliance officers, called kopits. Many of the Federation's kopits voice frustration at lack of or slow feedback regarding the reports they send the financial police as well as the fact that with the 2000 anti-money laundering legislation, banks were expected to change their systems drastically and add responsibilities overnight, with no training or preparation. Although the respective banking agencies have provided training to compliance officers, bankers note that a State-level working group to assist the banks with various technical, training and compliance issues would be helpful. The international community has established a working group that is planning to place both banking agencies within the Central Bank in 2004. As a general rule, regulatory legislation is stringent in theory but remains tenuous in practice. Although Bosnia and Herzegovina generally adheres in practice to the Basel Committee's "Core Principles for Effective Banking Supervision" (including legal requirements to report suspicious transactions and conduct due diligence), its laws are an unwieldy combination of communist-era statutes and reforms imposed by

the international community. Although financial institutions are obligated to maintain detailed deposit records and to report periodically to regulatory authorities, in practice, banking standards, as they relate to money laundering, do not conform to international norms.

Last year the Management Board of the Federal Banking Agency (FBA) established via internal regulations a Department for Control and Prevention of Money Laundering and Financing Terrorism in the Banks. The department, which became operational on February 1, 2003, consists of three employees—the manager and two control officers. Since inception, the department has conducted nine targeted operations aimed at preventing money laundering and terrorism financing. The FBA also conducted four supervisory control financial operations, during which 45 accounts, worth a total value of \$4.4 million, were temporarily blocked.

Both RS and the Federation have a Securities Commission and an Insurance Commission. The Commissions act as regulators for their respective sectors.

The entities and Brcko have FIUs. In the Federation, the FIU is part of the Financial Police; within the RS, the FIU is an independent body in the Ministry of Finance; and in Brcko, the FIU is part of the Tax Administration. From January 1 through August 2003, the Financial Police in the Federation received 23,875 currency transaction disclosures and 360 suspicious transaction reports (STRs), and estimates that another 10,000 currency reports were received during the remaining months of 2003. Of the 360 STRs filed, 340 involved payments to offshore zones. The staff of five process reports manually. From January through August 2003, 190 cases were sent to the Prosecutor's Office. Through December 2003, the RS police filed 11 money laundering criminal charges with the RS Prosecutor's Office against 17 perpetrators. However, it was subsequently determined that three of these cases were due to tax evasion. The value of financial transactions documented in these cases is over KM 100 million, approximately \$62 million.

A draft law, the "Prevention of Money Laundering and Terrorist Financing," would create a State-level FIU within the State Information Protection Agency (SIPA), which will be a full governmental police agency and under which anti-money laundering functions will exist; however, there are some in the State-level Ministry of Finance who would like the FIU to remain there and not have police functions. There is also some question as to the amount of the cash threshold for currency transactions. The OHR would like a KM 30,000 threshold for this law, but a threshold has not yet been defined. The draft has been submitted to the Council of Ministers and is expected to be passed by the BiH parliament early in 2004. In addition, the Central Bank Governor has proposed creating a federal-level Banking Agency.

A National Action Plan, adopted in October 2003, incorporates Council of Europe recommendations against corruption and organized crime.

On October 21, 2002, High Representative Paddy Ashdown put in place amendments to Federation and RS Banking Laws, banning the use of money for terrorism. Citizens of BiH can be prosecuted for terrorism financing when a terrorist act is committed abroad; noncitizens can be extradited. BiH will not extradite its own citizens, but will prosecute on its own. The amendments provide Federation and RS Banking Agencies with clear legal authority to freeze assets of suspected terrorists. Ashdown implemented the amendments to provide the banking agencies with undisputed legal authority to block bank accounts and with protection from frivolous lawsuits. After September 11, 2001, the Financial Police began tracking the financial dealings of charitable organizations. Assets from six such organizations have been frozen. Members of the FFP testified at the Chicago trial of the head of the Benevolent International Foundation; their investigation began with a fraud inquiry in the Federation.

In the past year, the Federation has taken significant strides to combat terrorist financing and to comply fully with UN Security Council resolutions (UNSCRs). Despite little political support, the FFP and the FBA have blocked the financial and property assets of all individuals and NGOs on the

terrorist finance UNSCR lists and are conducting investigations of other NGOs suspected of connections to al-Qaida.

Mutual Legal Assistance Treaties that had been signed by either Yugoslavia or the Kingdom of Serbia have carried over into BiH. There is no formal bilateral agreement between the United States and BiH regarding the exchange of records in connection with narcotics investigations and proceedings. Local authorities have made good faith efforts to exchange information informally with officials from the USG and regional states, particularly Slovenia and Croatia, but lack the professional capacity and the political support to conduct complex investigations or participate fully in international financial and law enforcement fora such as Interpol and the Financial Action Task Force.

BiH is a party to the 1988 UN Drug Convention but is hampered by the lack of State-level law enforcement authority. BiH became a party to the UN Convention against Transnational Organized Crime on April 24, 2002 and to the UN International Convention for the Suppression of the Financing of Terrorism on June 10, 2003. BiH has historically proven unable or unwilling to pass implementing legislation to ensure the entry-into-force of international conventions to which it is a signatory.

BiH should effectively implement existing laws and banking regulations. BiH should also enact its pending law, the “Prevention of Money Laundering and Terrorist Financing”, centralize regulatory and law enforcement authority and establish a FIU at the State level. Tipping off should also be prohibited. Significant training should be implemented so that law enforcement, prosecutors and judges will have a better understanding of money laundering and how to pursue it. Authorities would also be well served to consider how best to implement plans to harmonize any remaining legislation, and to work toward the establishment of competent state-level institutions.

Botswana

Botswana is a developing regional financial center as well as a nascent offshore financial center. Botswana has a relatively well-developed banking sector and is vulnerable to money laundering.

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 10,000 (\$2,325) 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. Additionally, Section 44 of the Banking Act of 1995 requires banks to exercise due diligence, and any bank which acts in breach of the requirements of this section is guilty of an offense and liable for a fine. The Bank of Botswana may revoke the license of a bank where the bank in question has been convicted by any court of competent jurisdiction of an offense related to the use or laundering of illegal proceeds. License revocation also applies if the bank is the affiliate, subsidiary or parent company of a bank which has been convicted.

In 2003, the Government of Botswana enacted the Banking (Anti-Money Laundering) Regulations, which are minimum guidelines to banks on the application of international best practices on anti-money laundering. The new regulations require banks to record and verify the identification of all personal and corporate customers. Banks must maintain all records on transactions, both domestic and international, for at least five years in order to comply expeditiously with information requests from the Financial Intelligence Agency and other law enforcement authorities.

The 2003 Banking Regulations also require financial institutions to report suspicious transactions. For reporting purposes, banks must designate an employee at management level as a money laundering reporting officer, who serves as a contact between the bank, the Central Bank, and the Financial Intelligence Agency. In practice, financial institutions regularly submit reports of suspicious transactions to the Directorate on Corruption and Economic Crime.

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. The Bank of Botswana has licensed two offshore banks, but only one has commenced operations.

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.

There were no prosecutions for money laundering or terrorist financing in 2003. 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. Under the Proceeds of Serious Crime Act, 1990 the jurisdiction has the authority to confiscate proceeds of terrorist finance-related assets.

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. Botswana officially became a member of the Eastern and Southern African Anti-Money Laundering Group in February 2003.

Botswana has recently strengthened its anti-money laundering regime by enacting the Banking (Anti-Money Laundering) Regulations, which requires financial institutions to report suspicious activity. Botswana should also establish a Financial Intelligence Unit (FIU) that would receive suspicious activity reports and would be capable of sharing information with other FIUs and law enforcement agencies internationally.

Brazil

Due to its great size and large economy, Brazil is considered a regional financial center but not an offshore financial center. Brazil maintains adequate banking regulation, retains some controls on capital flows, and requires disclosure of the ownership of corporations. Brazilian authorities report that money laundering in Brazil is primarily a problem of domestic crime, including the smuggling of contraband goods and corruption, both of which generate funds that may be laundered through the banking system, real estate investment or financial asset markets. The proceeds of narcotics trafficking and organized criminal activities are laundered in a similar fashion.

According to Brazilian authorities, Brazilian institutions do not engage in currency transactions that include significant amounts of U.S. currency, currency derived from illegal drug sales in the U.S., or that otherwise significantly affect the U.S. The authorities believe that organized crime groups use the proceeds of domestic drug trafficking to purchase weapons from Colombian guerilla groups.

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, terrorism, arms trafficking, extortion, and organized crime, 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 \$3,400) 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, then 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.

Law 9.613 also created a financial intelligence unit (FIU), 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, a counterterrorism specialist, and support staff. A new director was appointed in February 2004.

Between 1999 and 2001, the COAF issued a series of regulations that require customer identification, record keeping, and reporting of suspicious transactions to the COAF by obligated entities. Entities that fall under the regulation of the Central Bank, the Securities Commission (CVM), the Private Insurance Superintendence (SUSEP), and the Office of Supplemental Pension Plans (PC), file suspicious activity reports (SARs) with their respective regulator, either in electronic or paper format. The regulatory body then electronically submits the SARs to COAF. Entities that do not fall under the regulations of the above-mentioned bodies, such as real estate brokers, money remittance businesses, factoring companies, gaming and lotteries, dealers in jewelry and precious metals, bingo, credit card companies, commodities trading, and dealers in art and antiques, are regulated by the COAF and send SARs directly to the FIU either via the Internet or using paper forms. All of these regulations include a list of guidelines that help institutions identify suspicious transactions. The COAF receives roughly 300 to 500 SARs per month, about two percent of which lead to investigations by law enforcement.

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, then 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.

On July 9, 2003, Law 10.701 was passed to modify Law 9.613 of 1998. Law 10.701 criminalizes terrorist financing and makes it a predicate offense for money laundering. The law also establishes crimes against foreign governments as a predicate offenses, requires the Central Bank to create and maintain a registry of information on all bank account holders, and enables the COAF to request from all government entities financial information on any subject suspected of involvement in criminal activity. Other measures enacted in 2003 required banks to report cash transactions exceeding 100,000 reais (approximately \$34,000) to the Central Bank, established a department within the Ministry of

Justice to recover financial assets, and designated a representative from the Ministry of Justice to the COAF.

Brazil has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. The COAF and the Ministry of Justice manage these systems jointly. Police authorities and the customs and revenue services are responsible for tracing and seizing assets, and have adequate police powers and resources to perform such activities. The judicial system has the authority to forfeit seized assets. Brazilian law permits the sharing of forfeited assets with other countries. Traffickers have not taken any retaliatory actions related to money laundering investigations, government cooperation with the U.S. Government, or the seizure of assets.

Brazil has a limited ability to employ advanced law enforcement techniques such as undercover operations, controlled delivery, and 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. In 2003, Brazilian courts handed down their first criminal conviction for money laundering. The case involved illegal transfers of money overseas through a currency exchange in Foz do Iguacu. A flood of new investigations (1,043 in 2003, up from 345 in 2002) has led to a sharp spike in the number of money laundering cases going to court (132 in 2003, up from 34 in 2002). To deal with the increased caseload, Brazilian authorities have created seven special money laundering courts and expect to create one more. The judges in these courts generally have received some specialized training to deal with money laundering cases.

Money laundering in Brazil is primarily related to drugs, corruption, and trade in contraband. In 2003 the GOB continued investigating corrupt public figures, including customs inspectors, federal tax authorities, and high-ranking politicians, and the use of offshore companies by Rio de Janeiro firms to launder money. 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.

Investigations into the scandal involving Banestado, the state bank of Parana, continued in 2003. In 1995, five banks in the triborder region of Brazil, Paraguay, and Argentina, including Banestado, were authorized to open currency exchange accounts, known as CC-5 accounts. CC-5 accounts quickly became used as a means of laundering money. Money changers opened hundreds of fake CC-5 accounts, into which criminals deposited millions of reais. The money was then wired in dollars to the Banestado branch in New York City and from there to other banks, usually in countries considered to be tax havens. The money changers and Banestado officials took cuts from each transaction. Over 250 phony CC-5 accounts have been identified and it is suspected that as much as \$30 billion passed through CC-5 Banestado accounts in the U.S. between 1996 and 1999, a portion of which was likely laundered.

The COAF has responded to U.S. Government efforts to identify and block terrorist-related funds. Since September 11, 2001, COAF has run inquiries on over 700 individuals and entities, and has searched 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 were found to be operating or executing financial transactions in Brazil, and the GOB insists there is no evidence of terrorist financing in the area. However, the tri-border area, which is well known for arms and drug trafficking and international property rights crimes, and lacks currency controls and cross-border reporting requirements, is suspected to be a source of terrorist financing. In November 2003, the GOB extradited an alleged financier to Paraguay on charges of tax evasion.

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. In 2000 Brazil became a full member of the Financial Action Task Force (FATF), and a founding member of GAFISUD, the FATF for South America, and has sought to comply with the FATF Eight Special Recommendations on Terrorist Financing. Brazil is a party to the 1988 UN Drug Convention and has signed, but not ratified, the UN Convention against Transnational Organized Crime, which entered into force on September 29, 2003. On December 9, 2003, the GOB signed the UN Convention Against Corruption, which is not yet in force internationally. 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. The COAF has been a member of the Egmont Group since 1999. In February 2001, the Mutual Legal Assistance Treaty between Brazil and the United States entered into force.

The GOB criminalized the financing of terrorism in 2003 and should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and to the OAS Inter-American Convention on Terrorism. In order to continue to successfully combat money laundering and other financial crimes, Brazil should also develop legislation to regulate the sectors in which money laundering is an emerging issue. Brazil should enact and implement 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 a Caribbean overseas territory of the United Kingdom (UK). The BVI is vulnerable to money laundering due to its financial services industry. Tourism and financial services account for approximately 50 percent of the economy. The offshore sector offers incorporation and management of offshore companies, and provision of offshore financial and corporate services. The BVI has approximately 13 banks, 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 of 1999 (AMLCP) entered into force. The AMLCP establishes 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 or who have benefited from criminal conduct. The law also creates a financial intelligence unit (FIU), referred to as the Reporting Authority-Financial Services Inspectorate and responsible for the collection of suspicious activity reports. The FIU is currently undergoing a reorganization and name change to the Financial Investigation Agency. The Financial Investigation Agency Act 2003 passed the House and is currently with the Governor to sign and implement. The legislation is expected to come into force in February 2004.

The BVI has also proposed the Code of Conduct (Service Providers) Act (CCSPA), which 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. Reportedly, in the summer of 2003, the BVI completed an internal assessment of its financial service sector and is in the process of considering specific but as of yet unreported recommendations regarding its financial service sector.

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./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The FIU 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 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 nonbinding 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 became a member of the Asia/Pacific Group on Money Laundering (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 revised Financial Action Task Force Forty Recommendations on Money Laundering and its Special Eight Recommendations on Terrorist Financing. to the procedures for the evaluation of the effectiveness of its anti-money laundering systems. Also in 2003 Brunei acceded to the ASEAN pact on cooperation against terrorism and transnational crime—the Agreement on Information Exchange and Establishment of Communication Procedures

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. Brunei's Anti-Terrorism Financial and other Measures Orders 2002 explicitly criminalizes the financing and support of terrorism.

Bulgaria

Bulgaria is not considered an important regional financial center. However, Bulgaria is a major transit point for drugs into Western Europe, and its financial system remains vulnerable to money laundering related to narcotics trafficking and other organized crimes, such as fraud, embezzlement, tax evasion, smuggling, prostitution, and extortion. The sources of criminal proceeds moved through Bulgaria include Eastern Europe, the former Soviet Union, Turkey, and the Middle East, with the aim of introducing such proceeds into the Western European and United States financial systems. Bulgaria remains largely a cash economy. Although euro-based transactions have increased in the past year, in particular, the U.S. dollar remains a favored currency for financial transactions. The presence of organized criminal groups and official corruption contribute to Bulgaria's money laundering problem. Although the Government of Bulgaria (GOB) continues its efforts to address serious crime, lax enforcement remains an issue.

Money laundering was criminalized in 1997 via Articles 253 and 253(a) of the Penal Code. In 2001, the code was amended to add a 30-year prison penalty if the money laundering is linked with narcotics trafficking. 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. Penalties for these predicate crimes are not addressed in the money laundering Articles but are addressed elsewhere in the Penal Code. Other administrative money laundering provisions contained in the Law Against Money Laundering Measures address customer identification and record keeping requirements, suspicious transactions

reporting, and internal rules for financial institutions on implementation of an anti-money laundering program. Banks, securities brokers, auditors, accountants, insurance companies, investment companies, and other businesses are subject to these reporting requirements. Customs rules require the declaration of all Bulgarian and foreign currency in cash, including traveler's checks, in excess of BGN 8,000 (4,090 euros). Due to corruption and inefficiency in the Customs Service, enforcement of this requirement is irregular.

During April 2003, Parliament passed legislation amending the Law on Measures Against Money Laundering—further strengthening anti-money laundering measures. The amendments extend the types of obligated institutions and groups to include lawyers, real estate agents, auctioneers, tax consultants and security exchange operators, and requires listed reporting entities to demand an explanation of the source of funds for “operations or transactions in an amount greater than BGN 30,000 (15,339 euros) or its equivalent in foreign currency; or exchange of cash currency in an amount of BGN 10,000 (5,113 euros) or its equivalent in foreign currency.” However, shortly after passage of the new law, the requirements for reporting for lawyers were amended to mandate actual knowledge of money laundering by a client to prevent a conflict with rules of legal ethics. The legislation also introduces a currency transaction reporting requirement of 30,000 leva, (15,000 euros), thus bringing Bulgaria into full compliance with the EU Second Directive on Money Laundering. This last requirement will not become effective until 2004, because Bulgaria's financial intelligence unit (FIU) is currently not technologically capable of processing these reports.

The legislation also changed the name of Bulgaria's FIU from the Bureau of Financial Intelligence to the Financial Intelligence Agency (FIA), commensurate with its status as a full agency within the Ministry of Finance. It further institutionalizes and guarantees functional independence of the unit's director and provides for a supervisor within the Ministry of Finance who can oversee the activities of the FIA but is prohibited by law from issuing operational commands. The FIA is authorized to obtain all information without needing a court order, to share all information with law enforcement, and to receive reports of suspected terrorism financing. In September 2003, Bulgaria's anti-money laundering legislation was determined to be in full compliance with all EU standards.

Under the Stability Pact Anti-Corruption Initiative (the Stability Pact is a European institutional democratization initiative signed by former Communist countries to help re-establish them as modern states), the GOB has committed to sign, ratify, and implement the Council of Europe Criminal Law Convention on Corruption; apply the Twenty Guiding Principles for the fight against corruption by the Committee of Ministers of the Council of Europe; and implement the FATF Forty Recommendations.

In the fall of 2003, the GOB approved final amendments to its constitution that add overall transparency to the Bulgarian legal system through changes to the immunity, length of tenure, and conflict of interest rules of magistrates and the judiciary.

In the first ten months of 2003, the FIA received 226 suspicious transaction reports (STRs) regarding over 118 million euros. On the basis of the STRs, 195 cases were opened. The FIA sent 106 cases, representing over 71 million euros, to the Supreme Prosecutor's Office of Cassation, and 69 reports, with a total of over 35 million euros, to the Ministry of Interior. Since high-value dealers have been required to report since 2001, and there is no supervisory authority, the FIA acts as the compliance authority for this sector. To date, the banking sector has been responsible for the largest number of STRs. The absence of reports from exchange bureaus, casinos, nonbank financial institutions, dealers in high-value goods and other reporting entities does not mean that money laundering is not occurring in those institutions. Rather, there is lax enforcement of the requirement to file STRs. The FIA is also authorized to perform on-site compliance inspections. Notwithstanding the increase in activity, the FIA remains handicapped technologically, but is working on improving its database and its management to make it more efficient for the analysts' use. The FIA also cooperates with other FIUs,

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sending 197 requests for information to foreign FIUs (of which 128 were answered) and receiving 76 requests for assistance from foreign FIUs (the FIA has replied to 65 so far).

Law enforcement officers from the Ministry of Interior (MOI) and investigating magistrates from the National Investigative Service (NIS) investigate money laundering and the predicate criminal activity leading to it. The FIA is an administrative unit and does not do active criminal investigations. Once the FIA refers a case, the Prosecutor's Office has the ability to refer the case to either the MOI or the NIS. The FIA does have the authority to appeal determinations by the Prosecutor's Office that an STR referred by the FIA does not merit prosecution. Although money laundering has been pursued in court cases, there has never been a conviction for the crime and very few successful prosecutions for other financial crimes and predicate criminal activity that give rise to money laundering. Prosecutors, investigators, and law enforcement officials, especially at the district level, lack significant training in money laundering, which contributes to the lack of success in pursuing money laundering cases.

Bulgaria has strict and wide-ranging banking, tax and commercial secrecy laws. While the FIA enjoys an exemption from them, they otherwise apply to all other government institutions and often are cited as an impediment to the performance of legitimate law enforcement functions. The Bulgarian Ministry of Interior drafted an asset forfeiture law in 2002. U.S. and European experts assessed the draft law as draconian and deficient. The GOB is still considering legislation addressing forfeiture and seizure of criminal assets, indictment of legal 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 amended its Penal Code at Article 108a to criminalize terrorism and terrorist financing. Terrorist acts and financing qualify as predicate crimes under Bulgaria's "all crimes" approach. The GOB also enacted the Measures against the Financing of Terrorism in February 2003, which links antiterrorist measures in place with financial intelligence. The law was passed in accordance with the Financial Action Task Force on Money Laundering (FATF) Eight Special Recommendations on Terrorist Financing. The law legislates a link between the FIA 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.

The state now may also freeze assets of a suspected terrorist for up to 45 days and may compel all obligated entities to report suspicion of terrorism financing or pay a penalty of 25,000 leva. The various lists generated by the UN, EU and U.S. of individuals and entities associated with terrorism have been circulated by the financial intelligence unit in cooperation with the Bulgarian National Bank to the commercial banking sector and elsewhere. To date, no suspected terrorist assets appear to have been identified, frozen or seized by Bulgarian authorities.

There are no known initiatives underway to address the issue of alternative remittance systems. Although they may operate here, Bulgarian officials have not acknowledged their existence, including by promoting establishment of a legislative or regulatory regime.

The U.S. does not have a mutual legal assistance treaty with Bulgaria, although Bulgarian officials have expressed interest in negotiating one. Information is exchanged formally through the letter rogatory process. Currently, the FIA has bilateral memoranda of understanding regarding information exchange relating to money laundering with Belgium, the Czech Republic, Latvia, the Russian Federation, and Slovenia.

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). The FIA is a member of the Egmont Group and participates actively in information sharing with foreign counterparts. 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 is a party to the UN Convention against Transnational Organized Crime and the UN International

Convention for the Suppression of the Financing of Terrorism. In December 2003, the GOB signed the UN Convention Against Corruption.

Although Bulgaria has done well to enact legislative changes consistent with international anti-money laundering standards, lack of enforcement remains an issue. There appears to be no political will to amend unduly broad bank secrecy provisions that are said to hamper law enforcement efforts, and the banking community has a very strong lobby within Parliament. The GOB must take steps to improve and tighten its regulatory regime and the consistency of its Customs reporting enforcement. The GOB should enact and implement proposed measures that will address forfeiture and seizure of criminal assets and the indictment of legal entities on money laundering charges. The GOB should also establish procedures to identify the origin of funds used to acquire banks and businesses during privatization. The FIA should increase its staff to full capacity and incorporate technological improvements. The FIA should also continue to work in harmony with all institutions having a role to play in combating money laundering to ensure implementation of the anti-money laundering regime and to improve 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 and a system of credit unions in Burkina Faso. Only an estimated six percent of the population have bank accounts.

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.

Burkina Faso is currently transposing WAEMU regulations regarding fighting financial crimes and money laundering into law. In September 2003, the WAEMU Council of Ministers issued a directive laying out the judicial framework for fighting money laundering. The draft aims to define a legal framework for money laundering in order to prevent the use of WAEMU economic, financial, and bank channels to recycle money or other illicit goods.

The law has been sent to member states. Each state will adopt it as a national law on money laundering. The Burkinabe Treasury Department and the Ministry of Justice, which gave its advisory opinion, have now approved the draft. The final stages include approval of the Cabinet and the adoption by the National Assembly. After the adoption, the Government of Burkina Faso (GOBF) will set up a committee to follow up with all financial data.

In the area of financial crimes, WAEMU issued on June 26, 2003 a decision concerning the list of individuals and entities involved in terrorist finance. The decision aims to implement in WAEMU member countries measures for freezing money and other financial resources taken by the UNSC Sanction Committee as per UNSCR 1267 and 1373. The decision has been forwarded to the Burkinabe Treasury Department and banks for implementation.

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.

Burkina Faso has signed and ratified the UN Convention against Transnational Organized Crime. Burkina Faso is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism.

Burkina Faso should criminalize money laundering and terrorist financing as part of a viable anti-money laundering regime.

Burma

Burma has a mixed economy with private activity dominant in agriculture and light industry, and with substantial state-controlled activity, mainly in energy and heavy industry. 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.

On November 3, 2003, the Financial Action Task Force (FATF) called upon member countries, including the United States, to impose countermeasures against Burma for its failure to pass a mutual legal assistance law and to issue implementing regulations to accompany the June 2002 "Control of Money Laundering Law," State Peace and Development Council Law No. 6/2002. The U.S. immediately issued two proposed rules that would declare Burma, and two private banks in Burma, Asia Wealth and Myanmar Mayflower, entities of "primary money laundering concern." These two institutions have been linked to narcotics-trafficking organizations in Southeast Asia. The rules, pursuant to the 2001 USA PATRIOT Act, cut off any U.S. banking relationship with the two banks without exceptions, and with other Burmese financial institutions except in special cases. In December 2003 the Burmese government announced an investigation of the two private banks.

Burma was already under a separate U.S. Treasury Department advisory, stating that U.S. financial institutions should give enhanced scrutiny to all financial transactions relating to Burma. The more recent November 2003 proposed sanctions under Section 311 of the USA PATRIOT Act came after the passage of the Burma Freedom and Democracy Act by both houses of Congress in July 2003. This act had imposed economic sanctions on Burma following the May 2003 attack on Burmese pro-democracy leader Aung San Suu Kyi and her convoy. The sanctions prohibited the import of Burmese-produced goods into the U.S., froze the assets of identified Burmese institutions, and mandated that U.S. financial institutions holding funds belonging to members of the ruling junta report the assets to the Department of Treasury's Office of Foreign Assets Control.

On December 5, 2003, the Burmese Government unexpectedly released the regulations necessary to implement the June 2002 law. On paper, these regulations provide some detail on the roles and responsibilities of the relevant regulatory and enforcement bodies, though they do not address the issue of the need for a mutual legal assistance law. The 2003 regulations lay out 11 predicate offenses, including narcotics activities, human and arms trafficking, cyber crime, and "offenses committed by acts of terrorism," among others. Burma's earlier 1993 narcotics control law criminalized money laundering only if it was related to narcotics trafficking. The new regulations call for suspicious transaction reports (STRs) by banks, the real estate sector, and customs officials, and impose severe penalties. However, they do not set threshold financial or time limits and create significant loopholes. The regulations will be applied retroactively to June 2002, the date of the passage of the original law, once threshold amounts are established.

The 2003 regulations task the government's Central Control Board on Money Laundering with forming the Burmese financial intelligence unit (FIU). The Minister for Home Affairs will chair the Board. It will have full access to all financial records and the authority to cooperate with other international anti-money laundering groups. The Central Control Board will also set policy, direct the Investigation Body that performs money laundering investigations and conducts asset seizures, direct

the Preliminary Scrutiny Body that ensures due process and finalizes a case, and cooperate with other international anti-money laundering entities.

The June 2002 law was passed in response to events going back a full year earlier. In June 2001, the FATF identified Burma as noncooperative 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 an 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 Burmese Government passed the Control of Money Laundering Law (The State Peace and Development Council Law No. 6/2002) on June 17, 2002. In addition to the features of the law described above, it also required financial institutions to maintain records for at least five years and made money laundering punishable by imprisonment.

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 2002-2003 Burma expanded cooperation with Thailand and China to combat trafficking in drugs and precursor chemicals jointly in Northern and Eastern Shan State.

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. Currently, Burma does not provide significant mutual legal assistance or cooperation to overseas jurisdictions in the investigation and prosecution of serious crimes. The UN Office of Drug Control is assisting the GOB in its efforts to draft a mutual legal assistance framework. 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. Burma should provide the necessary resources to the administrative and judicial authorities that supervise the financial sector and implement fully and enforce its latest regulations to fight money laundering successfully.

Burundi

Burundi is not a regional financial center, nor does it have occasion to deal in large sums of private money, with the exception of funds provided by the IMF, World Bank, or other donor funds. The government's ability to impose compliance on the banking industry is weak, except in matters of foreign currency exchange. The weakness of the local currency and the government's control of foreign currency exchange are the chief safeguards against money laundering.

There are nine banks operating in Burundi, two of which have partial foreign ownership, Belgium's Belgolaise Bank and the Belgian-based La Generale des Banques. The Burundian Government promulgated a new banking law in October 2003. Money laundering is not specifically mentioned, but article 16 of the new law reads: "Banks and financial institutions are required to refuse the transfer or management of funds connected to illegal activities and to communicate to the Burundi Central Bank all information on such." In addition, Burundian banks must retain records of financial transactions for

a minimum of 15 years, and must surrender banking information if properly requested by judicial authorities. All foreign currency exchanges must be reported to the Central Bank, and all foreign currency exchanges of significant sums must be pre-authorized by the Central Bank.

Burundi has signed both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Ratification of these conventions is on the agenda of the next scheduled session of the Burundian National Assembly, which will begin in February 2004. In addition, the Burundian Government has expressed its willingness to cooperate with the USG on narcotics trafficking, terrorism, and terrorist financing. Burundi has a history of cooperation through Interpol.

To date, there have been no reported cases of money laundering. Burundi should establish specific anti-money laundering laws and develop a comprehensive anti-money laundering regime that comports to international standards. Burundi should also become party to the UN International Convention for the Suppression of the Financing of Terrorism and to the UN Convention against Transnational Organized Crime.

Cambodia

Cambodia is vulnerable to money laundering. It 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 suffers from widespread corruption, including among officials at the highest levels of government. The National Bank of Cambodia (NBC) has made strides in recent years in beginning to regulate the small banking sector but other nonbank financial institutions, such as casinos, remain outside its jurisdiction. Draft legislation being developed in cooperation with the IMF would go a long way towards setting up the sort of comprehensive financial oversight that does not now exist in Cambodia. But once the legislation is in place, the government would have to meet the challenge of enforcing that framework.

Cambodia is not an important regional financial center. Its banking sector is small, with thirteen general commercial banks and four specialized commercial banks. The National Bank of Cambodia (NBC) has oversight responsibility for the banking sector and, with relatively small numbers of transactions and deposits in the system, believes it exercises comprehensive oversight. There is no indication that the banking financial institutions themselves are engaged in money laundering. With relative political stability and the gradual return of normalcy in Cambodia after decades of war and instability, deposits continue to rise and the economy shows some signs of financial deepening.

The NBC does acknowledge that money laundering occurs in Cambodia. The NBC says that some of this activity is linked to proceeds from narcotics and smuggling. There is a significant black market in Cambodia for smuggled goods, but little to no evidence that smuggling is funded primarily narcotics proceeds. More likely, the majority of smuggling involves more mundane items transported to circumvent official duties and taxes. There is, for example, anecdotal evidence of significant smuggling of fuel, alcohol and cigarettes.

Government officials and their private sector business associates control the smuggling and thus its proceeds. Given the cash-based nature of the economy in Cambodia, there is little need to funnel cash proceeds through the banking system or other financial institutions. Cash can readily be converted into land, housing, luxury goods or other forms of property. It is also relatively easy to hand-carry cash into and out of Cambodia.

The NBC does not have the authority to apply anti-money laundering controls to nonbanking financial institutions such as casinos or other intermediaries, such as lawyers or accountants. The NBC believes that if significant money laundering activity were occurring through casinos in Cambodia, it would be

conducted via cash, carried in and out of the country by hand. The NBC is confident it would learn of any large amounts wired through the banking system for such purposes.

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. The decree established standardized procedures for the identification of money laundering at banking and financial institutions. In addition to the NBC, the ministries of Economy and Finance, Interior and Justice also are involved in anti-money laundering matters. An NBC circular dated October 2003 was issued to assist in identifying suspicious transactions and contains helpful examples.

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 through additional decrees, and the NBC performs many of the AMLC's intended functions.

The 1999 Law on Banking and Financial Institutions imposed new capital requirements on financial institutions, increasing them from \$5 million to \$13.5 million. Commercial banks must also maintain 20 percent of their capital on deposit with the NBC as reserves.

Cambodia has assisted neighboring countries with money laundering investigations. Cambodia is not a party to the 1988 UN Drug Convention. On November 11, 2001, Cambodia signed the UN Convention against Transnational Organized Crime.

A Working Group of the National Anti-Drug Committee was formed on November 26, 2003 to prepare draft anti-money laundering legislation and an action plan to fight money laundering and the financing of terrorism. The NBC is the main contributor in this process with the other relevant agencies comprising the Ministries of Interior, Justice, Economy and Finance, and Foreign Affairs. The draft legislation envisions including preventive obligations related to customer due diligence, record keeping, internal controls, reporting of suspicious transactions and establishing an independent Financial Intelligence Unit (FIU) to receive, analyze and disseminate information and to supervise compliance with all relevant laws and regulations.

Among other priority actions, the Cambodian government's draft legislation and action plan to fight money laundering and the financing of terrorism envision the following: criminalizing the financing of terrorism, ratification of relevant UN conventions, regulating and controlling NGOs, reducing the use of cash and encouraging the use of the formal banking system for financial transactions, enhancing the effectiveness of bank supervision, ensuring the use of national ID cards as official documents for customer identification, and regulating casinos and the gambling industry. Although the NBC regularly audits individual banks to ensure compliance with laws and regulations, there were no arrests for money laundering in 2003.

While Cambodia is drafting legislation that would specifically address terrorism financing, it currently does not have any laws that do so. It does cooperate with the U.S. by circulating to financial institutions the list of individuals and entities included on the UN 1267 sanctions committee consolidated list. The NBC reviews the banks for compliance in maintaining this list and reporting any related activity. To date, there have been no 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.

Prior to the enactment of new anti-money laundering legislation, the Royal Government of Cambodia should implement extant anti-money laundering legislation. New legislation should cover all serious crimes including the financing of terrorism and provide for the creation of a comprehensive anti-money laundering regime. Cambodia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism

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, however, 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. Over the past year, at the sub-regional level, the Central African Economic and Monetary Union (CEMAC) formed the Central African Action Group Against Money Laundering (GABAC). However, the six-member CEMAC nations have not appointed the requisite officers to GABAC's country affiliates.

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counterterrorist 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 submitted the draft regulations to the Ministerial Committee of the CEMAC for approval in the spring of 2003. The CEMAC Ministerial Committee granted adoption of the regulations to the Executive Secretary of the GABAC. The regulations are to be officially adopted during GABAC's inaugural meeting, slated for first quarter 2004.

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 entered into force in September 2003.

Cameroon should work with the BEAC to establish a viable anti-money laundering and counterterrorist financing regime. Cameroon should also criminalize terrorist financing and money laundering. Cameroon should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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 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, facilitate the investigation and prosecution of money laundering, and create a financial intelligence unit (FIU). The Proceeds of Crime (Money Laundering) Act was amended in December 2001 to become the Proceeds of Crime (Money Laundering) and Terrorist Financing Act (PCMLTFA). The list of predicate offenses was expanded to cover all indictable offenses, including terrorism and trafficking in persons. The PCMLTFA created a mandatory reporting system for suspicious financial transactions, large cash transactions, large international electronic funds transfers, and cross-border movements of currency and monetary instruments totaling Canadian \$10,000 or greater. Failure to report cross-border movements of currency and monetary instruments could result in seizure of funds or penalties ranging from Canadian \$250 to \$5,000. In addition, money service businesses, casinos, accountants, and real estate agents handling third-party transactions are required to report suspicious financial transactions. Reporting requirements for the legal profession are still being clarified. Failure to file a suspicious transaction report (STR) could lead to up to five years imprisonment, a fine of \$2,000,000, or both. As of June 12, 2002, suspicious reporting also includes financial transactions that are suspected to involve the commission of a terrorist financing offense.

The FIU, the Financial Transactions and Reports Analysis Center of Canada (FINTRAC), was established in July 2001 and has more than 160 employees. FINTRAC operates as an independent agency that receives and analyzes reports from financial institutions and other financial intermediaries and makes disclosures to law enforcement and intelligence agencies. FINTRAC is also mandated to ensure the compliance of these reporting entities with the legislation and regulations. The PCMLTFA expanded FINTRAC's mandate to include antiterrorist financing and to allow disclosure to the Canadian Security Intelligence Service of information related to financial transactions relevant to threats to the security of Canada. The Act also enables Canadian authorities to deter, disable, identify, prosecute, convict, and punish terrorist groups. No prosecutions occurred in 2002 or 2003.

A second set of regulations related to internal compliance regimes, the reporting of large cash transactions and large international electronic funds transfers, the reporting of transactions where there are reasonable grounds to suspect terrorist financing, the reporting of possession or control of terrorist property, and record keeping and client identification requirements was published in May 2002. Certain requirements were phased in during 2003. A further set of regulations concerning the reporting of cross-border movements of currency and monetary instruments became effective in January 2003. FINTRAC now receives mandatory reports on all international electronic funds transfers, cash transactions, or cross border movements of Canadian \$10,000 or more. During 2002-2003, its first year of full operation, FINTRAC received more than two million reports, almost all of them filed electronically, with suspicious transactions totaling \$350 million reported. The law protects those filing reports on suspicious transactions from civil and criminal prosecution and there has been no apparent decline in deposits made with Canadian financial institutions as a result of Canada's new laws and regulations.

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 signed memorandums of understanding to establish the terms and conditions to share intelligence with the FIUs in Australia, Belgium, Italy, Mexico, the United Kingdom, and the United States. Canada has provisions for asset sharing and exercises them regularly. Canada is a member of the Financial Action Task Force, and the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). 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 longstanding 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 entered into force on September 29, 2003. Canada is a party to the UN International Convention for the Suppression of the Financing of Terrorism, and has signed all of the other 11 UN terrorism conventions and protocols. It has also searched financial records for groups and individuals on the UN 1267 Sanctions Committee's consolidated list. Canada has listed and frozen the assets of more than 420 entities.

The GOC continues to take significant steps to reduce its vulnerability to money laundering and terrorist financing. FINTRAC should continue to negotiate information exchange agreements with its foreign counterparts. The GOC should 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 anti-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. The Cayman Islands has approximately 580 banks and trust companies, 3,178 mutual funds, and 517 captive insurance companies that are licensed in the Cayman Islands. In addition, there are approximately 30,000 offshore companies registered in the Cayman Islands, including many formed by the Enron Corporation.

In June 2000, the Financial Action Task Force (FATF) placed the Caymans on the list of noncooperative countries and territories (NCCT) in the fight against money laundering. 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 to certain transactions or banking relationships involving the Cayman Islands. Subsequently, the Cayman Islands passed and amended various 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 removed the Cayman Islands from the NCCT list. The U.S. Treasury Department also withdrew its advisory against the Cayman Islands in June 2001.

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) (MAL 2001) was enacted in December 2002. The law grants CIMA independence with respect to the licensing and enforcement powers over financial institutions. Previously these were vested directly in the government. The MAL 2001 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, a connected person, or a person reasonably believed to have information relevant to an inquiry by CIMA. The MAL 2001, 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 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.

The Cayman Islands has been cooperative with criminal law enforcement authorities in the United States. The Cayman Islands is subject to the U.S./UK Treaty concerning the Cayman Islands relating to Mutual Legal Assistance in Criminal Matters, and through the United Kingdom, is subject to the 1988 UN Drug Convention. 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 anti-money laundering regime less than two years ago. The government should continue with its anti-money laundering implementation plans and international cooperation. Additionally, the government should modify its domestic legislation to ensure that it criminalizes terrorist financing and implements the FATF Special Eight Recommendations on Terrorist Financing.

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. The BEAC itself has a formal convention with the French government, in which Central Bank funds are held in the French Treasury.

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 \$990) to the Central Bank. In addition, all currency transfers above 100,000 CFA francs (about \$194) 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 counterterrorist 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 submitted the draft regulations to the Ministerial Committee of the Central African Economic and Monetary Community (CEMAC) for approval in spring 2003. CEMAC's Ministerial Committee has approved the regulations, which are expected to be formally adopted into law by the Central African Action Group Against Money Laundering, a CEMAC entity, in spring 2004. These 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 implement its money laundering laws. Chad should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Chad should also work with the BEAC to strengthen the region's anti-money laundering and counterterrorist financing regime.

Chile

Chile has a large, well-developed banking and financial sector. It is a stated goal of the government to turn Chile into a major regional center. Although Chile does not appear to have a significant money laundering problem, information is lacking as to the extent of money laundering activity in Chile. Money laundering appears to be primarily narcotics-related, but until recently, money laundering was only a crime when it involved the direct proceeds of drug offenses. Chile is not considered an offshore financial center and offshore banking-type operations are not permitted. Bank secrecy laws are strong in Chile, and the privacy rights enshrined in the constitution have been broadly interpreted and present challenges to Chilean efforts to combat money laundering.

The Government of Chile (GOC) made significant progress in 2003 with regard to establishing a more effective anti-money laundering and counterterrorist financing regime. On September 2, 2003, the Congress passed a new money laundering law, Law 19.913, that went into effect on December 18, 2003. The law was originally introduced in 1999 as part of a larger law to modify the 1995 Counter-Narcotics Law No. 19.366. In 2001, the money laundering provisions were split from the draft law to create a new bill, which was approved by the lower house of the Congress in 2002. In November 2003, Law 19.906 went into effect. Law 19.906 modifies Chile's existing terrorist legislation, Law 18.314, in order to more efficiently sanction terrorist financing in conformity with the UN International Convention for the Suppression of the Financing of Terrorism. Under Law 19.906, the financing of a terrorist act and the provision (directly or indirectly) of funds to a terrorist organization are punishable.

Prior to the approval of Law 19.913, Chile's anti-money laundering program was based on Law 19.366, which criminalized only narcotics-related money laundering activities. The law required only

voluntary reporting of suspicious or unusual financial transactions by banks. This law offered no “safe harbor” provisions protecting banks from civil liability, and as a result the reporting of such transactions was extremely low. Law 19.366 gave only the Council for the Defense of the State (Consejo de Defensa del Estado, or CDE) authority to conduct narcotics-related money laundering investigations. The Department for the Control of Illicit Drugs (Departamento de Control de Trafico Ilicito de Estupefacientes) within the CDE carries out this investigative function. It presently functions as Chile’s financial intelligence unit (FIU), and is a member of the Egmont Group.

Under Law 19.913, money laundering is established as an autonomous crime, and predicate offenses are expanded to include (in addition to narcotics trafficking) terrorism in any form (including the financing of terrorist acts or groups), illegal arms-trafficking, fraud, corruption, child prostitution and pornography, and adult prostitution. The law also creates a financial analysis unit, the Unidad de Análisis Financiero (UAF), within the Ministry of Finance, which would ultimately replace the FIU currently functioning with limited legal authority within the CDE. Law 19.913 requires 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. Guidelines for what will constitute a suspicious transaction will be elaborated by the UAF, and reporting requirements will become obligatory in May 2004.

The law also requires that obligated entities maintain registries of cash transactions that exceed 450 unidades de fomento (approximately \$10,000) and imposes record keeping requirements (five years). The movement of funds exceeding 450 unidades de fomento into or out of Chile must be reported to the customs agency, which then files a report with the UAF. The UAF will receive and analyze the reports of suspicious financial activities, and may request cash transactions reports from the registries, and then forward those reports deemed appropriate for further investigation to the Public Ministry. Under the new law, the Public Ministry has the ability to request that a judge issue an order to freeze assets under investigation and can also, with the authorization of a judge, lift bank secrecy provisions to gain account information if the account is directly related to an ongoing case.

Shortly after the passage of Law 19.913 in September 2003, Chile’s anti-money laundering regime suffered a serious setback. Portions of the new law—specifically those that dealt with the UAF’s ability to gather information, impose sanctions and lift bank secrecy provisions—were deemed unconstitutional by Chile’s constitutional tribunal. The tribunal argues that some of the powers granted to the UAF in the new law violate privacy right guaranteed by the constitution. The tribunal’s decisions eliminate the ability of the UAF to request background information from government databases or from obligated entities on the reports they submit, impose sanctions on entities for failure to file or maintain reports, or lift bank secrecy protections. The law went into effect in December 2003 without the above-mentioned powers. The Ministry of Finance is currently in the process of drafting a new bill to restore the UAF’s ability to fine or sanction obligated entities for noncompliance with the reporting requirements. The constitutional tribunal objected to this section in the original version of Law 19.913 on due process grounds. The new bill, if passed, will address the due process issues and also create a stage for sanctions by the regulatory agencies prior to sanctions administered by the UAF. It remains to be seen if the Ministry of Finance will introduce other bills to restore the UAF’s abilities to lift bank secrecy provisions and request further information from government databases.

The GOC circulates the UN 1267 Sanctions Committee’s consolidated list to banks and financial institutions. No terrorist assets belonging to individuals or groups named on the list have been identified to date in Chile. If assets were found, the legal process that would be followed to freeze and seize them is still unclear; Law 19.913 contains provisions that allow for prosecutors to request that assets be frozen based on a suspected connection to criminal activity. Government officials have stated that Chilean law is currently sufficient to effectively freeze and seize terrorist assets; however, the new

provisions for freezing assets are based on provisions in the drug law which at times have been interpreted narrowly by the courts. Until a case emerges, it will be difficult to judge how smoothly the new system will operate. Chile's system for forfeiting assets is under review in the congress, with new legislation expected to pass in early 2004. The Ministry of National Property currently oversees forfeited assets, and proceeds from the sale of forfeited assets are passed directly to the national regional development fund to pay for drug abuse prevention and rehabilitation programs. The proposals under consideration would shift control of the funds to the Ministry of the Interior. Under the present law, forfeiture is possible for real estate, vehicles, ships, airplanes, other property, money securities and stocks, any instruments used or intended for use in the commission of the underlying crime, all proceeds of such criminal activity, and businesses involved in the criminal activity or purchased with illicit funds.

The most significant money laundering investigation of 2003 was the capture of the Guzman network of money launderers in December. That case represented the culmination of two years of investigations on the part of the CDE, the carabineros (customs officers) and the Santiago judiciary, with assistance from the Chilean tax authority and Panamanian prosecutors. The end result was five arrests and the seizure of \$1.5 million in goods, including a hotel purchased with the proceeds of the network. Orlando Guzman Avila, a convicted narcotics trafficker, headed the ring from his prison cell, while members of his family and associates handled the daily operations.

Chile is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In November 2001, the GOC became a party to the UN International Convention for the Suppression of the Financing of Terrorism. On December 11, 2003, the GOC signed the UN Convention Against Corruption. 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 of the South American Financial Action Task Force on Money Laundering (GAFISUD) and has pledged to come into compliance with the organization's recommendations.

The GOC should recognize that the establishment of an effective financial intelligence unit that meets the Egmont Group's standards is imperative in the fight against money laundering and terrorist financing. It should support the efforts of the Ministry of Finance to have an operational FIU that meets international standards. If the abilities of the UAF to serve as a fully functioning FIU remain limited by the current version of the new law, the steps that have been taken in Chile over the past year to create a regime capable of investigating, punishing, and deterring financial crime may be severely limited if not negated. The GOC should take all necessary steps to ensure that its FIU becomes a viable entity that comports with international standards.

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 funds obtained from 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.

New measures came into effect in 2003 that further strengthened China's anti-money laundering efforts. In March, a new PBOC regulation entitled "Regulations on Anti-money Laundering for Financial Institutions" took effect, strengthening the regulatory framework under which Chinese banks and financial institutions must treat potentially illicit financial activity. The regulation effectively requires Chinese financial institutions to take responsibility for suspicious transactions, instructing them to create their own anti-money laundering mechanisms. Banks are required to report suspicious or large foreign exchange transactions, of more than \$10,000 per person in a single transaction or cumulatively per day in cash, or noncash foreign exchange transactions of \$100,000 per individual or \$500,000 per entity either in a single transaction or cumulatively per day. Banks are also required to report suspicious or large renminbi transactions and to refuse services to suspicious clients. Under the regulation, banks are further required to submit monthly reports to the PBOC outlining suspicious activity and to retain transaction records for five years. Banks which fail to report on time can be fined up to the equivalent of \$3,600.

These 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.

In 2003, the Chinese Government established a new banking regulator, the China Banking Regulatory Commission (CBRC), which assumed substantial authority over the regulation of the banking system. The CBRC has been authorized to supervise and regulate banks, assets management companies, trust and investment companies, and other deposit-taking institutions, with the aim of ensuring the soundness of the banking industry. One of its regulatory objectives is to combat financial crimes. Primary authority for anti-money laundering efforts remained with the PBOC, the country's Central Bank, along with the Ministry of Public Security in terms of enforcement.

For its part, the PBOC established two departments in June 2003 to monitor suspicious transactions and to facilitate coordination among the various Chinese Government agencies involved in the anti-money laundering fight. This reform built on moves made in 2002, when 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) to enhance its anti-money laundering regime.

In spite of these efforts, institutional obstacles and rivalries between financial and law-enforcement authorities continue to hamper Chinese anti-money laundering work and other financial law enforcement. Continuing efforts by some Chinese officials to strengthen the relatively weak legal framework under which money laundering offenses are currently prosecuted in the Chinese criminal code have yet to bear fruit. Also, 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. As a result,

weaknesses in the Chinese banking and criminal regulatory structure continue to be exploited by both domestic and foreign criminal enterprises.

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 antiterrorist financing resolutions.

China's concerns with terrorist financing are generally regional, focused mainly on the western province of Xinjiang, which has a large number of Muslims. Chinese law enforcement authorities have noted that China's cash-based economy, combined with its robust cross-border trade, has led to many difficult-to-track large cash transactions. There is concern that groups may be exploiting such cash transactions in an attempt to bypass China's financial enforcement agencies. While China is proficient in tracing formal foreign currency transactions, the large size of the informal economy makes monitoring of China's cash-based economy very difficult. There were examples in 2003 of Chinese law enforcement's ability to link transactions within the state-run banking sector to suspected terrorist entities, but there has been no such example with regard to cash transactions. Senior representatives of the U.S. Government visited China in February 2003 in an effort to improve bilateral ties between the U.S. and China on the issue of terrorist financing.

The PRC signed the UN International Convention for the Suppression of the Financing of Terrorism on November 13, 2001, but had not ratified it as of December 2003. 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. In December 2003, China unilaterally decided to list on its own several individuals and East Turkistan groups as terrorists, and requested that domestic and foreign financial entities freeze their financial assets.

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 in 2003 ratified the UN Convention against Transnational Organized Crime.

The United States and the PRC cooperate and discuss money laundering and other enforcement issues under the auspices of the U.S.-PRC Joint Liaison Group's (JLG) subgroup on law enforcement cooperation. The JLG meetings are held periodically in either Washington, D.C., or Beijing. In addition, The United States and the PRC have established a Working Group on Counter-Terrorism that meets on a regular basis. The PRC has established similar working groups with other countries as well.

As of December 2003, China had not joined the Financial Action Task Force (FATF), due to continuing concerns Beijing had over Taiwanese membership in the Asia Pacific Group (APG). Membership in a regional group is a precondition for membership in FATF.

The PRC should continue to build upon the substantive actions taken in recent years to develop a viable anti-money 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. The

PRC should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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. Additionally, procedural difficulties in Colombian legal proceedings and limited resources for anti-money laundering programs constrain the effectiveness of the GOC's efforts. Corruption, as well as the high demand for laundering funds related to criminal activity such as narcotics trafficking, commercial smuggling for tax and import duty evasion, kidnapping for profit, and arms trafficking and terrorism connected to violent paramilitary groups and guerrilla organizations, all combine to keep Colombia a major money laundering country.

Money launderers in Colombia employ a wide variety of techniques. Trade-based money laundering, such as the Black Market Peso Exchange (BMPE), through which money launderers furnish narcotics-generated dollars in the United States to commercial smugglers, travel agents, investors and others in exchange for Colombian pesos in Colombia, remains a prominent method for laundering narcotics proceeds. Colombia also appears to be a significant destination and transit location for bulk shipment of narcotics-related U.S. currency. Local currency exchangers convert narcotics

dollars to Colombian pesos and then ship the U.S. currency to Central America and elsewhere for deposit as legitimate exchange house funds which are then reconverted to pesos and repatriated by wire to Colombia. Other methods include the use of debit cards to draw on financial institutions outside of Colombia and the transfer of funds out of and then back into Colombia by wire through different exchange houses to create the appearance of a legal business or personal transaction. Colombian authorities have also noted increased body smuggling of U.S. and other foreign currencies and an increase in the number of shell companies operating in Colombia. Smart cards, Internet banking, and the dollarization of the economy of neighboring Ecuador represent some of the growing challenges to money laundering enforcement in Colombia.

Colombia 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 arms-trafficking, 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. A general criminal forfeiture provision for intentional crimes has existed in Colombian penal law since the 1930s. Since then, Colombia has adopted more specific criminal forfeiture provisions in other statutes, most notably those contained Colombia's principal antinarcotics statute, Law 30 of 1986. In 1996, 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 2002, 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.

Colombia formally adopted legislation in 1999 to establish a unified, central financial intelligence unit, the Unidad de Información y Análisis Financiero (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. Obligated entities—including financial institutions, institutions regulated by the Superintendence of Securities and the Superintendence of Notaries, export and import intermediaries, credit unions, wire remitters, exchange houses and public agencies—are required to file suspicious transaction reports with the UIAF, and are barred from informing their clients of their reports. Currency transactions and cross-border movements of currency in excess of \$10,000 must also be reported, and exchange houses must file currency reports for transactions involving \$700 or more. Unfortunately, there is no penalty for noncompliance, and financial institutions are believed to underreport transactions. The UIAF is widely viewed as a hemispheric leader in efforts to combat money laundering and supplies considerable expertise in organizational design and operations to other financial intelligence units in Central and South America. The UIAF is a member of the Egmont Group.

In addition, the Superintendence 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 Superintendence of Banks also has authority to rescind licenses for wire remitters.

Bilateral cooperation between the GOC and the USG remains strong and active. In 1998, DEA established a Sensitive Investigative Unit (SIU) within the Colombian Administrative Security

Department (DAS) to investigate drug trafficking and money laundering organizations. In late 2003, the SIU arrested 21 money laundering facilitators in support of a U.S. operation based in South Florida. This operation exposed numerous flower export companies operating in Colombia as fronts for money laundering activities, and resulted in the seizure of over \$17 million. Six defendants in this case await extradition to the United States.

The U.S. Customs Service (USCS) vetted financial investigative unit, formed within the Colombian National Police Intelligence and Investigations Unit (DIJIN) in 2002, has worked 68 cases, some of which have been closed by investigation and arrests. These cases are financial in nature and include money laundering, BMPE, and terrorist financing. Many of the cases involve provisional arrest warrants pursuant to extradition requests, several of which involve high profile defendants.

In 2003, the USCS conducted 92 cooperative investigations with Colombian authorities that resulted in 112 arrests and the seizure of \$22 million in currency and property. A total of 11 individuals were extradited to the United States pursuant to these investigations. The USCS is also working closely with the Colombian Taxation and Customs Office (DIAN) to fully automate their customs computer systems. Cooperation with the DIAN in 2003 resulted in the arrests of 18 currency and financial instruments couriers and the seizure of \$6 million. These cases typically involve the movement of funds from Mexico and Central America. Also in 2003, the GOC made 85 arrests (all Colombian nationals) and 15 complete plant suppressions (printing operations where all machinery, plates and negatives utilized to produce the seized bills were recovered and confiscated) based on the efforts of criminal investigators in trained money laundering investigation and undercover operations.

With support from DOJ attorneys from the Asset Forfeiture and Money Laundering Section and the Office of Overseas Prosecutorial Development Assistance and Training (OPDAT), Colombian asset forfeiture law was changed to resemble law in the United States. The amount of time for challenges was shortened and the focus was moved from the accused to the seized item (cash, jewelry, boat, etc.), placing more burden on the accused to prove the item was acquired with legitimately obtained resources. In 2003, OPDAT trained approximately 400 judges, magistrates, prosecutors, and judicial police in the new Asset Seizure Law, and trained 500 justice officials in basic financial and accounting principles and financial analysis. As a result of these efforts, there was a 25 percent increase in money laundering prosecutions and a 42 percent increase in asset forfeiture cases.

Colombia continued to play a role in multilateral efforts to combat money laundering in 2003. 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 2003, Colombia continued to participate in the mutual evaluation process by providing experts for the mutual legal evaluations 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, nor has it criminalized the financing of terrorism. The GOC has signed but not ratified the UN Convention against Corruption and the UN Convention against Transnational Organized Crime.

Despite Colombia's comprehensive anti-money laundering laws and regulations, enforcement continues to be a challenge for Colombia. Limited resources for prosecutors and investigators have made financial investigations problematic. Continued difficulties in establishing the predicate offense further contribute to Colombia's limited success in achieving money laundering convictions and successful forfeitures of criminal property. Congestion in the court system, procedural impediments and corruption remain continuing problems.

Colombia should criminalize the financing of terrorism and become a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should also take legislative action to strengthen forfeiture and other aspects of money laundering enforcement, eliminate procedural impediments and should consider devoting additional resources to prosecutors and investigators.

Congo, Democratic Republic of

The DRC 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, mostly from illicit diamond sales as smuggling is a widespread crime in the DRC. Money laundering also occurs through the Banque Congolaise and its associated exchange houses. 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.

Although, there is currently no law in the Congo criminalizing money laundering, the World Bank and Central Bank are in the process of drafting a bill to criminalize money laundering, as an IMF condition, for adoption by the DRC in the near term. Banks and nonbanking financial institutions are required to report all transactions over \$10,000, which banks find burdensome, as 90 percent of transactions using the banking system meet this threshold. 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 DRC has not criminalized terrorist financing as required by Security Council Resolution 1373.

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 Congo has reached agreement with U.S. authorities on a mechanism for exchanging records in connection with serious crime investigations.

The GDRC should criminalize money laundering and terrorist financing and develop a viable anti-money laundering regime. GDRC should become party to both the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention.

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.

During 2003, Congo-Brazzaville strengthened its laws against money laundering. As a member of the Central African Regional Monetary Union (CEMAC), it adopted CEMAC's new April 2003 regional regulations for prevention and repression of money laundering and financing of terrorism in central Africa. These rules establish penalties of both fines and imprisonment for money laundering and financing of terrorism. They also regulate the operations of banks, money changers and casinos.

Export and import of CFA franc bank notes, the regional currency, is prohibited outside the CFA franc zone. Travelers may not enter or leave the country with more than 980001 CFA (approximately \$1,856) in local currency. In addition, Congo-Brazzaville requires that foreign transfer of more than 489472 CFA (approximately \$927) in local currency must receive prior approval of banking regulators. It also just held its first "national day to combat corruption and fraud," a country-wide day to focus on these issues convened by the Minister of Government Coordination where it was highlighted that the President would not tolerate any forms of corruption, fraud, or illicit enrichment.

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 continue to work with the BEAC to strengthen its anti-money laundering and counterterrorist

financing efforts in the region. Congo should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and to the UN Convention against Transnational Organized Crime

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 passed nine new legislative acts on May 7, 2003, to strengthen the country in its struggle against money laundering. The pieces of legislation that were amended and created were: the Crimes Amendment Act 2003, the Criminal Procedure Amendment Act 2003, Proceeds of Crime Act 2003, Mutual Assistance in Criminal Matters Act 2003, Extradition Act 2003, Financial Transactions Reporting Act 2003 (repeals and replaces the Money Laundering Prevention Act 2000), Financial Supervisory Commission Act 2003 (repeals and replaces the Offshore Financial Services Act 1998), Banking Act 2003 (repeals and replaces the Banking Act 1989), and the International Companies Amendment Act 2003.

Although, the Government of the Cook Islands (GOCI) has enacted several legislative reforms to address the deficiencies identified by the Financial Action Task Force (FATF), it continues to remain on the FATF list of noncooperative countries and territories (NCCT) in the fight against money laundering. The FATF, in its June 2000 report, cited several concerns. In particular, the GOCI has no relevant information on approximately 1,200 international companies it has registered. The country also licenses seven offshore banks that take deposits from the public, yet were not required to identify customers, nor keep records. Excessive secrecy provisions guard 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 Cook Islands Financial Intelligence Unit (CIFIU) became legally established pursuant to Section 20 of the Financial Transaction Reporting Act 2003 (FTRA 2003). The CIFIU is fully operational, with the assistance of a technical advisor provided by the Government of New Zealand. The FIU is the central unit responsible for processing disclosures of financial information in the framework of anti-money laundering and antiterrorist financing regulation. CIFIU receives suspicious transactions reports and currency transaction reports, as well as being informed of telegraphic transfers over NZD\$10,000. If the financial intelligence unit suspects a serious offense, money laundering offense or otherwise, has been, or is being committed, the FIU must refer the matter to the police for investigation. CIFIU has the power to request information from any law enforcement agency and supervisory body for the purposes of FTRA 2003. The FIU is required to destroy a suspicious transaction report received or collected, if six years has passed since the date of receipt of the report, if there has not been activity or information relating to the report or the person named in the report or if six years has passed since the date of the last activity relating to the person or to the report. The type of institutions that are supposed to report to the FIU are banks, insurers, financial advisors, bureaux de change, solicitors/attorneys, accountants, financial regulators, casinos, lotteries, money remitters, and pawn shops.

The Financial Transactions Reporting Act 2003 (FTRA 2003) imposes certain reporting obligations on, but not limited to, financial institutions such as banks, offshore banking businesses, offshore insurance businesses, casinos, and gambling services. Financial institutions are required to make currency transaction reports and suspicious transaction reports. Financial institutions are required to maintain, for a minimum of six years, all records related to the opening of accounts and to business transactions. 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 under the FTRA 2003.

The Banking Act 2003 and the Financial Supervisory Commission Act 2003 (FSCA 2003) establish a new framework for licensing and prudential supervision of domestic and offshore financial institutions in the Cook Islands. The FSCA requires all banks to reapply for a license within 12 months of the commencement of the FSCA (i.e., by May 2004), and establishes a “physical presence” requirement. This requirement will assure that no shell banks will exist in the Cook Islands by the end of that 12-month period. The CFIU may, with the approval of Cabinet, enter into negotiations, orally or in writing, relating to an agreement or arrangement, with an institution or agency of a foreign state or an international organization. The Cabinet must approve final agreements or arrangements. In regard to disclosure of information to foreign agencies, the FIU may share information with foreign institutions or international organizations that have the powers and duties similar to those of the FIU, on the terms and conditions set out in the agreement or arrangement between the FIU and that foreign state or international organization regarding the exchange of information.

The Cook Islands is Asia/Pacific Group on Money Laundering. The Cook Islands is not a party to the 1988 UN Drug Convention. Nor is it a party to the UN International Convention for the Suppression of the Financing of Terrorism, although it became a signatory to the latter in December 2001. The United Nations (Security Council Resolutions) Bill is currently in Parliament. The Bill will allow the Cook Islands, by way of regulations, to give effect to the Security Council Resolutions concerning threats and breaches of peace and acts of aggression. The GOCI is also finalizing regulations to give effect to UN Security Council Resolution 1373. The New Zealand FIU is currently supporting CFIU’s candidacy into the Egmont Group for June 2004.

The GOCI has taken a number of steps toward addressing the deficiencies identified by the FATF. Recent reforms address most of the deficiencies in Cook Islands’ anti-money laundering regime; however, the government must finalize and promulgate the necessary regulations to bring the legislation into full force its anti-money laundering program so that its regime comports with international standards. The GOCI must also ensure that the recently enacted reforms are fully and effectively implemented. For example, all shell banks should be eliminated by June 2004, as required under the new Banking Act. Additionally, the GOCI should become a party to the 1988 UN Drug Convention and to the UN International Convention for the Suppression of the Financing of Terrorism. It should also enact legislation that criminalizes terrorism and the financing of terrorism.

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. Despite 2002 reforms of the Costa Rican counternarcotics law to expand the scope of anti-money laundering regulations, the government’s licensing and supervision of the offshore sector and nonbank financial institutions remain inadequate. Gambling is legal in Costa Rica, although the currency that is subject to Internet gaming operations may not be transferred to Costa Rica. Consequently, over 100 sports book companies operate in Costa Rica by paying administrative costs locally and accepting bets to accounts located outside of Costa Rica.

Low taxes and strong secrecy laws have created an 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. Currently, eight offshore banks maintain correspondent operations in Costa Rica,

including three from the Bahamas, three from Panama, one from the Cayman Islands and one from Montserrat. In all cases save the Cayman Islands, the Government of Costa Rica (GOCR) has signed supervision agreements with its counterparts, permitting the review of correspondent banking operations. Costa Rican authorities admit that these agreements are restricted and prevent, for example, the review of current liabilities in the Bahamas.

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. Foreign-domiciled banks are required only to provide monthly balance statements and year-end audits to the General Superintendent of the Financial System (SUGEF). In 2003, SUGEF reviewed the operations of all seven offshore banks in countries where a supervision agreement exists. However, SUGEF only has authority over the domestic activity of these foreign-domiciled banks. All other activity of the offshore banks is beyond SUGEF supervision.

Evidence of black market Colombian peso exchange through private banks in Costa Rica declined dramatically in 2003. These exchange schemes permitted the transfer of \$225 million between April 2002 and December 2002 by Colombian international credit card holders and currency exchange houses who carried large sums of declared currency (often between \$100,000 and \$300,000) to Costa Rican banks. The U.S. dollars were transferred to U.S. banks and then to Colombian banks, where account holders profit from arbitrage exchange rates. The flow of money to Costa Rica dropped to approximately \$40 million in 2003. Since August, the flow of money via couriers has slowed to a trickle. It is not yet known if the capital flow has shifted to other countries or if different transaction schemes are being used in Costa Rica.

In January 2002, Costa Rica expanded the scope of Law 7786 via Law 8204 to criminalize the laundering of proceeds from all serious crimes. The newly expanded law nominally obligates domestic financial institutions (not offshore banks) and other businesses (such as money exchangers) 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. While law 8204, in theory, covers the movement of all capital, current regulations based on 8204, Chapter IV, Article 14, apply a restrictive interpretation that covers only those entities involved in the transfer of funds as a primary business purpose. The 2002 law does not cover casinos, jewelry dealers or Internet gambling operations whose primary business is not the transfer of funds. The reforms to Law 7786 do not grant SUGEF the authority to conduct on-site money laundering inspections or to incorporate money laundering compliance testing into the inspections it does conduct, such as the prudential safety and soundness inspections that are carried out under Law 7558. Costa Rica has yet to prosecute anyone successfully under its anti-money laundering law.

Costa Rica's financial intelligence unit (FIU), the Centro de Inteligencia Conjunto Antidrogas/Unidad de Analisis Financiero (CICAD/UAF), became operational in 1998 and was admitted into the Egmont Group of FIUs in May 1999. Despite commitment and expertise, the FIU is ill equipped to handle its current caseload (currently more than 230 cases) and to provide the information needed by investigators. Nevertheless, the unit's analysis of the rotation of currency with no evident means of income led to the arrest in June 2003 of eight suspects in a narcotics distribution case. Another case involved the transfer of capital between Costa Rica, Nicaragua and Guatemala that led to the arrest of six suspected narcotics traffickers in December 2003. The unit has also collaborated with the FBI on a suspected sweepstakes fraud in which the "winners" pay an administrative fee of up to \$1,000 to various Costa Rican accounts through wire transfers. A new SUGEF regulation permitting regulatory entities to send incomplete Suspicious Activity Reports back to the drafting bank may reduce the number of inadequate reports and give the FIU better information to analyze.

Costa Rican authorities continue to lack the ability to block, seize, or freeze property without prior judicial approval. Thus, Costa Rica lacks the ability to expeditiously freeze assets connected to terrorists and terrorism.

Regarding terrorism and terrorist financing, Costa Rica has ratified all major antiterrorism conventions. A government interagency Task Force recently completed drafting a comprehensive antiterrorism law with specific terrorist financing provisions. The draft law would expand existing conspiracy laws to include the financing of terrorism. It would also enhance existing narcotics laws by incorporating the prevention of terrorism finance into the mandate of the Costa Rican Drug Institute. The antiterrorism legislation will be introduced during the December 2003 to May 2004 extraordinary session of the Legislative Assembly.

Costa Rica is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime. Costa Rica has also signed the OAS Inter-American Convention on Mutual Assistance in Criminal Matters. Costa Rica is a member of the Caribbean Financial Action Task Force (CFATF) and the aforementioned Egmont Group.

Costa Rica needs to improve its supervision of the offshore banking sector located in the country and should extend its anti-money laundering regime to cover the Internet gaming sector and other nonbank financial institutions such as jewelry or gem dealers and casinos. Costa Rica should also criminalize the financing and support of terrorists and terrorism. Greater attention should also be given to the needs of the FIU, which is currently unable to adequately support the needs of law enforcement. These are major deficiencies in Costa Rica's anti-money laundering regime that need to be addressed if the country is to build on the progress it has made in this area.

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, but increasingly from Ivoirians and some Liberian nationals.

Economic and financial police have noticed an increase in financial crimes related to credit card theft and foreign bank account fraud, to include suspicious wire transfers of large sums of money involving mainly British and American account holders through use of the Internet. A part of these funds consist of money solicited through West African advanced fee scams. Cross-border trade through Cote d'Ivoire's porous borders generate contraband funds that are introduced into the banking system through informal or unregulated money changers.

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.

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 individuals or entities on the UN 1267 Sanctions Committee's consolidated list. Currently, Côte d'Ivoire does not have a specific law authorizing the identity, freezing and seizing of terrorist assets. While such a law is being prepared, relevant measures and procedures by the BCEAO and their application by bankers and financial institutions substitute for the deficiency of Ivoirian legislation. Under article 42 of the law No.90-589 of July 1990 on banking regulations, criminal assets may be frozen.

Laundering of money related to any criminal activity is a criminal offense. It applies to narcotics-related money laundering as well as to other fraudulent activities and corruption. 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 Saudi national 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 \$1,000) for tourists, and two million CFA francs (approximately \$4,000) 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 Government of Cote d'Ivoire (GOCI) is the designated recipient of any narcotics-related asset seizures and forfeitures. The law does not allow for the sharing of assets with other governments. GOCI does not have a specific law against terrorist financing. The GOCI has, however, prepared draft counterterrorism finance legislation specifically targeting money laundering operations. The GOCI is also considering legislative proposals regarding the regulation of alternative remittance systems.

Cote d'Ivoire has demonstrated a willingness to cooperate with the USG in investigating financial or other crimes. Cote d'Ivoire has cooperated with the U.S. embassy security office on occasional investigations. The GOCI has also continued to expand its regional cooperation on money laundering,

working with other ECOWAS member nations on plans to establish, by early 2004, the organization's Intergovernmental Group for Action Against Money Laundering (GIABA).

Côte d'Ivoire is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. Côte d'Ivoire has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. 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, fraud from privatization schemes, and other business-related fraud, although there has been a recent rise in money laundering cases with drug trafficking via the "Balkan Route" into Western Europe as the predicate crime. The proceeds of narcotics trafficking tend to be converted into real estate and luxury goods.

In 1996, Croatia passed legislation that amended its penal code to criminalize money laundering in all forms related to serious crimes. Croatian law prohibits anonymous accounts. In 1997, Croatia passed its Law on the Prevention of Money Laundering (LPML), requiring banks and nonbank financial institutions to report transactions that exceed approximately \$15,000, as well as any cash transactions that seem suspicious. The Parliament approved the new Law on the Prevention of Money Laundering (new LPML) in July 2003. The new law amends the former law to follow the European Union (EU) Directives and include lawyers and notaries as obligated entities subject to reporting requirements. It also incorporates terrorism financing as well as drug smuggling and trafficking in persons, and requires that all cross-border transactions with monetary instruments exceeding \$5,000 be reported to the Ured za Sprjecavanje Pranja Novca (Anti-Money Laundering Department or AMLD).

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. Aside from cash, Croatian law also covers transactions involving precious metals and stones, as well as other types of monetary instruments and financial paper.

The LPML also authorizes establishment of a financial intelligence unit (FIU), the AMLD, within the Ministry of Finance. Over its five years of existence, the 15-member AMLD has investigated over 840 cases of suspicious transactions, nearly 300 of which have occurred since 2002, and forwarded 170 reports (70 since 2002 alone) on suspicious transactions (STRs) to the authorities; 30 of these reports went to foreign authorities. AMLD has increased the number of STRs released to prosecutors within Croatia by 70 percent. Cooperation with regulators is generally good. The Ministry of Finance requires financial institutions to use specific software to facilitate compliance with reporting requirements. However, cooperation among nonbank institutions, especially bureaux de change is more of a concern among authorities.

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, despite efforts, there were only a small number of arrests and prosecutions for money laundering or terrorism financing during 2003. 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 how to analyze and deal with complex financial crimes, and a judicial backlog of 1.4 million cases hinder Croatia's anti-money laundering efforts. To date, Croatia has succeeded in getting one conviction for money laundering.

In contrast to money laundering legislation, asset seizure legislation needs strengthening. Croatian legislation provides that with regard to asset seizure, the burden falls on the state to prove that the property of a criminal was purchased with illegal proceeds. There is no civil asset forfeiture provision in Croatian law. In 2003, the AMLD worked with authorities in a EU country to block \$3 million in suspected criminal proceeds. Although it has only the one conviction and confiscation up to now, Croatia expects up to six additional convictions by the end of 2004, as there were ten indictments being pursued in mid-2003. There is also no specific legislation regulating the sharing of seized assets with foreign governments.

Croatia has criminalized terrorist financing. In addition, Croatia made various changes in the criminal code during 2003 to provide for implementation of the UN Convention. Authorities have the authority to identify and, with a court order, freeze and seize terrorist finance assets. Law enforcement authorities are able to move quickly to seek the required court order to freeze suspect accounts and 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 circulating 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. In May 2003, after its own investigation dovetailed with its investigation of individuals on the UN-distributed terrorist list, and in the environment of the related UN Resolutions, AMLD recommended the freezing of two accounts. The Croatian judiciary agreed, and froze the accounts, which allegedly were being used to funnel funds through Croatia to neighboring Bosnia-Herzegovina, and ultimately used to fund al-Qaida activities.

Croatia does not have limitations on providing and exchanging information with international law enforcement on money laundering investigations. Croatian officials advise that under current law, judges can authorize asset sharing with another country. Croatia is party to a number of bilateral agreements on law enforcement cooperation with its neighbors, as well as the Southeastern Europe Cooperative Initiative's Agreement to Prevent and Combat Transborder Crime. The 1902 extradition treaty between the Kingdom of Serbia and the U.S. remains in force and applies to present-day extradition between Croatia and the U.S. However, according to the Croatian Constitution, citizens of Croatia may not be extradited, except to The Hague for the War Crimes Tribunal.

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. With a thousand-mile border between the two countries, and numerous loopholes caused by the jurisdictional irregularities throughout Bosnia and Herzegovina, this is one of Croatia's most important projects.

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), Croatia has participated in mutual evaluations with the other members, both by being evaluated, and by sending experts to evaluate other states' progress. Regionally, Croatia has assisted and supported the creation of anti-money laundering legislation and the establishment of FIUs in Albania, Macedonia, Serbia, and Bosnia and Herzegovina. Croatia is an active member of the Egmont Group and chairs the Outreach Committee.

Croatia ratified the UN International Convention for the Suppression of the Financing of Terrorism on October 1, 2003, and ratified the European Convention on the Suppression of Terrorism in January 2003; it became effective April 16, 2003. Croatia ratified the UN Convention against Transnational Organized Crime in January 2003 and signed the UN Convention Against Corruption in December 2003. Croatia is a party to the 1988 UN Drug Convention, the Council of Europe Convention on Laundering, Search, Seizure and confiscation of the Proceeds from Crime, and the 2000 Palermo Convention on Organized Crime, and in June 2003 signed the European Convention on the Transfer of Proceedings in Criminal Matters and ratified the Council of Europe Civil Law Convention on Corruption.

The GOC should work to improve interagency cooperation on money laundering matters and should provide sufficient resources to law enforcement authorities and the judiciary. The GOC should provide training to improve the technical skills of police investigators, prosecutors, and judges to enable them to deal with complex financial crimes so that money laundering and terrorist financing cases can be successfully prosecuted. The GOC should improve its asset forfeiture regime to enable the freezing and seizing of assets in an efficient and timely manner.

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 Embassy reports no changes for 2003.

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.

Cuba should criminalize terrorist financing.

Cyprus

The Republic of Cyprus is a major regional financial center with a robust offshore financial services industry, which contributes about five percent of the country's gross domestic product. Like other such centers, it 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 of Cyprus (GOC)-controlled area of Cyprus.

The development of the offshore financial sector in Cyprus has been facilitated by the island's central location, a preferential tax regime, double tax treaties with 33 countries (including 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. In 2003, the GOC significantly revised its corporate and tax laws to eliminate distinctions between domestic and offshore companies. Since January 1, 2003, all companies have been taxed at the same 10 percent rate, eliminating the previous 4.5 percent preferential rate for international business companies (IBCs). Additionally, restrictions were lifted that had prevented IBCs from doing business domestically. The distinction between domestic companies and IBCs will cease entirely in 2006, when a three-year transition period expires. This will effectively end the offshore IBC sector in Cyprus.

Existing offshore banks (numbering 29 in June 2003, with assets of \$8.4 billion) will continue to operate as such until January 1, 2006. Once this transition period expires, they will lose their preferential tax treatment and will be permitted to accept deposits from residents of Cyprus. In the meantime, 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.

Over the past eight years, Cyprus has put in place a comprehensive anti-money laundering legal framework that meets international standards. The GOC continues to revise these laws to meet evolving international standards. In 1996, the GOC passed the Prevention and Suppression of Money Laundering Activities Law. This law criminalizes both drug and nondrug-related money laundering, provides for the confiscation of proceeds from serious crimes, codifies actions that banks and nonbank 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. Subsequent amendments to the 1996 law broadened its scope by eliminating the separate list of predicate offenses, addressing government corruption, and facilitating 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.

Amendments passed in 2003 implement the European Union's (EU's) Second Money Laundering Directive. These amendments authorize the FIU to instruct banks to delay or prevent execution of customers' payment orders; extend due diligence and reporting requirement to auditors, tax advisors, accountants, and, in certain cases, attorneys; permit administrative fines of up to \$6,390; and increase bank due diligence obligations concerning suspicious transactions and customer identification requirements, subject to supervisory exceptions for specified financial institutions in countries with equivalent requirements. The GOC is currently drafting regulations to supervise real estate agents and dealers in precious metals and gems.

Also in 2003, the GOC enacted new legislation regulating capital and bullion movements, and foreign currency transactions. The new law requires all persons entering or leaving Cyprus to declare currency (whether local or foreign) or gold bullion worth \$15,500 or more. This sum is subject to revision by the Central Bank. This law replaces exchange control restrictions under the Exchange Control Law, which expires on May 1, 2004.

Money Laundering and Financial Crimes

The supervisory authorities for the financial sector are the Central Bank of Cyprus, the Securities Commission of the Stock Exchange, the Superintendent of Insurance, and the Superintendent of Cooperative Banks. The supervisory authorities may impose administrative sanctions if the legal entities or persons they supervise fail to meet their obligations as prescribed in Cyprus's anti-money laundering laws and regulations.

All banks must report to the Central Bank, on a monthly basis, individual cash deposits exceeding \$21,200 in local currency or \$10,000 in foreign currency. 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 Unit for Combating Money Laundering (MOKAS), the Cyprus FIU, for investigation. Banks retain reports not forwarded to MOKAS, 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 MOKAS. By law, bank officials may be held personally liable if their institutions launder money. Cypriot law protects reporting individuals with respect to their cooperation with law enforcement. Banks must retain transaction records for five years.

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 named jurisdictions to 19. 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 2001, the Central Bank issued rules 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. In 2003, the Central Bank issued new rules that require all banks to obtain as quickly as possible identification data on the natural persons who are the "principal/ultimate" beneficial owners when certain events occur, including an unusual or significant transaction or change in account activity; a material change in the business name, officers, directors and trustees, or business activities of commercial account holders; or a material change in the customer relationship, such as establishment of new accounts or services or a change in the authorized signatories. Banks must also adhere to the Basel Committee on Banking Supervision's October 2001 paper titled "Customer Due Diligence for Banks".

In January 2003 the Central Bank issued a guidance note requiring banks to pay special attention to business relationships and transactions involving persons from jurisdictions identified by the Financial Action Task Force (FATF) as noncooperative. This list is updated regularly in line with the changes effected to the noncooperative list by the FATF.

Cyprus's Exchange Control Law will expire on May 1, 2004, ending Central Bank review of foreign investment applications for non-EU residents. Until that date, such individuals wishing to invest on the island will still apply through the Central Bank. After that date, they will apply through the Ministry of Finance. The Ministry will also supervise collective investment schemes.

The Unit for Combating Money Laundering (MOKAS), established in 1997, serves as the FIU. It is headed by a representative of the Attorney General's Office and its 20-member staff includes 14 full-time personnel, three part-time police officers, and three part-time Customs officers. MOKAS expects early in 2004 to complete the hiring process for eight full-time investigators; it will then reorganize to improve its capabilities to generate and investigate any information it may develop on suspected money laundering and terrorist financing activities. MOKAS cooperates closely with FinCEN and other U.S. Government agencies in money laundering investigations.

All banks and nonbank financial institutions—insurance companies, the stock exchange, cooperative banks, lawyers, accountants, and other financial intermediaries—must report suspicious transactions to MOKAS. Sustained efforts by the Central Bank and MOKAS to strengthen reporting have resulted in a significant increase in the number of suspicious activity reports being filed from 25 in 2000 to 106 in 2003. During the same timeframe it received 140 information requests from foreign FIUs, other foreign authorities, and INTERPOL. Six of the information requests were related to terrorism. MOKAS evaluates evidence generated by its member organizations and other sources to determine if an investigation is necessary. It has the power to suspend financial transactions for up to 24 hours. MOKAS also has the power to apply for freezing or restraint orders affecting any kind of property, at a very preliminary stage of an investigation. MOKAS also conducts anti-money laundering training for Cypriot police officers, bankers, accountants, and other financial professionals. Training for bankers is conducted in conjunction with the Central Bank of Cyprus. MOKAS announced in mid-2003 that it planned to connect its computer network with the central government network, thus giving the Unit direct access to other GOC agencies and ministries.

From January to November 2003, MOKAS opened 246 cases and closed 123. During the same period, it issued 21 Information Disclosure Orders and 12 freezing orders, resulting in the freezing of \$2,395,589 in bank accounts, 11 plots of land, two apartments, one house and one shop. 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 15 cases are pending.

Cyprus has implemented the 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 requires compliance officers to file an annual report outlining measures taken to prevent money laundering and to comply with its guidance notes and relevant laws. In addition to the Central Bank's routine compliance reviews, MOKAS is now authorized to conduct unannounced inspections of bank compliance records. MOKAS also maintains an active outreach and education program targeted at compliance officers, lawyers and accountants. In July 2002, the U.S. Internal Revenue Service (IRS) officially approved Cyprus's "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.

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 MOKAS to focus specifically on the financing of terrorism. The MOKAS coordinates with the new GOC counterterrorism task force under the authority of the Attorney General. MOKAS subsequently issued circular notices to banking institutions concerning their obligations in the area of terrorist financing. 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 2003. The lawyers' and accountants' associations cooperate closely with the Central Bank. The GOC cooperates with the United States to investigate terrorist financing.

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. In March 2003 it ratified the UN Convention against Transnational Organized Crime. Cyprus is a member of the Council of Europe's MONEYVAL, 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, Malta, Ireland and Israel. Although Cypriot law specifically allows the UCML to share information with other FIUs without benefit of an MOU, Cyprus is negotiating MOUs with Australia, Canada, Poland, Russia, and Ukraine. 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'état directed from Greece. Since then, the southern part of the country has been under the control of the Government of the Republic of Cyprus. The northern part is controlled by a Turkish Cypriot administration that in 1983 proclaimed itself the "Turkish Republic of Northern Cyprus." The U.S. Government recognizes only the Government of the Republic of Cyprus.

It is more difficult to evaluate anti-money laundering efforts in the "Turkish Republic of Northern Cyprus" ("TRNC"), but there continues to be evidence of trade in narcotics with Turkey and Britain, as well as of 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. Funds generated by these casinos are reportedly transported directly to Turkey without entering the "TRNC" banking system, and there are few safeguards to prevent the large-scale transfer of cash from the "TRNC" to Turkey. Although "TRNC" law prohibits individuals entering or leaving the "TRNC" from transporting more than \$10,000 in currency, "Central Bank" officials note that this law is difficult to enforce, given the large volume of travelers between Turkey and the "TRNC." In 2003, the "TRNC" relaxed restrictions that limited travel across the UN-patrolled buffer zone. As a result, an informal currency exchange market is developing, principally to convert Cypriot pounds into U.S. dollars.

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 \$10,000. Banks are required to report to the "Central Bank" any electronic transfers of funds in excess of \$100,000. Such reports must include information identifying the person transferring the money, the source of the money, and its destination. Furthermore the 1999 law also prohibits individuals entering or leaving the "TRNC" from transporting more than \$10,000 in currency. Banks, nonbank 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. The five-member committee is composed of representatives of the police, the "Central Bank", and the "Ministry of the Economy." "Central Bank" officials admit that very few suspicious transaction reports have been filed since the inception of the law. In June 2003, the "Head of Bank Supervision" for the "Central Bank" spent several weeks in the United States to learn about the detection and prevention of money laundering in the banking sector, including meetings with several U.S. Government agencies.

There is an offshore sector, consisting of 33 banks and approximately 54 IBCs. The offshore banks may not conduct business with "TRNC" residents and may not deal in cash. The offshore entities are audited by the "Central Bank" and are required to submit a yearly report on their activities. However, the "Central Bank" has no regulatory authority over the offshore banks and can neither grant nor revoke licenses. Instead, the "Ministry of the Economy" performs this function, which leaves the

process open to politicization and possible corruption. Although a proposed new law would have restricted the granting of new bank licenses to only those banks already having licensees in an OECD country, the law never passed. 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” does provide 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. The fact that the “TRNC” is recognized only by Turkey prevents “TRNC” officials from receiving training or funding from international organizations with experience in combating money laundering.

Cyprus has put in place a comprehensive and viable anti-money laundering regime. It should continue to take steps to tighten implementation of its laws. In particular, it should ensure that regulation of charitable and nonprofit entities is adequate. Unless it does so, Cyprus’ financial sector will remain vulnerable to abuse by organized crime and terrorist organizations and their supporters.

Czech Republic

Both geographic and economic factors render the Czech Republic vulnerable to money laundering. Narcotics trafficking, smuggling, auto theft, arms trafficking, tax fraud, embezzlement, racketeering and trafficking in persons 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. The Financial Action Task Force (FATF) report of July 2001 on the Czech Republic notes 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 European Union (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. Also in July 2002, the legalization of proceeds from all serious criminal activity became punishable by five to eight years imprisonment, depending on the circumstances.

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, and by June 2003, approximately 400 million euros had been converted. While account holders can still withdraw money from the accounts for the next decade, the accounts do not earn interest and cannot accept deposits. In 2003 the Czech National Bank introduced new Know Your Customer measures based on the recommendations of the Basel Committee, and created an on-site inspector team, which planned three on-site bank inspections for the latter half of 2003. New due diligence provisions became effective in January 2003. The Czech Government is considering placing a limit of 500,000 Czech Crowns, or approximately \$19,250 on the amount of cash that can change hands in cash transactions.

An amendment to the Anti-Money Laundering Act was prepared and submitted to the Parliament; it is expected to take effect on January 1, 2004. The new amendment also aims to streamline the legislation

regarding the identification of beneficial owners. It will also extend the list of obligated entities to include attorneys, casinos, realtors, notaries, accountants, tax auditors, and entrepreneurs with transactions exceeding the EU-standard 15,000 euros. Obligated institutions will be required to report all transactions that are suspected of being linked to terrorist financing. This will harmonize Czech legislation with the Second EU Directive.

The amendment to the Anti-Money Laundering Act also extends the responsibilities of the Czech Republic's financial intelligence unit (FIU), known as the Financial Analytical Unit (FAU), to combat terrorism financing as well as money laundering; to fulfill these additional responsibilities, the new legislation also provides for an increase in the number of FIU staff. The FAU will also be authorized to share all information with the Czech Intelligence Service (BIS) and Czech National Security Bureau (NBU). In addition, the proposed amendment also authorizes FAU to cooperate with similar units around the world, regardless of whether these units are administrative or law enforcement. This would include states that are not members of the Egmont Group. Currently, FAU is authorized to freeze accounts for 72 hours. However, FAU can be hampered because it often waits for the annual tax submission of suspected individuals before passing cases on, a circumstance that can allow funds and property to disappear before the police can seize them.

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, 1,260 in 2002, and 1,681 from January through November 2003. The number of reports forwarded to the police increased from none the first year to 115 in 2002 and 99 as of mid-November 2003; every case that was passed to law enforcement was investigated.

Likewise, law enforcement has seen an increase in personnel and financial support, including a January 2003 reorganization that has joined the former Unit for Combating Financial Criminality with the State Protection unit and the Unit for Combating Corruption and Serious Economic Crime. The new Unit for Combating Corruption and Financial Criminality (UOKFK) now has responsibility for all financial crime and corruption cases. In May 2003, the Department of Proceeds from Criminal Activity was divided into two sections and renamed accordingly: the Proceeds from Criminal Activity Section and the Money Laundering Section. The Money Laundering Section is the main law enforcement counterpart to FAU, a partnership which has led to the first formal charges on money laundering. Another specialized police unit, this one focusing on tax fraud, is expected to be established in July 2004.

The Czech Republic has not yet seen a successful prosecution in a money laundering case. Czech FIU representatives are confident that with the new anti-money laundering legislation, a successful prosecution is imminent. Six cases, all based on tax fraud and economic crimes, are ongoing, and as of June 2003, one person was in custody and more than \$100,000 frozen. One ongoing issue is that in the Czech Republic, law enforcement must prove proceeds are derived from criminal activity. The accused is not obligated to prove that the origin of property or assets is legitimate.

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. The Czech government submitted draft

legislation to the Parliament to amend Act No. 61/1996 to include measures to combat terrorism financing and to allow implementation of UNSCR 1483, to allow for the freezing and transfer of suspected terrorist assets. 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.

A May 2001 revision of the Criminal Code facilitates the seizure and forfeiture of bank accounts. The year 2002 saw major changes in the Criminal Procedure Code. In January 2002, changes were effected which allow a judge, prosecutor, or the police (with prosecutor's assent) to freeze an account if evidence indicates that the contents were used, or will be used, to commit a crime, or if the contents are proceeds of criminal activity. In urgent cases the police can also freeze the account without previous consent of the prosecutor, but have to inform the prosecutor within 48 hours, who then confirms the freeze or releases the funds. The Law on the Administration of Asset Forfeiture in Criminal Procedure, passed in August 2003, implements provisions such as handling and care responsibilities for the seizure of property, and will become effective on January 1, 2004.

The United States and the Czech Republic have a Mutual Legal Assistance Treaty, which entered into force on May 7, 2000. 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 is a party to the Strasbourg Convention and actively participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) as both evaluator and "evaluatee," 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. In May 2003, the Czech Republic also underwent a financial sector assessment by the World Bank/IMF. The Czech Republic 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. The Czech Republic also is a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. 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 should continue to enhance its anti-money laundering regime by adopting the suggestions of the MONEYVAL mutual evaluation report. The Parliament should enact the new amendments, and draft legislation to more effectively combat both money laundering and terrorism financing, as well as strengthening the FAU to allow more efficient operation. The Czech Republic should criminalize terrorist financing and should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. In addition, the Czech Republic should continue to work toward supporting and streamlining its prosecution regime, including changing the burden of proof procedures, so that the Czech Republic can begin to prosecute anti-money laundering cases successfully.

Denmark

Denmark is a regional financial center with 99 commercial banks and 86 local and savings banks. The banking system is under the control of the Financial Supervisory Authority, and the Danish legal and

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regulatory systems are transparent and consistent with European Union directives and regulations. Corruption is not a major problem in Denmark. According to the 2002 Corruption Perceptions Index by Transparency International, Denmark is the second least corrupt country in the world. However, Denmark is a transit country for the smuggling of human beings and narcotics to Sweden and Norway, which creates the opportunity for corruption.

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. Legislation that went into effect in June 2002 requires that the importation or exportation of any money exceeding 15,000 euros be reported to customs upon entry into Denmark.

Legislation adopted on May 5, 2002, by the Danish Parliament, extends the Money Laundering Act to include lawyers, accountants, tax advisors, real estate agents, money transmitters, money exchange offices, and transporters of currency among those required to file suspicious transaction reports (STRs).

Banks and other financial institutions are required to know, record, and report the identity of all their customers when there is a business relationship, and maintain those records for five years beyond the termination of that relationship. For other customers not in a business relationship with the bank (nonaccount holders), the financial institutions are only required to collect and store the identification information for those transactions over 15,000 euros for five years. 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.

The amendments to the Criminal Code in Denmark do not apply to the Faroe Islands, but the Ministry of Justice in Denmark and representatives from the Faroe Home Rule are deliberating on how to fulfill and comply with the UNSCR 1373. The existing special Criminal Code for Greenland contains provisions concerning acts committed with a terrorist purpose. The Denmark Ministry of Justice will examine the revised criminal code when it becomes available to ensure that all requirements in UNSCR 1373 are fully satisfied.

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 of suspicion of money laundering and terrorist financing. STRs from the credit and financial sectors have ranged from 249 to 357 over the last five years. Denmark's Office of the Public Prosecutor for Serious Economic Crime consists of both public prosecutors and police officers specially trained in fighting economic crime. Denmark has cooperated fully with U.S. authorities with regards to money laundering investigations.

Denmark passed comprehensive antiterrorism legislation on June 4, 2002, specifically addressing terrorist financing and implementing UNSCR 1373. The May 5, 2002 legislation also 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. 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.

Denmark's Extradition Act prohibits extradition for a political offense except for requests covered by the Council of Europe's European Convention for the Suppression of Terrorism, the International Convention for the Suppression of the Financing of Terrorism, and the International Convention for the Suppression of Terrorist Bombings. Denmark normally does not extradite Danish citizens except

to other Nordic countries, according to a 1960 agreement. However, Denmark has amended the regulations to allow for extradition of Danish citizens to other countries as part of the fight against terrorism.

In an effort to prevent 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 provides for the exchange of 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 aids in tracing financial transactions and thereby helps combat the underlying crime. Denmark is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. On September 30, 2003, Denmark ratified the UN Convention against Transnational Organized Crime. Denmark is part of the Nordic Police and Customs Co-operation, the Task Force on Organized Crime in the Baltic Sea Region, Interpol, Europol, and the Schengen Agreement. 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.

Denmark should continue to enhance its comprehensive anti-money laundering/antiterrorist financing regime. Denmark should also continue its efforts in multilateral fora.

Djibouti

Djibouti is the most stable country in the Horn of Africa. Though small in size, its strategic location, currency pegged to the U.S. dollar, and unrestricted foreign exchange make it a financial hub in the region. Djibouti is not considered an offshore financial center but offshore institutions are permitted and even encouraged to settle at the current Free Zone. The three existing banks handle the bulk of financial transactions, followed by a growing number of "hawaladars" or small informal financial institutions. Due to Djibouti's location on the Horn of Africa and its cultural and historical trading ties, Djibouti based traders and brokers are active in the region. Trade goods often provide counter valuation or a means of balancing the books in hawala transactions. Djibouti adopted anti-money laundering legislation in December 2002. The legislation contains provisions for criminal penalties as well as steps to prevent money laundering. It regulates financial institutions and their activities including money deposits, insurance, investment, real estate, and casinos. The legislation and Central Bank further impose a set of criteria for customer identification and communication of information. The legislation provides legal protection and professional secrecy waiver for individuals reporting suspect transactions, and lists surveillance procedures for suspect accounts. Convicted money launderers and employees of financial institutions who do not abide by the regulations face jail, fines and seizing of assets. Five to ten years in jail and \$141,283 to \$282,566 are penalties for facilitating transactions related to money laundering or terrorist financing. Failing to report suspect transactions carries a penalty of \$56,513 to \$141,283. The Central Bank is planning to set up a money laundering investigation bureau. The bureau will also provide expertise to the banking community concerning counterfeit currency. Djibouti will cooperate with other countries to exchange information, assist in investigations, and facilitate the extradition process.

Djibouti is a party to the UN Drug Convention and has signed the UN International Convention for the Suppression of the Financing of Terrorism.

Djibouti should become party to both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It should pass specific counter terrorist finance legislation that adheres to world standards. While Djibouti took a

positive step by adopting anti-money laundering legislation, enforcement of the law remains a major challenge. Corrupt officials are also a concern. A large number of hawaladars are not controlled by the Central Bank. Law enforcement and customs officials should give greater scrutiny to alternative remittance systems and trade based money laundering.

Dominica

The Commonwealth of Dominica initially sought to attract offshore dollars by offering a wide range of confidential financial services, low fees, and minimal government oversight. A rapid expansion of Dominica's offshore sector without proper supervision made it attractive to international criminals, and therefore, vulnerable to official corruption. In response to international criticism, Dominica has enacted legislation to address many of the deficiencies in its anti-money laundering program, but complete implementation of its reforms remains vital to the country's ability to combat financial crime including money laundering.

Dominica's financial sector includes 1 offshore and 5 domestic banks, 17 credit unions, 8,601 international business companies (IBCs) (a significant increase from 1,435 in 2002), 23 insurance agencies, and 4 operational Internet gaming companies (although reports have indicated over 30 such gaming sites exist). Under Dominica's economic citizenship program individuals can purchase Dominican passports as well as official name changes for approximately \$75,000 for an individual and \$100,000 for a family of up to four persons. 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 a neighboring country without visas.

In June 2000, the Financial Action Task Force (FATF) identified Dominica as noncooperative in international efforts to combat money laundering (NCCT). The U.S. Department of Treasury also issued an advisory to U.S. financial institutions in July 2000 warning them to "give enhanced scrutiny" to financial transactions involving Dominica. In October 2002, Dominica was removed from the NCCT list. The U.S. Treasury advisory was removed in April 2003. The FATF noted in June 2003 that implementation of Dominica's anti-money laundering reforms had continued to improve, as did the cooperation of its financial intelligence unit (FIU) with foreign authorities and its response to mutual legal assistance requests.

Following the June 2000 action by FATF, the Minister of Finance announced a comprehensive review of all offshore banks and the establishment of an Offshore Financial Services Council (OFSC). The OFSC mandate is to advise the Government of the Commonwealth of Dominica (GCOD) on policy issues relating to the 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 Eastern Caribbean Central Bank (ECCB) in December 2000 places Dominica's offshore banks under the dual supervision of the ECCB and the GCOD 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. The Minister of Finance is required to seek advice from the ECCB before exercising his powers in respect of licensing and enforcement.

The Offshore Banking (Amendment) Act No. 16 of 2000 (effective January 25, 2001) prohibits the opening of anonymous accounts, prohibits IBCs from direct or indirect ownership of an offshore bank and requires disclosure of beneficial owners and prior authorization to changes in beneficial ownership of banks. All offshore banks are required to maintain a physical presence in Dominica, such as a physical structure, on-site staff actively conducting business, and appropriate management, in addition

to books and records of transactions maintained on-site and available for review. Inspections of Dominica's offshore banks are conducted by ECCB in collaboration with the IBU. The ECCB is not able to share examination information directly with foreign regulators or law enforcement personnel. Legislation to permit such sharing is being developed; however, it has not been adopted by all ECCB member jurisdictions.

The International Business Companies (Amendment) Act No. 13 of 2000 (effective January 25, 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. Additional amendments to the Act in September 2001 require previously issued bearer shares to be registered.

The Act empowers the IBU to "perform regulatory, investigatory, and enforcement functions" of IBCs. The IBU staff normally consists of an Acting Manager, two professional staff (supervisors/examiners), and one administrative assistant. The IBU supervises and regulates offshore entities and domestic insurance companies. The IBU also supervises, regulates, and inspects Dominica's registered agents, and visits IBCs to ensure that the companies are operating in compliance with requirements imposed by law.

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 overrides secrecy provisions in other legislation and requires financial institutions to keep records of transactions for at least seven years. The MLPA also requires persons to report cross-border movements of currency that exceed 10,000 Eastern Caribbean dollars (\$3,800) to the FIU.

The MLPA establishes the Money Laundering Supervisory Authority (MLSA) and authorizes it to inspect and supervise nonbank financial institutions and regulated businesses for compliance with the MLPA. The MLSA is also responsible for developing anti-money laundering policies, issuing guidance notes, and conducting training. The MLSA 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 requires a wide range of financial institutions and businesses, to include any offshore institutions, to report suspicious transactions simultaneously to the MLSA and the financial intelligence unit (FIU).

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. The regulations require that the true identity of the beneficial interests in accounts must be established, and the nature of the business and the source of the funds of the account holders and beneficiaries must be verified. 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 FIU was also established under the MLPA, and became operational in August 2001. The FIU's trained staff consists of two certified financial investigators, a Director, Deputy Director, and an administrative assistant. The FIU analyzes the reports of suspicious transactions (SARs) and cross-border currency transactions, forwards appropriate information to the Director of Public Prosecutions (DPP), and carries on liaison with other jurisdictions on financial crimes cases. As of December 2003, the FIU had received 88 SARs. There have been no known convictions on money laundering charges in Dominica. During 2003, the GCOD collaborated closely with U.S. and foreign law enforcement agencies in a widespread money laundering case involving European narcotics trafficking proceeds in one of the now closed offshore banks in Dominica. As a result of this case, money laundering prosecutions are being brought in the U.S., UK, and Germany.

On June 5, 2003, Dominica gazetted the Suppression of Financing of Terrorism Act (No. 3 of 2003), which provides authority to identify, freeze, and seize terrorist assets, and to revoke the registration of charities providing resources to terrorists. Dominica circulates lists of terrorists and terrorist entities to all financial institutions in Dominica. To date, no accounts associated with terrorists or terrorist entities have been found in Dominica. The GCOD has not taken any specific initiatives focused on alternative remittance systems. Dominica is the only Caribbean country that has not signed the Inter-American Convention Against Terrorism.

In May 2000, a Mutual Legal Assistance Treaty between Dominica and the U.S. entered into force. The GCOD has a Tax Information Exchange Agreement with the U.S. An Amendment to the Mutual Assistance in Criminal Matters Act, which will provide for judicial cooperation between Dominica and non-Commonwealth countries that have no mutual legal assistance treaties, passed Parliament in September 2002, but has not come into effect. The MLPA authorizes the FIU to exchange information with foreign counterparts. The 2002 Exchange of Information Act provides for information exchange between regulators. The MLPA 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.

Dominica is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). Dominica is also a member of the Caribbean Financial Action Task Force (CFATF), and underwent its second round mutual evaluation in September 2003. Dominica's FIU was accepted into the Egmont Group in June 2003. Dominica is a party to the 1988 UN Drug Convention. Dominica has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

In response to pressure from the international community, the GCOD enacted a number of reforms to address the deficiencies in its financial sector. The GCOD should fully implement and enforce the provisions of its recent legislation, provide additional resources for regulating offshore entities, including its gaming sites, and continue to develop the FIU to enable it to coordinate its own anti-money laundering efforts and cooperate with foreign authorities. The GCOD should eliminate its program of economic citizenship. The GCOD should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Such measures will help protect Dominica's financial system from further abuse by international criminals and terrorist organizations.

Dominican Republic

The Dominican Republic (DR) continues to be a key point for the transshipment of narcotics moving from South America into Puerto Rico and the United States. The DR'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 DR. Once in the DR, currency exchange houses and money remittance companies facilitate the laundering of these illicit funds. The DR has many free trade zones and is reported to have nearly 30 Internet gaming sites.

During 2003, three Dominican banks failed, including the third largest in the nation, Baninter, where approximately \$2.2 billion evaporated over several years. The failure of two smaller banks, Banco Mercantil and Bancredito, brought the total loss to about \$3 billion, which is approximately 15 percent of the gross domestic product. Charges of bank fraud were filed against five individuals related to Baninter, but all were later released on bail. Preliminary investigations revealed no useful information as to the sources of the missing Baninter funds or the presence of laundered accounts. Despite the Government of the Dominican Republic (GODR) guarantees for all depositors, several large accounts carried on the bank's books remained unclaimed by the owners.

There have been notable legislative and regulatory efforts by the GODR to combat narcotics 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. In 1998, the GODR passed legislation that allows extradition of Dominican nationals on money laundering charges.

Under Decree No. 288-1996, the Superintendence of Banks, banks, currency exchange houses, and stockbrokers are required to know and identify their customers, keep records of transactions for five years, record currency transactions greater than approximately \$10,000, and report suspicious financial transactions (SARs) to the Financial Analysis Unit (FAU), the financial intelligence unit (FIU) of the DR.

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, vehicles theft, counterfeiting of currency, fraud against the State, embezzlement, and extortion and bribery related to narcotics trafficking. The law broadened the requirements for customer identification, record keeping of transactions, and reporting of SARs, to include 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 approximately \$10,000 to the FAU. The legislation also requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of approximately \$10,000 in domestic or foreign currency.

In 1997, the FAU was created within the Superintendence of Banks to receive, analyze, and disseminate SAR information. The FAU also refers SARs to the Financial Investigative Unit of the National Drug Control Directorate (DNCD) for follow up investigation. In 2003, counter narcotics authorities of the Dominican Republic’s DNCD pursued nine cases of money laundering related to narcotics, arresting three persons and seizing a total of 29 vehicles, 18 firearms, 12 buildings, and \$184,701 in cash. Most of the seizures were connected with one large case.

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 Superintendence of Banks, instructing all financial institutions to continually monitor accounts of the designated individuals and entities.

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 a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. The DR is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). The FAU is a member of the Egmont Group, and is authorized to exchange information with other FIUs. Cooperation with USG law enforcement on fugitive and extradition matters remains strong.

Effective implementation of the expanded anti-money laundering law of June 2002 should be a priority for the GODR, as should sustained anti-corruption efforts. The GODR should maintain adequate supervision and controls relating to its many free zones and Internet gaming sites, which may represent vehicles to facilitate money laundering or the financing of terrorist groups. The GODR should criminalize terrorist financing.

East Timor

East Timor is the world's newest nation and is still in the process of establishing legislation and regulations governing the financial sector. Very few regulations governing financial institutions have been implemented and capacity to monitor the sector is limited. At present, there are only three banks operating in East Timor with international linkages. All three are branches for foreign banks. The largest of these is BNU, a Portuguese bank, followed by Australian ANZ bank, and Indonesian bank Mandiri. In the absence of local legislation and regulations, East Timor requires these banks to follow their host country laws. Presumably, these banks are supervised by home country supervisors. East Timor does not have any nonbanking financial institutions.

East Timor acknowledges the need to criminalize the financing of terrorism, but lacks the internal capacity to draft the legislation and implementing regulations. There is no evidence that the country's financial system has been used to finance terrorism or to launder money.

In addition to criminalizing the financing of terrorism, the government of East Timor should become a party to the U.N International Convention for the Suppression of Terrorism, should consider becoming an observer to the Asia/Pacific Group on Money Laundering, and begin the process of developing a comprehensive anti-money laundering regime.

Ecuador

Ecuador, a major drug transit country, lacks an effective anti-money laundering regime. Ecuador's dollarized economy increases the attractiveness of Ecuador as a money laundering site. Proximity to Colombia and Peru, increases Ecuador's vulnerability to drug money laundering. Laundering may also occur in the real estate market and through sales of businesses or commercial contraband.

The Narcotics and Psychotropic Substance Act of 1990 (Law 108) provides for the following money laundering crimes, but only in connection with illicit drug trafficking: illegal enrichment (Article 76), conversion or transfer of assets (Article 76, 77), and prosecution of front men (figureheads) (Article 78). Law 108 currently is being revised. However, there is broad agreement that Law 108 is an inappropriate vehicle for money laundering provisions that extend beyond drug offenses. In November 2003, an interagency group completed a draft of a stand-alone law criminalizing the laundering of proceeds of any crime. The draft law was submitted to the President for transmittal to the Congress early in 2004.

Regulations issued pursuant to Law 108, the 1994 Financial System Law, and a 1996 Banking Superintendency Resolution require 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 drug money laundering occurs in their institution.

Some existing laws conflict with the goal of combating 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 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 Banking Superintendency. In turn, the Banking Superintendency 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. 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 generally 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, CONSEP historically 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 conflicting with an anti-money laundering regime include the absence of regulations requiring financial institutions to exercise due diligence, 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).

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 recently to combat money laundering. The Banking Superintendency created a Financial Intelligence Unit that began receiving the mandatory financial transaction reports at the end of 2002 (because of jurisdictional disputes, CONSEP also continued to receive the reports). The National Counternarcotics Police (DNA) have a financial investigations unit that has received some USG-funded training. A new administration installed in mid-2003 to reorganize CONSEP is more cooperative with other agencies. The draft money laundering law developed in 2003 by a GOE interagency commission if passed essentially as drafted, will overcome most of the current conflicts and obstacles. In addition to defining and criminalizing all money laundering, it provides a legal framework for establishment of financial intelligence and investigative units. As an interim administrative measure, the CONSEP financial reporting and monitoring function is being assumed by a temporary financial intelligence unit in the Banking Superintendency. The DNA, the Superintendency of Companies and the Prosecutor General's Office cooperated in their own investigation of two front companies of the Cali Drug Cartel and ordered them liquidated and closed in

August 2003, well before the U.S. Office of Foreign Assets Control listed them as Specially Designated Narcotics Traffickers in October 2003.

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.

Ecuador should enact comprehensive anti-money laundering legislation that encompasses all serious crimes including the financing of terrorism and establishes a single financial intelligence unit to which all covered institutions report. Additionally, Ecuador should become a party to the UN International Convention for the Suppression of Terrorist Financing.

The Arab Republic of Egypt

Egypt is neither a regional financial center nor a major center for money laundering. It has no offshore financial sector, and cumbersome financial regulations make it an unattractive place through which to move large amounts of hard currency. Egypt is still largely a cash economy, and many financial transactions do not enter the banking system at all. As a result of the passage of Egypt's first anti-money laundering law, which criminalized the laundering of proceeds derived from trafficking in narcotics and numerous other crimes, seizures of currency in drug related cases in 2003 rose by 50 percent to over three million Egyptian pounds (approximately \$487,000).

Under-invoicing of imports and exports by Egyptian businessmen is a relatively common practice. The primary goal for businessmen appears to be avoidance of taxes and customs fees. It is unclear to what

extent price manipulation may be used for laundering the proceeds of other crimes. Worker remittances also form a potential area for financial transactions outside the regulated formal financial system. Numerous Egyptian expatriates working in the Gulf and elsewhere send earnings back to Egypt. Some of their remittances may be sent through couriers and informal channels such as a value transfer system like hawala rather than through the banking system, due to lack of trust or lack of familiarity with banking procedures and the lower transaction costs and more favorable exchange rates.

In 2001, the Central Bank of Egypt (CBE) and other financial regulatory bodies issued a number of anti-money laundering instructions, including “know your customer” and “suspicious transaction reporting” (STR) requirements. Nevertheless, the Financial Action Task Force (FATF) placed Egypt on its noncooperating countries or territories (NCCT) list in June 2001, citing inter alia, the country’s lack of a law specifically criminalizing money laundering. Following up the FATF designation, the U.S. Department of Treasury’s Financial Crimes Enforcement Network (FinCEN) issued an advisory that instructed all U.S. financial institutions to “give enhanced scrutiny” to all transactions involving Egypt.

Since then, Egypt has taken a number of measures to respond to the FATF’s concerns. Perhaps its most noteworthy improvement occurred in May 2002 when Egypt passed its “anti-money laundering law” (law no. 80 of 2002). The law, which closely parallels FATF guidelines, criminalizes the laundering of funds from narcotics trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. It legislates the “know your customer” policy, requiring banks to keep all records for five years; places STR requirements on the full range of financial institutions; and prohibits the opening of numbered or anonymous financial accounts.

The law also provides for the creation of a financial intelligence unit (FIU) that officially began operating on March 1, 2003. It is an independent entity that was established by presidential decree with its own budget and staff. The anti-money laundering law gives the FIU (the Money Laundering Combating Unit/MLCU) full power to examine all STRs and conduct investigations with the assistance of counterpart law enforcement agencies, including the Ministry of Interior, as it sees fit. The MLCU is progressing rapidly and is starting to perform many of the duties of an FIU, but still lacks the necessary experience and training to be operating at full speed. Since its creation, the MLCU has received 290 STRs, most of them from financial institutions. The rest were filed by supervisory authorities, individuals, and foreign FIUs.

Presidential Decree No. 164/2002, issued in June 2002, delineates the structure, functions, and procedures of the MLCU. The head of the unit has been appointed. The unit handles implementation of the new law, including publishing the executive directives. The unit takes 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, the Deputy Governor of the Central Bank of Egypt, and a representative from the Egyptian Banking Federation.

In June 2003 Egypt’s People’s Assembly passed an amendment to Article 17 of Egypt’s anti-money laundering legislation, closing a loophole that appeared to offer overly broad immunity from punishment for certain money laundering-related offenses if the defendant(s) turned state’s evidence.

In June the Executive Regulations of the Anti-Money Laundering Law were issued Prime Ministerial Decree no. 951/2003. The regulations provided the legal basis by which the FIU is given its authority. They spell out the predicate crimes associated with money laundering, establish a board of trustees to govern the FIU, define the role of supervisory authorities and financial institutions, and allow for the exchange of information with other countries to combat money laundering. The introduction of the regulations, among other things, lowered the threshold for declaring foreign currency at borders from the equivalent of approximately \$20,000 to \$10,000, and extends the declaration requirement to

travelers leaving as well as entering the country. However, the authorities have yet to enforce this provision.

The Government of Egypt (GOE) has shown some willingness to cooperate with foreign authorities in criminal investigations. It acted promptly on asset-freezing requests from the United States. Also, Egypt is monitoring operations of domestic nongovernmental 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 GOE 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. Egypt is also a party to a number of international conventions aimed at blocking terrorists' access to funds.

Because of its own historical problems with domestic terrorism, the GOE is eager for closer international cooperation to counter terrorism and terrorist finance. For the past decade it has had restrictions on receipt of or disbursement of financial donations from Egyptian NGOs to or from foreign entities. Egyptian authorities have cooperated with U.S. efforts to seek and freeze terrorist assets, circulating to each of their financial institutions the list of Specially Designated Global Terrorists designated by the United States pursuant to Executive Order 13224. While the mechanism established in the GOE to deal with terrorist financing is new and there are some bureaucratic obstacles, the GOE is working with the U.S. and other countries via United Nations resolutions to combat the financing of terrorism.

Egypt is taking steps to address domestic and international concerns regarding deficiencies in its banking system and monetary policy. Egypt's anti-money laundering agencies must still overcome some coordination issues. Egypt has passed a money laundering law and accompanying regulations, and it is working closely with the FATF on the steps it must take in order to be removed from the NCCT list. The GOE is eager to increase international cooperation in these areas. Egypt should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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. 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, makes the country a potentially fertile ground for money laundering. In 2003, more than \$2 billion in remittances will likely be sent to El Salvador through the financial system. Most will be sent from Salvadorans working in the United States to family members. Additional remittances flow back to El Salvador via other methods such as visiting relatives and regular mail.

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. El Salvador's financial institutions engage in currency transactions that include large amounts of U.S. currency and could involve the proceeds of

international narcotics trafficking. It is believed that money laundering proceeds may be controlled by narcotics-traffickers or organized crime.

Decree 498 of 1998, the “Law Against Laundering of Money and Assets,” criminalizes money laundering related to narcotics trafficking and any other serious crimes. The law also establishes the Unidad de Investigación Financiera (UIF), El Salvador’s financial intelligence unit (FIU), which is located within the Attorney General’s Office. The UIF has been operational since January 2000. The Policía Nacional Civil (PNC) and the Central Bank also have their own anti-money laundering units.

By law, financial institutions, intermediaries 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 all suspicious transactions and transactions that exceed approximately \$57,000 to the UIF. 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.

To address the problem of international transportation of criminal proceeds, Salvadoran law requires all incoming travelers to declare the value of goods, cash, or monetary instruments they are carrying in excess of approximately \$11,400. Falsehood, omission, or inaccuracy on such a declaration is grounds for retention of the goods, cash or monetary instruments, and the initiation of criminal proceeding. If, following the end of a 30-day period, the traveler has not proved the legal origin of said property, the Salvadoran authorities have the authority to confiscate it. The UIF has proposed legal reforms to require all travelers, both entering and departing from El Salvador, to report the value of goods or cash in excess of approximately \$11,400.

Since January 1, 2003, there have been no arrests for money laundering or terrorist financing. However, two persons were prosecuted on charges of money laundering in 2003. One was convicted and sentenced to serve a prison term of seven years. This was the first conviction for money laundering under the 1998 law.

The Government of El Salvador (GOES) has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes, including the financing of terrorism. The UIF and PNC have adequate police powers to trace and seize assets, but the PNC lacks the resources to do so. If a legitimate business was established using proceeds from criminal activities, it may be seized. Forfeited money laundering proceeds are deposited in a special fund used to support law enforcement, drug treatment and prevention, and other related government programs, while funds forfeited as the result of other criminal activity are deposited into general government revenues. Law enforcement agencies are allowed to use certain seized assets while a final sentence is pending. In 2003, the dollar amount of assets seized and forfeited totaled \$4.23 million, mostly derived from narcotics trafficking. This amount was almost 10 percent greater than the \$3.85 million seized and forfeited in 2002, and eight times greater than the \$508,712.14 seized and forfeited in 2001. There exists no legal mechanism to share seized assets with other countries.

Salvadoran law currently provides only for the judicial forfeiture of assets upon conviction (criminal forfeiture), and not for civil or administrative forfeiture. A draft law under consideration to reform Decree 498 includes a proposal to expand the existing law to include certain types of civil forfeiture of assets. The proposed law would also incorporate the Financial Action Task Force (FATF) Eight Special Recommendations on Terrorist Financing, and include the OAS Inter-American Drug Abuse Control Commission’s model regulatory reforms for the laundering of assets.

El Salvador’s anti-money laundering law covers all serious crimes, including terrorism and terrorist financing. There is no evidence that any charitable or nonprofit entity has been used as a conduit for

terrorist financing. The GOES has the authority to freeze and seize suspected assets associated with terrorists and terrorism. The GOES has provided financial institutions with the names of all individuals and entities listed by the UNSCR 1267 Sanctions Committee. These institutions are required to search for any assets related to the individuals and entities on the UNSCR 1267 Sanctions Committee's lists. Bank accounts belonging to a female companion of a former Red Brigade terrorist arrested in Argentina in 2002 have been frozen. Both had previously resided in El Salvador. The woman's accounts, totaling \$22,000, were frozen pending the completion of Italy's investigation into the former Red Brigade member.

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. El Salvador is a party to the Treaty of Mutual Legal Assistance in Criminal Matters signed by the Republics of Costa Rica, El Salvador, Honduras, Guatemala, Nicaragua, and Panama. Salvadoran law does not require the UIF to sign agreements in order to share or provide information to other countries. The GOES signed the Inter-American Convention on Mutual Assistance on Criminal Matters, which obligates parties to cooperate in tracking and seizing assets. The UIF is also legally authorized to access the databases of public or private entities. The GOES has cooperated with foreign governments in financial investigations related to narcotics, money laundering, terrorism, terrorism financing, and other serious crimes. In 2003, the UIF cooperated in important cases with the U.S. Government, including 17 investigations involving 220 persons or entities related to terrorist activities.

El Salvador is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). El Salvador hosted the third regular session of the OAS Inter-American Committee Against Terrorism in January 2003, and assumed leadership of the committee. In March 2003, El Salvador became a member of the Caribbean Financial Action Task Force. The UIF joined the Egmont Group in June 2001. The GOES is party to the OAS Inter-American Convention Against Terrorism, and ratified the UN International Convention for the Suppression of the Financing of Terrorism on May 15, 2003. On December 10, 2003, El Salvador signed the UN Convention Against Corruption. 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 entered into force internationally on September 29, 2003. 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, the large volume of remittances and the use of the U.S. dollar as legal tender make El Salvador vulnerable to money laundering. The GOES should continue to expand and enhance its anti-money laundering policies and strengthen its ability to seize and share assets. The GOES should criminalize the support and financing of terrorists and terrorist organizations.

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. Information generated by the financial sector is limited and closely held. All Eritrean banks are government-owned. One private bank is in the process of being established. The banks and financial institutions are slowly implementing computerized record keeping systems. This system is designed to supply standardized

reports that will eventually allow for more effective regulation by banking authorities. 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 most foreign exchange transactions. Much of this foreign currency is transported as cash by members of Eritrea's far-flung Diaspora who bring the money to support their relatives and invest in real estate.

Eritrea is a party to the 1988 UN Drug Convention. As Eritrea's financial system becomes more integrated with international markets, the government should put a priority on implementing anti-money laundering legislation and criminalizing terrorist financing. Eritrea should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and to all relevant conventions relating to terrorism.

Estonia

Estonia has one of the most transparent, developed banking systems among the European Union accession countries. The International Monetary Fund and international risk rating agencies closely monitor Estonia's banking system. Estonia has adopted the universal banking model, which enables credit institutions to participate in a variety of activities such as leasing, insurance, and securities. Transnational and organized crime groups are attracted to the territory due to its proximity to the Russian border. However, there have been no reported large-scale money laundering operations for the purpose of narcotics trafficking or terrorist financing in Estonia.

In 1996, Estonia signed the Riga Declaration on Money Laundering. Money laundering was added as a criminal offense to the Criminal Code in 1999, at the same time that the Money Laundering Prevention Act came into force. Money laundering is punishable with a maximum imprisonment term of ten years. Amendments to the Money Laundering Prevention Act and Penal Code (which replaced the Criminal Code), took effect in September 2002. The amendments make money laundering committed by a legal entity a punishable crime with a maximum penalty of the compulsory liquidation of the entity.

The Money Laundering Prevention Act entered into force in 1999. According to the Act, credit and financial institutions are required to identify all individuals or representatives who carry out non-cash transactions above 200,000 kroons (approximately \$16,000), or cash transactions above 100,000 kroons (approximately \$8,000). Estonia's legislation requires the credit or financial institutions to report suspicious or unusual transactions to the Information Bureau of the Police Board, Estonia's financial intelligence unit (FIU).

On December 3, 2003, the Estonian Parliament adopted amendments to the Money Laundering and Terrorism Financing Prevention Act (MLTFPA), formerly the Money Laundering Prevention Act. The MLTFPA expands the obligated reporting entities to include lawyers, accountants, tax advisors, notaries, currency exchange companies, money transmitters, lottery/gambling institutions, real estate firms, and dealers in high-value goods. The FIU's authority is extended to cover the supervision of those obliged reporting entities that are not covered by the supervision of the Financial Supervision Authority. The new amendments take effect on January 1, 2004.

The Estonian Financial Supervisory Authority (FSA), which unites three previous supervisory authorities (the Banking Supervision Department of the Bank of Estonia, the Securities Inspectorate, and the Insurance Supervisory Agency), began operations in January 2002. The FSA is responsible for monitoring and directing credit and financial institutions. It monitors compliance with reporting requirements and can apply administrative remedies for noncompliance.

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 the 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.

Estonia established its FIU within the administration of the Police Board in 1999. Currently, the FIU has 6 positions. The FIU’s authority includes the ability to conduct misdemeanor procedures and issue administrative acts against violations. In 2001, the FIU received 1,829 suspicious transaction reports; in 2002 it received 1,073 reports, and up to October 22, 2003, it received 987. The Economic Crime Department of the Central Criminal Police (of which the FIU is scheduled to become a part in 2004) is responsible for investigating money laundering cases. The Tax Fraud Investigation Center was established in the structure of the Tax Board for investigation of tax crimes and other crimes connected with money laundering in 2001.

The MLTFPA contains provisions that meet the requirements for the prevention of terrorist financing pursuant to United Nations (UN) and European Union directives, including the obligation to report suspicion of terrorist financing, (not just money laundering), and authorizing the FIU to seize assets in terrorist financing cases just as it would for a money laundering case. The amendments allow the FIU to freeze a transaction for two working days, and if the legal origin of the money is not proven, the FIU may seize the assets for up to 10 working days while it seeks a court’s judgment. The judicial system has the ability to seize the assets of suspected terrorists for an indefinite amount of time.

The FIU may exchange information with its counterparts, provided the information is used for intelligence 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.

Estonia is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). Estonia has also endorsed and adheres to the Basle Committee’s “Core Principles for Effective Banking Supervision” and is an active member of the Offshore Group of Banking Supervisors. The Information Bureau is a member of the Egmont Group and joined the European Union’s financial intelligence units’ net (FIU.NET). The Government of 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 is a party to the UN Convention against Transnational Organized Crime and 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; it should continue these efforts and enhancements. Estonia should criminalize terrorist financing. The GOE should make every endeavor to enforce best practices within its financial community.

Ethiopia

Due primarily to its archaic financial systems and pervasive government controls, Ethiopia is not considered a regional financial center. 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. Since government foreign exchange controls limit possession of foreign currency, most of the proceeds of contraband smuggling and other crimes are not laundered through the official banking

system. High tariffs also encourage customs fraud and trade-based money laundering. Reports indicate that alternative remittance systems, particularly hawala, are also widely used by immigrant communities living within the country. Money laundering is a punishable offense 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. There are no money laundering controls applied to nonbanking financial institutions or to intermediaries. The Government of Ethiopia (GOE) proposed draft terrorist finance legislation, which is under preliminary review in Parliament. The Central Bank has authority to identify, freeze, and seize terrorist finance related assets. The Central Bank routinely circulates to its financial institutions the lists of entities that have been included on the UN 1267 sanctions committee's list. During 2003, no assets linked to these entities have been identified.

Ethiopia is a party to the 1988 UN Drug Convention. Ethiopia should ratify the UN Convention against Transnational Organized Crime. Ethiopia should pass anti-money laundering and antiterrorist finance legislation that adhere to international standards. Ethiopia should become a party to 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. Since 2002, there was an on-going money laundering investigation involving a foreign exchange dealer and in 2003, investigations were initiated involving overseas funds remittances.

Money laundering is criminalized under the Proceeds of Crime Act of 1997. In August 2002, Fiji also established an anti-money laundering legislation working group to study needed enhancements to legislation. As a result, a new Financial Transactions Reporting Act and amendments to the Proceeds of Crime Act and Mutual Assistance in Criminal Matters Act are in final draft stage and will be tabled before Parliament by the first quarter of 2004.

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. On-site examination of licensed banks and other deposit taking institutions for compliance with anti-money laundering laws and guidelines are reportedly ongoing. In September 2002, policy guidelines were issued to authorized foreign exchange dealers and moneychangers, which included requirements to comply with anti-money laundering measures. Also in 2002, the Fiji Police, with input from the RBF and the Association of Banks in Fiji, issued a standardized suspicious transaction reporting form. As a result, more than 100 suspicious transaction reports were filed from January to August 2003. In July 2003, a Financial Intelligence Unit (FIU) was established to analyze and disseminate the suspicious transaction reports.

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, established in 1998, which meets once a month to discuss the implementation of anti-money laundering measures in Fiji.

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.

A Counter-Terrorism Officials Group was established in February 2003. The Group drafted model antiterrorism legislation for Pacific Island countries. Fiji should criminalize terrorist financing and continue to develop its anti-money laundering regime. Fiji should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Finland

Finland is not a regional financial or money laundering center. A “Corruption Perceptions Index” survey taken by Transparency International in 2003, which compiles the perception of corruption rather than actual statistics, listed Finland in first place as the country perceived around the world to be the least corrupt. However, Finnish authorities are concerned about possible money laundering by 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. The Act of Preventing and Clearing Money Laundering (Money Laundering Act), which passed in 1998, compels credit and financial institutions, investment and fund management companies, insurance brokers and insurance companies, real estate agents, pawn shops, betting services, casinos, and most nonbank financial institutions (excluding accountants and lawyers) to report suspicious transactions. Management companies and custodians of mutual funds were added as covered entities in the Money Laundering Act in 1999. Apartment rental agencies, auditors, auctioneers, lawyers, accountants, and dealers in high value goods were added when amendments to the Act came into force in 2003. Also included are the businesses and professions that practice other payment transfers in the field of financing that are not referred to in the Credit Institutions Act, such as hawala. According to the Money Laundering Act, an obliged party must identify customers, exercise due diligence and report suspicious activity to the Money Laundering Clearing House (MLCH), Finland’s financial intelligence unit or FIU.

In December 2002 the Parliament accepted amendments to the Penal Code which came into force on April 1, 2003. The amendments included the differentiation of penalty provisions concerning money laundering and traditional receiving offense in order to clarify the law where some actions could be punishable on the basis of both the receiving offense and money laundering penalty provisions, and to emphasize in legislation the criminality of money laundering and its relevance to serious organized crime. Prior to the amendments, the definition of money laundering was limited only to property gained through crime. The new amendments expand the definition to include negligence and the usage or transmission of property gained through an offense and its proceeds or property replacing such property, as well as bringing under the law those who assist in activities of concealment or laundering. With the differentiation of money laundering from the traditional receiving offense, the receiving offense penal scale now corresponds to the basic penal scale of other economic offenses, and the money laundering penal scale is set to meet international standards, with sanctions of up to six years of imprisonment.

The MLCH, which was established under the National Bureau of Investigation in March 1998, receives and investigates suspicious transaction reports (STRs) from obligated reporting institutions. The MLCH has special authority to start investigations on STRs even though the basis of a pre-trial investigation has not yet been established. The FIU has the ability to freeze a transaction for up to five business days in order to determine the legitimacy of the funds. In late 2003 the MLCH hosted a regional Nordic-Baltic conference on money laundering.

The Finnish police have investigated 348 STRs in 1999; 1,109 in 2000; 2,796 in 2001; 2,718 in 2002; and 2,020 as of September 2003. 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. A decrease of 230 STRs received from currency exchange companies in 2002 is attributed to the changeover to the euro.

Between 1994 and 2002, the National Bureau of Investigation forwarded 496 reports concerning suspicious transactions to pre-trial (criminal) investigation. In 2002, criminal investigations were started for 114 reports. The most common offenses were tax fraud (25 percent), narcotics offenses (13 percent), fraud (12 percent) and receiving offense (11 percent). Money laundering represents about 10 percent of all financial crimes in Finland, and approximately 75 percent of those cases have links to other countries, especially Russia and Estonia. By the end of 2002 the pre-trial investigation was still on going in 209 cases, with an additional 18 transferred to other countries.

In January 2003 the Parliament accepted amendments to the Money Laundering Act bringing it in line with the Financial Action Task Force's (FATF) Eight Special Recommendations on Terrorist Financing, the UN International Convention for the Suppression of the Financing of Terrorism; and the amendments to the EU Directive on Money Laundering. The amendments, which came into force in the spring of 2003, extend the system of money laundering prevention to include suspected terrorist financing.

Finland signed a tax treaty with the United States in September 1989, replacing a previous treaty signed in 1970. The current treaty has provisions to exchange information for investigative purposes.

Finland is a member of the FATF and the Council of Europe. The MLCH is a member of the Egmont Group. Finland also co-operates with the European Union, Europol, the United Nations, Interpol, 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 the UN Convention against Transnational Organized Crime. 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 continue to enhance its anti-money laundering/antiterrorist financing regime. Finland should adopt reporting requirements for the cross-border movement of currency and financial instruments. If it has not already done so, Finland should specifically criminalize the financing and support of terrorism and terrorists.

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 assets (or invest those previously laundered) by buying up real estate, "a welcoming ground for foreign capital of criminal origin." The report estimates that between seven and 60 billion euros of dirty money have already been channeled through the Riviera.

The Government of France (GOF) first criminalized money laundering related to narcotics trafficking in 1987 (Article L-627 of the Public Health Code). In 1988, the Customs Code was amended to incorporate financial dealings with money launderers as a crime. In 1990, the obligation for financial institutions to combat money laundering came into effect with the adoption of the Monetary and Financial Code (MFC), and France's ratification of the 1988 UN Drug Convention. In 1996 the

criminalization of money laundering was expanded to cover the proceeds of all crimes. Even though the law made money laundering in itself a general offense, 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.

The amendment to the law in 1996 also obligates insurance brokers to report suspicious transactions. In 1998, the obligated parties were increased to include nonfinancial professions (persons who carry out, verify or give advice on transactions involving the purchase, sale, conveyance or rental of real property). Then in 2001, the list of professions subject to suspicious transaction reporting requirements expanded to include legal representatives, casino managers and persons customarily dealing in or organizing the sale of precious stones, precious materials, antiques, or works of art. The law now covers banks, moneychangers, public financial institutions, estate agents, insurance companies, investment firms, mutual insurers, casinos, notaries, and auctioneers and dealers in high-value goods. As a member of the European Union (EU), France is subject to EU money laundering directives, including 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. The GOF 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.

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 is 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, with the purpose to supply professions required to report suspicious transactions with better information and to make proposals in order to improve the anti-money laundering system.

TRACFIN is responsible for analyzing suspicious transaction reports (STRs) that are filed by French financial institutions and nonfinancial professions. TRACFIN is a part of FINATER, a group created within the French Ministry of the Economy, Finance, and Industry in September 2001, in order to gather information to fight terrorist financing. The French FIU may exchange information with foreign counterparts that observe similar rules regarding reciprocity and confidentiality of information. TRACFIN works closely with the Ministry of Interior's Central Office for Major Financial Crimes (OCRGDF), which is the main point of contact for Interpol and Europol in France.

TRACFIN received 2,537 suspicious transaction reports in 2000, 3,598 in 2001 and 6,896 in 2002. The changeover from French francs to the euro generated many additional reports in 2002, which accounts for the significant increase. In addition approximately 200 separate reports on transactions were sent to TRACFIN relating possible terrorist financing activity. Approximately 67 percent of STRs are sent from the banking sector. A total of 226 cases were referred to the judicial authorities in 2001, which resulted in 58 convictions of money laundering, and 291 cases were referred in 2002 which resulted in 14 criminal prosecutions.

Since 1986, French antiterrorist 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 November 15, 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 ten years' imprisonment and a fine of 228,600 euros. The Act also includes money laundering as an offense in

connection with terrorist activity (article 421-1-6 Penal Code), punishable by ten years' imprisonment and a fine of 62,000 euros.

An additional penalty of confiscation of the total assets of the terrorist offender has also been implemented. Accounts and financial assets can be frozen through both administrative and judicial measures. The GOF also passed the PERBEN II Law, which took effect in January 2004. This new law will make it easier for France to arrest and extradite suspects and cooperate with other judicial authorities in the EU.

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 list. France takes actions against non-Taliban and non-al-Qaida-related groups in the context of the EU-wide "clearinghouse" procedure. Within the Group of Eight, which France chaired in 2003, 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 good.

TRACFIN is a member of the Egmont Group and represents the European Union FIUs at that group. TRACFIN has information-sharing agreements with 21 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, Andorra, and Switzerland.

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; the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; and the UN International Convention for the Suppression of the Financing of Terrorism. In October 2002, France ratified the UN Convention against Transnational Organized Crime. The United States and France have entered into a Mutual Legal Assistance Treaty (MLAT), which 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.

France has established a comprehensive anti-money laundering regime. The GOF should build upon this regime by expanding suspicious transaction reporting requirements to auditors, in line with the revised EU Directive on money laundering. The GOF should also continue its active participation in international organizations to combat the domestic and global threats of money laundering and terrorist financing.

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. According to a 2003 letter from the Government of Gabon (GOG) to the UN Counter Terrorism Committee, in matters concerning suspicious financial transactions, banks are bound by the instructions of the Ministry of Economic and Financial Affairs. The actual monitoring of financial transactions is conducted by the Economic Intervention Service that harmonizes the regulation of currency exchanges in the member States of the Central African Economic and Monetary Community (CEMAC).

On November 20, 2002, the BEAC Board of Directors approved draft anti-money laundering and counterterrorist 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 regulations 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 will 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 counterterrorist financing regime. Gabon should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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.

The ECOWAS community of states, of which The Gambia is a member, in 2000 created the GIABA, an intergovernmental action group against money laundering, designed to improve cooperation in the fight against money laundering between member states. The GIABA is working on a law to create financial intelligence units in each of the eight West African Economic Monetary Union (WAEMU) countries so that they will be able to share information.

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. 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.

The Government of Gambia (GOG) recently passed the Money Laundering Act of 2003. The Act states that money laundering is a criminal offense and establishes narcotics trafficking as well as blackmail, counterfeiting, extortion, false accounting, forgery, fraud, illegal deposit taking, robbery, terrorism, theft and insider trading as predicate offenses. Furthermore, the law requires banks and other financial institutions to know, record, and report the identity of clients engaging in significant and/or suspicious transactions. Even though individual banks may have their own requirements to keep documents longer, the law requires them to maintain records for at least six years. Under the Money Laundering Act of 2003, terrorism is an offense consistent with UNSCR 1373. The Act also empowers the GOG to identify and freeze assets of a person suspected of committing a money laundering offense.

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. There have been no arrests and/or prosecutions for money laundering or terrorist financing since January 2003. Gambia is a party to the

1988 UN Drug Convention and has signed and ratified the UN Convention against Transnational Organized Crime. The Gambia is also a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The Gambia should examine its re-export sector to determine whether or not it is being used to launder criminal proceeds. The GOG should also expand its anti-money laundering legislation to include a comprehensive range of predicate offenses and should take steps to develop a financial intelligence unit.

Georgia

Although Georgia is not considered an important regional financial center, in past years the international community has raised concerns regarding the Government of Georgia's (GOG) lack of an anti-money laundering regime. In Georgia, the sources of laundered money are primarily corruption, financial crimes and smuggling, rather than narcotics-related proceeds. Smuggling of goods across international borders is one of the country's most serious problems, given the existence of thriving black markets in Ergneti (near the uncontrolled territory of South Ossetia), Red Bridge (on the border with Azerbaijan), and Abkhazia (breakaway region bordering Russia on the Black Sea coast). Law enforcement officials provide protection to smugglers, instead of prosecuting them, helping maintain the shadow economy which makes up 90 percent of Georgia's economic activity (based on an estimate by the Transnational Crime and Corruption Center). A new government came into power in November 2003. The new Administration has launched several investigations relating to financial misdeeds undertaken by former members of the Georgian government.

At the urging of the international community the GOG has taken some steps. The lead was taken by the National Bank of Georgia, which was tasked by former President Shevardnadze to draft the Anti-Money Laundering Law. On June 6, 2003, President Shevardnadze signed the Anti-Money Laundering Law (AML Law) passed by the Georgian Parliament. As mandated by the newly enacted law (which also included an article concerning anti terrorist financing), Georgia created a Financial Monitoring Service (FMS) within the National Bank of Georgia on July 16, 2003. The FMS is tasked with creating a system for Suspicious Transaction Reporting (STR). The FMS is to begin receiving reports from monitored entities in January 2004. Also beginning in January 2004, the FMS is embarking on the construction of an IT system to collect and analyze data on suspicious financial transactions.

Although the AML Law in Georgia was enacted in June 2003 and entered into force on January 1, 2004 (the date selected to coincide with the start-up of the FMS), it still requires some serious revisions as noted by the Council of Europe's recommendations to the Georgian Government. Amendments to the law proposed in 2003 would enhance suspicious transaction reporting, customs declarations, customer identification, record keeping, the development of compliance programs and asset freezing. These amendments will be presented to parliament for enactment early in 2004.

The GOG also created the National Money Laundering Prosecution Unit within the Prosecutor General's Office of Georgia. The National Money Laundering Prosecution Unit, which is currently hiring and vetting members, will form a special task force of investigators and prosecutors to: collect, investigate and, where appropriate, prosecute matters arising from receipt of suspicious transaction reports from the FMS; and investigate and, where appropriate, prosecute violations of the AML Law which may come to their attention by referral from law enforcement or other agencies of the government and/or based on their in-house assessment of information suggesting violations of the AML Law or its predicate offenses. The Unit will begin work in early spring 2004.

Until the recent changes in the Georgian leadership, asset forfeiture was perceived by GOG officials as unconstitutional, therefore, legislators did not include asset forfeiture provisions in their Penal and

Criminal Procedure Codes. This interpretation was based on a landmark ruling of the Constitutional Court of Georgia to remove the confiscation clause as a form of punishment from the Criminal Code of Georgia. Instead of strictly adhering to the Court's decision and removing only confiscation as a punitive measure, legislators removed all forms of confiscation from the law. Confiscation as a punitive measure was deemed unconstitutional because it also applied to proceeds that may derive from an individual's legal activity, and was used in Soviet times (according to a 1961 law) to leverage punishment for any type of crime. Soviet legislation also included "special confiscation", which was used to seize assets obtained from illegal proceeds. This provision was also eliminated from the Criminal Code when the Constitutional Court made its ruling in July 1997. From 1997 through 2003, the Government made no serious attempts to amend the legislation or to correctly interpret the constitutionality of the confiscation clause. Many anticipate the new leadership in the Georgian government will resolve this issue. Members of the new government have repeatedly emphasized that they will use the asset forfeiture mechanism against corrupt officials.

The GOG has taken important first steps toward the development of an anti-money laundering regime. The GOG should enact the pending amendments to its anti-money laundering legislation. The GOG should also take whatever additional action is necessary to bring its anti-money laundering/antiterrorist financing regime into accordance with international standards. If it has not already done so, the GOG should specifically criminalize the financing and support of terrorism and terrorists. Georgia should provide sufficient training and resources to its new FMS and National Money Laundering Prosecution Unit to enable them to efficiently perform their new duties. The GOG should adequately supervise and regulate nonbank financial institutions, alternative remittance systems and nongovernmental organizations, including charitable organizations, to ensure they are not used for terrorist or other criminal ends. Until it does so, Georgia's financial institutions will remain vulnerable to abuse by organized crime as well as 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 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. Germany also has fully incorporated the FATF Forty Recommendations for combating money laundering and its Eight Special Recommendations regarding the financing of terrorism. This includes questionable actions carried out via the Internet.

The amendments described above 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 anti-money 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 (currently 15,000 euros).

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. As a result, on April 1, 2003, a central database at the federal financial supervisory authority was established, which collects basic data on the bank and security accounts held in Germany. Banks 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 in question.

In May 2002, the German 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 is staffed with financial market supervision, customs, and legal experts. The FIU is responsible for developing money laundering cases before they go to prosecutors for formal investigation. It also exchanges information with its counterparts in other countries. Actual enforcement is carried out by the states, as is traditional in German federalism. Each state has a joint customs/police/financial investigations unit ("GFG"), which works closely with the federal FIU. U.S. Customs has conducted joint investigations with GFGs on a number of transnational cases. A new system is being implemented that will allow federal authorities access to certain information in all bank accounts in Germany, potentially a very effective tool against money laundering.

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 September 11, 2001 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 strict data privacy laws have made it difficult for authorities to monitor and take action against financial accounts and transfers used by terrorist networks. 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, e.g., through supposedly charitable organizations, and that have allowed extremists to advocate violence in the name of religion under "religious privilege" protections. Germany has undertaken legislative and law enforcement efforts to thwart the misuse of charitable entities. Germany has used its Law on Associations (Vereinsgesetz) to ban administratively extremist associations that threaten the constitutional order. 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, and telecommunication and Internet service providers.

After Germany and other EU member states adopted UNSC Resolution 1373 on December 27, 2001, the EU developed a list of persons and organizations against whom antiterrorist financing measures were to be taken. Germany adheres to this list, which is updated periodically by EU representatives. 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. On the basis of relevant UN Security Council resolutions, Germany participated in international efforts to freeze terrorism-related financial assets. The GOG responded quickly to freeze over 30 accounts of entities associated with terrorists. The bulk of assets initially frozen have since been released. At the end of 2003, approximately 13 accounts containing 3532 euros remained frozen in Germany under these resolutions. This does not include accounts frozen under the administrative banning of extremist organizations under the law on associations. In 2002, the Bundestag added terrorism and terrorism financing to the predicate offenses for money laundering as defined by Penal Code 161.

Germany continues to be an active partner in the fight against money laundering, and participates actively in a number of international fora. The GOG has always cooperated fully with the United States on anti-money laundering initiatives, even before it signed a Mutual Legal Assistance Treaty (MLAT) with the United States in October 2003. 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, the Council of Europe, and in 2003 became a member of the Egmont Group. The head of BaFIN, Jochen Sanio, is the outgoing President of FATF. Germany 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, Germany signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Germany signed the UN International Convention for the Suppression of the Financing of Terrorism in 2000, and is expected to ratify it in early 2004.

Since 2001, the GOG has put forward a number of important proposals to strengthen its anti-money laundering and counterterrorist financing 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 is likely to be strengthened as a result of the implementation of its financial intelligence unit. The GOG should continue to enhance its anti-money laundering regime and its active participation in international fora. The GOG should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Ghana

Ghana is not a regional financial center. However, nonbank financial institutions such as foreign exchange bureaus are suspected of being used to launder the proceeds of narcotics trafficking. In addition, donations to religious institutions allegedly have been used as a vehicle to launder money. There has also been an increase in the number of "advanced fee" scam letters that originate in Ghana.

Ghana has criminalized money laundering related to narcotics 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. As of December 2003, the bill has not been submitted to Parliament.

The Narcotic Drug Law of 1990 provides for the forfeiture of assets upon conviction of a money laundering offense. The Government of Ghana made no arrests or prosecutions related to money laundering in 2003.

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 approximately \$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 narcotics trafficking, terrorism, and money laundering. In May 2003, more than 40 representatives from financial institutions and law enforcement agencies participated in an Economic and Financial Anti-Fraud and Computer Crime Training Course.

Ghana is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. 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 take steps to develop an anti-money laundering regime in accordance with international standards. Ghana should also become a party to the UN Convention against Transnational Organized Crime.

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 18 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 8464 international business companies (IBCs) registered in Gibraltar as at 31 December 2003. Bearer-shares are permitted but the Government is committed to abolishing them. In addition, banks dealing with such warrants require their immobilization. The Government of Gibraltar also requires the immobilization of such warrants in respect of IBCs. Internet gaming is permitted by the Government of Gibraltar (GOG) and is subject to a licensing regime.

The Drug Offenses 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 but this application was blocked by Spain. The Egmont application process has recently been revived.

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 anti-money laundering legislation. The amendments will provide direct reporting requirements of suspicious transactions, and extend the provisions of the anti-money laundering legislation to cover company formation agents and trusts 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. Gibraltar has implemented the 1988 UN Drug Convention pursuant to its Schengen obligations. However, the Convention has not yet been extended to Gibraltar by the United Kingdom. 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 passed legislation 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 Forty 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 Forty 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 implemented 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 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 narcotics trafficking, prostitution, contraband cigarette smuggling, and illicit gambling activities conducted by criminal organizations originating in CIS countries, as well as Albania, Bulgaria, and other Balkan countries. Money laundering in Greece is controlled by organized local criminal elements associated with narcotics trafficking, and narcotics are the primary source of laundered funds. Most of the funds are not laundered through the banking system. Rather, they are most commonly invested in real estate, hotels, and consumer goods such as automobiles. 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. Greece is not considered an offshore financial center, and there are no offshore financial institutions or international business companies operating within Greece. Senior Government of Greece (GOG) officials are not known to engage in or facilitate money laundering. Currency transactions involving international narcotics-trafficking proceeds are not believed to include significant amounts of U.S. currency.

The GOG criminalizes money laundering derived from all crimes in the 1995 Law 2331/1995. That law, “Prevention of and Combating the Legalization of Income Derived from Criminal Activities,” 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 nonbank financial institutions file suspicious transaction reports (STRs). Legislation passed in March 2001 targets 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 establishes 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.

In 2003 Greece enacted legislation (Law 3148) that incorporates European Union (EU) provisions in directives dealing with the operation of credit institutions and the operation and supervision of electronic money transfers. Under the new legislation, the Bank of Greece has direct scrutiny and control over transactions by credit institutions and entities involved in providing services for funds

transfer. The Bank of Greece will issue operating licenses after a thorough check of the institutions, their management, and their capacity to ensure the transparency of transactions.

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 and closely monitor 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.

Banks in Greece must demand customer identification information when opening an account or conducting transactions that exceed 15,000 euros. In case of suspicion of illegal activities, banks can take reasonable measures to gather more information on the identification of the person. Greek citizens must provide a tax registration number if they conduct foreign currency exchanges of 1,000 euros or more, and proof of compliance with tax laws in order to conduct exchanges of 10,000 euros 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.

Every bank and credit institution is required by law to appoint an officer to whom all other bank officers and employees must report any transaction they consider suspicious. Reporting obligations also apply to government employees involved in auditing, including employees of the Bank of Greece, the Ministry of Economy and Finance, and the Capital Markets Commission. Reporting individuals are required to furnish all relevant information to the prosecuting authorities.

Greece has adopted banker negligence laws under which individual bankers may be held liable if their institutions launder money. Banks and credit institutions are subject to heavy fines if they breach their obligations to report instances of money laundering; bank officers are subject to fines and a prison term of up to two years. There have been no objections from banking and political groups to the Greek government's policies and laws on money laundering.

All persons entering or leaving Greece must declare to the authorities any amount they are carrying over 2,000 euros. Reportedly, however, cross-border currency reporting requirements are not uniformly enforced at all border checkpoints.

There have been several arrests for money laundering since January 2002. These involved the Greek owners (and their spouses) of vessels transporting cocaine from Colombia and other Western Hemisphere countries. The guilty parties received five-year sentences.

With regard to the freezing of accounts and assets, the GOG is preparing draft legislation to harmonize its laws with relevant legislation of the EU and other international organizations. The basic law on money laundering, Law 2331/1995, will be amended and supplemented accordingly. SDOE has established a mechanism for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes; the proceeds are turned over to the GOG. According to the 1995 law, all property and assets used in connection with criminal activities is seized and confiscated by the GOG following a guilty verdict. Legitimate businesses can be seized if used to launder drug money. Approximately \$10 million was seized over the past year for drug-related crimes. The GOG has not enacted laws for sharing seized narcotics-related assets with other governments.

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. The Ministry of National Economy and Finance is preparing new legislation on money laundering and

terrorist financing that it hopes to introduce in Parliament in the first quarter of 2004. Under this new bill, individuals convicted of financing terrorist groups could face imprisonment of up to ten years. The bill will also incorporate the FATF recommendations on terrorist financing.

The Bank of Greece and the Ministry of National 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 as being linked to the al-Qaida organization or the Taliban, or that the EU has designated under relevant authorities. Suspect accounts (of small amounts) have been identified and frozen.

There are no known plans on the part of the Greek government to introduce legislative initiatives aimed at regulating alternative remittance systems. 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. Charitable and nongovernment 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 (FATF), 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. On June 8, 2000, Greece signed, but has not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Greece has signed bilateral police cooperation agreements with Egypt, Albania, Armenia, France, the United States, Iran, Israel, Italy, China, Croatia, Cyprus, Lithuania, Hungary, the 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 Multilateral Assistance Treaty (MLAT) with the United States, which entered into force November 20, 2001. The Bilateral Police Cooperation Protocol provides a mechanism for exchanging records with U.S. authorities in connection with investigations and proceedings related to narcotics trafficking, terrorism, and terrorist financing. Cooperation between DEA and SDOE has been extensive, and the GOG has never refused to cooperate. The Competent Committee can exchange information with other FIUs, although it prefers to work with a memorandum of understanding in such exchanges.

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. The GOG should also take legislative action to specifically criminalize the financing and support of terrorists and terrorism and should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Grenada

There has been improvement in Grenada's anti-money laundering regime and the supervision of its financial sector. Grenada also has demonstrated consistently good cooperation with the U.S. Government 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 2003, Grenada has two offshore banks, both of which are under GOG regulatory control, one trust company, one management company, and one international insurance company. Grenada is reported to

have over 20 Internet gaming sites. There are 2,293 international business companies (IBCs), and the domestic financial sector includes 6 commercial banks, 26 registered domestic insurance companies, 20 credit unions, and 4 money remitters. The GOG has repealed its economic citizenship legislation, but there are indications that some individuals subsequently were able to purchase citizenship.

In September 2001, the Financial Action Task Force (FATF) placed Grenada on the list of noncooperative countries and territories in the fight against money laundering (NCCT). 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 issued an advisory to 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. Grenada's efforts to put into place the legislation and regulations necessary for adequate supervision of Grenada's offshore sector prompted the FATF to remove Grenada from the NCCT list in February 2003. The Department of Treasury also lifted its advisory on Grenada in April 2003.

Grenada's Money Laundering Prevention Act (MLPA) of 1999, which came into force in 2000, criminalizes money laundering related to offenses under the Drug Abuse (Prevention and Control) Act, whether occurring within or outside of Grenada, or other offenses occurring within or outside of Grenada, punishable by death or at least five years' imprisonment in Grenada. The MLPA also establishes a Supervisory Authority to receive, review, and forward to local authorities suspicious activity reports (SARs) from covered institutions and imposes customer identification requirements on banking and other financial institutions.

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) eliminates the regulator's role in marketing the offshore sector. 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. In the future, GIFSA is expected to assume authority for regulating both onshore and offshore institutions, in some areas sharing supervision with the Eastern Caribbean Central Bank (ECCB). GIFSA will be renamed the Grenada Authority for the regulation of Financial Institutions.

The International Companies Act regulates IBCs and 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 15 registered agents licensed by the GIFSA. There is an ECD\$30,000 (\$11,500) 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 on-site inspections to ensure that the records are being maintained on IBCs and bearer shares. GIFSA began conducting inspections in August 2002.

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 nonfinancial 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 ECCB that grants the ECCB oversight of the offshore banking sector in Grenada. Legislation that would

incorporate the ECCB's new role into existing offshore banking legislation was adopted in 2003 and is expected to go into effect in 2004. 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.

During 2003, the GOG passed the Exchange of Information Act No. 2 of 2003, which will strengthen the GOG's ability to share information with foreign regulators. The Proceeds of Crime (Amendment) Act of 2003 extends anti-money laundering responsibilities to a number of nonbank financial institutions.

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 (regulated financial institutions are required to conduct due diligence checks on account holders) 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.

The Supervisory Authority issues anti-money laundering guidelines pursuant to section 12(g) of the MLPA, that direct financial institutions to maintain records, train staff, identify suspicious activities, and designate reporting officers. The guidelines also provide examples to assist bankers to recognize and report suspicious transactions. The Supervisory Authority is authorized to conduct anti-money laundering inspections and investigations. The Supervisory Authority can also conduct investigations and inquiries on behalf of foreign counterpart authorities and provide them with the results. Financial institutions could be fined for not granting access to Supervisory Authority personnel.

Financial institutions must report SARs to the Supervisory Authority 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 is liable to criminal penalties that include imprisonment or fines up to ECD\$250,000, and possibly revocation of the financial institution's license to operate.

In June 2001, the GOG established a financial intelligence unit (FIU) that is headed by a prosecutor from the Attorney General's office; the staff includes an assistant superintendent of police, four additional police officers, and two support personnel. In 2003, Grenada enacted an FIU Act (No. 1 of 2003). The FIU, which operates within the police force but is assigned to the Supervisory Authority, is charged with receiving SARs from the Supervisory Authority and with investigating alleged money laundering offenses. By November 2003, the FIU had received 66 SARs. The GOG has obtained two drug-related money laundering convictions and has confiscated \$19,000. Three other drug-related money laundering cases are pending before the courts, and \$56,000 has been frozen in connection with those cases.

In 2003, Grenada enacted antiterrorist financing legislation, which provides authority to identify, freeze, and seize terrorist assets. The GOG circulates lists of terrorists and terrorist entities to all financial institutions in Grenada. There has been no known identified evidence of terrorist financing in Grenada. The GOG has not taken any specific initiatives focused on alternative remittance systems or the misuse of charitable and nonprofit entities.

A Mutual Legal Assistance Treaty and an Extradition Treaty have been in force between Grenada and the United States since 1999. Grenada also has a Tax Information Exchange Agreement with the United States. Grenada's cooperation under the Mutual Legal Assistance Treaty has recently been excellent. Grenada is an active member of the Caribbean Financial Action Task Force (CFATF), and underwent a second CFATF mutual evaluation in September 2003. Grenada is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering. Grenada is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism.

Although Grenada has significantly strengthened the regulation and oversight of its financial sector, it must remain alert to potential abuses and must steadfastly implement the laws and regulations it has adopted. The GOG should continue to expose GIFSA, Supervisory Authority, and FIU staff to available training opportunities. The GOG should also continue to enhance its information sharing, particularly with other Caribbean jurisdictions.

Guatemala

Guatemala is a major transshipment country for illegal narcotics from Colombia and precursor chemicals from Europe. Those factors, combined with a historically weak anti-money laundering regime, corruption and increasing organized crime activity, lead authorities to suspect that significant money laundering occurs in Guatemala. According to law enforcement sources, narcotics trafficking is the primary source of money laundered in Guatemala; however, the laundering of proceeds from other illicit sources, such as kidnapping, tax evasion, vehicle theft, and corruption, is on the rise. Officials of the Government of Guatemala (GOG) believe that couriers, offshore accounts, and wire transfers are used to launder funds, which are subsequently invested in real estate, capital goods, or large commercial projects. The large sums of money seized in airports—totaling nearly \$6 million in 2003—suggest that proceeds from illicit activity are regularly hand-carried over Guatemalan borders.

Guatemala is not considered a regional financial center, but it is an offshore center, and some larger banks conduct significant business through their offshore subsidiaries. The Guatemalan financial services industry is comprised of 25 commercial banks, approximately 13 offshore banks, seven licensed money exchangers (hundreds exist informally), 18 insurance companies, 21 financial societies (bank institutions that act as financial intermediaries specializing in investment operations), 32 bonded warehouses, five wire remitters, 160 cooperatives (similar to credit unions), and 13 fianzas (financial guarantors). The Superintendence 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.

All offshore institutions are subject to the same requirements as onshore 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. The law requires offshore banks to be authorized by the Monetary Board and to maintain an affiliation with an onshore institution. It also prohibits an offshore bank that is authorized in Guatemala from doing business in another jurisdiction; however, banks authorized by other jurisdictions may do business in Guatemala under certain limited conditions. Guatemala has recently completed the process of reviewing and licensing its offshore banks, which included performing background checks of directors and shareholders. In order to authorize an offshore bank, the financial group to which it belongs must first be authorized, under a 2003 resolution of the Monetary Board. As of January 2004, thirteen banks have requested Monetary Board authorization through the SIB. Of those, one has withdrawn its petition, one was denied authorization for failure to meet requirements and eleven have been authorized. By law, no offshore financial services businesses other than banks are allowed, but there is evidence that they exist in spite of that prohibition. No offshore trusts have been authorized. Offshore casinos and Internet gaming sites are not regulated.

In June 2001, the Financial Action Task Force (FATF) placed Guatemala on the list of noncooperative countries and territories in the fight against money laundering (NCCT). In its report, the FATF noted that: (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 Superintendence of Banks. The RPDLA, effective May 1, 2001, requires all financial institutions under the oversight and inspection of the SIB to establish anti-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 in detecting suspicious transactions.

In November 2001, Guatemala enacted Decree 67-2001, "Law Against Money and Asset Laundering", to address several of the deficiencies identified by the FATF. Article 2 of the law 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 noncommutable 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. Conspiracy and attempt to commit money laundering are also penalized. Guatemalan authorities have had some success using these conspiracy provisions to target narcotics-traffickers.

Decree 67-2001 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 SIB, 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 law establishes that owners, managers, and other employees are expressly freed from criminal, civil, or administrative liability when they provide information in compliance with the law. However, it holds institutions and businesses responsible, regardless of the responsibility of owners, directors, or other employees, and they may face cancellation of their banking licenses and/or criminal charges for laundering money or allowing laundering to occur.

The requirements also apply to offshore entities that are described by the law as "foreign domiciled entities" that operate in Guatemala but are registered under the laws of another jurisdiction. Obligated institutions are prohibited from maintaining anonymous accounts or accounts that appear under fictitious or inexact names; bearer shares, however, are permitted by nonbanks, and there is banking secrecy. Obligated entities 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 approximately \$10,000. Under the law, obligated entities must maintain records of these registries and transactions for five years.

Decree 67-2001 also obligates individuals and legal entities to report cross-border movements of currency in excess of approximately \$10,000 with the competent authorities. At Guatemala City airport, a new special unit was formed in 2003 to enforce the use of customs forms. Compliance is not regularly monitored at land borders.

Decree 67-2001 establishes a financial intelligence unit (FIU), the Intendencia de Verificación Especial (IVE), within the Superintendence of Banks, to supervise obligated financial institutions and ensure their compliance with the law. The IVE began operations in 2001 and has a staff of 23. The IVE has the authority to obtain all information related to financial, commercial, or business transactions that may be connected to money laundering. Obligated entities are required to report to the IVE any suspicious transactions within twenty-five days of detection and to submit a comprehensive report every trimester, even if no suspicious transactions have been detected. Entities also must maintain a registry of all cash transactions exceeding approximately \$10,000 or more per

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day, and report these transactions to the IVE. The IVE may impose sanctions on financial institutions for noncompliance with reporting requirements.

After receiving the suspicious activity reports (SARs) and currency transaction reports (CTRs), the IVE evaluates the information to determine if its contents are highly suspicious. If so, the IVE gathers further information from public records and databases, other obligated entities, and foreign FIUs, and assembles a case. Bank secrecy can be lifted for the investigation of money laundering crimes. The case must receive the approval of the SIB before being sent to the Anti-Money or Other Assets Laundering Unit within the Public Ministry for investigation. Under current regulations, the IVE cannot directly share the information it provides to the Anti-Money or Other Assets Laundering Unit with any other special prosecutors (principally the anti-corruption or antinarcotics units) in the Public Ministry. From January 2003 to October 31, 2003, the IVE received 439 SARs and forwarded two cases to the Public Ministry for further investigation and prosecution.

Within the Public Ministry, the Anti-Money or Other Assets Laundering Unit processes cases involving money laundering. Since January 1, 2003, there have been three arrests and 50 prosecutions connected to money laundering. The first public trial for money laundering is scheduled for early 2004.

In 2002, failure to comply with money laundering commitments was cited in the U.S. decision to decertify Guatemala as a cooperating country in the fight against narcotics trafficking. However, Guatemala was re-certified in 2003, and its efforts to comply with anti-money laundering commitments were identified as a factor in the decision. Still, the following impediments remain in the implementation of effective anti-money laundering measures: the applicable law does not permit undercover investigations; Guatemala lacks both the legislation and technology to permit police and prosecutors immediate access to public registries; corruption hampers enforcement; and authorities are not permitted to use seized assets to fund anti-money laundering initiatives.

During the FATF's most recent review of noncooperative countries and territories, the FATF inspectors found Guatemala generally to be in compliance in the fight against money laundering. Three specific weaknesses were identified, however. These weaknesses are: (1) bearer shares are still allowed for nonbank entities, preventing true owners or beneficiaries from being traced; (2) authorities have insufficient resources to carry out anti-money laundering investigations; and (3) supervision of offshore banks remains weak. Guatemala remains on the FATF NCCT list.

Under current legislation, any assets linked to money laundering can be seized. Within the GOG, the IVE, the National Civil Police, and the Public Ministry have the authority to trace assets; the Public Ministry can seize assets temporarily or in urgent cases; and the Courts of Justice have the authority to permanently seize assets. The GOG passed reforms in 1998 to allow the police to use narcotics traffickers' seized assets. These provisions also allow for 50 percent of the money to be used by the IVE and others involved in combating money laundering. In 2003, the Guatemalan Congress approved reforms to enable seized money to be shared among several GOG agencies, but the Constitutional Court (CC) temporarily suspended those provisions. This impasse will have to be addressed by the new government that will take office in mid-January 2004.

An additional problem is that the courts do not allow seized currency to be deposited into accounts. For money laundering and narcotics cases, any seized money is deposited in a bank safe and all material evidence is sent to the warehouse of the Public Ministry. 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. In 2003, Guatemalan authorities seized more than \$20 million in bulk currency, including the largest bulk seizure in Guatemalan history: \$14.5 million.

Guatemala has taken a number of initiatives with regard 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. Recently, in accordance with international obligations, a comprehensive counterterrorism law that includes provisions against terrorist financing was introduced in Congress. However, it was not passed during the 2003 election season and will have to be re-introduced in the new Congress in 2004.

Guatemala is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. In November 2000, the GOG ratified the Central American Convention for the Prevention of Money Laundering and Related Crimes. The GOG ratified the UN Convention against Transnational Organized Crime on September 25, 2003, and signed the UN Convention Against Corruption on December 9, 2003. Guatemala is a member of OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), and the Caribbean Financial Action Task Force (CFATF). In 2003, Guatemala's FIU became a member of the Egmont Group. The SIB, through the IVE, has signed Memorandums of Understanding (MOUs) with 16 jurisdictions, including Bolivia, Brazil, Colombia, El Salvador, Spain, Honduras, Mexico, Montserrat, Panama, and the Dominican Republic. During 2003, Guatemala signed MOUs with Venezuela, Argentina, Barbados, Costa Rica, Bahamas and Peru. The SIB has also begun negotiations to sign an MOU with Puerto Rico. On November 5, 2003, the GOG signed an agreement with the USG Office of the Currency Comptroller to cooperate on supervision issues.

Guatemala has made efforts to comply with international standards and improve its anti-money laundering regime. In 2003, Guatemalan authorities applied new procedures to license and monitor offshore banks and demonstrated they could use anti-money laundering laws to successfully target criminals. However, the GOG should pass legislation on the financing of terrorists and terrorism, and continue efforts to implement the needed reforms. Guatemala should also focus its efforts on boosting its ability to successfully investigate and prosecute money launderers, and on distributing seized assets to law enforcement agencies to assist in the fight against money laundering and other financial crime. Corruption and organized crime remain strong forces in Guatemala and may prove to be the biggest hurdles facing Guatemala in the long term.

Guernsey

The Bailiwick of Guernsey (the Bailiwick) covers a number of the Channel Islands (Guernsey, Alderney, Sark, and Herm in order of size and population). The Islands are a Crown Dependency because the United Kingdom (UK) is responsible for their defense and international relations. However, the Bailiwick is not part of the UK. Alderney and Sark have their own separate parliaments and civil law systems. Guernsey's parliament legislates criminal law for all of the islands in the Bailiwick. The Bailiwick alone has competence to legislate in and for domestic taxation. The Bailiwick is a sophisticated financial center and, as such, it continues to be vulnerable to money laundering at the layering and integration stages.

There are 16,340 companies registered in the Bailiwick. Nonresidents own approximately half of the companies, and they have an exempt tax status. These companies do not fall within the standard definition of an international business company (IBC). The remainder of the companies are owned by local residents and include trading and private investment companies. Exempt companies are not prohibited from conducting business in the Bailiwick, but must pay taxes on profits of any business conducted in the islands. Companies can be incorporated in Guernsey and Alderney, but not in Sark, which has no company legislation. Companies in Guernsey may not be formed or acquired without disclosure of beneficial ownership to the Guernsey Financial Services Commission (the Commission).

Guernsey has 65 banks, all of which have offices, records, and a substantial presence in the Bailiwick. The banks are licensed to conduct business with residents and nonresidents alike. There are 578 international insurance companies, and 507 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.

Guernsey has put in place a comprehensive legal framework with which to counter money laundering and the financing of terrorism. 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. The legislation criminalizes money laundering for all crimes, except for drug trafficking, which is covered by the Drug Trafficking (Bailiwick of Guernsey) Law, 2000. The Proceeds of Crime Law and the Regulations are supplemented by Guidance Notes on the Prevention of Money Laundering and Countering the Financing of Terrorism, issued by the Commission. There is no exemption for fiscal offenses. The 1999 law creates a system of suspicious transaction reporting (including about tax evasion) to the Guernsey Financial Intelligence Service (FIS). The Bailiwick narcotics 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 consolidates and extends money laundering legislation related to narcotics trafficking. It introduces 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.

In addition, the Bailiwick authorities have recently approved the enactment of the Prevention of Corruption (Bailiwick of Guernsey) Law of 2003 and have resolved to merge existing drug trafficking, money laundering and other crimes into one statute, and to introduce a civil forfeiture law.

On April 1, 2001, the Regulation of Fiduciaries, Administration Businesses, and Company Directors, etc. (Bailiwick of Guernsey) Law of 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 creates 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 “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. The Bailiwick is fully compliant with the Offshore Group of Banking Supervisors Statement of Best Practice for Company and Trust Service Providers.

Since 1988, the Commission has regulated the Bailiwick’s financial services businesses. The Commission regulates banks, insurance companies, mutual funds and other collective investment schemes, investment firms, fiduciaries, company administrators, and company directors. The Bailiwick 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. All first-time applications to form a Bailiwick company have to be made to the Commission, which then evaluates each application. The court will not permit incorporation unless the Commission and the Attorney General or Solicitor General have given their prior approval. The Commission conducts regular on-site inspections and analyzes the accounts of all regulated institutions.

The Guernsey authorities have established a forum, the Crown Dependencies Anti-Money Laundering Group, where the Attorneys General from the Crown Dependencies, Directors General and other representatives of the regulatory bodies, and representatives of police, Customs, and the FIS, the

Bailiwick's financial intelligence unit, meet to coordinate the anti-money laundering and antiterrorism policies and strategy in the Dependencies.

The FIS, a joint Police and Customs/Excise Service, is mandated to place specific focus and priority on money laundering and terrorism financing issues. Suspicious transaction reports are filed with the FIS, which is the central point within the Bailiwick for the receipt, collation, evaluation, and dissemination of all financial crime intelligence.

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.

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. Currently, similar agreements are being negotiated with other countries, among them members of the European Union.

There has been antiterrorism legislation covering the Bailiwick since 1974. The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002, replicates equivalent UK legislation. The provisions of UN Security Council Resolutions 1373 and 1390 were enacted in domestic law at the same time as they were enacted in the UK. The Bailiwick has requested that the UK Government seek the extension to the Bailiwick of the UN International Convention on the Suppression of the Financing of Terrorism and the UN International Convention for the Suppression of Terrorist Bombing.

In November 2002, the International Monetary Fund (IMF) undertook an assessment of Guernsey's compliance with internationally accepted standards and measures of good practice relative to its regulatory and supervisory arrangements for the financial sector. The IMF report states that Guernsey has a comprehensive system of financial sector regulation with a high level of compliance with international standards. As for anti-money laundering and combating terrorist financing (AML/CFT), the IMF report highlights that Guernsey has a developed legal and institutional framework for AML/CFT and a high level of compliance with the Financial Action Task Force Recommendations.

The Attorney General's Office is represented in the European Judicial Network and has been participating in the European Union's PHARE anti-money laundering project. The Commission cooperates with regulatory/supervisory and law enforcement bodies. It is a member of the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the International Association of International Fraud Agencies, the International Organization of Securities Commissions, the Enlarged Contact Group for the Supervision of Collective Investment Funds, and the Offshore Group of Bank Supervisors. The FIS is a member of the Egmont Group.

After extension to the Bailiwick, 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 Drug Convention. 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 Bailiwick in 1996.

Guernsey has put in place a comprehensive anti-money laundering regime, and has demonstrated its ongoing commitment to fighting financial crime. Bailiwick officials should continue both to carefully

monitor its anti-money laundering program to assure its effectiveness, and to 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. Contraband is common. Merchants dealing in small quantities comprise most of the business transactions in Guinea. 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.

Instability in the region surrounding Guinea also contributes to a permissive environment. Given Guinea's status as a relatively stable country in a troubled region, rebels and/ or refugees from neighboring nations may bring substantial amounts of cash, counterfeit currency and precious stones into 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 arrest or prosecutions for money laundering have been prosecuted since January 1, 2003.

Guinea is a party to the 1988 UN Drug Convention. Guinea is also a party to the UN International Convention for the Suppression of the Financing of Terrorism. A lack of resources makes full implementation of these international standards difficult for the Government of Guinea.

Guinea should enact comprehensive anti-money laundering legislation that criminalizes money laundering and terrorist financing.

Guinea-Bissau

Guinea-Bissau is not considered an important regional financial center. It is a Central Bank of West African States (BCEAO) member country. While anecdotal evidence of money laundering exists, Bissau-Guinean officials are not aware of its extent. Guinea-Bissau has an unofficial money transfer system, similar to the hawala alternative remittance system, but authorities are unaware of the scope of this system. However, there are numerous cases of corruption, narcotics trafficking, arms dealing and other crimes that could engender money laundering. Contraband smuggling exists at border points with neighboring countries, but it is not known whether the resulting funds are being laundered through the banking system. Guinea-Bissau's courts did not function during most of 2003. Public servants are owed months of salary by a government in arrears and corruption is rampant. Money laundering could occur in all these areas and would be extremely difficult to detect.

Guinea-Bissau is a member of the Intergovernmental Group Against Money Laundering (GIABA), a regional body established by the Economic Union of West African States (ECOWAS) to facilitate regional coordination and harmonization of anti-money laundering programs in the region. GIABA recently hosted a self-evaluation exercise on anti-money laundering capabilities in conjunction with the International Monetary Fund and ECOWAS member states.

Guinea-Bissau is reportedly going to adopt a Uniform Act on Money Laundering that implements standards drafted by the West African Economic and Monetary Union (WAEMU) member states in conjunction with GIABA and the BCEAO. Under the harmonized WAEMU standards, Guinea-Bissau will join the other seven WAEMU countries and ultimately the 15 members of ECOWAS in updating the judicial and penal code concerning money laundering and crimes of corruption, establishing a Financial Intelligence Unit (FIU), and strengthening law enforcement and detection capability of money laundering and corruption.

A regulation at the regional level was approved by the council of ministers of the WAEMU on September 19, 2002; this regulation permits the freezing of accounts and other assets related to the financing of terrorism.

No arrests or prosecutions for money laundering or terrorist financing were made in 2003.

Guinea-Bissau is a party to the 1988 UN Drug Convention and has signed, but has not yet ratified, both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It has not signed the UN Convention Against Corruption.

Guinea-Bissau should criminalize terrorist financing and should take steps to develop an anti-money laundering regime in accordance with international standards. Guinea-Bissau should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It should avail itself of the opportunity to work closely with BCEAO and GIABA, as well as other international organizations, toward these ends.

Guyana

Guyana is neither an important regional financial center nor an offshore financial center, nor does it have any notable offshore business sector. The scale of money laundering, though, is thought to be large given the size of the informal economy, which is estimated to be at least 30 percent of the size of the formal sector. Money laundering has been linked to trafficking in drugs, firearms and persons, as well as corruption and fraud. Political instability, government inefficiency, an internal security crisis, and a lack of resources 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. The Government of Guyana (GOG) made no arrests or prosecutions for money laundering in 2003.

The Money Laundering Prevention Act passed in 2000 is not yet fully in force, due to inadequate implementing legislation, difficulties associated with finding suitable personnel to staff the Financial Investigations Unit (FIU) and the Bank of Guyana's lack of capacity to fully execute its mandate. 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 seven 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.

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The GOG established a financial intelligence unit in 2003, although by the end of the year it was not yet fully staffed or equipped.

Asset forfeiture is provided for under the Money Laundering Act, although the guidelines for implementing seizures/forfeitures have not yet been finalized.

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 2001 the Central 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, co-chaired by the Head of the Presidential Secretariat and the Director General of the Ministry of Foreign Affairs. To date the procedures have not been tested, due to an absence of identified terrorist assets located in Guyana.

Guyana is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. A 2002 CICAD review of Guyana's efforts against money laundering 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 participated in that organization's mutual evaluation process. Guyana is a party to the 1988 UN Drug Convention. Guyana has not signed the UN Convention against Transnational Organized Crime nor the UN International Convention for the Suppression of the Financing of Terrorism, although Guyana was debating the Convention in late 2003 and may sign it in early 2004.

Guyana should enact legislation and/or regulations to implement its Money Laundering law. Guyana should provide appropriate resources and awareness training to its regulatory, law enforcement and prosecutorial personnel. Guyana should criminalize terrorist financing and adopt measures that would allow it to block terrorist assets.

Haiti

Haiti is not a major regional financial center, and given Haiti's dire economic condition and unstable political situation, it is doubtful it is a major player in the region's formal financial sector. Most money laundering activity appears to be related to narcotics proceeds (primarily cocaine), although there is a significant amount of contraband passing through Haiti. While the informal economy in Haiti is significant and partly funded by narcotics proceeds, smuggling is historically prevalent and pre-dates narcotics trafficking. Money laundering occurs in the banking system and the nonbank financial system, including in casino, foreign currency, and real estate transactions. Further complicating the picture is the cash that is routinely transported to Haiti from Haitians and their relatives in the United States in the form of remittances. While there is no indication of terrorist financing, Haiti is often a stopover for 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 \$4,550) 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 \$2,275) or forfeiture of the bank's license. 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.

Since 2001, Haiti has used the “Law on Money Laundering from Illicit Drug Trafficking and other Crimes and Punishable Offenses” (AML Law) as its primary anti-money laundering tool. All financial institutions and natural persons are subject to the money laundering controls of the AML Law. The AML 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 AML 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 changers, casinos, and real estate agents. Insurance companies are not covered, but they represent only a minimal factor in the Haitian economy. The AML 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.

Specifically, the AML Law requires financial institutions to establish money laundering prevention programs and to verify the identity of customers who open accounts or conduct transactions that exceed 200,000 gourdes (approximately \$4,550). 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. 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 Unite Centrale de Renseignements Financiers (UCREF), Haiti’s financial intelligence unit (FIU). Bank secrecy or professional secrecy cannot be invoked as grounds for refusing information requests from these authorities.

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 UCREF, is responsible for receiving and analyzing reports submitted in accordance with the AML Law. The UCREF was created through an August 2000 circular by the Ministries of Justice and Public Security and is referenced in the AML Law. The FIU officially opened in December 2003, and by law, has the authority to exchange information with foreign countries. 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 such transactions is punishable by more than three years’ imprisonment. Although established in 2002, the CNLBA is still not fully functional or funded. Additionally, the UCREF does not meet the international standards established by the Egmont Group of FIUs.

The AML Law has provisions for the forfeit and seizure of assets; however, the government cannot declare the asset or business 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. Haiti is considering modifications to the law to strengthen the judicial procedure and asset seizure and forfeit provisions.

Corruption and the large informal economy continue to prevent the full implementation and enforcement of Haiti’s 2001 anti-money laundering law. This is evidenced by the fact that in 2003 there were no arrests or prosecutions for money laundering or terrorism.

Haiti has made little progress regarding terrorist financing in the past year. The government still 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. The AML 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 on the UN 1267 Sanctions Committee's consolidated list. The Central Bank chaired meetings with all bank presidents and requested their cooperation.

Although Haiti has signed the UN Convention against Transnational Organized Crime, the government has not yet ratified the treaty. Haiti is a party to the 1988 UN Drug Convention. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force (CFATF).

In the coming year, the Government of Haiti should make every effort to fully implement the AML Law. Haiti should criminalize terrorist financing and work toward becoming a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should also bring the UCREF into compliance with the Egmont Group standards and seek greater assistance and training for personnel involved in the fight against money laundering.

Honduras

Honduras is not an important regional or offshore 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. The operation of offshore financial institutions is prohibited; casinos, however, remain unregulated.

In 2002, there were major developments in the fight against money laundering in Honduras. 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 criminalized 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. Under the new legislation, Decree No. 45-2002, the Law No. 27-98 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. The law includes banker negligence provisions that make individual bankers subject to two- to five-year prison terms for allowing money laundering activities.

Decree No. 45-2002 also creates a financial intelligence unit, the Unidad de Información Financiera (UIF), within the Honduras National Banking and Securities Commission. Banks and other financial institutions are required to report to the UIF currency transactions over \$10,000 in dollar denominated accounts or 200,000 lempiras (approximately \$11,200) in local currency accounts. The law requires the UIF and reporting institutions to keep a registry of reported transactions for five years. The UIF receives over 2,000 reports per month of transactions over the designated threshold. Banks and other financial institutions are also required to report all unusual or suspicious financial transactions to the UIF. In 2003, the UIF initiated investigations into 74 unusual or suspicious transactions, up from the 24 investigated in 2002. The UIF also responded to 156 requests for investigation made by the Public Ministry, compared to 48 in 2002.

Decree No. 45-2002 requires that a public prosecutor be assigned to the UIF. In 2002, a prosecutor from the Public Ministry was assigned to the unit full-time. In 2003, however, the Public Ministry changed this arrangement so that there are now four prosecutors assigned to the UIF, each on a part-time basis, with responsibility for specific cases divided among them depending on their expertise. The prosecutors, under urgent conditions and with special authorization, may subpoena data and information directly from financial institutions. Public prosecutors and police investigators are permitted to use electronic surveillance techniques to investigate money laundering.

Early in 2003, there was ambiguity as to which of two units within the police forces would have responsibility for the investigation of financial crimes. This issue was resolved by mid-year, with primary responsibility for the investigations assigned to the Office of Special Investigative Services (DGSEI). By the end of 2003, it appeared the various government entities involved in the fight against money laundering—the DGSEI, the UIF and the Public Ministry—were beginning to work well together and communicate more effectively among themselves. In 2003, there were ten cases brought to court under the new law, which were still pending at the year's end.

The National Congress enacted an asset seizure law in 1993 that subsequent Honduran Supreme Court rulings had substantially weakened. Decree No. 45-2002 strengthens the asset seizure provisions of the law, establishing an Office of Seized Assets under the Public Ministry. The law authorizes the Office of Seized Assets to guard and administer “all goods, products or instruments” of a crime. However, the actual process of establishing and equipping this office to carry out its functions has been slow. The implementing regulations governing the Office of Seized Assets were finalized and published in March 2003, and a director of the office was named at the same time. Plans to build separate offices and a warehouse for this entity, however, are still incomplete, resulting in seized assets currently being kept in various locations under dispersed authority. Moreover, in September another government entity made an unsuccessful attempt to take over the function of controlling seized assets from the nascent Office. Consequently, the Office of Seized Assets cannot be said to have established firm control over the asset seizure and forfeiture process. The physical transportation of large sums of cash is a growing phenomenon in Honduras, and since the beginning of 2003, there have been seizures of cash and assets totaling over two million dollars.

The Government of Honduras (GOH) has been supportive of counterterrorism efforts. Decree No. 45-2002 states that an asset transfer related to terrorism is a crime; however, terrorist financing has not been identified as a crime itself. 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 Executive Order 13224 (on terrorist financing). 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, would be frozen. 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.

While Honduras is a major recipient of flows of remittances (estimated at \$800 million in 2003), there has been no evidence to date linking these remittances to the financing of terrorism. Remittances primarily flow from Hondurans living in the United States to their relatives in Honduras. The great majority of these remittances is sent through wire transfer or bank services.

The 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 the 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.

Honduras is a party to the 1988 UN Drug Convention. The GOH is also a party to both the UN International Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. The GOH has signed, but not yet become a party to, the OAS Inter-American Convention on Terrorism, and has not yet signed the UN Convention Against Corruption. 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 2002, Honduras became a member of the Caribbean Financial Action Task Force (CFATF). The UIF has been nominated by Spain for inclusion in the Egmont Group of Financial Intelligence Units. Its entry nomination will be voted upon in October of 2004.

In 2003, the GOH took positive steps to implement Decree No. 45-2002 by establishing and equipping the various government entities responsible for combating money laundering. However, there are only limited resources available for training officials, most of whom lack experience in dealing with money laundering issues. Due to a lack of available technology, most analysis of suspicious transactions reports and cash transaction reports is done manually, which increases the risk of human error and corruption. Further progress in implementing the new money laundering legislation will depend on the training and retention of personnel familiar with money laundering and financial crimes, clearer delineation of responsibility between different government entities, and improved ability and willingness of the Public Ministry to aggressively investigate and prosecute financial crimes. The GOH should continue to support the developing government entities responsible for combating money laundering and other financial crime, and ensure that resources are available to strengthen its anti-money laundering regime. The GOH should ensure full implementation and proper oversight of its asset forfeiture program. The GOH should also criminalize terrorist financing. The GOH should adequately supervise and regulate casinos, nongovernmental organizations, including charities, and alternative remittance systems to lessen their vulnerability to abuse by criminal and terrorist organizations and their supporters.

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 pledged to adhere to the Revised 40 FATF Recommendations. Overall, Hong Kong has developed a strong anti-money laundering regime, though improvements should be made. It is a regional leader in anti-money laundering efforts. Hong Kong has been a member of the FATF since 1990. It served as President of the FATF for the 2001/2002 term and served on the FATF's Steering Group from 2001 to 2003.

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 is punishable by up to 14 years' imprisonment and a fine of HK\$5,000,000 (\$643,000).

Money laundering reporting requirements apply to all persons, including banks and nonbank 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). The JFIU does not investigate suspicious transactions itself, but receives, stores and disseminates suspicious transactions reports (STRs) to the appropriate investigative unit. Typically, STRs are passed to either the Narcotics Bureau or the Organized Crime and Triad Bureau of the Hong Kong Police Force, or to the Customs Drug Investigation Bureau of the Hong Kong Customs and Excise Department.

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 money changers must register their businesses with the police and keep customer identification and transaction records for cash transactions equal to or over \$2,564 (HK\$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 nonresidents, 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 nonresidents 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. There are no legal casinos or Internet gambling sites 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 a low number of suspicious transaction reports in recent years, and have become a focus of attention to improve reporting, as a result.

The open nature of Hong Kong's financial system has long made it the primary conduit for funds being transferred out of China, which maintains a closed capital account. Hong Kong's role has been evolving as China's financial system gradually opens. In November 2003, for instance, China's State Council allowed China's Central Bank, the People's Bank of China, to provide clearing arrangements for banks in Hong Kong to take deposits in the mainland Chinese currency, the yuan, and offer personal banking business in yuan on a trial basis for the first time. This could bring some financial transactions related to China out of the money-transfer industry and into the more highly regulated banking industry. However, this new yuan-denominated banking also carries the risks associated with money laundering.

Under the Drug Trafficking (Recovery of Proceeds) Ordinance (DTRoP) and the Organized and Serious Crimes Ordinance (OSCO), a court may issue a restraining order against a defendant's property at or near the time criminal proceedings are instituted. Both ordinances were strengthened in January 2003, through a legislative amendment lowering the evidentiary threshold for initiating confiscation and restraint orders against persons or properties suspected of drug trafficking. 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. As of December 1, 2003, the value of assets under restraint was \$164 million, and the value of assets under confiscation order, but not yet paid to the government was \$12.98 million, according to figures from the Hong Kong Joint Financial Intelligence Unit. It also reported that as of December 1, 2003, the amount confiscated and paid to the government since the enactment of DTRoP and OSCO was \$49.1 million, and a total of 96 persons had been convicted of money laundering over that period. 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 the following: 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.

Since legislation was adopted in 1994 mandating the filing of suspicious transaction reports (STRs), the number of STRs received by Hong Kong's Joint Financial Intelligence Unit has continually increased. In the first ten months of 2003, a total of 10,149 STRs were filed, compared to a total of 10,871 for the twelve months of 2002. Notwithstanding the trend of increased filings, the Hong Kong Joint FIU hopes to further improve the quality and quantity of STRs by setting up two intelligence analysis teams in April of 2004 in the financial intelligence unit (FIU). They will be tasked with analyzing STRs to develop information that could aid in prosecuting money laundering cases—the number of which has also increased since 1996, soon after the passage of OSCO (1994). In the first nine months of 2003, there were 656 money laundering investigations, compared to 687 cases for all of 2002. In terms of actual prosecutions for money laundering, there were 25 during the first nine months of 2003, compared to 32 for the entire year of 2002. Of the 25 cases prosecuted in this period, 24 of them were prosecuted under OSCO, while only one was prosecuted under DTRoP. From 1996 to September 30, 2003, a total of 163 money laundering cases were prosecuted under OSCO, while only 18 cases were prosecuted under DTRoP.

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 the FATF's Special Recommendations on Terrorist Financing. Hong Kong introduced additional legislation in May 2003 to implement UNSCR 1373 and the Financial Action Task Force (FATF) Special Recommendations on Anti-Terrorist Financing. The United Nations (Anti-Terrorism Measures) (Amendment) Bill was submitted to Hong Kong's Legislative Council in May. After the first reading of the bill, it was referred to the Bills Committee for consideration. The bill aims to implement the remaining requirements of the international conventions against terrorism under UNSCR 1373 and the FATF Special Recommendations.

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. By late 2003, Hong Kong had applied eight of the twelve international antiterrorism conventions, and the government had submitted legislation to Hong Kong's Legislative Council to apply two more. The People's Republic of China has yet to ratify two conventions—the International Convention for the Suppression of the Financing of Terrorism and the Convention on the Physical Protection of Nuclear Material. As such, they have yet to be applied in Hong Kong, since the PRC represents Hong Kong on defense and foreign policy matters, including UN affairs.

In 2003, Hong Kong financial authorities arranged outreach activities to raise awareness of terrorism financing in the financial community. For instance, Hong Kong's bank regulatory agency restructured its bank examinations to focus more on antiterrorism financing. Also, the Hong Kong Monetary Authority (HKMA) drafted a best practice guide for use by financial institutions on how to guard against money laundering in alternative remittance systems and wire transfers. The HKMA, the Securities and Futures Commission (SFC), and the Insurance Authority also circulated new regulations and best practice guides regarding the reporting of terrorist-related property. The Hong Kong government has modified its regulations in line with the FATF's updating of its recommendations. On February 1, 2002, the FATF held a Special Forum on Terrorist Financing at the close of the FATF Plenary meeting in Hong Kong, which was attended by FATF members and members of the FATF-style regional bodies. Hong Kong continued to serve as a FATF Steering Group member until June 30, 2003, during which time it participated in the FATF's Terrorist Financing Working Group, which clarified recommendations on freezing terrorist assets and on combating the abuse of alternative remittance systems and nonprofit organizations.

Domestically, Hong Kong's judicial system tried one terrorism-related case in 2003, pursuant to Section 11(2) of the United Nations antiterrorism measures ordinance. The case concerned a man claiming to be a terrorist who made a hoax bomb threat at a hotel. The man had a previous record of psychiatric treatment, and was sentenced to serve a six-month hospital order. Also, in 2002 and 2003, Hong Kong authorities cooperated with U.S. law enforcement in a case involving the exchange of drugs for Stinger missiles allegedly for use by al-Qaida in 2002. In a sting operation coordinated with the U.S., the suspects came to Hong Kong to finalize the deal, and were arrested in 2002. Hong Kong extradited them to the U.S. in 2003. The Hong Kong police also assisted the U.S. in additional terrorism investigations in 2003. In one such case, Hong Kong provided law enforcement assistance in a case involving seven people charged with conspiracy to provide material support to terrorist organizations.

In 2003, Hong Kong took part in the International Monetary Fund's Financial Sector Assessment Program (FSAP), which aims to strengthen the financial stability of a jurisdiction by identifying the strengths and weaknesses of its financial system and assessing compliance with key international standards. As part of the FSAP, a team of IMF and World Bank-sponsored legal and financial experts assessed the effectiveness of Hong Kong's antiterrorist financing regime against the FATF Forty Recommendations and the FATF Eight Special Recommendations on Terrorist Financing. In its assessment published in June 2003, the IMF described Hong Kong's anti-money laundering measures as "resilient, sound, and overseen by a comprehensive supervisory framework."

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 for Hong Kong is the laundering of criminal proceeds by nonfinancial 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.

As of October 2003, Hong Kong had mutual legal assistance agreements with a total of fifteen other jurisdictions: Australia, Canada, the U.S., Italy, the Philippines, the Netherlands, Ukraine, Singapore, Portugal, Ireland, France, the United Kingdom, New Zealand, the Republic of Korea, and Switzerland. Hong Kong has also signed surrender of fugitive offenders agreements with 13 countries—including the U.S.—and has signed transfer of sentenced persons agreements with seven countries, including the U.S. 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 largely cash-based.

Hungary has an offshore market but prohibits offshore companies from providing financial and banking services. Hungary has licensed approximately 600 international businesses that are mainly owned by foreigners and enjoy a corporate tax rate of three percent as opposed to the usual rate of 18 percent. This favorable tax treatment will be abolished, effective in 2005. Hungary does not have current provisions concerning the criminal liability of legal persons. Act CIV of 2001, which addresses this omission, is expected to enter into force on May 1, 2004—the day the Act Proclaiming the International Treaty on the Accession of the Republic of Hungary to the European Union enters into force.

Money laundering related to all serious crimes is a criminal offense in Hungary. In April 2002, Section 303 of the Penal Code on Money Laundering was amended to criminalize the laundering of one’s own proceeds, laundering through negligence, and conspiracy to commit money laundering, as punishable offenses. Laundering one’s own proceeds has been applied in cases currently under investigation. The Government of Hungary (GOH) has also adopted a new government decree to further strengthen its Financial Intelligence Unit (FIU) and tighten anti-money laundering provisions.

Act No. XV of 2003, “On the Prevention and Impeding of Money Laundering,” which passed on February 25, 2003 and became effective June 16, 2003, amends the 1994 law, criminalizing tipping off and forcing self-regulating professions to submit internal rules to identify asset holders, track transactions, and report suspicious transactions. Self-regulating bodies have oversight responsibility but are not required to report suspicious transactions themselves. Hungary’s financial regulatory body, the Hungarian Financial Supervisory Authority (PSzAF), will harmonize these rules and ensure compliance. In addition, more professions were added to the list of obligated entities, including lawyers and notaries. These professions, like others without a supervisory body, will be supervised by Hungary’s FIU, the Anti-Money Laundering Section (AMLS). The Act also places Hungary’s laws into compliance with the Second European Union (EU) Directive and settles all aspects of the

regulations previously left pending, such as the coverage of lawyers, notaries and nonfinancial businesses and professions. The amendments also set a deadline of December 31, 2003, for financial institutions to register their client information into their records. However, because of concerns expressed by banks regarding the new identification requirements, this deadline has been extended to April 2004. 2003 also brought changes in the cross-border currency transactions; now, all monetary instruments exceeding one million Hungarian forint (HUF) (about 3,800 euro) must be reported to customs at the border, with the penalty for nonreporting 50,000 HUF and confiscation. On July 1, 2003, Hungary's new Criminal Procedure Code went into effect.

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. This is an inter-ministerial body incorporating the FIU, Ministries of Finance, Justice, Interior, the Prosecutor's Office, Supreme Court and PSzAF. 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.

The cross-border movement of cash greater than one million HUF (approximately \$4,000) must be declared to the customs authority, which immediately forwards it to the 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), including those that could be related to terrorist financing.

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, PSzAF, supervises the financial sector, including compliance with anti-money laundering requirements and including bureaux de change. PSzAF oversees about 2,000 institutions. PSzAF has authority to conduct money laundering inspections and to impose sanctions upon noncompliant institutions. In 2002, PSzAF decided to increase oversight over the currency exchange sector by forcing moneychangers without an agreement with a commercial bank to cease operations on July 1, 2002. Of the 120 completed on-site inspections of financial institutions conducted between July 1, 2002, and June 1, 2003, PSzAF found irregularities serious enough to justify supervisory sanctions, including fines. Most fines were due to deficiencies in customer identification and registration procedures. By June 2003, PSzAF had withdrawn the licenses of three bureaux de change because of faulty internal regulations. In the third quarter of 2003, PSzAF undertook 74 specific money laundering inspections, and one case is currently under investigation. In October 2003, legislation was submitted to Parliament that would restructure the PSzAF (effective by 2004). It eliminates the current one-person head of PSzAF, replacing it with a board of supervisors elected by Parliament at the proposal of the Prime Minister and President. In addition, the Finance Minister's supervision would be more explicitly set forth. It appears that the independence of PSzAF will remain unaffected and the amendment could, in fact, have the potential to increase PSzAF's accountability in supervising financial markets.

In June 2001, the FATF placed Hungary on the list of noncooperative countries and territories (NCCT), in the fight against money laundering, principally due to the continued 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

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those deficiencies, the FATF removed Hungary from the NCCT list and the U.S. advisory was lifted. In summer 2003 the FATF lifted its monitoring of Hungary entirely.

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. 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 two million HUF (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. By June 2003, 90 percent of the anonymous passbooks had been transferred to identifiable accounts. A recent modification of the Anti-Money Laundering legislation (2003. XV) requires that all account holders who have not provided the required identification data and/or have not declared sole authority over their account and named beneficiaries should provide such information by April 1, 2004 or their transactions will be denied.

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 are licensed and supervised by the PSzAF. 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 file an STR with AMLS for any currency exchange transaction meeting or exceeding 300,000 HUF (approximately \$1,300). The bureaux also are required to have in operation video surveillance systems in their offices to record currency exchange activities.

A reorganization has placed the AMLS in the Directorate against Organized Crime (ORFK(SZEBI)). 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. To December 2003, AMLS received 11,269 STRs, 2000 from nonbanking institutions. Staffing at the AMLS has tripled since 2002 in order to deal with the rapid increase in the number of STRs received from the expanded range of reporting institutions, and further increases are coming, commensurate with its increased responsibility. AMLS staff members, along with PSzAF employees, are involved in training and raising awareness of employees within the obligated institutions, as well as members of the general public. Most recently, they held training for police, prosecutors, and customs agents in May 2003. Of the STRs received in 2003, only ten are currently under investigation. AMLS officials note that there are problems with the quality of the reporting as well as overreporting due to a fear of negligent money laundering. On January 14, 2004 Monika Lamperth, Minister for Home Affairs, announced the replacement of the Directorate Against Organized Crime, incorporating AMLS with a National Bureau of Investigation. The reorganization of SZEBI and the AMLS will take place in summer 2004. At this point it appears that the AMLS, which is a clearly defined, separate unit, would be merged and/or incorporated into other police sections.

In 2000, Hungary established 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 initiated ten money laundering investigations in 2003. Two individuals were apprehended and arrested, resulting in two prosecutions—one acquittal and one conviction. In these cases, the predicate offense was fraud. 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.

In June 2003, a money laundering scandal broke involving a Hungarian subsidiary of a Dutch-owned bank. A broker apparently skimmed funds from some clients in order to pad the returns of other, more favored clients. Money was laundered through several banks as well as some foreign nationals. The AMLS is currently investigating the case, which has expanded to 12 suspects and financial damages

estimated at \$45 million. With the organizational changes in AMLS, it is unclear how long it will take to conclude the investigation. It also is unclear whether PSzAF could be held responsible for improper reporting, as it warned the bank of improper recording procedures as early as 2000. The prosecution has denied the AMLS request to call the Head of PSzAF as a witness and has not responded to repeated requests for supporting evidence.

Act CXXI of 2001 provides for reversal of the burden of proof in cases of confiscations from persons part of a criminal organization; however, this provision has not been used in practice. Hungary's confiscation regime is also defined by Act CXXI of 2001, which came into force on April 1, 2002, and considers all benefits or enrichment originating from a criminal act to be illegal. The present provision in force contains no reference to the knowledge of the origin of assets as a condition of asset confiscation from third parties, although assets obtained by a third party in a bona fide manner may not be confiscated. Hungary cooperates with requests for provisional orders, in one case freezing a bank account, in another freezing all assets, and in a third case carrying out an external confiscation order for the German Ministry of Justice in accordance with the Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime.

In November 2001, the Hungarian Parliament approved Parliamentary Resolution 61/2001 (IX.24) on Hungary's contribution to Operation Infinite Justice (the U.S. operation against Afghanistan), 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 counterterrorism and money laundering. The last 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 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.

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 they are prepared to freeze any such accounts in the future. With the Act on the International Co-Operation of Investigative Bodies, AMLS has the right to directly exchange information with all types of FIUs. (The head of the National Police still retains the right to sign MOUs.)

Hungary is party to a Mutual Legal Assistance Treaty with the United States, and signed, in January of 2000, a nonbinding 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) 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. Hungary also signed the UN Convention Against Corruption on December 10, 2003. Hungary became a party to the UN International Convention for the Suppression of the Financing of Terrorism in October 2002.

While it is clear that Hungary has made progress in improving anti-money laundering legislation, there is room for improvement, particularly in financial supervision and prosecution. Hungary should

continue to improve the effectiveness of its prosecutions by further training prosecutors, judges, and police so that it may successfully prosecute money laundering cases under the post-2001 legislation. The GOH should criminalize terrorist financing. The GOH 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 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 Icelandic Penal Code specifies that sentences be determined based on the worst crime. Therefore, if a case involves both drug offenses and money laundering, the sentence will be based on the laws that concern the drug case. In cases that concern money laundering activities only, the maximum sentence is ten years' imprisonment.

Iceland based its money laundering law on the Financial Action Task Force's (FATF's) Forty Recommendations. In 1999, Iceland amended its 1993 Act on Measures to Counteract Money Laundering (MCML). The amendments increase the number and types of occupations and individuals that fall under the anti-money laundering law. The amendment also applies due diligence laws to all banks, nonbanking financial institutions, and intermediaries (such as lawyers and accountants). There are provisions in the law that allow for a fine or imprisonment for up to two years for failure to comply.

In 2003, two additional amendments were made to counteract money laundering. The first amendment is based on the European Union Directive and requires the National Commissioner of Police to provide the public with general information and advice on how to detect money laundering and suspicious transactions. Additionally, the first amendment requires banks and financial institutions to pay special attention to noncooperative countries and territories (NCCTs) that do not follow international recommendations on money laundering. The Financial Supervisory Authority (FME), the main supervisor of the Icelandic financial sector, is to publish announcements and instructions if special caution is needed in dealing with any such country or territory.

The second amendment to the MCML moves the responsibility of the National Registry of Firms from the Icelandic Statistical Office to the Internal Revenue Directorate. This amendment imposes new obligations on legal entities to provide greater information about their activities when registering, and increases the measures that Icelandic authorities can take to enforce the MCML.

The MCML requires banks and other financial institutions, upon opening an account or depositing assets of a new customer, to have the customer prove his or her identity by presenting personal identification documents. Additionally, if the individual is not a regular customer, the financial institution is required to obtain proof of identification for transactions in excess of 1,000,000 krona (approximately \$15,000). The financial institutions may also request identification for transactions under the reporting requirement if the transaction is of a suspicious nature.

Financial institutions 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. The MCML requires that banks and other financial institutions report all suspicious transactions to the Economic Crime Division of the National Commissioner of Police, which is Iceland's financial intelligence unit (FIU).

Suspicious transaction reports (STRs) are on the rise in Iceland, but the authorities believe this increase is due to increased training of bank employees, increasing cooperation between authorities

and financial institutions, and an increased awareness of the importance of the issue. During the first 11 months of 2002, the number of STRs totaled 163 and for the same period in 2003 the number had increased to 213. All the STRs in 2003 were domestic in origin and were either narcotics-related (83 percent) or financial transaction-related (17 percent). The ratio of STRs that are linked to illegal financial operations has been increasing in recent years.

The first successful prosecution under the money laundering law occurred in 2000. Five additional cases were tried in 2001, all of which resulted in convictions; three were appealed to the Supreme Court where the convictions were upheld. There were no prosecutions in 2002. In 2003 two cases were tried and resulted in convictions, but they also may be appealed to the Supreme Court.

The Icelandic National Commissioner of Police's Economic Crime Division (NCP) is the primary government agency responsible for asset seizures. According to Iceland's Code on Criminal Procedure, if there is suspicion of criminal activity, the NCP can take measures such as freezing or seizing funds. There are no significant obstacles to asset seizure, as long as the NCP, when requesting such measures, can demonstrate a reasonable suspicion of illegal activity to the court. The FME and the NCP make every effort to enforce existing drug-related asset seizure and forfeiture laws. Asset seizure has in recent years become quite common in embezzlement crimes, while only a small fraction of total asset seizures have related to money laundering. Under the Icelandic Penal Code, any assets confiscated on the basis of money laundering investigations must be delivered to the Icelandic State Treasury. There have been no instances of the U.S., or another government, requesting seized assets from Iceland. If such a situation arose, the sharing of seized assets with another government would only become possible through new legislation drafted for this specific purpose.

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. In March 2003, an amendment to the Law on Official Surveillance on Financial Operations was passed. It strengthens Iceland's ability to adhere to international money laundering and asset freezing initiatives and agreements. In accordance with international obligations or resolutions to which Iceland is a party, the FME shall publish announcements on individuals or legal entities (companies) whose names appear on the UN or European Union lists and whose assets or transactions Icelandic financial institutions are specifically obliged to report to authorities and freeze. Prior to the amendment the government had to publish the names of terrorist individuals and organizations in the National Gazette in order to make them subject to asset freezing. The government formally enacted financial freeze orders against individuals and entities on the UNSCR 1267/1390 consolidated list of terrorists. Government of Iceland (GOI) officials have said they will consider applying their terrorist asset freeze strictures against U.S.-only designated entities (i.e., names not on UN or EU lists), on a case-by-case basis. To date, Iceland has discovered no terrorist-related assets or financial transactions.

When dealing with other European Economic Areas (EEA) member countries, the FME can disclose confidential information to their supervisory authorities provided that this sharing constitutes an act of law enforcement cooperation and is beneficial for conducting investigations of suspicious money laundering activities, and information provided is kept confidential by the receiving countries' authorities as prescribed by law. Concerning requests for information from countries outside of the EEA, the FME may, on a case-by-case basis, disclose to supervisory authorities information under the same conditions of confidentiality. To date there have been no requests from either EEA or non-EEA countries for an exchange of information concerning suspected acts of money laundering. This likely explains why there is currently no agreement (or discussions toward one) between Iceland and the U.S. to exchange information concerning financial investigation, and no MLAT (Mutual Legal Assistance Treaty). The National Commissioner of Police has acted on tips from foreign law enforcement agencies in the investigation of money laundering activities, and the process of

international cooperation with the law enforcement authorities of other countries appears to work smoothly.

Iceland is a party to the 1988 UN Drug Convention; the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; and the UN International Convention for the Suppression of the Financing of Terrorism. Iceland has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Iceland is party to several multilateral conventions on terrorism and rules of territorial jurisdiction, including the 1977 European Convention on the Suppression of Terrorism. Iceland is a member of the FATF, and its financial intelligence unit is a member of the Egmont Group.

Iceland should continue to enhance its anti-money laundering/antiterrorist financing regime. If it has not already done so, Iceland should specifically criminalize the financing of terrorism and terrorists.

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 (particularly diamonds), smuggling, trafficking in persons, corruption, and income tax evasion. However, India's historically strict foreign-exchange laws, transaction reporting requirements, and banking industry's know-your-customer policy make it difficult for criminals to use banks or other financial institutions to launder money. Rather, large portions of 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 narcotics, gold, or trade items into currency. In addition, many individuals are suspicious of banks and prefer to avoid the lengthy paperwork required to complete a money transfer through a financial institution. Hawala dealers can provide the same service with little or no documentation and at rates less than that charged by banks.

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. (India liberalized its gold trade restrictions in the mid-1990s). In recent years, it is believed that the growing Indian diamond trade has also been increasingly important in providing countervaluation 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.

Perhaps the largest source of money laundering activity in India is income tax evasion. Changes in the tax system are gradually being implemented, as the Government of India (GOI) now requires individuals to use a personal identification number to pay taxes, purchase foreign exchange, and apply for passports. However, tax evasion remains widespread.

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. In 2002, the last year for which statistics are available, the

Narcotics Control Bureau froze assets of about \$104,000; about \$262,000 was forfeited pursuant to the NDPS, although there still have not been any prosecutions.

The Foreign Exchange Management Act (FEMA), which was enacted in 2000, is one of the GOI's primary tools for fighting money laundering. Like its predecessor, the Foreign Exchange Regulation Act, the FEMA's objectives include the establishment of controls over foreign exchange, the prevention of capital flight, and the maintenance of external solvency. FEMA also imposes fines on unlicensed foreign exchange dealers. A closely related piece of legislation is the Conservation of Foreign Exchange and Prevention of Smuggling Act (COFEPOSA), which provides for preventive detention in smuggling and other matters relating to foreign exchange violations. The Ministry of Finance's Enforcement Directorate enforces FEMA and COFRPOSA.

The Reserve Bank of India (RBI), India's Central Bank, plays an active role in the regulation and supervision of foreign exchange transactions. Hawala can also be synonymous with foreign exchange. Although hawala is widespread in India, hawala transactions continue to be illegal. In response to questions from U.S. Treasury officials in November 2003 about the possibility of having hawala dealers register, as has been the case in some neighboring jurisdictions, Indian Ministry of Finance (MOF) officials said they have no plans to do so. RBI has become more receptive to anti-money laundering initiatives, especially those related to terrorist financing, and in 2002 set up a special unit to provide anti-money laundering guidance to the Ministry of Finance (MOF). RBI 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 interministerial 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. India's President signed the law 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 MOF. However, MOF officials note that the law does not, significantly, list tax evasion as a predicate offense. A series of implementing rules and regulations to the law will be finalized in early 2004.

Many banking institutions have taken steps on their own to combat money laundering. Each bank has compliance officers to ensure that existing anti-money laundering regulations are observed. The RBI issued a notice in 2002 to commercial banks instructing them to adopt 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.

The new FIU is scheduled to become operational in January 2004. The FIU will be an independent unit located within the MOF's Central Economic Intelligence Bureau. Its initial staff of about 50 people will come from various government ministries, including the security agencies, RBI, Customs, Inland Revenue, and the private sector. Top management will come from the MOF's revenue department. It will be an analytical unit and will not have investigative powers.

Until the new FIU becomes fully operational, the Central Economic Intelligence Unit (CEIB) will continue to serve as the GOI's lead organization for fighting financial crime; it already receives suspicious transaction reports, of which, according to GOI officials in November 2003, there is a backlog. The Central Bureau of Investigation is also active in anti-money laundering efforts and

hawala investigations. Other organizations such as the Directorate of Revenue Intelligence, Customs and Excise, the RBI, and the MOF 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 nonresident 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 financially, 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. It is a signatory to but has not yet ratified the UN Convention against Transnational Organized Crime. In October 2001, India and the United States signed a mutual legal assistance treaty, which the U.S. Senate ratified in November 2002. India took steps in 2003 to move towards ratification of the treaty. The Cabinet Committee on Security will make the formal decision on ratification, which is expected in early 2004. India has also signed a police and security cooperation protocol with Turkey, which among other things provides for joint efforts to combat money laundering. An evaluation team from the FATF was scheduled to visit India during the second half of December 2003, preparatory to India's joining that organization. The nascent FIU, after it becomes operational, will seek to join the Egmont Group.

India became a party to the UN International Convention for the Suppression of the Financing of Terrorism in April 2003. 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 (POTA), which criminalizes terrorist financing. In March 2003, the GOI announced that it had charged 32 terrorist groups under POTA and had notified three others that they were involved in what were considered illegal activities. In July 2003, the GOI announced that it had arrested 702 persons under POTA. 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, if necessary, should increase law enforcement actions in this area. Indian involvement in the underworld of the international diamond trade should be examined. India should pursue its efforts to join the FATF. It also needs to quickly finalize the implementing regulations to the anti-money laundering law and bring the new FIU up to speed 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

Although neither a regional financial center nor an offshore haven, Indonesia remains vulnerable to money laundering and terrorist financing due to the lack of a poorly regulated financial system, the lack of effective law enforcement and widespread corruption.

Most laundered money derives from nondrug 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

illicit activities are easily parked offshore and only repatriated as required for commercial and personal needs.

The Financial Action Task Force (FATF) included Indonesia on the list of noncooperating countries and territories (NCCT) at its June 2001 plenary. The designation was based on the following: Indonesia had no 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; the advisory is still in effect. Indonesia remained on the FATF NCCT list, as of December 2003.

Until recently, banks and other financial institutions did not routinely question the sources 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) became 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 on Criminal Acts of Money Laundering, Indonesia’s anti-money laundering (AML) law, 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 financial intelligence unit (FIU), the Center for Reporting and Analysis of Financial Transactions (PPATK), to develop policy and regulations to combat money laundering. The PPATK was established in December 2002 and became fully functional in October 2003.

The PPATK is an independent agency that receives, maintains, analyzes, and evaluates currency and suspicious financial transactions, provides advice and assistance to relevant authorities, and issues publications. As of September 2003, the PPATK has received 244 STRs from over 27 banks. 43 STRs have been referred to the police; four STRs has been referred to the Attorney General. However, no cases have progressed to the level of court hearings.

In September 2003, Parliament passed The Amending Law that amended its anti-money laundering legislation. The FATF publicly welcomed this law which addresses the key deficiencies previously identified by the FATF. As a result this substantial progress, Indonesia avoided additional countermeasures and was invited to submit an implementation plan.

The Amending Law provides a new definition of the crime of money laundering making it an offense for anyone to deal intentionally with assets known or reasonably suspected to constitute proceeds of crime with the purpose of disguising or concealing the origins of the assets, as seen in Articles 1(1) and 3. The Amending Law removes the threshold requirement for proceeds of crime and expands the definition of proceeds of crime to cover assets employed in terrorist activities. Article 1(7)(c) expands the definition of Suspicious Transaction Reports (STR) to include attempted or unfinished transactions. Article 12A introduces a scheme of administrative sanctions (in addition to criminal sanctions) for failure to make STRs. Article 13(2) shortens the time to file an STR to 3 days or less after the discovery of an indication of the suspicious transaction. Article 17A creates an offense of disclosing information about reported transactions to third parties, which carries a maximum of five years’ imprisonment and a maximum of one billion rupiah (approximately \$118,000). Articles 44 and 44A provide for mutual legal assistance, with the ability to provide assistance using the compulsory powers of the court. Article 44B imposes a mandatory obligation on the PPATK to implement provisions of international conventions or recommendations on the prevention and eradication of money laundering.

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 million (approximately \$11,800). 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 100 million in cash must report such transactions to Customs. 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 bank secrecy laws concerning information regarding a depositor and his accounts. Such information is generally kept confidential and can only be accessed by the authorities in limited circumstances. However, Article 27(4) of the ML Law now expressly exempts the PPTAK from “the provisions of other laws related to bank secrecy and the secrecy of other financial transactions” in relation to its functions in receiving and requesting reports and conducting audits of providers of financial services. In addition, Article 14 of the ML exempts providers of financial services from bank secrecy provisions when carrying out their reporting obligations, and Article 15 of the Law gives providers of financial services, their official and employees protection from civil or criminal action in making such disclosures.

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 been either 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 antiterrorism regulations, the Government Regulations in Lieu of Law of the Republic of Indonesia No. 1 of 2002 on Eradication of Terrorism (Perpu), criminalize terrorism and provide 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. This regulation is necessary because Indonesia’s anti-money laundering 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 UNSCR 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 nonprofit 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 and the Bank for International Settlements. 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. 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 non-money laundering cases. 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. The AML Law contains a specific provisions (Article 44 and 44 A) with provide for mutual legal assistance with respect to money laundering cases. The Government of the Republic of Indonesia should continue to implement its money laundering legislation. In particular, the GOI must effectively implement the laws and procedures it has put in place and should streamline its asset seizure and forfeiture procedures. Indonesia should review the adequacy of the Code for Criminal Procedure and the Rules of Evidence and enact legislation to allow the use of intelligence for investigations and the use of modern techniques to enter evidence in court proceedings. The Republic of Indonesia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Iran

The U.S. Department of State has designated Iran as a State Sponsor of Terrorism. Iran is not a regional financial center. Iran has a robust underground economy and the use of alternative remittance systems to launder money is widespread. The underground economy is spurred—in part—by attempts to avoid restrictive taxation. In 2003, a prominent Iranian banking official was quoted as estimating that money laundering encompasses 20 percent of Iran's economy and that the under-development of financial institutions leads to an imbalance in financial markets causing underground financial activities to flourish. Further, 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 barter trade 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. Many of these goods are eventually found on the regional black markets. Iran is also a major transit route for opiates smuggled from Afghanistan.

In 2003 the Majlis (Parliament) passed an anti-money laundering act. The law includes customer identification requirements, mandatory record keeping for five years after the opening of accounts, and the reporting of suspicious activities.

Iran is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It does not have a law on terrorist financing. In 2003, the Government of Argentina moved forward on indictments against four Iranian officials

involved with the material support and funding of the 1994 terrorist bombing of the Argentine-Jewish Cultural Center in Buenos Aires.

Iran should construct a viable anti-money laundering/terrorist financing regime that adheres to international standards. Iran should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism and should stop the support and funding of terrorism.

Ireland

The primary sources of funds laundered in Ireland are narcotics trafficking, fraud and tax offenses. Money laundering mostly occurs in financial institutions and bureaux de change. Additionally, investigations in Ireland indicate that some business professionals have specialized in the creation of legal entities, such as shell corporations, as a means of laundering money. Trusts are also established as a means of transferring funds from the country of origin to offshore locations. The use of shell corporations and trusts makes it more difficult to establish the true beneficiary of the funds, which makes it difficult to follow the money trail and establish a link between the funds and the criminal.

The use of solicitors, accountants, and company formation agencies in Ireland to create “shell companies” has been cited in a number of suspicious transaction reports (STRs), 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 a company formation agency.

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. The financial institutions are also required to implement customer identification procedures, and retain records of financial transactions. In July 2003, Ireland amended its Anti-Money Laundering law to extend the requirements of customer identification and suspicious transaction reporting to lawyers, accountants, auditors, real estate agents, auctioneers, and dealers in high-value goods, thus aligning its laws with the European Union’s Second Money Laundering Directive of 2001. The Irish Financial Services Regulatory Authority (IFSRA) supervises the financial institutions for compliance with money laundering procedures. In addition to STRs, there are customs reporting requirements for anyone transporting more than 12,700 euros.

Ireland’s international banking and financial services sector is concentrated in Dublin’s International Financial Services Centre (IFSC). Approximately 400 international financial institutions and companies operate in the IFSC. Services offered include banking, fiscal management, re-insurance, fund administration, and foreign exchange dealing. The IFSRA regulates the IFSC companies which conduct banking, insurance, and fund transactions. Tax privileges for IFSC companies have been phased out over recent years and will totally expire in 2005.

In 1999, the Corporate Law was amended to address problems arising from the abuse of Irish-registered nonresident companies (companies which are incorporated in Ireland, but do not carry out any activity in the country). The legislation requires that every company applying for registration must demonstrate that it intends to carry on an activity in the country. Companies must maintain at all times an Irish resident director or post a bond as a surety for failure to comply with the appropriate company law. In addition, the number of directorships that any one person can hold, subject to certain exemptions, is limited to 25. This is aimed at curbing the use of nominee directors as a means of disguising beneficial ownership or control.

In August 2001, the Government of Ireland (GOI) enacted the Company Law Enforcement Act 2001 (Company Act), to deal with problems associated with shell companies. The legislation establishes the Office of the Director of Corporate Enforcement (ODCE), whose responsibility it is to investigate and enforce the Company Act. The ODCE also has a general supervisory role in respect of liquidators and receivers. Under the law, the beneficial directors of a company have to be named. The Company Act also creates a mandatory reporting obligation for auditors to report suspicions of breaches of company law to the ODCE. In 2003, the ODCE had 18 prosecutions resulting in fines of varying amounts.

The Bureau of Fraud Investigation (BFI) serves as Ireland's financial intelligence unit (FIU) and has moved from the Department of Crime and Security to the Department of National Support Services. The Bureau analyzes financial disclosures. On May 1, 2003, a new Irish legal requirement went into effect, mandating obligated reporting institutions to file STRs with the Revenue (Tax) Department in addition to the BFI. Ireland estimates that up to 95 percent of STRs may involve tax violations. The Value Added Tax (VAT) fraud scams are the most prolific and have increased significantly over the past two years.

The STRs filed by financial institutions have increased over the past four years from 1,421 reports filed in 1999 to 4,398 filed in 2002. Investigations of money laundering cases have increased from 1,520 in 1999 to 4,398 in 2002. Convictions for money laundering offenses under the Criminal Justice Act totaled seven in 1999, ten in 2000, four in 2001 and two in 2002. A conviction on charges of money laundering carries a maximum penalty of 14 years' imprisonment and an unlimited fine.

Under certain circumstances, the High Court can 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 Criminal Assets Bureau (CAB) was established in 1996 to confiscate the proceeds of crime in cases where there is no criminal conviction. The CAB includes experts from Police, Tax, Customs and Social Security Agencies. In 2002, the CAB obtained High Court orders to confiscate assets totaling 44 million euros.

In 2002, the GOI introduced new legislation targeting fundraisers for both international and domestic terrorist organizations. The "Suppression of the Financing of Terrorism" bill, currently undergoing parliamentary committee review, will extend the existing powers of the Government to seize property and/or other financial assets belonging to groups suspected of involvement with the financing of terrorism. The bill will allow the Garda Siochana (the national police) to apply to the courts to freeze assets where certain evidentiary requirements are met. Ireland has reported to the European Commission the names of six individuals who maintained a total of nine accounts that were frozen in accordance with the provisions of the EU Anti-Terrorist Legislation. The aggregate value of the funds frozen was approximately 90,000 euros.

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 remitted payments from its legitimate bank account to entities in other jurisdictions, on behalf of the terrorist organization.

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 in force. Ireland is a member of the EU, the Council of Europe and the FATF. The FIU is a member of the Egmont Group. Ireland has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. 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.

Expedient enactment of the pending antiterrorist funding bill, implementation of Ireland's new anti-money laundering law amendments plus stringent enforcement of all such initiatives, will ensure that Ireland maintains an effective anti-money laundering program. Ireland should become a party to the UN International Convention for the Suppression of the Financing of Terrorism Ireland should ensure its offshore sector is adequately supervised. Ireland should require the beneficial owners and nominee directors of shell companies and trusts are properly identified.

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 vulnerable to money laundering at the layering and integration stages.

As of September 30, 2003, the IOM's financial industry consists of approximately 18 life insurance companies, 22 insurance managers, more than 170 captive insurance companies, more than 14.7 billion pounds (approximately \$24.9 billion) in life insurance funds under management, 57 licensed banks and two licensed building societies, 85 investment business license holders, 28.9 billion pounds (approximately \$49.1 billion) in bank deposits, and 192 collective investment schemes with 5.3 billion pounds (approximately \$9 billion) of funds under management. There are also 159 licensed corporate service providers, with approximately another 25 seeking licenses.

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 and professionals such as banks, fund managers, stockbrokers, and 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, trust service providers, and money service businesses (MSBs), such as bureaux de change and money transmitters, are obligated to know their customer.

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, insurance management companies, general insurance intermediaries, and retirement benefit schemes and their administrators. Instances of failure to disclose suspicious activity would result in both a report being made to the Financial Crimes Unit (FCU), the IOM's financial intelligence unit (FIU), and possible punitive action by the regulator, which could include revoking the business license. 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 FCU and the Isle of Man Customs and Excise.

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. Further work between the Crown Dependencies is being undertaken to develop a coordinated strategy on money laundering, to ensure compliance as far as possible with the newly revised FATF Forty Recommendations issued in June 2003. The IOM is also assisting the FATF Working Groups considering matters relating to customer identification and companies' issues.

In August 2002, new regulations were introduced that require MSBs which are not already regulated by the FSC or IPA to register with Customs and Excise. This has the effect of implementing, in

relation to MSBs, the 1991 EU Directive on Money Laundering, revised by the Second Directive 2001/97/EC, and provides for their supervision by Customs and Excise to ensure compliance with the AML Codes.

The IPA, as regulator of the IOM's insurance and pensions business, issues Anti-Money Laundering Standards for Insurance Businesses (the "Standards"). The Standards are binding upon the industry and include the Overriding Principles. These include 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 March 31, 2003.

Additionally, the IOM has introduced the Online Gambling Regulation Act 2001 and an accompanying AML (Anti-Money Laundering) (Online Gambling) Code 2002. The Act, Regulations, and dedicated anti-money laundering Code are supplemented by anti-money laundering guidance notes issued by the Gambling Control Commission, a regulatory body which provides more detailed guidance on the prevention of money laundering through the use of online gambling. The Online Gambling legislation brought regulation to what was technically an unregulated gaming environment. The dedicated Online Gambling Anti-Money Laundering Code was at the time unique within this variant of the gambling industry. The revised FATF Forty Recommendations now require all jurisdictions to have similar anti-money laundering provisions for this industry in the future.

The Companies, Etc. (Amendment) Act 2003 received Royal Assent on December 9, 2003. A provision that took effect in December 2003 calls for additional supervision for all licensable businesses, e.g., banking, investment, insurance and corporate service providers. The act further provides that no future bearer shares will be issued after April 1, 2004, and all existing bearer shares must be registered before any rights relating to such shares can be exercised.

FCU, formed on April 1, 2000, evolved from the police Fraud Squad and now includes both police and customs staff. It is the central point for the collection, analysis, investigation, and dissemination of suspicious transaction reports (STRs) from obligated entities. The entities required to report suspicious transactions include banks/financial institutions, bureaux de change, casinos, post offices, lawyers, accountants, advocates, and businesses involved with investments, insurance real estate, gaming/lotteries, and money changers. The FIU received 1,613 STRs in 2001, 1,727 in 2002 and 1,850 in 2003.

The Criminal Justice Acts of 1990 and 1991, as amended, extend the power to freeze and confiscate assets to a wider range of crimes, increase the penalties for a breach of money laundering codes, and repeal the requirement for the Attorney General's consent prior to disclosure of certain information. Assistance by way of restraint and confiscation of assets of a defendant is available under the 1990 Act to all countries and territories designated by Order under the Act, and the availability of such assistance is not convention-based nor does it require reciprocity. Assistance is also available under the 1991 Act to all countries and territories in the form of the provision of evidence for the purposes of criminal investigations and proceedings, and under the 1990 Act the provision of documents and information is available to all countries and territories for the purposes of investigations into serious or complex fraud. Similar assistance is also available to all countries and territories in relation to drug trafficking and terrorist investigations.

The law also addresses the disclosure of a suspicion of money laundering. Since June 2001, it has been 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 Acts also provide powers to constables, which include customs officers, to investigate whether a person has benefited from any criminal conduct. These powers allow information to be obtained about that person's financial affairs. These powers can be used to assist in criminal investigations abroad as well as in the IOM.

The IOM also introduced the Customs and Excise (Amendment) Act 2001, which gives various law enforcement and statutory bodies within the IOM 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 IOM for the purposes of any criminal investigation and proceeding. Such exchanges can be either spontaneous or by request.

The Government of the IOM has enacted the Anti-Terrorism and Crime Act, 2003. The purpose of the Act is to enhance reporting, by making it an offense not to report suspicious transactions relating to money intended to finance terrorism. The Act is expected to come into force during 2004.

The IOM Terrorism (United Nations Measure) Order 2001 implements 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. All other UN and EU financial sanctions have been adopted or applied in the IOM, and are administered by Customs and Excise. Institutions are obliged to freeze affected funds and report the facts to Customs and Excise.

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.

The IOM is a member of the Offshore Group of Banking Supervisors. The IOM is also a member of the International Association of Insurance Supervisors and the Offshore Group of Insurance Supervisors. The FCU belongs to the Egmont Group. 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 has developed a legal and constitutional framework for combating money laundering and the financing of terrorism. There appears to be a high level of awareness of anti-money laundering and counterterrorist financing issues among the industry, and considerable effort has been made to put appropriate practices into place. In November 2003 the IOM's Government published the full report made by the International Monetary Fund (IMF) following its recent examination of the regulation and supervision of the IOM's financial sector. In this report the IMF commended the IOM for its robust regulatory regime. The IMF found that "the financial regulatory and supervisory system of the Isle of Man complies well with the assessed international standards." The report concludes that the Isle of Man fully meets international standards in areas such as banking, insurance, securities, anti-money laundering, and combating the financing of terrorism.

Isle of Man officials should continue to closely monitor its anti-money laundering program to assure its effectiveness, and IOM authorities should continue to 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. That progress prompted the Financial Action Task Force (FATF) to remove Israel from its list of noncooperative countries and territories (NCCT) in the fight against money laundering in June 2002 and from its monitoring list in the fall of 2003.

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. Among other things, the PMLL criminalized money laundering and noted more than 18 serious crimes as predicate offenses for money laundering, in addition to offenses described in the prevention of terrorism ordinance. The PMLL also authorized the issuance of regulations requiring financial service providers to identify,

report, and keep records for specified transactions for seven years. The law also provided for the development of the IMPA to gather financial intelligence to combat money laundering and terrorist financing. 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 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.

In 2002 Israel enacted several new amendments to the PMLL that resulted in: the addition of currency service providers to the list of entities required to file CTRs and STRs; the establishment of a mechanism for customs officials to input into the IMPA database, the creation of regulations stipulating the time and method of bank reporting, and the creation of rules on safeguarding the IMPA database and rules for requesting and transmitting information between IMPA and Israeli national police and the Israel security agency.

In February 2002, Israel’s FIU, the Israeli Money laundering Prohibition Authority (IMPA), began operations. In 2003, the IMPA has received over 120,000 currency transaction reports (CTRs) and 1,300 suspicious transaction reports (STRs). Banks, portfolio managers, stock exchange members, currency service providers, customs, the postal bank, insurance providers, and provident fund managers 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.

The FATF removed Israel from the NCCT list in June 2002. Israel was removed from the FATF monitoring list in the fall of 2003. 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 anti-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.

In August 2003, the GOI passed a comprehensive amendment to the PMLL that in addition to other things: lowered the threshold for reporting CTRs from new Israeli shekels (nis) 200,000 (\$42,000) to nis 50,000 (\$10,500), lowered the document retention threshold from nis 50,000 to nis 10,000 (\$2,100), and imposed more stringent reporting requirements. As a result of the lowering of the reporting thresholds, the IMPA expects the number of CTRS and STRS to increase in 2004.

In 2003, the GOI reports that there have been 48 money laundering and/or terrorist financing cases that have reached various stages of investigation and/or adjudication. Ten of these cases have yielded indictments. In 2003, the GOI seized approximately \$13 million in illicit assets. In addition, the GOI transferred \$6.8 million to Swiss authorities as part of an Israeli-Swiss collaboration in the investigation of an Israeli businessman suspected of money laundering.

In 2004, Israel expects to pass an amendment to the PMLL that will modernize Israel's antiterrorist financing laws by adapting them to existing tools and arrangements for countering terrorist financing.

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 Convention against Transnational Organized Crime, which recently entered into force internationally.

The Government of Israel continues to make progress in strengthening its anti-money laundering and terrorist financing regime in 2003. Israel has enacted several new laws pertaining to money laundering and continues to improve the role of its FIU. Israel should examine the misuse of the international diamond trade to launder funds. Israel should continue to enact all regulations pursuant to the PMLL and continue improving its anti-money laundering and antiterrorist financing regime. Israel should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Italy

Italy is not an important regional financial center or an offshore financial center. However, money laundering is a concern both because of the prevalence of home-grown organized crime groups and the recent influx of criminal bands from abroad, especially from Albania and Russia. Counternarcotics efforts are complicated by heavy involvement in international narcotics trafficking of domestic and Italy-based foreign organized crime groups. Italy is a consumer country and a major transit point for heroin coming from the Near East and Southwest Asia through the Balkans en route to Western/Central Europe and, to a lesser extent, the United States. Italian and ethnic Albanian criminal organizations work together to funnel drugs to and through Italy. In addition to the narcotics trade, money to be laundered comes from myriad criminal activities, such as alien smuggling, contraband cigarette smuggling, pirated goods, extortion, usury, and kidnapping. Financial crimes not directly linked to money laundering such as credit card and Internet fraud are increasing. Money laundering occurs both in the regular banking sector and, more frequently, in the nonbank financial system, i.e., casinos, real estate, and the gold market. Money launderers predominantly use nonbank financial institutions for the illicit export of currency--primarily U.S. dollars and euros--to be washed in offshore companies. Significant amounts of international narcotics-trafficking proceeds generated in

the United States are used for legitimate commercial transactions in Italy, which leads to a cycling of drug-tainted U.S. currency through the Italian financial system. There is a substantial black market for smuggled goods in the country, but it is not funded significantly by narcotic proceeds.

Money laundering is defined as a criminal offense when it relates to a separate felony offense punishable by imprisonment for a minimum of three years, such as narcotics trafficking. Italy has strict laws on the control of currency deposits in banks. Banks must identify their customers and record and report to the Italian exchange office (UIC)--Italy's financial intelligence unit (FIU)--any cash transaction that exceeds approximately \$15,000. A banking industry code of ethics requires reporting all suspicious cash transactions and other activity--such as a third party payment on an international transaction--on a case-by-case basis. These reports are submitted regularly. Italian law prohibits the use of cash or nonregistered securities for transferring money in amounts in excess of approximately \$15,000, except through authorized intermediaries/brokers.

Banks and other financial institutions are required to maintain for an adequate period of time records necessary to reconstruct significant transactions, including information about the point of origin of funds transfers and related messages sent to or from Italy. Banks operating in Italy must remit account data to a central archive controlled by the Bank of Italy. This information is accessible to Italian law enforcement agencies. A "banker negligence" law makes individual bankers responsible if their institutions launder money. Bankers and others are protected by law with respect to their cooperation with law enforcement entities.

Italy has addressed the problem of international transportation of illegal-source currency and monetary instruments by applying the \$15,000 -equivalent reporting requirement to cross-border transport of domestic and foreign currencies and bearer bonds. Reporting is mandatory for cross-border transactions involving bearer monetary instruments (e.g., checks), but not for wire transfers; nevertheless, due diligence is required for such transfers. Italian officials are reviewing bank deposit trends. The Anti-Mafia Directorate is conducting a retrospective analysis of irregular and suspect money flows from groups--especially those suspected 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.

Because of these banking controls, narcotics-traffickers are using different ways of laundering drug proceeds. To deter nontraditional money laundering, the Government of Italy (GOI) has enacted a decree to broaden the category of institutions and professionals required to abide by anti-money laundering regulations. The list now includes debt collectors, exchange houses, insurance companies, casinos, real estate agents, brokerage firms, gold and valuables dealers and importers, and antiques dealers. Although Italy now has comprehensive internal auditing and training requirements for its (broadly-defined) financial sector, implementation of these measures by nonbank financial institutions lags behind that of banks, as evidenced by the relatively low number of suspicious transaction reports (STRs) filed by nonbank financial institutions.

The UIC, which is an arm of the Bank of Italy, receives and analyzes STRs filed by covered institutions then forwards them to either the Anti-Mafia Directorate (including local public prosecutors) or the financial police for further investigation. The UIC compiles a register of financial and nonfinancial intermediaries that carry on activities that could be exposed to money laundering. The UIC also performs supervisory and regulatory functions such as issuing decrees, regulations, and circulars.

From January to October 2003, according to official statistics from the Guardia di Finanza (financial police), 370 individuals have been investigated for crimes involving money laundering, with the value of the money laundered amounting to \$12 million.

Italy has established reliable systems for identifying, tracing, freezing, seizing, and forfeiting assets from narcotics trafficking and other serious crimes, including terrorism. These assets include currency accounts, real estate, vehicles, vessels, drugs, legitimate businesses used to launder drug money, and other instruments of crime. Law enforcement officials have adequate powers and resources to trace and seize assets; however, their efforts can be affected by which local magistrate is working a particular case.

Under anti-mafia legislation, seized financial and nonfinancial assets of organized crime groups can be forfeited. The law allows for forfeiture in both civil and criminal cases. To date, nonfinancial assets belonging to terrorists can only be frozen, seized and forfeited with a court order. However, the GOI is working on a legislative measure that would extend existing anti-mafia legislation on asset seizure to allow the freezing, seizing and forfeiture of nonfinancial assets belonging to terrorist groups and individuals. The GOI cooperates fully with efforts by the United States to trace and seize assets. Italy is involved in multilateral negotiations with the European Union (EU) to enhance asset tracing and seizure.

Italy does not have any significant legal loopholes that allow traffickers and other criminals to shield assets. However, the burden of proof is on the Italian government to make a case in court that assets are related to narcotics trafficking or other serious crimes. Official statistics for asset seizures and forfeitures from January to October 2003 indicate that the Financial Police seized \$225 million in financial and nonfinancial assets from criminals and organized crime gangs. Funds from asset forfeitures are entered into the general State accounts.

In October 2001, Italy passed a decree (subsequently converted into legislation) that created the Inter-ministerial Financial Security Committee, which is charged with coordinating GOI efforts to track and interdict terrorist financing. The committee includes representatives from the Economics, Justice and Foreign Affairs Ministries, law enforcement agencies, and the intelligence services. The Committee has far-reaching powers that include waiving provisions of the Official Secrecy Act to obtain information from all government ministries and the authority to order a freeze of terrorist-related assets.

A second October 2001 decree (also converted into legislation) made financing of terrorist activity a criminal offense, with prison terms of between seven and 15 years. The legislation also requires financial institutions to report suspicious activity related to terrorist financing. Both measures facilitate the freezing of terrorist assets. Italy arrested dozens of individuals in 2003 on terrorist-related charges (e.g., use of false documents, criminal association), although none arrested were specifically charged with terrorist financing. Nevertheless, in 2003, dozens of accounts belonging to groups/individuals suspected of terrorist activity were frozen, based partly upon designations made by the UN and the EU.

The UIC is responsible for transmitting to financial institutions the EU, UN and USG lists of terrorist groups and individuals. The UIC may provisionally freeze funds deemed suspect for 48 hours, by issuing an order subject to confirmation by the courts, which may then order that the assets be seized. Under Italian law, financial and economic assets linked to terrorists can be seized through a criminal sequestration order. Courts may issue such orders as part of criminal investigation of crimes linked to international terrorism. The sequestration order may be issued with respect to any asset, resource, or item of property, provided that these are goods or resources linked to the criminal activities under investigation.

Alternative remittance systems are rare in Italy. Italy does not regulate charities per se. Primarily for tax purposes, Italy in 1997 created a category of “not-for-profit organizations of social utility” (ONLUS). Such an organization can be an association, a foundation or a fundraising committee. To be classified as an ONLUS, the organization must register with the Economics Ministry and prepare an annual report. The ONLUS register has been used mainly for tax purposes, but Italian authorities are

exploring how to use it for other purposes, including the investigation of possible terrorist activity and links.

Italian cooperation with the United States on money laundering has been exemplary. The U.S. and Italy have signed a customs assistance agreement as well as extradition and Mutual Legal Assistance treaties (MLAT). Both in response to requests under the MLAT and on an informal basis, Italy provides the United States records related to narcotics trafficking, terrorism, and terrorist financing investigations and proceedings. Italy also cooperates closely with U.S. law enforcement agencies and other governments investigating illicit financing related to these and other serious crimes. Italy shares assets with member states of the Council of Europe. An effort to provide a mechanism under the MLAT for asset forfeiture and the sharing of forfeited assets has not yet come to fruition. Recently, assets can only be shared bilaterally if agreement is reached on a case-specific basis.

Italy is a member of the Financial Action Task Force (FATF). It held the FATF presidency from 1997-98. Italy is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism 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.

As a member of the Egmont Group, the UIC shares information with other countries' FIUs. The UIC has been authorized to conclude information-sharing agreements concerning suspicious financial transactions with other countries. To date, Italy has signed memoranda of understanding with France, Spain, the Czech Republic, Croatia, Slovenia, and Australia. Italy also is negotiating agreements with Japan and Switzerland and has a number of bilateral agreements with foreign governments in the areas of investigative cooperation on narcotics trafficking and organized crime. We are not aware of any instances of refusals to cooperate with foreign governments.

The GOI is firmly committed to the fight against money laundering and terrorist financing both domestically and internationally. Although the GOI has comprehensive internal auditing and training requirements for its financial sector, implementation of these measures by nonbank financial institutions still lags behind that of banks, as evidenced by the relatively low number of STRs that have been filed by such entities. The GOI should increase its training efforts and supervision in the area of nonbank financial institutions to decrease their vulnerability to abuse by criminal or terrorist groups. The GOI should also continue its active participation in multilateral fora dedicated to the global fight against money laundering and terrorist financing.

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. The profits from these massive illegal drug flows must be legitimated, and Jamaica is therefore a prime candidate for money laundering activities.

Jamaica is not an offshore financial center. Additionally, Jamaica's banking system has been under intense scrutiny from regulators in the wake of several major banking scandals in the mid-to-late 1990s. 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. 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.

The Money Laundering Act (MLA), approved by Parliament in December 1996 and implemented on January 5, 1998, governs Jamaica's anti-money laundering regime. The MLA criminalizes narcotics-related money laundering and introduces record keeping and reporting requirements for financial

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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 for financial institutions, after 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. 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, imposes a requirement for money transfer and remittance agencies to report transactions over \$50,000.

In August 2003, the Government of Jamaica (GOJ) introduced a new Customs arrival form that incorporates a requirement to declare currency or monetary instruments over \$10,000 or equivalent. This measure should assist law enforcement efforts to combat the movement of large amounts of cash through Jamaica, often in shipments totaling hundreds of thousands of U.S. dollars.

In 2003, the Jamaican unit established to assist in the implementation of the anti-money laundering program moved from the Office of the Director of Public Prosecutions to the Ministry of Finance. The new Financial Investigations Division of the Ministry of Finance includes four police officers who have full arrest powers. No money laundering-related arrests or prosecutions were reported in 2003.

Further action is required in the area of asset forfeiture to permit the GOJ to take full advantage of the mechanism to seize and forfeit the proceeds of criminal activities. 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 narcotics-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 2003, the GOJ tabled the Terrorism Prevention Act in Parliament. If passed as written, the Act would amend the MLA to include acts of terrorism as predicate offenses. At this time, the GOJ does not have the legal authority under the MLA to identify, freeze and seize terrorist finance-related assets. A court may order, however, that suspected terrorist assets be frozen. The Terrorism Prevention Act would remove the need for a court order and allow the GOJ to freeze and seize terrorist assets. As an interim measure, the Bank of Jamaica currently requires all banks and financial institutions (including remittance companies) to abide by the "Guidance Notes for Financial Institutions in Detecting Terrorist Financing" issued by the Financial Action Task Force (FATF) in April 2002. Additionally, the Ministry of Foreign Affairs and Foreign Trade distributes to all relevant agencies the list of individuals and entities included on the UN 1267 Sanction Committee consolidated list. To date, no accounts owned by those included on the consolidated list have been discovered in Jamaica.

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 Inter-American Convention Against Corruption, and the UN Convention against Transnational Organized Crime as well as a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. Jamaica is also a member of the Caribbean Financial Action Task Force and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering.

The GOJ has made progress in fighting money laundering, but further work is necessary to bring its regime into line with international standards. The scope of predicate offenses for money laundering should be extended to encompass all serious crimes. The legislation that has been proposed, but not yet enacted, to expand asset forfeiture provisions should be approved. Serious thought should also be given to returning the reporting threshold to \$10,000, as originally mandated. The GOJ should provide the Financial Crimes Division with sufficient resources to enable it to combat money laundering effectively.

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 approximately \$10 billion, \$3.38 billion of which is derived from income from the trafficking of methamphetamine. 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 carried out by Boryokudan and their associates. Additionally, JAFIO held meetings with financial institutions in various regions in October and November 2003 to introduce current money laundering methods and trends, with the intent of improving the quality of suspicious transaction reports. JAFIO continued in 2003 to try to improve its collection and analysis of relevant data from banks by encouraging feedback from law enforcement authorities. In addition, in January 2003, the Law on Customer Identification and Retention of Records on Transactions by Financial Institutions took effect, which reinforced and codified the customer identification and record keeping procedures which banks had practiced on their own for years.

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 thirty million yen (approximately \$275,229) 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 \$18,439.) Banks and financial institutions are also required to maintain records for seven years.

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. In 2003, the U.S. and Japan concluded a Mutual Legal Assistance Treaty (MLAT). 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 \$9,174), 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 \$1,835) 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 suspected to have relations with terrorist activities. The 2002 Act on Punishment of Financing of Offenses of Public Intimidation added terrorist financing to the list of predicate offenses for money laundering and provided for the freezing of terrorism-related assets. It was enacted in July 2002. 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.

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 the UN Convention against Transnational Organized Crime (UNTOC), which came into force internationally in September 2003. The bills for ratification of the UNTOC are scheduled to be submitted to the Diet in 2004. 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. In 2002, Japan’s FSA and the U.S. Securities and Exchange Commission and Commodity Futures Trading

Commission signed a nonbinding 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 actively supported anti-money laundering efforts in developing countries in Asia. For example, in 2003 Japan provided assistance to the Philippines and to Indonesia for the development of their anti-money laundering framework, and is expected to continue to do so through 2004.

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 noncompliance 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 array of offshore services is similar to that of international financial services centers worldwide.

The financial services industry consists largely of banks with deposits of \$282 billion; mutual funds valued at \$177 billion; insurance companies (which are largely captive insurance companies); investment advice, dealing, and management companies (\$44 billion under management); and trust and company administration companies. In addition, the companies offer corporate services, such as special purpose vehicles for debt restructuring and employee share ownership schemes. For high net worth individuals, there are many wealth management services.

The International Monetary Fund (IMF) conducted a study of the anti-money laundering regime of Jersey in October 2003. The IMF found Jersey’s Financial Services Commission (JFSC), the financial services regulator, to be in compliance with international standards, but it provided recommendations for improvement in three areas.

The Jersey Finance and Economics Committee is the government body responsible for administering the law regulating, supervising, promoting, and developing the Island’s finance industry. The IMF recommended that the power the Finance and Economics Committee has to give direction to the JFSC could appear as a conflict of interest between the two agencies, and suggested that a separate body should be established to speak for the industry’s consumers. The IMF’s second proposal was that rules for banks’ dealing with market risk should be established, along with a code of conduct for collective investment funds. The IMF’s recommendation for the third area was that a contingency plan be established for the failure of a major institution.

Jersey is currently addressing the issues and has already published the rules for collective investment funds. The JFSC intends to continue strengthening the existing regulatory powers with amendments to the Financial Services Commission Law 1998, to provide legislative support for its inspections and the introduction of monetary fines for administrative and regulatory breaches. The amendments will also include stricter codification of industry guidelines and tighter enforcement of anti-money laundering and terrorist financing controls. The next IMF inspection is planned for 2005.

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. 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 is now in force. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997.

The JFSC 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 JFSC issued a position paper (jointly issued in Guernsey and the Isle of Man) that set out a number of proposals for further tightening the essential due diligence requirements that financial institutions should meet regarding their customers. The position paper states the JFSC'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. Each year working groups review specific portions of these principles and draft Anti-Money Laundering Guidance Notes to incorporate changes.

Approximately 30,000 Jersey companies are registered with the Registrar of Companies, who is the Director General of the JFSC. In addition to public filing requirements relating to shareholders, the JFSC 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 nonresidents. Jersey does not provide "offshore" licenses. All regulated individuals are equally entitled to sell their services to residents and nonresidents alike. All financial businesses must have a "real presence" in Jersey, and management must be in Jersey.

Jersey has established a financial intelligence 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. In 2001 the JFCU received 972 suspicious activity reports, 1,612 reports in 2002, and 1,272 in 2003. The JFCU is a member of the Egmont Group.

Jersey has extensive powers to cooperate with other law enforcement and regulatory agencies and regularly does so. The JFSC is also able to cooperate with regulatory authorities, for example, to ensure that financial institutions meet anti-money laundering obligations. The JFSC 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 an anti-money laundering program, that in some instances, such as the regulation of trust company businesses and the requirement for companies to file beneficial ownership with the JFSC, go beyond what international standards require in order to directly address Jersey's particular vulnerabilities to money laundering. Jersey should establish reporting requirements for the cross-border transportation of currency and monetary instruments. Jersey should continue to demonstrate its commitment to fighting financial crime by enhancing its anti-money laundering/antiterrorist financing regime in areas of vulnerability.

Jordan

Jordan is not a regional or offshore financial center and is not considered a major venue for international criminal activity. The banking and financial sectors, including moneychangers, are supervised by competent authorities according to international standards. The Central Bank of Jordan, which regulates foreign exchange transactions, issued anti-money laundering regulations designed to meet the FATF Forty Recommendations on Money Laundering in August 2001. Under Jordanian law, money laundering is considered an “unlawful activity” subject to criminal prosecution.

An October 8, 2001 revision to the Penal Code criminalized terrorist activities, specifically including financing of terrorist organizations. Jordan ratified and became a full party to the International Convention for the Suppression of Financing of Terrorism on June 16, 2003. Jordan has checked for assets of terrorists and terrorist groups identified by the United Nations 1267 Sanctions Committee, although no such assets have been identified in Jordan to date. In early 2003 there were unconfirmed press reports that millions of dollars of charitable donations given to an unlicensed and unregistered Islamic charity in New York, were smuggled out of the U.S and subsequently laundered through Jordanian banks en route to Iraq. There have also been investigations into the smuggling of cigarettes and other commodities into Iraq via a Jordanian network that laundered kickbacks to the regime of Saddam Hussein.

Jordan has neither enacted a comprehensive anti-money laundering law, nor established an independent financial intelligence unit (FIU). Anti-money laundering efforts are handled by an anti corruption agency, within the Jordanian Intelligence Services. However, Jordanian officials report that financial institutions file suspicious transactions reports and cooperate with prosecutors’ requests for information related to narcotics trafficking and terrorism 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 and terrorism financing.

Jordan is a party to the 1988 UN Drug Convention. Jordan has signed, but not ratified, the UN Convention against Transnational Organized Crime. Jordan is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Jordan has taken steps in constructing an anti-money and antiterrorist finance program, but much remains to be done. Specific anti-money laundering legislation should be passed recognizing all types of predicate offenses. Jordan should establish a Financial Intelligence Unit (FIU) that receives, analyzes and disseminates suspicious transaction reports to law enforcement agencies. Jordanian law enforcement and customs should examine forms of trade-based money laundering.

Kazakhstan

Kazakhstan has a relatively advanced financial infrastructure in comparison to other countries in the region. When combined with the presence of organized crime, entrenched smuggling networks, and corruption in the sizeable oil industry, the country is vulnerable to money laundering. Smuggling of cash is also 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 narcotics into Russia and cash and trade items moving into Afghanistan to finance terrorist organizations. It is estimated that 80-90 percent of drugs seized in Kazakhstan originate in Afghanistan.

Relatively large cash seizures of U.S. dollars have been seized at Kazakhstan’s borders. And in one money laundering case, an undeclared \$831,200, originally from Kazakhstan, was seized by French customs. There was a recent scandal involving the Kazakh Eurasian Bank group, three of whose

officials were charged in Belgium with money laundering in connection with the purchase of a villa near Brussels. Kazakhstan suffers high levels of illegal capital flight despite the existence of currency controls and capital transfer restrictions. The Ministry of Finance has estimated that between \$500 million and \$1 billion are lost annually in illegal fund transfers abroad. Much of the capital flight is achieved via the practice of transfer pricing, particularly in the oil sector. Oil swaps are also common. The arrangement provides a way to get oil to refineries and then to market from remote oil fields and isolated nations like Kazakhstan. Title to oil in one location is transferred to an available oil supply that might be thousands of miles away. Oil swaps can be appropriate and even necessary but they also create perceptions that the energy sector is vulnerable to bribery and money laundering. Kazakhstan is ranked low on the Transparency International Corruption Perceptions Index.

Money laundering was criminalized in Kazakhstan by Article 30 of the 1998 antidrug 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. In January 2002, the Tax Committee was replaced by the Financial Police Agency, which has authority to investigate money laundering and other financial crimes. 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. The GOK has made limited efforts to pass anti-money laundering legislation, but it is not anticipated that this will happen before 2005. 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.

Kazakhstan ratified the 1988 UN Drug Convention and in December 2000 the country signed the UN Convention against Transnational Crime. On February 24, 2003 Kazakhstan ratified the UN International Convention for the Suppression of the Financing of Terrorism. Kazakhstan is also a signatory of the Central Asian Agreement on Joint Fight Against Terrorism, Political and Religious Extremism, Transnational Organized Crime and Illicit Drug Trafficking, signed in April 2000 by Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan.

Kazakhstan is still in the process of developing some of the key legal and institutional frameworks to guarantee successful economic security and development. As part of this program, Kazakhstan should pass comprehensive anti-money laundering and terrorist and terrorism financing laws that adhere to world standards. Kazakhstan law enforcement and customs authorities should examine smuggling and trade-based money laundering.

Kenya

As a regional financial and trade center for East, Central, and Southern Africa. 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. As such, Kenya is vulnerable to money laundering. Recently Kenya has taken steps to trace millions of dollars of public funds that were laundered abroad; corruption facilitated the removal of the money.

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, though up to now no clear instances of laundering of funds from narcotics trafficking appear to have come to light. The Central Bank is the regulatory and supervisory authority for Kenya’s deposit taking institutions and has responsibility for over 51 entities.

In October 2000, the Central Bank issued regulations that require deposit institutions to verify the identity of customers wishing to open an account or conduct a transaction. The regulations also

stipulate that these institutions report suspicious transactions. Under the regulations, banks must maintain records of large transactions and report them to the Central Bank. These regulations do not cover nonbank financial institutions such as money remitters, casinos, or investment companies, and there is no enforcement mechanism behind the regulations. Some banks do file suspicious transaction reports voluntarily, but they run the risk of civil litigation as there are no adequate “safe harbor” provisions for reporting such transactions to the Central Bank. The trigger amount is also very high: on a daily basis, all commercial banks are required to submit reports detailing all transactions greater than \$100,000. Controls on money laundering as such are rarely if ever applied to financial institutions or intermediaries outside the banking sector.

Kenya has little in the way of cross-boundary currency controls. Kenyan regulations require that any amount of cash above \$5,000 be disclosed at the point of entry or departure. In reality this provision is rarely enforced. Central Bank guidelines call for currency exchange firms to furnish reports on a daily basis on any single foreign exchange transaction above about \$10,000, and on cumulative daily foreign exchange inflows and outflows of about \$100,000. Under September 2002 guidelines, foreign exchange dealers are required to ensure that cross-border payments are not connected with illegal financial transactions.

The Banking Act amendment of December 2001 authorizes disclosure of financial information by the Central Bank of Kenya to any monetary authority or financial regulatory authority within or outside Kenya. 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.

Kenya is a party to the 1999 UN International Convention for Suppression of the Financing of Terrorism. It has cooperated fully with the United States and the UK, but does not itself have the investigative skills or equipment to conduct complex investigations independently. In April 2003, the GOK introduced the Suppression of Terrorism Bill into Parliament. The bill contains provisions that will strengthen the GOK’s ability to combat terrorism, but the legislation is opposed by many for fear of human rights violations, not because of the bill’s antiterrorism aspects as such. The public does support the government’s attempts to increase transparency and to clean up corruption, which include its efforts related to money laundering.

There is no legislation permitting the seizure of the financial assets of terrorists. All charitable and nonprofit organizations are registered with the Government and have to submit annual reports. Noncompliance could lead to de-registration; however, this is rarely enforced. The government did de-register some NGOs with Islamic links in 1998 in the wake of the bombing of the U.S. Embassy in Nairobi, although they were later re-registered.

Kenya is a party to the 1988 UN Drug Convention. Kenya is an active member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. Kenya has an informal agreement with the U.S. for the exchange of information regarding narcotics, terrorism financing, and other serious crime investigations.

At present the government entities responsible for tracing and seizing assets include the Central Bank of Kenya Banking Fraud Investigation Unit, the Kenya Police through the Anti-Narcotics Unit and the Anti-Terrorism Police Unit, and the Kenya Revenue Authority.

The passage of anti-money laundering legislation and the creation of a financial intelligence unit by Kenya will help to formalize its relationship with the U.S. and with other countries. In 2001, the Government of Kenya formed the Anti-Money Laundering Task Force with the mandate of drafting a comprehensive anti-money laundering law, sensitizing the public and government to money laundering issues, and addressing terrorist financing.

After the inception of the task force, a bill on money laundering was drafted, but has not yet been passed. The key points of legislation currently under consideration include tracing, seizing and

freezing suspect accounts, including those involved in the financing of terrorism; confiscation of the proceeds of crime, declaration of the source of funds; outlawing of anonymous bank accounts; and introduction of mandatory reporting of suspicious transactions above a certain amount. However, much drafting is still to be done, and the provisions regarding the financing of terrorism may be subsumed in the Suppression of Terrorism Bill discussed above. The proposed legislation is not explicit on seizing legitimate business if used to launder money. The draft legislation provides for criminal forfeiture only. Actual seizure of assets and forfeiture under current law is rare.

Kenya should expedite the passage of its comprehensive anti-money laundering legislation and Suppression of Terrorism Bill legislation.

Korea, Democratic People's Republic of

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 should enact a comprehensive anti-money laundering regime and take steps to stop financial crimes originating in North Korea.

Korea, Republic of

South Korea is not considered an attractive location for international financial crimes or terrorist financing, partly because of existing foreign exchange controls. However, such activities do exist. As law enforcement authorities have gained more expertise investigating money laundering and financial crimes, they have also become more cognizant of the problem. In general, the still fairly strict foreign exchange controls in place make it difficult for drug-related or terrorism-related money laundering to flourish. Most money laundering appears to be associated with domestic criminal activity or corruption and official bribery. Still, criminal groups based in South Korea maintain international associations with others involved in human and contraband smuggling and related organized crime. On the whole, the South Korean government has been a willing partner in the fight against financial crime, and has pursued international agreements toward that end.

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, apart from judicial requests for information, persons engaged in financial institutions 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.

South Korea still lacks specific legislation on terrorism financing. In 2002, the National Intelligence Service (NIS) submitted an antiterrorism bill to the National Assembly, but it has not yet been passed. Many politicians and nongovernmental organizations (NGOs), recalling past civil rights abuses in Korea by the government, oppose the pending antiterrorism legislation because of fears about possible misuse by the National Intelligence Service. The proposed legislation is crafted to allow the Republic of Korea Government (ROKG) additional latitude in fighting terrorism, though general financial crimes and money laundering have already been criminalized in previously enacted laws.

The pending antiterrorism bill, if passed, would permit the ROKG to seize legitimate businesses that support terrorist activity. Currently, under the special act against illicit drug trafficking and other related laws, legitimate businesses can be seized if they are used to launder drug money, but businesses supporting terrorist activity cannot be seized unless other crimes are committed. At this time, there are no known charitable or nonprofit entities operating in Korea that are used as conduits for the financing of terrorism.

Through its Korean Financial Investigative Unit (KoFIU, 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 or members of the al-Qaida organization or the Taliban, or that the U.S. Government (USG) or the European Union have designated under relevant authorities. The ROK implemented regulations on October 9, 2001, to freeze financial assets of Taliban-related authorities designated by the UN Security Council. The government then revised the regulations, agreeing to list immediately all U.S. Government-requested terrorist designations under Executive Order 13224 of December 12, 2002. Due in part to Korea's remaining restrictive foreign exchange laws, which persist despite some recent liberalization, and which render the country unattractive as an offshore financing center, no listed terrorists are known to be maintaining financial accounts in Korea at this time. Korean banks have not identified any terrorist assets. There have been no cases of terrorism financing identified since January 1, 2002.

ROK authorities are just beginning to assess whether the hawala system is an area of concern. Currently, gamblers who bet abroad often use alternative remittance and payment systems; however, government authorities have already criminalized those activities through the Foreign Exchange Regulation Act and other laws. Hawala-type vendors do exist in South Korea and operate primarily among the country's small population of approximately 30,000 foreigners from the Middle East.

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. Currently, financial institutions must report transactions of over 50 million won (about \$42,000) that are suspected of being tied to criminal proceeds or to tax evasion, and they may report transactions in lesser amounts if there are "reasonable" grounds for doing so. Efforts are being made to lower the reporting threshold to 20 million won for suspicious transactions for 2004. Improper disclosure of financial reports is punishable by up to five

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years imprisonment and a fine of up to 30 million won (about \$25,000). In addition, KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions.

Since its inception in November 2001, KoFIU has received a total of 1,713 suspicious transaction reports (STRs) from financial institutions. It has completed analysis of 1,276 of them, and provided 413 reports to law enforcement agencies as of November 30, 2003, according to KoFIU. Results were disseminated to law enforcement agencies such as the Public Prosecutor's Office (PPO), National Police Agency (NPA), National Tax Service (NTS), Korea Customs Service (KCS), and the Financial Supervisory Commission (FSC). In terms of large cases, the managing directors of the SK Group, a conglomerate, were prosecuted for laundering 10 billion won (\$8.4 million), in checks and securities, in November 2003.

Money laundering controls are applied to nonbanking 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 ROK actively cooperates with the United States and other countries to trace and seize assets. 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 \$1.6 million worth of assets related to seven drug trades in 2003, representing a big increase from 2002. The prosecutor's office seized \$109,000 of assets related to illegal foreign exchange transactions in 2002, of which \$53,000 was related to drug trafficking. The ROKG plans to establish six additional new bank account tracking teams in 2004 to serve out of the District Prosecutor's offices in the metropolitan cities of Busan, Daegu, Kwangju, Incheon, Daejeon and Ulsan, to expand its reach.

The ROK continues to address the problem of the transportation of counterfeit international currency. In the first ten months of 2003, the Central Bank reported that local banks uncovered 136 cases of counterfeit foreign currency—representing an increase of 25 percent over the same period of 2002. Among these counterfeit cases, 89 percent involved U.S. dollars, an increase of about one percent from the previous year.

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. In October 2001, the ROK signed the UN International Convention for Suppression of the Financing of Terrorism, but has not yet ratified it. The ROK also signed in Dec. 2003, but has not ratified, the UN Convention Against Corruption, which is not yet in force. The ROK is an active member of the Asia/Pacific Group on Money Laundering, and in 2002 KoFIU assumed the position of co-chair. The ROK also 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 addition, the Korean FIU continues to actively pursue information-sharing agreements with a number of countries. KoFIU signed memoranda of understanding with Belgium (March 2002), Poland (October 2002), the United Kingdom (October 2002), Brazil (February 2003), Australia (May 2003), and Colombia and Venezuela (November 2003) to facilitate the exchange of information on money

laundering. KoFIU is negotiating similar MOUs with the United States, Japan, and Canada. These agreements are expected to enhance the government's asset tracing and seizure abilities.

The passage of the terrorism financing bill, if coupled with existing recent measures, would provide the ROKG with powerful 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. Spurred by enhanced local and international concern, South Korean law enforcement officials have begun to fully grasp the negative potential impact such activity has in their country and to take steps to combat its growth. The ROK should also accede to the UN International Convention for the Suppression of Terrorism.

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 two specialized banks, the Real Estate Bank of Kuwait and the government-owned Industrial Bank of Kuwait, that provide medium and long-term financing. Regulators do not believe that money laundering is a significant problem, and most laundered funds are generated as a byproduct of local drug and alcohol smuggling. Funds and assets generated by criminal activity are subject to forfeiture.

On March 10, 2002, the Emir (Head of State) of Kuwait 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 and banks must require proper identification of regular and occasional clients. 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. Currency smuggling is also outlawed.

Law No. 35 designates the Public Prosecution Department (PPD) as the sole authority to receive reports on money laundering operations, and to take the necessary actions. Reports of suspicious transactions are referred from PPD to the Central Bank's financial intelligence unit (FIU) for analysis. 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 on 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 customs 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). There are no similar reporting requirements for outbound currency or precious metals.

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 law.

In addition to Law No. 35, anti-money laundering reporting requirements and other rules are contained in the Central Bank of Kuwait's (CBK's) instructions no. (2/sb/92/2002), which took effect on December 1, 2002, superseding instructions no. (2/sb/50/97). The revised instructions provide for, inter alia: customer identification and the prohibition of anonymous or fictitious accounts (articles 1-5), the requirement to keep records of all banking transactions for five years (article 7), electronic

transactions (article 8), the requirement to investigate transactions that are unusually large or have no apparent economic or lawful purpose (article 10), the requirement to establish internal controls and policies to combat money laundering and terrorism finance, including the establishment of internal units to oversee compliance with relevant regulations (article 14 and 15), and the requirement to report to the CBK all cash transactions in excess of KD3,000 (article 20). A detailed appendix to the instructions has guidelines to help bank employees identify suspicious transactions.

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 the supervision of the Ministry of Commerce and Industry. Such sectors must abide by all regulations concerning customer identification, record keeping of all transactions for five years, internal control systems, and the reporting of suspicious transactions.

In addition, CBK issued circular no. (2/sb/95/2003) in 2003, which was directed toward money changing companies and which contained similar instructions with respect to combating money laundering and suspicious activities reporting guidelines. A similar order (31/2003) was issued by the Kuwait Stock Market to all companies under its jurisdiction.

Kuwait's one Islamic bank, Kuwait Finance House (KFH), is licensed and supervised by the Ministry of Commerce and Industry, which apparently does not examine KFH's books. KFH does, however, produce annual audited financial reports. The CBK will take over supervision of KFH in 2004.

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, which thus remains undesignated.

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 has established guidelines explaining how charities must collect donations and finance their activities. The new Department is also charged with conducting periodic inspections to insure that they maintain administrative, accounting, and organizational standards according to Kuwaiti law. However, in February 2003, a prominent member of the Kuwaiti ruling family, who also held positions with the Cabinet, accused some Islamic movements in the country of financing terrorist acts in Kuwait earlier that year. He warned of the existence of unlicensed charitable associations and organizations in the country, which had infiltrated the Parliament, and go unsupervised by the authorities.

On June 23, 2003, the Central Bank of Kuwait issued resolution no. 1/191/2003 establishing the Kuwaiti Financial Intelligence Unit (KFIU) as an independent entity within the Central Bank. The goals of KFIU are to receive and analyze reports of suspected money laundering from the public prosecution department, to establish a database of suspicious transactions, to conduct anti-money laundering training, and to carry out domestic and international exchanges of information in cooperation with the PPD. KFIU has a staff of seven.

Several cases have been opened under Law No. 35. but the majority of them were closed after investigations did not disclose prosecutable offenses. Only two cases have gone to courts, where they were under litigation at year's end. The cases reportedly involve money smuggling and failure to report currency transactions, and do not involve banks.

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. 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 a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Kuwait should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Kuwait is making progress in enforcing its domestic anti-money laundering program. The passage of the CBK’s anti-money laundering clarifying instructions represents a significant step forward. However, KFIU needs to gain experience in dealing with suspicious transactions. The KFIU also needs to assemble and automate various financial databases. Kuwait should also make outbound currency and precious metals declarations mandatory. More interagency cooperation and coordination between KFIU and other concerned parties could yield significant improvements in proactive investigations and international information exchange. A specific counterterrorism finance law should also be enacted.

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. And 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 are domestic and 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.

In 2002, the Kyrgyz legislature began consideration of a draft law to criminalize money laundering, the law “On Opposition to Legalization (Laundering) of Incomes Obtained in Illegal Way in the Kyrgyz Republic.” The bill has not yet been passed. 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. Also in 2003, Kyrgyzstan signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Kyrgyz Republic should approve comprehensive anti-money laundering and antiterrorism finance legislation that adheres to international standards. The Kyrgyz Government should also be aware that money laundering can easily by-pass financial institutions and take enforcement measures to address these vulnerabilities.

Laos

Laos is on the fringe of the region's banking network. Its banking sector is dominated by state-owned commercial banks in need of extensive reform. The small scale and poor financial condition of Lao banks may make them more likely to be venues for certain kinds of illicit transactions. Lao banks are not optimal for moving large amounts of money in any single transaction, due to the visibility of such movements in a small, low-tech environment. What money laundering does take place through Lao banks is likely to have been from illegal timber sales or domestic criminal activity, including drug trafficking. In a recent high-profile case involving a foreign-owned company accused of securities fraud, Lao customs authorities seized \$300,000 in cash a businessman was transporting to Thailand, in contravention of Lao law. Subsequent investigation indicated that this business had transferred several million dollars from abroad through the Lao banking system in the past year, much of which was reportedly withdrawn in cash. The case revealed the weakness of the Lao banking system in monitoring suspicious transactions.

Laos is drafting a money laundering law with antiterrorism finance components, based upon a model law provided by the Asian Development Bank. It is anticipated the proposed legislation will be introduced during the first quarter of 2004. The law is expected to criminalize money laundering and terrorist financing. A Financial Intelligence Unit (FIU) is to be established, which will supplant the very small and informal one currently in place. It is believed a provision will be made for the freezing of suspect transactions and forfeiture of laundering proceeds. The Bank of Laos currently has a very small Banking Supervision Department, and it is believed the Department will be augmented and used to help implement the new legislation. Provision will be made for mutual assistance in criminal matters between Laos and other countries. Before it is enacted into law, the draft legislation will be reviewed by the National Assembly and may undergo significant changes.

Laos currently has strict laws on the export of its currency, the Lao kip. It is likely that the currency restrictions and undeveloped banking sector encourage the use of alternative remittance systems.

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 also has observer status in the Asia Pacific Anti-Money Laundering Group, and plans to join fully once its anti-money laundering law is enacted.

Laos should pass anti-money laundering and antiterrorism financing legislation. Laos should also become a party to the International Convention for the Suppression of Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Latvia

Latvia's role as a regional financial center, its large number of commercial banks and those banks' sizeable nonresident deposit base continue to pose significant money laundering risks in Latvia, even as Latvian financial institutions, regulators and law enforcement and judicial authorities seek tighter adherence to legislative norms, regulations and "best practices" designed to fight financial crime. 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 noncash payments. At the same time, there are no restrictions in Latvia on cross-border currency movement (cash or noncash, domestic or foreign) or the physical movement of other financial instruments. In December 2003 there were 20 casinos, 503 gaming halls, 1,487 gambling places (such as cafes and bars), and 10,597 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 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 Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity (the AML law) requires all institutions engaging in transactions to report suspicious activity. Amendments to the AML law, currently in review by the Parliament, will include a list of reporting institutions in order to comply with international requirements. The new law will include auditors, lawyers, and high-value dealers, as well as credit institutions. Another proposed amendment to the AML law will make all offenses listed in the criminal law predicate offenses for money laundering. If passed, the new amendments will go into force early in 2004.

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 finding has been consistently echoed in Transparency International's Corruption Perceptions Index, which in 2003 assigns Latvia a score of 3.8. ("Highly clean" rates a "10.") Latvia continues to take steps to combat both real and perceived corruption. In January 2002, the government formally established the Anti-Corruption Bureau (ACB), an independent agency whose specific charter is to prevent and combat corruption. The government of Prime Minister Einars Repse also continued to remove from public office high-ranking officials associated with previous corruption and conflict-of-interest scandals. In April 2002, 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 also adopted. Starting April 1, 2003, a new regulation entered into force obligating all state officials to declare their income to the State Revenue Service. The Control Service also has the ability to review this information for any cases suspected of public corruption.

The Control Service, which employs 17 persons, was established under the oversight of the Prosecutor's Office. Additional allocations for financing the Control Service for the year 2004 were made for the purpose of increasing the staff, purchasing technical resources, and enhancing software development. Approximately 30 percent of all reports filed with the Control Service are suspicious transaction reports (STRs); the other 70 percent consist of unusual currency transaction reports (transactions over 40,000 lats, approximately \$75,400). The Control Service received 3,303 reports in 2001, 7,902 reports in 2002, and 14,251 (through November) in 2003. The growth in the number of reports for the year 2003 is due to the more pro-active efforts on the part of most banks to report unusual activity above the mandatory threshold requirements, and the additional research conducted by the financial institutions to trace the funds. In 2002, 67 criminal cases were initiated by the Prosecutor's Office, and in 2003, 86 cases were opened.

Since July 2001, the Finance and Capital Market Commission (FCMC) has served as the GOL's unified public financial services regulator, overseeing commercial banks and nonbank financial institutions, the Latvian Stock Exchange, and insurance companies. The Lottery and Gambling Supervision Inspection Service (under the Ministry of Finance) supervises the gambling sector, and the currency exchange sector is supervised by the Bank of Latvia. The FCMC has approved guidelines for identifying customers and unusual and suspicious transactions as well as 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 the Financial Action Task Force (FATF)-designated list of Non-Cooperative Countries and Territories or NCCTs.

Financial institutions have the ability to freeze accounts for an unlimited amount of time. If a financial institution finds the activity of an account questionable, it may close the account on its own initiative.

If the institution considers the activity undesirable but not suspicious, there is no obligation to file a suspicious transaction report with the Control Service.

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 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.

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 Latvian Finance Ministry (the Financial Police), the other at the Latvian Interior Ministry (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.

The GOL has initiated a number of measures aimed at 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 to 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.

The Law on Credit Institutions has been supplemented with a new provision for suspected terrorist cases. The provision allows for police to obtain information from credit institutions during the operative stage, prior to the initiation of a criminal case. In addition, in July 2003, the government adopted Regulation 387 on Countries and International Organizations that Issue Lists of Persons Suspected of Being Involved with Terrorist Acts, which allows the FIU to order a credit or financial institution to freeze suspected terrorist funds. Latvia, however, still lacks clear legal authority for asset seizures and forfeitures associated with financial crimes. The government has formed, under the leadership of the Control Service, an inter-ministerial working group to propose legislative changes to enable seizures and forfeitures resulting from both criminal and civil proceedings.

Amendments to the AML law 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 antiterrorism 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 antiterrorism information network within the financial system, nominating a person to deal with antiterrorism issues at the FIU, and establishing an FIU reporting system and procedures concerning terrorist finances.

Latvia participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-money Laundering Measures (MONEYVAL), and, as a member, underwent a mutual evaluation in March 2000 that resulted in many of the aforementioned changes. The second round of evaluations was completed in 2002, and Latvia will account for the results before the MONEYVAL committee in May 2004. 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 1988 UN Drug Convention, and in December 2001, ratified the UN Convention against Transnational Organized Crime.

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, Slovenia, and Poland. In addition, Latvia has signed multilateral agreements with 10 accession countries for automatically exchanging information between the European Union financial intelligence units using FIU.NET.

The GOL should continue to research ways to improve cooperation between Latvian law enforcement agencies at the working level, and strengthen its capacity and record in aggressively prosecuting, and convicting, those involved in financial crimes. 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, pass asset seizure and forfeiture legislation, and regulate its bureaux de change and its gaming industry as well as the offshore companies that it licenses. Although the GOL believes its existing laws are adequate to prosecute terrorist financing cases, this belief has not been tested. The GOL should, therefore, specifically criminalize terrorist financing to ensure adequate legal tools are in place to successfully prosecute such cases.

Lebanon

Since the 1950s, Lebanon has been a leading hub for banking activities in the Middle East. In the past decade, the strength of the country's banking sector has increased significantly. As evidence to this strength, deposits have soared and the number of banks has flourished. By the end of 2001, total deposits exceeded \$40 billion and the number of banks—despite numerous mergers and acquisitions—had reached 69, with over 800 branch offices, in a country with an estimated population of about four million. Combined with the tradition of bank secrecy, the extensive use of foreign currency (particularly dollars), the influx of remittances from expatriate workers, and lax enforcement of money laundering laws, this plethora of banks allows 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.

In 2003, Lebanon made significant progress in institutionalizing its anti-money laundering efforts, which culminated in the Financial Action Task Force's (FATF's) removal of Lebanon from the list of noncooperative countries or territories (NCCT) 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 the FATF's recommendations include criminalizing money laundering, establishing currency-reporting guidelines, and creating a financial intelligence unit (FIU).

In April 2001, Lebanon adopted Law No. 318, which created 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 transactions for high-value items (precious metals, antiquities) and real estate are obligated to report suspicious transactions in accordance with Law 318. Charitable and nonprofit 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), called the Special Investigation Commission (SIC), which is an independent entity with judicial status that can investigate money laundering operations and monitor compliance of banks and other financial institutions with the provisions of Law No. 318. SIC serves as the key element 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.

During 2003, incorporating the FATF recommendations, Lebanon adopted additional measures to strengthen efforts to combat money laundering and terrorism finance. Furthermore, anti-money laundering units were set up in customs and the police. In July 2003, Lebanon joined the Egmont Group of financial intelligence units.

In an effort to more effectively combat money laundering and terrorist financing, Lebanon adopted Law 547 in October 2003, which expanded article one of Law 318, making illicit any funds resulting from the financing or contribution to the financing of terrorism or terrorist acts or organizations, based on the definition of terrorism as it appears in the Lebanese penal code (which distinguishes between “terrorism” and “resistance”). The new bill also criminalizes acts of theft or embezzlement of public or private funds, or their appropriation by fraudulent means, counterfeiting, or breach of trust, for banks and financial institutions, or falling within the scope of their activities. It also criminalizes counterfeiting of money, credit cards, debit cards, or charge cards, or any official document or commercial paper, including checks. Law 553 added an article to the penal code, article 316 on terrorist financing. This article stipulates that any person who voluntarily, either directly or indirectly, finances or contributes to terrorist organizations or terrorists acts is punishable by imprisonment with hard labor for a period not less than three years and not more than seven years, as well as a fine not less than the amount contributed but not exceeding three times that amount.

Since its inception, Lebanon’s SIC has been active in providing support to international case referrals. From January through November 2003, the SIC investigated over 250 cases involving allegations of money laundering and terrorist financing activities. Twenty-eight of these cases were related to terrorist financing, of which five were local terrorism financing cases. Bank secrecy regulations were lifted in 127 instances, and three cases relating to money laundering were transmitted by the Supreme Court state prosecutor to the criminal court for trial. The cases included 22 requests from the United States. SIC circulates to all financial institutions the list of individuals and entities included on the UN 1267 sanctions committee’s consolidated list of entities linked to Usama Bin Ladin, al-Qaida, or the 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. The SIC closely cooperates with competent U.S. authorities on exchanging records and information within the framework of Law 318. 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 concerning several sections of the Convention relating to bank secrecy), and in December 2001 it signed the UN Convention against Transnational Organized Crime.

Lebanon has made significant progress in its efforts to develop an effective anti-money laundering and terrorism finance regime. Although there are signs of interagency cooperation, more efficient coordination between SIC and other concerned parties, such as police and customs, could yield significant improvements in investigations or in their initiation. In addition, Lebanon should focus greater attention and resources towards achieving successful prosecution of money laundering offenses. Lebanon should also examine the role of its expatriate community in Africa and Latin American and its role in alternative remittance systems, including the misuse of precious metals and gems. Finally, Lebanon should sign the UN International Convention for the Suppression of the Financing of Terrorism.

Lesotho

Lesotho does not have a significant money laundering problem. There is currently no legislation criminalizing money laundering or terrorist financing. In 2003, the Government of Lesotho (GOL) finished drafting an all-encompassing “Money Laundering and Proceeds of Crime” bill that is expected to be tabled before parliament in 2004.

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 \$16,000) to the Central Bank. Financial institutions are also required to maintain, for a period of ten years, all necessary records to enable them to comply with information requests from competent authorities.

No cases of money laundering were reported within the past year.

The GOL created a multisectoral committee to assist in its implementation of UNSCR 1373. The Commonwealth Secretariat is assisting members of the committee to formulate national policy and draft legislation on terrorism, and has sponsored related training for countries of the region.

Lesotho is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime. Lesotho recently joined the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the FATF-style regional body.

Lesotho should criminalize money laundering and terrorist financing and should develop a viable anti-money laundering regime.

Liberia

Liberia is vulnerable to money laundering because it has been a major transshipment point for illegal diamond smuggling and illegal arms trading. Liberia is also a growing transit country for narcotics on their way to Europe from Nigeria. During the Liberian civil war, which was declared officially over on

August 11, 2003, diamonds were used on a broad scale to purchase arms and fund the conflict. However, the exploitation and export of Liberia's natural resources, particularly timber and diamonds, has continued. The Liberian government has not met the conditions for becoming a participant in the Kimberley Process Certification Scheme, which requires that certain minimum standards be met in order to assure that diamonds being traded are not conflict diamonds and their origin is known. Diamond traders, including Eastern Europeans and Lebanese, often travel to Monrovia to purchase rough diamonds on the black market and then smuggle and export them out of Liberia, documenting them as coming from some other source, in violation of a UN Security Council Resolution prohibiting all trade in Liberian rough diamonds. The under valuation of diamond exports and use of double invoicing are common tactics employed to transfer value out of the country, often in conjunction with other illicit activities. There continue to be press allegations that al-Qaida has exploited the West African diamond trade, but such a connection has not been conclusively established.

When entering the country, amounts of money that exceed \$10,000 must be declared to customs officers upon entering the country. Cash in excess of \$7,500 must be declared on departure. However, these regulations are not regularly enforced, and widespread corruption exists in Liberia's customs authorities. Money laundering is a criminal offense in Liberia. Since January 2003, there have not been any arrests and/or prosecutions for money laundering or terrorist financing.

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. Liberia is not a party to the 1988 UN Drug Convention. In 2003, Liberia became a party to 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, take steps to properly regulate its diamond industry, and become a participant in the Kimberley Process. Liberia should become a party to the UN Convention against Transnational Organized Crime.

Liechtenstein

The Principality of Liechtenstein's well-developed offshore financial services sector, relatively low tax rates, loose incorporation and corporate governance rules, and 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 the principality has made in its efforts against money laundering.

Liechtenstein's financial services sector includes 17 banks, three nonbank financial companies, and 16 public investment companies, as well as insurance and reinsurance companies. Ninety percent of the market is covered by the three largest banks. Liechtenstein's 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. Like many of its neighbors, Liechtenstein has bearer passbook accounts as well. Although the owner is identified at the opening of the account, and due diligence practices should force any bearer to identify him/herself at the counter, there is still the possibility of transferability. The Government of Liechtenstein (GOL) has decided that bearer accounts will no longer be opened.

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.

Following the Financial Action Task Force's (FATF) 2000 identification of Liechtenstein as noncooperative 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 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. In addition, financial intermediaries must set up profiles of their clients, which go beyond identification to include their assets and how the clients obtained them. These laws also address the independence of accountants reporting on anti-money laundering compliance.

The GOL has made progress in strengthening its anti-money laundering regime and implementing recent reforms. It has put measures into place that implement the improvements cited in the 2nd European Union (EU) Directive. Attorneys have become obligated entities, as have dealers in high-value goods, and the practice of "tipping off" is prohibited. The list of predicate offenses for money laundering has been expanded through Article 165 of the Criminal Code. Article 165 also criminalizes laundering one's own funds, and imposes higher penalties for money laundering. However, negligent money laundering is not addressed.

Liechtenstein has increased the resources, both human and financial, devoted to fighting money laundering. Domestically, an inter-ministerial body called the Money Laundering Coordination Group meets quarterly to work on coordination between agencies. The GOL has also improved its international cooperation provisions in both administrative and judicial matters, and has committed all financial institutions (banks and nonbank intermediaries) to obtain full identification of accounts' beneficial owners. To comply with 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.

The FATF recognized in June 2001 that Liechtenstein had remedied the serious deficiencies in its anti-money 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 its monitoring of the country, thus recognizing the measures taken against money laundering.

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. EFFI also has responsibility for analysis and transactions in the countering of terrorism financing.

Originally, the Financial Supervision Authority (FSA) was responsible for supervising all banks and fiduciaries licensed to operate in Liechtenstein. The FSA had the authority to conduct on-site spot checks and to request information as required. To remedy problems that arose with the implementation of the laws, a Due Diligence Unit (SSP) was also established to supervise compliance with anti-money laundering regulations. In 2002 the GOL assigned the SSP to handle all supervisory responsibilities,

removing them entirely from the FSA. Currently, supervisory responsibility is split between EFFI and the SSP. The SSP has completed over 80 audits covering over 25,000 banking relationships, and works effectively and closely with the EFFI, the Office of the Prosecutor, and the police. The GOL is currently working on reorganizing this system via the establishment of an integrated regulatory unit, combining all sectors under one roof. The legislation for the new regulatory unit is expected to be in force sometime in 2004, with the actual unit to begin work in 2005.

The EFFI has developed a system for suspicious transaction reporting (STR) analysis that involves internal examination, 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 and has access to various governmental databases, although it cannot seek additional financial/bank information unrelated to a filed STR. Currently, banks, insurers, financial advisers, postal services, bureaux de change, attorneys, financial regulators, and casinos are required to file STRs. The GOL also reformed its STR system to permit reporting for a much broader range of offenses and 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”. Another problem is that if a transaction is not completed, it is at the institution’s discretion whether to report it.

The reforms to Liechtenstein’s anti-money laundering regime have had positive results. In 2002, EFFI received over 200 STRs, compared with 158 in 2001 and 67 in 2000. Other financial intermediaries, such as attorneys, investment companies, insurance companies, and the postal service, filed 11 of the 264 STRs received in 2002. As in the preceding year, fraud, money laundering, and embezzlement were the most prevalent types of offense. The number of STRs involving fraud increased from 38 percent to 48 percent, while the STRs involving money laundering and embezzlement remained almost stable, at 27.7 percent and 9.9 percent, respectively.

The relatively small number of STRs filed by financial institutions in Liechtenstein has generated several money laundering investigations. 184 STRs were sent to the public prosecutor’s office, which has doubled its staff to better handle the caseload, and three indictments resulted from the investigations. Liechtenstein has not adopted the EU-driven policy of reversing the burden of proof, i.e., making it necessary for the defendant to prove that he had acquired assets legally instead of the state’s having to prove he had acquired them illegally, but has established a kind of compromise policy. Most of the customers involved in money laundering activities were from Switzerland, Germany and Italy, although the EFFI reports that \$667 million worth of suspicious money originated from the United States, followed by France and Russia with \$533 million and \$146 million, respectively. On March 21, 2002, the Liechtenstein Ministry of Justice filed a complaint against Gabriel Marxer, a former member of the Liechtenstein Parliament, 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.

A special unit of eight to ten police, known as EWOK, was established specifically to address money laundering crimes. When authorized to do so by a Special Investigative Judge, the police can use Special Investigative Measures.

In late 2002, the International Monetary Fund (IMF) responded to a GOL invitation to assess its financial sector. The IMF’s assessment was overall a positive one, noting that deficiencies that existed with staffing throughout Liechtenstein’s agencies (particularly the FSA and the Insurance Supervisory Authority) were due to lack of personnel and not the competence and professionalism of the existing staff. The IMF also suggested that legal liability in money laundering be extended to legal entities, and

found that while the then current legislation addressed terrorism financing to an extent, it was not completely covered.

Liechtenstein has in place legislation to seize, freeze, and share forfeited assets with cooperating countries. The Special Law on Mutual Assistance in International Criminal Matters gives priority to international agreements. Money laundering is an extraditable offense, and legal assistance is granted on the basis of dual criminality. Article 235A provides for the sharing of confiscated assets; this has been used in practice. Liechtenstein has issued ordinances to implement UNSCR 1267 and UNSCR 1333. Amendments to the ordinances in October and November 2001 allow the GOL to freeze the accounts of individuals and entities that 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. The total value reported frozen to date (December 2003) by the Liechtenstein authorities based on UNSCR 1267 is \$145,300 (SFr 182'000). According to the 2003 Liechtenstein Terrorism Report to the UN, six Taliban-related entities have been located in Liechtenstein. Their assets have been frozen and overlap with the \$145,300 already reported above.

Liechtenstein is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and is a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. On July 9, 2003, Liechtenstein deposited the instrument of ratification of the UN International Convention for the Suppression of the Financing of Terrorism. The Convention was later enforced on August 8, 2003. Liechtenstein has now ratified all twelve relevant international conventions and protocols. The implementation of the Convention required a series of amendments to Liechtenstein law, which were adopted by Parliament on May 15, 2003. The legal package includes a new catchall criminal offense for terrorist financing along with amendments to the Criminal Code, the Code of Criminal Procedure, and the Due Diligence Act. Final implementing regulations are expected to be finalized in early 2004. Liechtenstein has also signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Liechtenstein has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and has adopted the EU Convention on Combating Terrorism.

A Mutual Legal Assistance Treaty (MLAT) between Liechtenstein and the United States entered into force on August 1, 2003. The EFFI has in place a memorandum of understanding (MOU) with the Belgian FIU. Further MOUs are being prepared with Switzerland, France, Italy, Croatia, Poland, San Marino, and Lithuania. In addition, preliminary talks are being held with Russia and Germany.

Liechtenstein has made consistent progress in addressing previously noted shortcomings in its anti-money laundering regime. The GOL should continue to build upon the foundation of its evolving anti-money laundering/antiterrorist financing regime. The GOL should eliminate all bearer passbook accounts, require reporting of cross-border currency movements and insist that trustees and other fiduciaries comply fully with all aspects of the new anti-money laundering legislation and attendant regulations, as well as be obliged to report attempted transactions. EFFI should be given access to additional financial information. While Liechtenstein recognizes the rights of third parties and protects uninvolved parties in matters of confiscation, the GOL should distinguish between bona fide third parties and others.

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 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 that the shadow economy accounts for some 20 percent of the total economy. There is a significant cross-border flow of money from neighboring countries and from China, often en route to offshore accounts and companies. 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.

Lithuania criminalized the act of money laundering in 1997 with the Law on the Prevention of Money Laundering (LPML), which entered into force in 1998. The LPML requires all financial institutions (credit institutions, brokerage enterprises and leasing companies) to report suspicious or unusual transactions and to identify customers whose transactions exceed 50,000 litas (approximately \$17,500). The LPML also includes provisions for maintaining a register of customers who engage in transactions that exceed 50,000 litas, and the retention of certain documents for a minimum of ten years. Individuals must declare to Customs cash they transport into or out of the country in excess of LTL 10,000 (\$3,677).

During 2003 Lithuania took significant steps to construct a more effective anti-money laundering regime. On November 25, 2003, the Lithuanian Parliament adopted the Amendment to the Law on the Prevention of Money Laundering (the LPML Amendment), which came into force on January 1, 2004, in order to comply with the obligations specified in the European Union's Second Money Laundering Directive and Convention against Financing of International Terrorism as well as the FATF Forty Recommendations.

The LPML Amendment extends to additional financial institutions, including post offices, lawyers, high value goods dealers, notaries and insurance companies, the requirement to report suspicious or unusual activity. It also expands the list of professions that have to implement preventive measures against money laundering to include auditors, accountants, tax advisors, enterprises providing bookkeeping or tax consultation services, lawyers and their assistants, and people who are engaged in commercial or economic activity related to real estate, precious stones, metals, works of art, antiquarian cultural valuables, or other high value goods. The LPML Amendment also mandates a stricter customer identification policy for insurance companies and casinos.

The Central 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. Credit institutions (banks) are all privately owned and also function as bureaux de change. They must be licensed by the BOL and follow special record keeping requirements. The BOL has the authority to examine the books, records, and other documents of all financial institutions and casinos. The BOL then informs law enforcement authorities of any violations recorded during its examination. Nonbank financial institutions operate under guidelines similar to banks. Insurance and brokerage companies are under supervision by the Insurance and Brokerage Commission, which can execute administrative measures or revoke the company's license.

The LPML specifies that suspicious and unusual transactions are to be reported to the Financial Crimes Investigation Service (FCIS) located in the Ministry of the Interior (formerly the Tax Police Department). The Money Laundering Prevention Division (MLPD) of the FCIS is Lithuania's financial intelligence unit. The FCIS has 460 people assigned to ten regional units and one special unit. One hundred fifty of the 460 people are police officers and 220 people are County Auditors (for financial crimes and tax crimes) and other financial experts. From January 1998 to June 2003, the MLPD sent a total of 730 cases (200 in 2002, from approximately 90 percent of the banks) to the regional units for investigation. Sixty-two criminal cases (of which 14 were initiated in 2002) were opened based on the financial reports, and 15 of the cases were investigated for money laundering violations. Investigators initiated four pretrial investigations into money laundering in 2003.

In addition to suspicious transaction reports (STRs), the MLPD receives currency transaction reports (CTRs) for currency exchanges over 20,000 litas (approximately \$7,000). There were 83 STRs filed with the MLPD in 2001, 156 STRs and 43,164 CTRs in 2002, and 153 STRs and 30,508 CTRs for the period January 1 through October 31, 2003. There are a total of approximately 70,000 CTRs and 480 STRs on file with the MLPD.

On May 1, 2003, the new Criminal Code of the Republic of Lithuania came into force, replacing the 1961 Criminal Procedures Code. Article 216 of the Code increases the role of prosecutors and closes loopholes with regard to corruption. Under the new procedure code, the role of prosecutors increases. Under the previous code the police could freeze/seize assets, but now they must first go to the prosecutors with the named property and ask for authority to freeze/seize the assets of a suspected crime. The suspect may appeal to a higher court, and the decision of the Supreme Court is final. The LPML Amendment gives the FCIS the right to order reporting institutions to suspend a money transaction for 48 hours if suspicion arises that it may be related to money laundering or terrorist financing, while a preliminary investigation or analysis is conducted. The reporting institutions are obligated to refrain from carrying out money transactions if they know or suspect they may be related to money laundering, until they notify the FCIS. The FCIS froze over LTL 52 million (\$19.1 million) in assets in 2003, up from LTL 35.1 million (\$12.9 million) the previous year (In 2003, the Court did not order the forfeiture of drug-related assets. There are no figures available for the total value of forfeited crime-related assets.) The police state that they lack resources to perform seizures of property. Lithuania does not share crime-related assets with other governments.

Article 250 of the Lithuanian Criminal Code criminalizes terrorist financing. Lithuania also introduced the concept of terrorist financing in the LPML Amendment that includes a short definition of terrorist financing and preventive measures. The preventive measures obligate the reporting institutions to notify the FCIS immediately about money transactions (both cash and noncash) that might be related to terrorist financing, irrespective of the amount of the transaction. The LPML Amendment also includes terrorist financing as a predicate offense for money laundering.

On May 15, 2003, the Governmental Decree "On the Approval of the Criteria in Observance Whereof a Monetary Operation is Considered Suspicious" was supplemented. One of the new criteria pertains to the prevention of terrorism. It states that if data identifying the customer of a credit institution, a representative of the customer conducting a transaction, or the subject on behalf of whom the monetary operation is being conducted, correspond to the data about persons related to terrorist activity, and included on the lists produced by the respective authorities of foreign countries and international organizations, such person is to be considered suspicious, and treated accordingly. The State Security Department and the FCIS circulated to financial institutions the names of all terrorist individuals and entities on the UN 1267 Sanctions Committee's consolidated asset freeze list and/or whom the USG has designated and whose assets it has frozen. To date, the government has provided no indication that searches have yielded evidence of terrorist assets. Charitable and nonprofit entities do not play a role as conduits to finance terrorism. Alternative remittance systems reportedly do not exist in Lithuania.

Lithuania has signed memoranda on exchange of money laundering-related financial and intelligence information with the financial intelligence units of Belgium, Croatia, the Czech Republic, Estonia, Finland, Latvia, Bulgaria, Slovenia 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 an agreement with Germany on cooperation in work against organized crime, terrorism, and other serious crimes. There is a mutual legal assistance treaty (MLAT) between the United States and Lithuania, which entered into force in 1999. Lithuania voluntarily exchanges with the U.S. information regarding on-site examinations of banks and trust companies. The FCIS joined the Egmont Group's Secure Web (ESW) in December 2003.

Lithuania is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Lithuania is also a party to the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. Lithuania is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The MLPD is a member of the Egmont Group.

Lithuania should continue its efforts to enhance its anti-money laundering/antiterrorist financing regime. In particular, Lithuania should ensure its asset forfeiture regime is adequate and should consider enactment of measures to allow asset sharing with third party jurisdictions that participate in the investigation of international money laundering cases. Lithuania also should ensure nongovernmental organizations, including charities, are adequately supervised and regulated to prevent their abuse by criminal or terrorist groups.

Luxembourg

Despite its standing as the smallest member of the European Union (EU), Luxembourg is the seventh-largest financial center in the world, with more than 175 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 these countries' proximity to Luxembourg, a significant share of suspicious transaction reports in Luxembourg are generated from transactions involving clients in these countries. Luxembourg currently has no cross-border currency reporting requirements.

As of December 2003, 180 banks were operating. As of September 2003, Luxembourg had 1,912 "undertakings for collective investment" (UCIs), or mutual fund companies, and about 900 investment companies. There were 13,819 holding companies, 95 insurance companies and 264 reinsurance companies. The Luxembourg stock exchange has over 23,000 international securities listed. The size and sophistication of Luxembourg's financial center create opportunities 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 after 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 EU's 1991 First Anti-Money Laundering Directive, (Directive on the Prevention of the Use of the Financial System for the Purpose of Money Laundering, 91/308/EEC), and includes customer identification, record keeping and suspicious transaction reporting requirements. The Act of 1 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.

In July 2003, Luxembourg's parliament passed a multifaceted antiterrorism financing law known as *Projet de Loi 4954*, designed to strengthen Luxembourg's ability to fight terrorism and the financing of it. Aside from ratifying the UN International Convention for the Suppression of the Financing of Terrorism, the law defined terrorist acts, terrorist organizations, and terrorism financing in the Luxembourg Criminal Code for the first time. In addition, the specific crimes, as defined, will carry

penalties of 15 years to life. The law also extends the definition of money laundering to incorporate new terrorism-related crimes, and, with regard to Special Investigative Measures, provides an exception to notification requirements in selected wiretapping cases.

Luxembourg is presently in the domestic implementation phase of the EU's Second Anti-Money Laundering Directive (2001/97/EC). In May 2003, a draft bill, *Projet de Loi 5165*, which implements that directive, was submitted for consideration. Although Luxembourg's laws were written mainly to harmonize with the Directive, the draft bill went beyond the Directive by extending the list of covered entities to include legal services providers, certain real estate professionals, high-value goods dealers and insurance companies; and by lowering the value of transactions subject to anti-money laundering rules to 10,000 euros from the EU requirement of 15,000 euros. Government of Luxembourg (GOL) officials believe that the law will be passed by June 2004.

The *Cellule de Renseignement Financier FIU-LUX* (formerly known as *Parquet Economique et Financier Luxembourg/Service Anti-Blanchiment*) serves as Luxembourg's financial intelligence unit (FIU), receiving and analyzing STRs 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, in-house bank auditors, and the CSSF.

The 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 within 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.

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 although 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 a EU recommendation on quality control for external audit work to assure the adherence to international standards on auditing.

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. As of mid-December 2003, there were 804 STRs filed (up from 631 in 2002 and 431 in 2001). There are currently two major ongoing money laundering investigations, which have led to one arrest to date. There is a consistently high level of cooperation between U.S. and Luxembourg law enforcement authorities on money laundering investigations.

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 investigations (most of which were not fruitful, and the assets were then released). 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. In November 2003, Luxembourg ratified the UN International Convention on the Suppression of the Financing of Terrorism. 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 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. Luxembourg's Agency for the Transfer of Financial Technology (ATTF) has consistently provided training and acted as a consultant in money laundering matters to government and banking officials in countries whose regimes are in the development stage. Since 2001, ATTF has provided assistance to government and banking officials from Bosnia, Bulgaria, Croatia, Cape Verde, China, the Czech Republic, Egypt, Macedonia, Romania, Russia, and the Ukraine. The ATTF budget has grown steadily from approximately 700,000 euros in 2000, to nearly 2 million euros in 2003.

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 continue its active participation in international fora. The GOL 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. Its 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 noncompliant" with the money laundering principles of the Basel

Committee's "Core Principles for Effective Banking Supervision." The assessment concluded that an anti-money laundering legal framework was in place in Macau, but recommended improvements in implementation and enforcement.

Since the IMF's assessment, Macau has taken several steps to try to improve its institutional capacity to tackle money laundering. These will be helpful if they lead to greater legal enforcement. In October 2002, the Judiciary Police set up the Fraud Investigation Section. One of its key functions is to receive all suspicious transaction reports (STRs) in Macau and undertake subsequent investigations. In 2003, the Macau Special Administrative Region Government (MSARG) also prepared an administrative regulation establishing a financial intelligence unit. The FIU will be set up pending passage of the legislation. An interagency body consisting of representatives from the Monetary Authority of Macau, Macau Customs Service, Judicial Police, and other economic and law-enforcement agencies has been working on issues related to the FIU since 2002, according to Macau officials. The government also drafted new money laundering and terrorist financing bills which, if passed and enforced, would strengthen its efforts.

Macau's financial system is governed by the 1993 Financial System Act and amendments, which lay out regulations to prevent 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 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. Taxes from gaming comprised 63 percent of government revenue in 2002, while tourism and gaming combined accounted for 40 percent of GDP in 2001. 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. 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. The legislation aims to make money laundering by casinos more difficult, improve oversight, and tighten reporting requirements. A separate proposed measure governs the granting of credit by casinos, which would make it harder for criminal organizations to penetrate the casinos.

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 antiterrorism law in April 2002 that increases Macau's compliance with UNSCR 1373. The legislation criminalizes violations of UN Security Council resolutions, including antiterrorist resolutions, and strengthens antiterrorist 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.

In 2003, the MSARG drafted a new counterterrorism bill aimed at strengthening antiterrorist financing measures. As of December 2003, the bill was under consultation within the administration. The law—also drafted to comply with UNSCR 1373—would make it illegal to conceal or handle finances on behalf of terrorist organizations. Individuals would be liable even if they were not members of designated terrorist organizations themselves. The Macau government drafted additional measures which are still under discussion. These include an administrative regulation giving the Chief Executive of Macau the authority to designate terrorists and freeze assets of terrorists not on UN lists, and permitting assets to be frozen without first obtaining a court order. Additional proposed legislation would allow prosecution of persons who commit terrorist acts outside of Macau and would mandate stiffer penalties.

The increased attention paid to financial crimes in Macau after the events of September 11 has led to a general increase in the number of suspicious transaction reports. From October 1, 2002, to September 30, 2003, 107 STRs were received by Macau's Judiciary Police from individuals, banks, insurance companies and government agencies. That represents a substantial increase over the 55 reports filed from January to November, 2002. In prior years, only a handful of reports were filed each year.

In 2003, the MSARG drafted a new money laundering bill that broadened the definition of money laundering to include all serious predicate crimes. The legislation also mandated greater customer identification, a more comprehensive reporting system regarding suspicious transactions, a duty to refuse to undertake suspicious transactions, more specific guidelines for the nonbanking sector—such as real estate—and penalties for entities that fail to report suspicious transactions. In November 2003, the Monetary Authority of Macau issued a circular to banks requiring that STRs be accompanied by a table specifying the transaction types and money laundering methods, in line with the collection categories identified by the Asia Pacific Group on Money Laundering.

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, money changers, and remittance agents addressing record keeping and suspicious transaction reporting for cash transactions over \$2,500.

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 Judiciary Police have been cooperating with law enforcement authorities in other jurisdictions through the Macau branch of Interpol to suppress cross-border money laundering. In addition to Interpol, the Fraud Investigation Section of the Judiciary Police has established direct communication and information sharing with authorities in Hong Kong and mainland China.

The Monetary Authority of Macau also cooperates internationally with other financial authorities. It has signed memoranda of understanding with the People's Bank of China—China's Central Bank—the China Insurance Regulatory Commission, the China Banking Regulatory Commission, the Hong Kong Monetary Authority, the Hong Kong Securities and Futures Commission, the Insurance Authority of Hong Kong, and Portuguese bodies including the Bank of Portugal, the Banco de Cabo Verde and O Instituto de Seguros de Portugal.

Macau participates in a number of regional and international organizations. It is a member of the Asia/Pacific Group on Money Laundering (APG), the Offshore Group of Banking Supervisors, the International Association of Insurance Supervisors, the Offshore Group of Insurance Supervisors, the

Asian Association of Insurance Commissioners, and the International Association of Insurance Fraud Agencies. In 2003, Macau hosted the annual meeting of the Asia Pacific Group on money laundering, which adopted the revised FATF Forty Recommendations and a strategic plan for anti-money laundering efforts in the region from 2003 to 2006. In September 2003, Macau became a party to the UN Convention against Transnational Organized Crime as a result of China's ratification. Macau also became a party to the 1988 UN Drug Convention through the People's Republic of China's ratification.

Macau has taken a number of steps in the past three 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 pass legislation to 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

Macedonia 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 Macedonia 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 Macedonia'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 20,000 euros, to prepare programs to protect themselves against money laundering, and to report suspicious transactions. Reporting entities are protected by law in their cooperation with enforcement authorities. The LMLP provides penalties for individuals and entities which do not comply. Banks and other financial institutions are required to maintain records necessary to trace and/or reconstruct significant transactions for up to 5 years. The Customs administration is required to register and report the cross-border transport of currency or monetary instruments exceeding 10,000 euros.

A new draft anti-money laundering law passed the Parliament on September 10, 2003. This new law will improve the original Law on Money Laundering Prevention by strengthening the Anti-Money Laundering Directorate, by putting into place more preventive measures, and by harmonizing Macedonia's anti-money laundering regime with the European Union (EU) directives as well as all international standards including the FATF Special Recommendations. The amendments to the LMLP that just underwent the first reading in the Parliament envision a decrease of the limit for the obligatory reporting from 20,000 to 15,000 and obligatory electronic payments through banks or other financial institutions of amounts larger than 15,000.)

Nonbank financial institutions such as exchange offices and nonbank money transfer agents are poorly supervised and audited. However, the Law on Money Transfer by entities other than banks was passed in December 2003 defining the rules of licensing, operating and supervising money transfer agents.

Money Laundering and Financial Crimes

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 its first twenty months of existence, the Directorate received nearly 30,000 reports, most from banks, 65 of which were investigated further; six of these were sent to the prosecutor's office. Four of these cases were dropped and the other two were turned into tax evasion cases. So far, there have been no prosecutions or convictions for money laundering or terrorism financing. The Directorate had planned to join the Egmont Group in July 2003, but membership was postponed because of ambivalence regarding the future status of the Directorate. In mid-2003, the GOM planned to fold the Directorate into the Financial Police organization; however, in November 2003, the government decided to leave the Directorate as an independent body.

In June 2002, parliament passed a Law establishing a Financial Police Unit, situated within the Ministry of Finance. The unit was slated to become operational in fall 2003, but still lacks a director, which is considered as an obstacle for the unit to become fully operational. The unit will investigate money laundering and suspicious transactions reported to the Directorate as well as other potential financial crimes such as tax evasion, corruption and organized crime. Since Macedonia has no bank secrecy laws, supervisory authorities have full access to all bank records. Although not completely staffed, the unit has received some preliminary training on money laundering, with more advanced training planned before it becomes operational.

Terrorism financing would become a new crime after the adoption of amendments to the Criminal Code, expected in 2004. The National Bank and Ministry of Finance circulate the lists of entities involved in terrorist financing that they receive from the Embassy to financial institutions. The authorities are allowed to identify named accounts, but require court orders before they can freeze assets with suspected links to money laundering or terrorist financing. The Government of Macedonia (GOM) has proposed amendments to the LMLP that will allow financial institutions to temporarily freeze assets of suspected money launderers and terrorist financiers.

An amendment to Article 17 of Macedonia's Constitution allowing for the use of what are known as "special investigative procedures," was finally adopted on December 26, 2003. Macedonia is also working to amend the Law on Criminal Procedure and Criminal Code to implement the new amendment. Together, all the legislative reforms should strengthen the GOM's efforts to combat organized crime, corruption, money laundering, terrorism, and other related crimes by increasing penalties; tightening definitions; providing for effective asset freezing, seizure, and forfeiture; and defining authority more clearly. The changes should also harmonize the LMLP with European Commission and MONEYVAL recommendations as well as the EU Conventions.

Macedonia agreed to be evaluated in the pilot of the World Bank's Financial Sector Assessment Program (FSAP), and the FSAP was conducted in April 2003. Preliminary findings indicate that Macedonia has made much progress, and that the government has set anti-money laundering as a high priority. The evaluation also identifies needs, which include various compliance audits.

The GOM has concluded 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 mutual legal assistance agreements with many countries. Exchange of police information is regularly provided through Interpol channels. The GOM 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. Although the framework to support the measure has not become effective yet, Macedonia has agreed to accept valid U.S. civil legal judgments. The GOM has concluded bilateral police agreements for exchanging information on money laundering

with Bulgaria, Croatia, Slovenia, France, Romania, Greece, Russia and Italy and is a signatory to the Council of Europe's Convention on Suppression of Laundering Criminal Proceeds.

Macedonia is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and in October 1999 and October 2002 underwent mutual evaluations by the group. Macedonia 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 GOM has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism.

The GOM should work to pass the pending legislation to tighten its anti-money laundering and counterterrorism financing regime, and the amendments to the criminal legislation to implement the Constitutional amendment allowing the use of special investigative procedures and authorizing financial institutions to freeze assets on a temporary basis. The GOM should mandate the supervision of wire transfers for nonbank financial institutions. The GOM should take steps to assist the Financial Police Unit with its operating requirements and improve interagency cooperation to develop a viable anti-money laundering regime. The GOM should explicitly criminalize the support and financing of terrorists and terrorist organizations.

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; however, far broader money laundering legislation was recently introduced by an inter-ministerial working group. The draft legislation addresses money laundering, seizures, confiscation, and international cooperation in dealing with the proceeds of crime. The legislation was approved by the cabinet and should be considered by the May 2004 legislative session. The banking regulatory framework and the internal policies of the banks provide for retention of significant documents generally for at least five years. Current banking regulations and individual bank policies require financial institutions to know their customers and to document and retain proof of their efforts to carry out that function.

The draft legislation defines prohibited activities and covered actors very broadly. There are broad definitions of "money laundering", "proceeds of crime", and "assets". The provisions apply to physical persons and legal entities involved in operations involving the movement of capital. They apply to banking and credit establishments, intermediate financial institutions, insurance companies, mutual savings institutions, stock brokerages, moneychangers, casinos, gaming establishments, and entities involved in real estate operations. The draft would also require financial institutions to establish internal programs against money laundering, including centralization of information, training, internal controls and designation of a responsible official at each branch or office.

The draft law would authorize the establishment of a financial intelligence service, which would serve as a clearinghouse for customer information and liaison with judicial authorities. The Government of Madagascar seeks to provide for the freezing and seizure of assets, punishment of fines and imprisonment for money laundering and other infractions. The GOM currently distributes lists of individuals and organizations linked to terrorism finance throughout the banking system.

No arrests or prosecutions for money laundering or terrorist financing were presented during calendar year 2003.

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 entered into force in September 2003. Madagascar is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Madagascar should join the Eastern and Southern African Anti-Money Laundering Group and 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 and converting remittance savings systems abroad. 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) drafted a "Money Laundering and Proceeds of Serious Crime" bill, which was considered in Parliament's Commerce and Industry Committee in 2003. The committee requested revisions in the proposed legislation before it is considered in the full Parliament. The draft law would 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. The bill stipulates that the seized assets become the property of the GOM and should be used in the fight against 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 designated under E.O. 13224 by the United States Government. 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 the UN International Convention for the Suppression of the Financing of Terrorism, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Malawi should take steps to strengthen its anti-money laundering and counterterrorist financing regimes as it has agreed to do as a member of ESAAMLG. Malawi should become a party to the UN Convention against Transnational Organized Crime.

Malaysia

Malaysia has made a strong effort to combat money laundering and terrorist financial flows. Malaysia not a major regional center for money laundering, but does offer a variety of financial services in both its domestic and offshore sectors that could be misused by those intent on laundering money or supporting terrorism.

Malaysia's Anti-Money Laundering Act 2001 (AMLA) was enacted in January 2002. The AMLA criminalizes money laundering and lifts bank secrecy provisions for criminal investigations involving

approximately 150 predicate offenses. The 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 sharing financial intelligence with the appropriate enforcement agencies for further investigations. The Malaysian FIU works with at least 12 other agencies to identify and investigate suspicious transactions. 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.

All reporting institutions are subject to the same review by the FIU and enforcement agencies, and must file suspicious transaction reports under the AMLA. Reporting institutions include: commercial banks, merchant banks, finance companies, Islamic banks, money changers, discount houses, insurance brokers, Islamic insurance (Takaful) operators, offshore banks, offshore insurers, offshore trusts, the Pilgrims Fund, Malaysia's Postal Service, development banks such as Malaysia's National Savings Bank, the People's Cooperation Bank, and licensed casinos. Money laundering controls have not been extended to some nonbanking financial institutions, including exchange houses and stock brokerages or to intermediaries such as lawyers, accountants, and brokers.

The securities commission has established a working committee charged with implementing the requirements of the anti-money laundering act for entities falling within its supervision. Bank Negara's financial intelligence unit is working with the Malaysian Bar Council and the Malaysian Institute of Accountants to help them in drafting reporting obligations within the scope of their own code of ethics/fiduciary duties.

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, there are 300 examiners who are responsible for money laundering inspections for both onshore and offshore banks. A comprehensive supervisory framework has been implemented to audit financial institutions' compliance with AMLA.

In 1998 Malaysia imposed foreign exchange controls that restrict the flow of the local currency, the ringgit, from Malaysia. Onshore banks must record cross-border transfers over RM5,000 (approximately \$1,300). Since April 2003, an individual form is completed for each transfer above RM50,000 (approximately \$13,170). Recording is done in a bulk register for transactions between RM5,001 and RM50,000, where information on the amount and purpose of the transaction is recorded by the bank concerned.

Malaysia has a substantial offshore sector located in the east Malaysian region of Labuan. The Offshore Financial Services Authority (LOFSA), which is under the authority of the Central Bank, Bank Negara. The offshore sector has different regulations for the establishment and operation of offshore businesses. However, the offshore sector is governed by the same anti-money laundering laws as those governing domestic financial services providers. Offshore banks, insurance companies, and trust companies are required to file suspicious transaction reports under the country's anti-money laundering law. LOFSA licenses offshore banks and insurance companies and performs stringent background checks before granting an offshore banking license. The financial institutions operating in Labuan are generally among the largest international banks and insurers. Nominee (anonymous) directors are not permitted for offshore banks or insurance companies. Most observers believe that the regulatory authority exercises adequate control of the banking and insurance groups active in Labuan.

Labuan has over 4000 registered offshore companies. All offshore companies must be established through a trust company. Offshore companies are not required to reveal their beneficial owners to the supervisory authority. Instead trust companies are charged by law with establishing the true beneficial owners and submitting suspicious transaction reports, as necessary. Bearer instruments are prohibited in Labuan, but there is also no requirement to reveal the true identity of the beneficial owner of international corporations. If queried by the supervisory authority, LOFSA, all financial service providers must disclose information on the beneficial owner of accounts and directors of organizations operating in Labuan. Malaysia bans offshore casinos and Internet gaming sites.

In November 2003, the AMLA was amended to include the financing of terrorism as one of the predicate offenses covered under the Act. Once the amendments come into force, the AMLA will be renamed "The Anti-Money Laundering and Anti-Terrorist Financing Act". As of the end of 2003, the government has not yet prosecuted a money launder case, but government officials report that several cases are in the investigative stages. 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.

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. The Registrar of Societies regulates nongovernment organizations. The registrar has put in place a monitoring mechanism, whereby it is mandatory for every registered society of a charitable nature to submit to the Registrar the annual returns, which includes the audited financial statements.

In conjunction with Malaysia's anti-money laundering unit within the Central Bank, the Ministry of Foreign Affairs opened the Southeast Asian Region Centre for Counter Terrorism (SEARCCT) in August 2003. 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. The financial intelligence unit has signed memoranda of understanding with the Australian FIU AUSTRAC, while MOUs with South Korea and the United States are pending. In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Bill 2002. The GOM signed a joint declaration to combat international terrorism with the United States in May 2002.

Malaysia has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which came into force in September 2003. 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. The financial intelligence unit in Bank Negara Malaysia has been admitted as a member of the Egmont Group of Financial Intelligence Units at its Plenary meeting in July 2003. Appropriate antiterrorist legislative provisions were passed by the GOM in November 2003, which enables Malaysia to accede to the UN Convention for the Suppression of the Financing of Terrorism. The amendments criminalize terrorist acts, and enable freezing, seizing, and forfeiture of terrorist properties. These amendments will come into force on a date to be appointed by the Minister, after royal assent.

The GOM has made important strides towards the fight against money laundering and terrorist financing. The GOM should continue to issue and implement all regulations, as required in the AMLA, and issue standardized requirements that are applied consistently to all financial institutions, bank and nonbank, supervised by Bank Negara Malaysia. 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 of the beneficial owners of the 4000 IBCs 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. The Government of Malaysia should also become a party to the UN Convention against Transnational Organized Crime and to the UN International Convention for the Suppression of the Financing of Terrorism.

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. 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.

As of 2002, the Government of Maldives (GOM) was considering draft money laundering legislation and the establishment of a Financial Intelligence Unit. However, there is no recent reporting on the progress of the Maldives’ anti-money laundering program.

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 antiterrorist 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 and the UN Convention against Transnational Organized Crime.

Mali

Mali is not a regional financial center nor is money laundering considered to be a problem.

Mali has participated in the past in regional seminars and conferences on combating money laundering and promoting law enforcement cooperation against drug trafficking, terrorism, and money laundering. Mali has drafted a new banking law with International and European standards that is

expected to be ratified by the Malian National Assembly in early 2004. The new banking law will also regulate the transfer of currency. Terrorism and terrorist financing are considered serious crimes in Mali. Malian law has the authority to identify, freeze, and seize terrorist finance-related assets. All proceeds from seized assets remain with the Government of Mali.

Money laundering controls are also applied to nonbanking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, as well as intermediaries such as lawyers, accountants, and broker/dealers. There have been no known arrests or prosecutions for money laundering or terrorist financing in Mali since January 1, 2003.

Mali is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, and 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 attract 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.

Since 1997, Malta has been closing the loopholes on all offshore financial activities. As of December 31, 2003, 101 companies, down from 285 a year before, retain offshore status compared to some 30,000 that do not. Offshore registration of banks and international business corporations (IBCs) was halted in January 1997. The number of IBCs has declined from 417 in 2001 to 120 as of November 2003. Legislation dealing with offshore business will remain in force until 2004; the Government of Malta (GOM) has legislated that offshore businesses must close and has stated that all such entities will be completely closed down by September 2004. Companies and trusts are now fairly well regulated, and international entities are subject to 35 percent tax. Bearer shares or anonymous accounts are no longer permitted in Malta. The last of the offshore banks, Erste Bank, came on-shore in October 2003; presently there are no offshore banks in Malta.

The GOM criminalized money laundering in 1994. Maltese law imposes a maximum fine of approximately \$2.5 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 brokerage 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 August 2003, a new set of regulations combined the 1994 money laundering law and the 2nd EU Directive on the Prevention of Money Laundering, and became the national law which expanded anti-money laundering requirements to designated nonfinancial businesses and professions.

The Maltese Financial Services Authority (MFSA) is the regulatory agency responsible for licensing new banks and financial institutions; additionally the MFSA has been responsible for monitoring financial transactions going through Malta since the supervisory function of the Central Bank of Malta was passed to the MFSA in 2002. 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. The MFSA has a rigorous process of analyzing companies prior to granting a license. This entails detailed analyses of all the applications it receives, including of information about the directors and other persons involved in the management of the company. Presently there is an initiative, lead by the Financial Intelligence Analysis Unit (FIAU) in

corroboration with the relevant authorities and the industry, to consolidate all guidance notes for all of the covered financial services and other businesses. In 2003, the FIAU together with the Banking Unit at the MFSA, updated the Guidance Notes for Credit and Financial Institutions issued by the Central Bank of Malta in 1996.

In December 2001, Malta's parliament established the FIAU through an amendment to the Prevention of Money Laundering Act, 1994, to serve as Malta's financial intelligence unit. The unit became fully functional in October 2002. Its board consists of members nominated by the Central Bank of Malta, the MFSA, the Police, and the Attorney General. The FIAU co-ordinates the fight against money laundering, collects information from financial institutions, and liaises with parallel international institutions as well as local investigative authorities (the MFSA and the GOM Police). The GOM requires banks, bureaux de change, stockbrokers, insurance companies, money remittance/transfer services, and other designated nonfinancial businesses and professions to file suspicious transaction reports (STRs) with the FIAU. The FIAU is charged with the financial investigation of STRs and has organized training sessions for Maltese financial practitioners to make them aware of the implications of the 2001 Money Laundering Act. The FIAU is an independent unit and neither the unit nor its board members are subject to the direction or control of any other agency or authority.

STRs are not required to be filed for subjects suspected of negligence; only intentional and willful blindness offenses are penalized in Malta at this time. The marked increase in the number of STRs, up from nine in 1998 to 76 as of the end of 2003, and the expansion of reporting institutions that have submitted these reports indicate Malta's determination to crack down on money laundering. Enforcement should continue to strengthen as the FIAU continues analyzing STRs for referral for police investigation.

Malta has also moved to bolster the prosecutorial opportunities for 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 an alleged smuggling operation.

In January 2002, MONEYVAL conducted a second round mutual evaluation of the overall effectiveness of the Maltese anti-money laundering system and practices, including compliance with the FATF Eight Special Recommendations on Terrorist Financing. The review found that Malta was in full compliance with Special Recommendations No. 2 through No. 7. Malta was in partial compliance with Special Recommendation No. 1 (ratification and implementation of UN instruments), because it had signed and ratified the UN Conventions, but had not yet fully implemented UNSCR 1269, 1373, and 1390.

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.

Malta is a founding member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and chaired the committee until December 2003. The FIAU became a member of the Egmont Group in July 2003. Malta is no longer a member of the Offshore Group of Banking Supervisors, but has joined the International Organization of Securities Commissions (IOSCO). Malta is a party to the 1988 UN Drug Convention. Malta has ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the UN Convention against Transnational Organized Crime. 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; in particular, Malta should adopt cross-border currency transportation reporting, including the reporting of international wire transfer activity, and should enact a safe harbor provision to protect those who report suspicious activity in accordance with GOM requirements.

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 60,000. The financial system in RMI has total banking system assets of \$90.1 million and total deposits of \$76.4 million, with domestic deposits exceeding 50 percent of the 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. Among other initiatives, the reform program calls for the establishment of the requisite infrastructure for detecting, preventing, and combating money laundering and terrorist financing.

In June 2000, the Financial Action Task Force (FATF) placed the Marshall Islands on the list of noncooperative 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), of customer identification requirements, and of 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 were 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. The substantial and comprehensive effort to align the Marshall Islands' 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 removal from the FATF's NCCT list in 2002.

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 has the power to receive, analyze, and disseminate financial intelligence. In 2003, its processes have been streamlined and automated to the fullest extent possible, given the limited resources available to the DFIU.

Standard operating procedures have been established and documented to systematize the FIU process. An electronic database that is Excel-based has been created, and all disclosures from the financial industry are recorded and analyzed electronically. File links have also been created in this database to support a separate worksheet dedicated to supervisory and regulatory measures. Financial institutions and cash dealers continue to file Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs) with the DFIU. For 2003, a total of 2,706 CTRs and five SARs were filed with the DFIU. These filings have led to three investigation cases for potential money laundering, all of which are still on going.

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.

Since the passage of its anti-money laundering law, and a suite of counterterrorism laws, as well as the subsequent promulgation of implementing regulations, the Government of the GRMI has undertaken a number of initiatives to further strengthen its anti-money laundering/counterterrorist financing regime.

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.

The RMI offshore financial sector is vulnerable to money laundering. Nonresident corporations (NRCs), the equivalent of international business companies, can be formed. Currently, there are 5,500 registered NRCs, half of which reportedly are companies formed for registering ships. NRCs are allowed to offer bearer shares. Corporate officers, directors, and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors, and shareholders or beneficial owners, and corporate entities may be listed as officers and shareholders. 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 nonresident trusts, partnerships, unincorporated associations, and domestic and foreign limited liability companies. Offshore banks and insurance companies are not permitted in the Marshall Islands.

Having established, with assistance from FDIC in 2002, the requisite supervisory processes to ensure compliance with legislative mandates for detection and suppression of money laundering and terrorist financing, the GRMI's main emphasis in 2003 was on fine-tuning these processes. After undertaking

nine on-site examinations of financial institutions, following procedures developed in cooperation with the FDIC, the Banking Commission has now gained a better understanding of the risk profile of these institutions with respect to their exposure to money laundering and terrorist financing. This has proven especially useful in amalgamating some supervisory processes with the routine FIU processes, thereby maximizing benefit for the limited resources available to the GRMI. The Banking Commission had planned that some of the supervisory processes would be incorporated into the required annual audits of banks, but this initiative was not completed in 2003; it will be continued in 2004. In 2003, the Banking Commission recruited an Assistant Commissioner who will spearhead this task along with other examination tasks relating to anti-money laundering compliance and prudential banking practices.

At present, there is no system for reporting cross-border transportation of currency. The GRMI, however, has a draft amendment, which will effectively create such a system. Officials are still deciding whether to incorporate this amendment into the anti-money laundering (AML) legislation or to make it a part of the Customs Act. The RMI's offshore sector comprises largely of a shipping registry and to a lesser extent a corporate registry. The corporate registry program, however, does not allow the registering of offshore banks, offshore insurance firms, and other companies which are financial in nature.

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. Although the GRMI is not a signatory to the UN Vienna Convention on Drug Trafficking, RMI has acceded to all twelve UN Counter-Terrorism, including the International Convention for the Suppression of the Financing of Terrorism, Conventions.

The Marshall Islands is a member of the Asia/Pacific Group on Money Laundering. The DFIU became a member of the Egmont Group of FIUs 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 continues to strengthen its key defenses against money laundering and terrorist financing, and has commenced work aimed at aligning its AML system with the revised 40 recommendations of the Financial Action Task Force on Money Laundering. These tasks are highlighted in the draft 4th AML Implementation Plan, covering the period from 2004 onward. The RMI remains committed to the international fight against money laundering and terrorist financing. The GRMI should expand the record keeping, reporting, and licensing requirements for all nonbank 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. In February 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. Since its inception, the FIU has developed into a fully functioning organization recognized by and admitted to the Egmont Group of FIUs. Its major challenge continues to be the development of an information technology structure to store SARs, perform complex analyses, and be accessible to other law enforcement entities.

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 noncooperative countries and territories. After conducting the review, the FATF did not designate Mauritius as a noncooperative country. More recently, in August 2003, Mauritius underwent a joint IMF-World Bank Financial Sector Assessment Program (FSAP). The FSAP report noted the GOM progress towards addressing deficiencies developing a comprehensive anti-money laundering program.

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 the regulation, which includes the licensing and regulating, of the nonbank financial sector. 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. Mauritius is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. In August 2003, representatives from Mauritius attended the ESAAMLG sixth meeting of the Task Force in Uganda. Mauritius also completed the first round of ESAAMLG mutual evaluations in 2003. Mauritius is a member of the Offshore Group of Banking Supervisors.

Mauritius should continue to take a leadership role in regional outreach through the Egmont Group. Mauritius should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and to the UN Convention against Transnational Organized Crime.

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.

Remittances from the United States to Mexico are at an all-time high, and are expected to total \$12 billion in 2003. Although nonbank companies continue to dominate the market for remittances, many U.S. banks have teamed up with their Mexican counterparts to develop systems to simplify and

expedite the transfer of money. These measures include wider acceptance by U.S. banks of the *matricula consular*, a consular identification card issued to Mexican citizens residing in the U.S. that has been criticized based on security issues. In some cases, neither the sender nor the recipient of the remittance is required to open a bank account in the U.S. or Mexico, but simply provide the *matricula consular* as identification and pay a flat fee. Although these systems have been designed to make the transfer of money quicker and less expensive for the customers, the rapid movement of such vast sums of money, by persons of questionable identity, leaves the new money transfer systems open to potential money laundering and exploitation by organized crime groups.

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 proceeds are still smuggled across the border. In addition, such proceeds can still be introduced 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 to implement 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. In 1997, the GOM established a financial intelligence unit, the *Dirección General Adjunta de Investigación de Operaciones (DGAIO)*, under the Secretariat of Finance and Public Credit (*Hacienda*).

Regulations have been implemented for banks and other financial institutions (mutual savings companies, insurance companies, financial advisers, stock markets, and credit institutions) to know and identify customers, and maintain records of transactions. These entities must report suspicious transactions, transactions over \$10,000, and transactions involving employees of financial institutions who engage in unusual activity, to the DGAIO. The DGAIO receives 500 suspicious transaction reports (STR) per month, and the volume of cash transaction reports averages \$500,000 per month. In 2001, Mexico established STR requirements for the smaller foreign exchange houses that process most of the remittances from Mexican workers in the United States. Current provisions do not include reporting requirements for offshore banks, casinos, real estate brokerages, attorneys, notaries, and accountants. The DGAIO also receives reports on the cross-border transportation of currency or monetary instruments. 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.

Following analysis of reports on currency transactions, suspicious transactions, and cross-border movements of currency or monetary instruments, the DGAIO sends reports that are deemed to require further investigation to the Office of the Attorney General (PGR). As part of a more comprehensive approach to fighting organized crime, the PGR incorporated its special financial crimes unit—which has the authority to initiate, coordinate, and determine the course of preliminary financial crimes inquiries—into the Office of the Deputy Attorney General for Organized Crime (SIEDO). The DGAIO works closely with SIEDO in carrying out money laundering investigations. In 2003, SIEDO initiated 59 inquiries and transferred 28 of these to the judiciary for prosecution, issued various arrest warrants that ultimately resulted in 13 convictions with sentences, and seized large quantities of foreign and domestic currency. In addition to working with SIEDO, DGAIO personnel have initiated

working level relationships with other federal law enforcement entities, including the Federal Investigative Agency (AFI), in order to support the investigations of criminal activities with ties to money laundering.

In November 2003, the Senate passed proposed amendments to the Federal Penal Code that would link terrorist financing to money laundering. This legislation, once passed by the lower house of Congress, will bring Mexico into compliance with UN Security Council Resolution 1373 against Terrorism and the FATF Special Recommendations on Terrorist Financing. The proposed amendments also create two new crimes: conspiracy to launder assets and international terrorism (when committed in Mexico to inflict damage on a foreign state). In addition, the legislation strengthens “know your client” provisions and requires suspicious transaction reporting by money exchange and remittance businesses. The GOM has responded to USG efforts to identify and block terrorist-related funds, and although no assets were frozen, it continues to monitor suspicious financial transactions.

Mexico has developed a broad network of bilateral agreements with the United States, and regularly meets in bilateral law enforcement working groups with the U.S. 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. Although the United States and Mexico both have forfeiture laws and provisions for seizing assets abroad derived from criminal activity, USG requests to Mexico for the seizure, forfeiture, and repatriation of criminal assets have not met with success, as Mexican authorities have difficulties handling assets seized for forfeiture in Mexico if these assets are not clearly linked to narcotics. In two significant U.S. cases involving fraud, authorities seized real property and money generated from the crime. Although authorities gained forfeiture of the property in the United States, counterparts in Mexico did not carry out such orders in Mexico, nor have they returned related assets to the United States for forfeiture.

In addition to its membership in the FATF, Mexico participates in the Caribbean Financial Action Task Force (CFATF) as a cooperating and supporting nation and in the South American Financial Action Task Force (GAFISUD) as an observer member. Mexico is a member of the Egmont Group and the OAS/CICAD Experts Group to Control Money Laundering. The GOM is a party to the 1988 UN Drug Convention. In 2003, the GOM ratified several other international treaties, including the UN Convention against Transnational Organized Crime, the UN International Convention for the Suppression of the Financing of Terrorism, and the Inter-American Convention Against Terrorism, which entered into force on July 10, 2003. The GOM also signed the UN Convention Against Corruption on December 9, 2003.

The GOM should improve the mechanisms and implementation for asset forfeiture and money laundering cooperation with the United States, and increase efforts to control the bulk smuggling of currency across its borders. The GOM should also closely monitor remittance systems for possible exploitation by criminal or terrorist groups. The GOM should enact its proposed legislation to criminalize the financing and support of terrorists and terrorism. 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 do so.

Micronesia

The Federated States of Micronesia (FSM) is a sovereign state in free association with the United States. The FSM is not a regional financial center. There has not been any known money laundering schemes related to narcotics proceeds. Financial crimes, such as bank fraud, are rare and do not appear to be increasing in frequency. Misappropriation of public funds has generated illicit proceeds and has led to a number of indictments against politicians and associated businessmen on money laundering grounds. 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), which went into effect July 1, 2001. The IMF Legal Department conducted a technical review of the law and issued a detailed and favorable report in November 2002. 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 law also provides for collection of financial information and intelligence and international cooperation in money laundering matters. The FSM Administration plans to submit updated money laundering legislation to Congress in 2004, bringing the statute up to full international standards, strengthening forfeiture rules, expanding reporting requirements by banks and nonbank financial institutions, and establishing a financial investigative unit in the Justice Department.

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. The law sets forth procedures for requesting assistance and responding to requests from other countries.

Legislation to explicitly criminalize terrorist financing is pending. Pending new legislation, the FSM could apply the current money laundering law against terrorist financing if the predicate acts of terrorism constitute a criminal violation. 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 have been seized or frozen.

FSM should become a party to the UN Convention against Transnational Organized Crime. FSM should 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. Its significance in terms of money laundering is as a transit country, the exact extent of which is unknown. Moldova continues to suffer from severe economic conditions and incomes are generally low. Criminal proceeds laundered in Moldova are derived substantially from foreign criminal activity and, to a lesser extent, domestic criminal activity and corruption. There has been a rise in Internet-related fraud schemes. Although a significant black market exists in Moldova for all manner of goods, narcotics proceeds are not deemed to be a significant funding source. Instances of money laundering have been through the banking system. Organized crime syndicates, from within Moldova and abroad, are believed to control most

money laundering proceeds, and Government of Moldova (GOM) authorities are not known to encourage or facilitate laundering of proceeds from criminal or terrorist activity. While currency transactions involving laundered proceeds may include U.S. currency (counterfeit or genuine), profits from regional organized crime activities likely account for the majority.

Moldova criminalized money laundering on November 15, 2001, and the law was amended on June 21, 2002. It remained unchanged when the new criminal code was adopted on June 12, 2003. The legislation applies to “all crimes,” not just narcotics activity, with banks and nonbank financial institutions (NBFIs) required to report suspicious transactions to proper GOM authorities. The threshold for suspicious activity at the current exchange rate is any single transaction of \$7,600 for individuals, \$15,200 for wire transfers, and \$22,800 when transferred by a company or firm. Banks must maintain transfer records for a period of five years after an account is opened or after any financial transaction takes place, and seven years after foreign currency contract transactions, whichever is later. Suspicious transactions have been reported, as required, since the law was enacted.

Both banks and NBFIs are protected from criminal, civil, and administrative liability asserted as a result of their compliance with the reporting requirements, and no secrecy laws exist that would prevent law enforcement or banking authorities from accessing financial records. An amendment dated May 29, 2003 states that forwarding such information to law enforcement or the courts is not a breach of confidentiality as long as it is done in accordance with the regulations.

Only two foreign banks exist in Moldova, Banca Comerciala Romana, a Romanian bank; and Unibank, in which Russian bank Petrocomert holds 100 percent of the shares; both are regulated in the same manner as Moldovan commercial banks. Offshore banks are permitted, so long as they are licensed by the National Bank of Moldova (NBM) and background checks are conducted on shareholders and bank officials. Nominee (anonymous) directors are not allowed, and banks do not permit bearer shares. The Ministry of Finance currently licenses five casinos, although they are reportedly not well regulated or controlled. GOM efforts against the international transportation of illegal-source currency and monetary instruments largely focus on cross-border currency reporting forms, completed at ports of entry by travelers entering Moldova.

Current legislation contains provisions authorizing sanctions of commercial banks for negligence and, as mentioned above, money laundering legislation applies not only to banks but also to NBFIs and to any person involved in laundering money. While banks were initially resistant towards money laundering legislation, they have since adopted compliance programs as required by the law. Money laundering investigations are difficult, particularly as Moldova remains predominantly a cash society with people having little trust in banks.

Money laundering crimes are the purview of the Center for Combating Economic Crimes and Corruption, while narcotics-related seizures are within the jurisdiction of the Ministry of Interior. The Office of the Prosecutor General has created a Financial Investigations Unit to pursue suspicious transactions. Moldovan authorities report that there are currently 11 criminal investigations underway for money laundering, with two suspects under arrest. Moldova has made no arrests for terrorist financing.

Article 106 of the Moldovan criminal code, enacted June 12, 2003, relates specifically to asset seizure and confiscation. The article, titled “Special Seizures,” describes a special seizure as the forced and free passage to the State of goods used during or resulting from crimes. The article may be applied to goods belonging to persons who knowingly accepted things acquired illegally, even when prosecution is declined. It remains unclear if asset forfeiture may be invoked against those unwittingly involved or tied to an illegal activity. The GOM currently lacks adequate resources, training, and experience to trace and seize assets effectively.

Moldova codified the criminalization of terrorist financing in the Law on Combating Terrorism, enacted November 12, 2001. Article 2 defines terrorist financing, and Article 8/1 authorizes suspension of terrorist and related financial operations. Current GOM capabilities to identify, freeze, and seize terrorist assets are rudimentary, with investigators lacking advanced training and resources. While the NBM receives updated lists of suspected terrorists, no al-Qaida or Taliban related assets have been identified, frozen, or seized in Moldova. No hawala system exists in Moldova; however, current anti-money laundering legislation also covers gold, gems, and precious metals. Investigation into misuse of charitable or nonprofit entities is nonexistent, as the GOM has neither the resources nor ability to perform these tasks.

No agreements, bilateral or otherwise, exist between the U.S. and Moldova relating to the exchange of records in connection with narcotics, terrorism, terrorist financing, or other serious criminal investigation. No negotiations are underway in establishing such a mechanism. Current legislation does not prohibit cooperation on a case-by-case basis. GOM authorities continue to solicit USG assistance on individual cases and cooperate with U.S. law enforcement personnel when presented with requests for information/assistance. There are no known cases of GOM refusal to cooperate with foreign governments or of sanctions or penalties being imposed upon the GOM for a failure to cooperate.

Moldova is a party to the 1988 UN Drug Convention, the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, and the UN International Convention for the Suppression of the Financing of Terrorism, and cooperates in accordance with these agreements where resources and abilities permit. Moldova has also signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In addition to these, Moldova has signed an agreement with CIS member states for the exchange of information on criminal matters, including money laundering.

The GOM should continue to enhance and implement its anti-money laundering/antiterrorist financing regime. Moldova should establish a financial intelligence unit to facilitate the sharing of information with foreign governments. The GOM should improve the mechanisms and assure implementation of its asset forfeiture laws and provide appropriate training for officials involved in this program.

Monaco

The Principality of Monaco is considered vulnerable to money laundering, because of its strict bank secrecy laws, network of casinos, and unregulated offshore sector. The principality does not face standard forms of organized crime, and the crimes that exist do not seem to generate significant illegal proceeds (save for fraud and offenses under the Law on Checks); rather, money laundering offenses relate mainly to offenses committed abroad. Russian organized crime and the Italian Mafia reportedly have laundered money in Monaco. Monaco remains on an OECD list of so-called “noncooperative” countries in terms of provision of tax information.

Monaco is the smallest country in Europe, after the Vatican. There are approximately 70 banks and financial institutions in Monaco, with more than 300,000 accounts (with a population of about 7,000 Monegasque nationals and another 25,000 foreign residents). Approximately 85 percent of the banks’ customers are nonresident. In 2002, the financial sector represented over 17 percent of Monaco’s turnover. Aside from banks, the nonbanking financial institutions include insurance companies, portfolio management companies, and trusts created through notaries, of which there are three, all nominated by the Prince. Accountants and the 25 legal professionals in the country are also included. The real estate sector is quite important because of the high prices involved. There are also four casinos run by the Société des Bains de Mer (with a state-owned majority interest).

Monaco's banking sector is linked to the French banking sector through the Franco-Monegasque Exchange Control Convention signed in 1945 and supplemented periodically, most recently in 2001. Monaco therefore uses banking legislation and regulations issued by the French Banking and Financial Regulations Committee, including Article 57 of France's 1984 law regarding banking secrecy. Most of the Monegasque 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.

Although the French Banking Commission is the supervisor for Monegasque institutions, Monaco shoulders its own responsibility for legislating and enforcing measures to counter money laundering and terrorism financing. The Finance Councilor (within the Government Council) is responsible for anti-money laundering implementation and policy. Money laundering in Monaco is a criminal offense. It was criminalized by Act 1.162 of 7 July 1993, "On the Participation of Financial Institutions in the Fight against Money Laundering," and Section 218-3 of the Criminal Code, and amended by Act 1.253 of 12 July 2002, "Relating to the Participation of Financial Undertakings in Countering Money Laundering and the Financing of Terrorism." 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).

The 2002 amendments to the 1993 money laundering legislation include bringing corporate service providers, portfolio managers, and Monaco Law 214 trustees, as well as institutions within the offshore sector, into line with the obligations of banks. New procedures have also been put into place, which include internal compliance, identification of the client, and records maintenance. Authorities held briefings to explain the new procedures to companies requiring a compliance officer. Meetings are also held with compliance officers so that implementation issues and concerns may be aired and addressed. Offshore companies are subject to the same due diligence and suspicious reporting obligations as banking institutions, and Monegasque authorities conduct on-site audits. The 2002 legislation also strengthened the Know Your Client obligations for casinos. Monegasque authorities envisage amending legislation to implement full corporate criminal liability before the middle of 2004.

Banking laws do not allow anonymous accounts, but Monaco does permit the existence of alias accounts, where the owner uses a pseudonym in lieu of the real name. Cashiers do not know the client, but the bank knows the customer and retains client identification information.

Monaco established its financial intelligence unit, the Service d'Information et de Contrôle sur les Circuits Financiers (SICCFIN), to collect information on suspected money launderers. SICCFIN receives suspicious reports, analyzes them, and forwards them to the Prosecutor when they relate to drug trafficking, organized crime, terrorism, terrorist activities, terrorist organizations, or the funding thereof. SICCFIN also is responsible for supervising the implementation of anti-money laundering legislation. Under Law 1.162, Article 4, SICCFIN may suspend a transaction for up to twelve hours and advise the judicial authorities to investigate. SICCFIN also has provided training to intermediaries, most recently to lawyers and notaries.

In 2000, the Financial Action Task Force criticized the anti-money laundering regime of Monaco for the insufficient resources provided to SICCFIN. In November 2001, Monaco and France 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. The authorities believe that this is due to a greater awareness of money laundering rather than an increase in money laundering itself. The 2002 amendments to the money laundering legislation increase SICCFIN’s investigatory powers. In 2002, SICCFIN received 275 disclosures, 33 of which were passed to the Public Prosecutor for further investigation. In the first eleven months of 2003, SICCFIN received 250 disclosures, 19 of which were referred to the public prosecutors.

Investigation and prosecution are handled by the two-officer *Unité de lutte au blanchiment* (Unit Against Money Laundering) within the police. The *Groupe de repression du banditisme* (Group Against Organized Crime) may also handle cases. Depending on the number and types of cases, there are seven police officers equipped to deal with money laundering. Monaco has had three convictions for money laundering, and one acquittal. Monaco encounters obstacles because predicate offenses for money laundering are committed abroad; despite the existence of money laundering, often the crime that receives the conviction is the predicate crime and not the money laundering offense.

Monaco’s legislation allows for confiscation of property of illegal origin as well as a percentage of illegally acquired and legitimate property that has been mingled. A court order is required for confiscation. In the case of money laundering, confiscation of property is restricted to the offenses listed in the Criminal Code. On the basis of letters rogatory, over 11.7 million euros have been seized. Monaco has extradited criminals, mainly to Russia.

The Securities Regulatory Commissions of Monaco and France signed a memorandum of understanding on March 8, 2002, on the sharing of information between the two bodies. The agreement was a step in Monaco’s efforts to conform to standards proscribed by the International Organization of Securities Commissions, whose mission is to establish international standards to promote the integrity of securities markets. The Government of Monaco sees the MOU as an important tool to strengthen the principality’s ability to fight financial crimes, particularly money laundering.

In 2003, SICCFIN signed information exchange agreements with counterpart units in Slovenia and Lebanon, in 2002, with Switzerland, Liechtenstein, and Panama, and in previous years with Luxembourg, France, Spain, Belgium, Portugal, and the United Kingdom. SICCFIN is a member of the Egmont Group of FIUs; in the first eleven months of 2003 it received 75 requests for information or assistance, and responded to every one. It is a priority for Monaco to satisfy mutual legal assistance requests, which are enforced swiftly, and there is no obstacle to international judicial cooperation.

Monaco is a candidate country to the Council of Europe. Despite its nonmember status, SICCFIN approached the MONEYVAL Committee in 2002 and requested full participation in that Committee, including having an evaluation conducted on its anti-money laundering regime. In October 2002, the evaluation was executed; the evaluators acknowledged the extensive and thorough regime that has been developed.

Monaco is a party to the 1988 UN Drug Convention. In June 2001 it ratified the UN Convention against Transnational Organized Crime. 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 of 2001, which outlaw terrorism and its financing.

Monaco’s actions to increase the resources of SICCFIN should increase the efficacy of Monaco’s anti-money laundering regime. Monaco should amend the Criminal Code to include the “all-crimes”

approach, rather than the current list of predicate offenses. Monaco should also amend its legislation to implement full corporate criminal liability and establish a central registry for IBCs. Monaco should continue to enhance its anti-money laundering and confiscation regimes.

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, tourism, and banking. Mongolia's long, unprotected borders with Russia and China make it particularly vulnerable to smuggling and narcotics trafficking. The growing North Korean presence in Mongolia also makes the country vulnerable to counterfeit U.S. currency. Illegal money transfers and public corruption are other sources of illicit funds. Although the Government of Mongolia is drafting anti-money laundering legislation, it 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 a party to the 1988 UN Drug Convention. In recent years Mongolia has increased its participation in fora that focus on transnational criminal activities and has observer status in the Asia/Pacific Group on Money Laundering. Mongolia has signed and ratified the UN International Convention for Suppression of the Financing of Terrorism.

Mongolia should pass and implement anti-money laundering and antiterrorist financing legislation.

Montserrat

Montserrat has one of the smallest financial sectors of the Caribbean overseas territories 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. There are no exchange controls for transactions below EC\$250,000.

Montserrat's offshore sector consists of 11 offshore banks, all owned and controlled by Latin American interests, approximately 22 international business companies (IBCs) and 30 Companies Act companies, the majority of which engage only in conducting local business. IBCs may be registered using bearer shares, providing for anonymity of corporate ownership. The Financial Services Centre (FSC) regulates offshore banks, while the Eastern Caribbean Central Bank (ECCB) supervises Montserrat's two domestic banks. In 2002, the government entered into a memorandum of understanding (MOU) with the ECCB to provide assistance in the supervision of Montserrat's offshore banking sector. MOUs also have been entered into with overseas regulators to provide a mechanism for collaboration in the supervision of most of the offshore banks.

The Proceeds of Crime Act (POCA), 1999 criminalizes the laundering of proceeds from any indictable offense and provides for freezing and confiscation of the proceeds of crime and international cooperation. The legislation also imposes broad requirements on financial institutions regarding customer identification and record keeping and mandates the reporting of suspicious transactions to a designated authority.

The Offshore Banking Act (OB Act) and the Financial Services Commission Act, 2001 (FSC Act) are the governing pieces of legislation for the offshore sector. The OB Act addresses licensing of offshore banks, prudential and supervision requirements, and liquidation issues. The FSC Act establishes the FSC and sets out its authorities and administration.

The Reporting Authority was established in 2002 to serve as Montserrat's financial intelligence unit (FIU); however, it is not yet operational. Under the POCA, the Governor has issued a nonmandatory code of practice establishing further guidance for financial institutions.

The UN International Convention for the Suppression of the Financing of Terrorism has not been extended to Montserrat; however, Montserrat has implemented provisions in local legislation to put into practice applicable provisions of the Convention.

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 make the full operation of the Reporting Authority a priority. It should enact measures to identify and record the beneficial owners of IBCs and immobilize bearer shares. If it has not already done so, Montserrat should criminalize the financing and support of terrorists or terrorist organizations. Montserrat should ensure adequate oversight and supervision of its offshore sector to deter criminal and terrorist organizations from abusing its financial services sector.

Morocco

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 annually. 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 widespread use of the narcotics trade to finance terrorist organizations and operations in Morocco. Morocco has a significant informal economic sector, including remittances from abroad and cash-based transactions. There are unverified reports of trade-based money laundering, including bulk cash smuggling, under- and over-invoicing, 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 financial sector is modelled 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 (CBM), which monitors and regulates the banking system. A separate Foreign Exchange Office regulates international transactions. Morocco has used administrative instruments and procedures to freeze suspect accounts.

However, CBM issued Memorandum No. 36 in December 2003, in advance of passage of the AML, instructing banks and other financial institutions to conduct their own internal analysis/investigations.

Morocco has in effect: (a.) legislation prohibiting anonymous bank accounts; (b.) foreign currency controls that require declarations to be filed when transporting currency across the border, although not strictly enforced; and, (c.) internal bank controls designed to counter money laundering and other illegal/suspicious activities.

In June 2003, Morocco implemented a comprehensive antiterrorism bill that provided the legal basis for the freezing of suspect accounts and prosecution of terrorist finance related crimes. As of January 2004, Morocco is moving towards the enactment of two laws that will further strengthen Morocco's

anti-money laundering system: a banking/financial sector reform bill and an anti-money laundering bill. The AML bill reportedly includes, among other provisions, a suspicious transaction-reporting scheme and creation of a financial intelligence unit (FIU). The bills are based on the FATF Forty Recommendations and will help bring Morocco's financial sector in-line with international standards. Together, the three bills will enhance the supervisory and enforcement authority of the Central Bank and outline investigative and prosecutorial procedures. In the interim, the Central Bank has already mandated "know your customer" requirements and the reporting of suspicious transactions by financial institutions. All money transfer activities that take place outside the realm of the official Moroccan banking system—as set by the CBM guidelines—are deemed illegal

Morocco has taken a proactive approach to anti-money laundering and has solicited USG and international technical assistance. Morocco is a party to the UN International Convention for the Suppression of Financing of Terrorism, and the UN Convention against Transnational Organized Crime.

Morocco should move expeditiously to pass the banking sector reform bill and the proposed anti-money laundering law. As part of its anti-money laundering program, Morocco should establish a centralized financial intelligence unit (FIU) that will receive and analyze suspicious transaction reports and disseminate them to appropriate law enforcement agencies for investigation. Moroccan law enforcement and customs should also focus its efforts on informal remittance systems and various forms of trade-based money laundering.

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 nonbank 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 2003, 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 also 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 African Anti-Money Laundering Group, a FATF-style regional body. Mozambique is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

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 four 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 nonbank 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.

Namibia currently does not have laws which criminalize the financing of terrorism as required by UNSCR 1373. Under the proposed anti-money laundering bill, terrorism or terrorist financing will be considered a serious crime. Under the Government of the Republic of Namibia's (GRN) proposed antiterrorism legislation, the President will be empowered to proscribe an organization if it commits or participates in terrorism; prepares for acts of terrorism; promotes or encourages terrorism; or is otherwise involved with terrorism.

There have been no known arrests or prosecutions for money laundering or terrorist financing since January 1, 2003.

Namibia is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). Namibia served as the Chair of ESAAMLG from August 2001 until August 2002.

On August 16, 2002, Namibia ratified the UN Convention against Transnational Organized Crime. Namibia is also a party to the 1988 UN Drug Convention. In November 2001 the GRN signed the UN International Convention for the Suppression of the Financing of Terrorism; however, it has yet to ratify this Convention.

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, and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Nauru

Nauru is a small central Pacific Island nation with a population of approximately 12,000. 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 noncooperative 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 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 account holders, to report suspicious activity, and to develop internal anti-money laundering policies and procedures. The AMLA 2001 allows for the establishment of a financial intelligence unit called the Financial Institutions Supervisory Authority (FISA). 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 are, 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, the FATF issued a press release recognizing the passage of the AMLA 2001. The 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, the FATF called upon its members to impose countermeasures against Nauru because of Nauru’s failure to remedy deficiencies in its anti-money laundering regime. 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, Nauru continued to lack a legal framework and an 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. In December 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. In the announcement, U.S. Treasury proposed invocation of Special Measure Five, prohibiting U.S. financial institutions from opening or maintaining any payable-through or correspondent accounts involving a Nauru financial institution.

During 2003 the government of Nauru took measures to address a number of the internationally cited deficiencies in its anti-money laundering regime. The Anti-Money Laundering Act 2003 (AMLA) consolidates the Anti-Money Laundering Act of 2001 and the Anti-Money Laundering (Amendment) Act of 2001. The amended legislation gives the Nauru FIU, the Financial Institution Supervisory Authority, authority to cooperate with foreign states including the power to obtain search warrants, property tracking, and monetary orders, and gives the Director of Public Prosecutions the power to freeze and seize assets relating to money laundering.

Also in 2003, legislative amendments to the Corporation Act 1972 were designed to abolish offshore banking and shell banks. The amendments also eliminate all bank secrecy provisions. In June 2003, the FATF issued a press release welcoming Nauru’s legislative efforts to eliminate offshore banks. However, a number of legislative clarifications to the Cooperation Amendment Act are necessary to ensure that all banking licenses are no longer valid. In addition, the Banking Act of 1975 must be amended to prohibit the issuance of offshore banking licenses.

During 2003, Nauru took steps to publish the list of corporations which recently held offshore banking licenses from Nauru. This list can be found on Nauru’s Official website URL: <http://www.un.int/nauru/banking.html>. In addition, Nauru has engaged with a number of overseas regulators so that appropriate measures can be taken against previously licensed offshore banks.

The Government of Nauru (GON) 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 also signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Nauru must pass and enact further amendments to AMLA 2003 and Banking Act of 1975. Nauru must continue to work with the FATF to ensure that the existing financial sector is covered by an effective AML regime. Nauru should also criminalize the financing and support of terrorists and terrorism. The GON should also become a party to the UN International Convention for the Suppression of the Financing of 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 2003. (Note: Since the dissolution of Parliament in May 2002, any new laws must be passed by royal ordinance, which must be renewed after six months). Banks are not required to record the identity of customers engaging in significant transactions. However, any Nepali citizen who wishes to open a foreign currency account must obtain a license to do so from the National Bank (NRB), and Nepali citizens wishing to take currency overseas must obtain a letter of credit from a bank recognized by the NRB.

Banks have provided records regarding letters of credit to assist in GON investigations into corruption by senior officials. Nepal has explored the development of an offshore sector.

The NRB has the authority to freeze and seize assets related to criminal investigations. However, the GON's ability to identify and trace assets is hindered by a lack of a computerized informational sharing system. For example, many bank branch offices do not have computers. The Nepal Police also has the authority to seize any goods or property related to criminal investigations.

The hawala system (hundi in Nepal) is widespread. Expatriate Nepali workers—the primary source of hundi transactions—are often employed in the Gulf, Malaysia, and other countries that have introduced new, more stringent regulations on informal remittance systems. Nepali workers in India still utilize hawala-hundi. There have been no significant initiatives to regulate the system in Nepal. In Nepal, hundi is also linked to the issues of capital flight, tax avoidance, and corruption.

Nepal has not passed any laws criminalizing terrorist financing. However, the Terrorist and Destructive Activities Act criminalizes terrorism. As a result, the NRB has the authority to seize any assets deemed to have been used in terrorist activities. No assets belonging to entities on the UN 1267 Sanctions list have been identified in Nepal.

Nepal is a party to the 1988 UN Drug Convention. It has also signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Nepal should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. Nepal should enact anti-money laundering and terrorist finance legislation, develop a comprehensive anti-money laundering regime that would require the mandatory filing of suspicious transaction reports, and establish a financial intelligence unit.

Netherlands Antilles

The Netherlands Antilles, 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 Willemstad, the capital of Curacao, which is also the financial center of the five islands. Narcotics trafficking and a lack of border control between Sint Maarten and St. Martin create opportunities for money launderers in the Netherlands Antilles.

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. In early 2003, legislation was introduced to transfer supervision of the trust sector to the Central Bank. 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.

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 forfeiting 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 penalizes currency and securities transactions, by including the use of valuable goods. The 2002 "National Ordinance on the Supervision of Fiduciary Business," institutes a Supervisory Board that oversees the international financial sector. At the same time, GONA subjected the members of this sector to know-your-customer rules. A GONA inter-agency anti-money laundering working group cooperates with its Kingdom counterparts.

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, and also applies to courier services. Declaration of currency exceeding the limit must include origin and destination. There is a fine of up to NAF 500,000 (approximately \$280,900) or one year in prison. In July 2003, Sint Maarten Customs seized \$11,500 from a traveler, and in August 2003, \$20,000 in undeclared currency was seized from a Curacao passenger. 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. Unusual transactions are by law reported to the financial intelligence unit (FIU), the Netherlands Antilles Reporting Center, Meldpunt Ongebruikelijke Transacties (MOT NA). On June 1, 2003, the Central Bank issued new consolidated reporting guidelines, replacing those of 1996. These guidelines are more closely focused on banks, insurance companies, pensions funds, money transfer services, and financial administrators. The guidelines now specifically include counterterrorism detectors. The Central Bank also established a Financial Integrity Unit to monitor corporate governance and market behavior. Entities under supervision must submit an annual statement of compliance.

Onshore banks are increasingly using their discretionary authority to protect themselves against money laundering. The largest commercial bank has lowered its limits on moneygrams to \$2,000. Banks are reluctant to do business with the Internet gaming providers, provoking complaints from that sector. In 2003 Curacao was reported to have six sports booking sites and 100 Internet casinos.

The current staff of the MOT NA continues to work diligently to enhance the effectiveness and efficiency of its reporting system. In 2003, the MOT NA staff doubled to 10. 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 submissions is now done on-line, and soon most of the matches with external databases will be done electronically. The Netherlands is reported to be the most significant source of suspicious transactions. Of note is national accounts information indicating that over the past few years, family remissions transfers from the Netherlands have surged from negative to positive. Analysis is required to determine if the source is illicit activities. The MOT NA transmits information electronically to the police. During 2003, there was an increase in information requests from the Public Prosecutor's Office. The MOT NA has issued a manual for casinos on how to file reports and has started to install software in casinos that will allow 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, money transfers and 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 FIUs by means of memoranda of understanding and by treaty. The MOT NA's policy is to answer requests within 48 hours after receipt. 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 the Taliban or 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.

The Netherlands Antilles is a member of the Caribbean Financial Action Task Force (CFATF). As part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the Financial Action Task Force. In 1999, the Netherlands extended application of the 1988 UN Drug Convention to the Netherlands Antilles. The Kingdom of the Netherlands became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 2002. In accordance with Netherlands Antilles law, which stipulates that all the legislation must be in place prior to ratification, the GONA is preparing legislation that will enable the Netherlands Antilles to ratify the Convention. The Mutual Legal Assistance Treaty between the Netherlands and the United States also applies 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 in January 2004. In September 2003, the U.S. Attorney in St. Thomas indicted five defendants, including one from Sint Maarten, for charges including laundering funds totaling \$68 million. Cooperation with Sint Maarten under the MLAT was an important element in the investigation.

The GONA has shown a commitment to combating money laundering by establishing a solid anti-money laundering regime. An increase to the MOT NA staff is particularly notable. The GONA should criminalize the financing of terrorists and terrorism, and should enact the necessary legislation to enable it to ratify the UN International Convention for the Suppression of the Financing of Terrorism. The GONA should continue its focus 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 an attractive target for the laundering of funds generated from a variety of illicit activities, which are often related to the sale of heroin, cocaine, synthetic drugs or cannabis. A considerable portion of domestic money laundering is believed to be generated through activities involving financial fraud. Much of the money laundered in the Netherlands is likely owned by major drug cartels and other international criminal organizations. There are no indications of syndicate-type structures in organized crime or money laundering and there is virtually no black market for smuggled goods in the Netherlands. The Dutch experience with law enforcement and unusual transaction reporting provides no evidence that money laundering is focused on any particular part of the financial sector. Although, under the Schengen Accord, there are no formal controls on the borders with Germany and Belgium, the Dutch authorities run special operations designed to keep smuggling to a minimum.

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 the facilitating, encouraging, or engaging in money laundering a separate criminal 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. The penalty for deliberate acts of money laundering is a maximum of four years' imprisonment and a maximum fine of 45,000 euros, while liable acts of money laundering (of people who do not know first-hand of the criminal nature of the origin of the money, but should have reason to suspect it) are subject to a maximum imprisonment of one year and a fine no greater than 45,000 euros. Repeated convictions for money laundering offenses may be punished with up to six years' imprisonment and a maximum fine of 45,000 euros. In addition to criminal prosecution for money laundering offenses, money laundering suspects can also be charged with participation in a criminal organization (Article 140 of the Penal Code), violations of the financial regulatory acts, or noncompliance with the obligation to declare unusual transactions according to the economic offenses act.

All financial institutions in the Netherlands, including banks, bureaux de change, casinos, and credit card companies, are required to report cash transactions over 15,000 euros 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 trust companies, financing companies, and commercial dealers of high-value goods. In June 2003, notaries, lawyers, real estate agents, accountants, and tax advisors were added. 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. 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. Furthermore, current legislation requires Customs authorities to report unusual transactions to the MOT; however, the Dutch do not currently have a currency declaration requirement for incoming travelers.

The Money Transfer and Exchange Offices Act, which was passed in June 2001, 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 Central Bank of the Netherlands, the Financial Markets Authority and the Pension and Insurance Chamber, as the supervisors of the Dutch Financial sector regularly exchange information nationally and internationally. Sharing of information by Dutch supervisors does not require formal agreements or MOUs. Plans to merge the supervisory Activities of the Pension and Insurance Chamber with that of the Netherlands Central Bank are well advanced. The supervisory Activities of the Pension and Insurance Chamber will be merged with that of the Netherlands Central Bank on April 1, 2004.

The MOT, which was established in 1994, 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 the Police Investigation Service and to the office for operational support of the National Public Prosecutor for MOT cases (BLOM). The total number of unusual financial transaction reports received by the MOT in 2002 almost doubled (up 81 percent) from 2001, to over 137,000. The MOT flagged approximately 24,000 of the unusual transaction reports as "suspicious" for further investigation by the BLOM. The increase in unusual transaction reports is predominately from the reports generated by money transfer offices (notably through providers like Western Union and Money Gram).

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM created an electronic network called Intranet Suspicious Transactions. Also, a secure website for the actual reporting of unusual transactions by financial institutions was developed, thus completing the electronic infrastructure. Furthermore, fully automatic matches of data with the police databases are included with the unusual transaction reports forwarded to the BLOM. Since the money laundering detection system also covers areas outside the financial sector, the system is used for detecting and tracing terrorist financing activity.

In 2002, BLOM conducted 120 anti-money laundering actions, resulting in the confiscation of approximately 30 million euros, and arrested 192 suspects. In addition, they initiated 322 additional money laundering investigations. The anti-money laundering division of Europol is currently using the BLOM's analysis tool, including the associated database.

The Netherlands has enacted legislation governing asset forfeitures. The 1992 Asset Seizure and Confiscation Act enables the authorities to confiscate assets that are illicitly obtained or otherwise connected to criminal acts. The legislation was amended in 2003 to improve and strengthen the options for identifying, freezing and seizing criminal assets. The police and several special investigation services are responsible for enforcement in this area. These entities have adequate powers and resources to trace and seize assets. Asset seizure has been fully integrated in all law enforcement investigations into serious crime. Statistics provided by the Office of the Public Prosecutor show that the amount of assets confiscated in 2002 amounted to 7.9 million euros (\$8.4 million). The Public Prosecutor Hit-And-Run Money Laundering Teams (HARM-Team) established in 2001 seized a total amount of 29.5 million euros (\$36.9 million). The U.S. and the Netherlands have an agreement on asset sharing dating back to 1994.

Terrorist financing is a crime in the Netherlands. In 2002, the "Sanction Provision for the Duty to Report on Terrorism" became effective. This ministerial decree provides authority to the Netherlands to identify, freeze, and seize terrorist finance assets. The Netherlands has frozen more terrorist related assets than any other EU member state. The decree also requires financial institutions to report all transactions (actually carried out or intended) that involve persons, groups, and entities that have been linked, either domestically or internationally, with terrorism, to the MOT. Any terrorist crime will automatically qualify as a predicate offense under the Netherlands "all offenses" regime for predicate offenses of money laundering. Legislation increasing the penalties for terrorist financing was passed by the second chamber of Parliament and is expected to pass the upper chamber and go into effect by mid-year 2004. The Netherlands Security Service investigates terrorist financing, and is cooperating with law enforcement entities that are experienced in this area.

Dutch civil law requires registration of all active foundations in the registers of the Chambers of Commerce. Each foundation's formal statutes (creation of the foundation must be certified by a notary of Law) must be submitted to the Chambers. Charitable institutions also register with, and report to, the tax authorities in order to qualify for favorable tax. Approximately 15,000 organizations (and their management) are registered in this way. The organizations have to file their statutes, showing their purpose and mode of Operations, and submit annual reports. Samples are taken for Auditing.

The Netherlands is in full compliance with FATF money laundering and terrorist financing recommendations, with respect to both legislation and enforcement. The Netherlands also complies with the European Union's (EU) second money laundering directive. The EU directives have been implemented through the Money Laundering Disclosure Act, and the FATF guidelines have been incorporated into the Identification of Financial Services Act. In some areas, money laundering legislation in the Netherlands is ahead of the EU legislation (such as full money laundering controls on money remitters, including licensing and identification of customers).

The Netherlands is a member of the Financial Action Task Force (FATF) and participates in the Caribbean Financial Action Task Force as a Cooperating and Supporting Nation. The MOT is a

member of the Egmont Group of FIUs. MOT has concluded formal information sharing MOUs with Belgium, Aruba and the Netherlands Antilles. 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.

Since March 2002, the MOT has supervised the PHARE Project for the European Union. The PHARE Project is the European Commission's Anti-Money Laundering Project for Economic Reconstruction Assistance to Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovakia, Hungary, Slovenia, Romania, Bulgaria, Cyprus, and Malta. 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 MOT has also established, and monitors, the FIU.NET Project, (an electronic exchange of current information between European FIUs by means of a secure web).

The Netherlands should continue the strong enforcement of its anti-money laundering program and its leadership in the international arena.

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 highly vulnerable banking system make the country an attractive target for narcotics-related money laundering. Government of Nicaragua (GON) officials have stated that most laundered money comes from misappropriated public revenues rather than from contraband or narcotics. The GON has pledged to fight terrorism, money laundering, and narcotics trafficking. However, limited resources and corruption continue to complicate efforts to counter these threats. Nicaragua suffers from economic instability, weak regulation, and lax oversight of its financial system.

Nicaragua does not permit offshore banks to operate as such but it does permit them to establish and operate through nationally chartered entities (such as a Panamanian bank currently working to establish a savings and loan company under a Nicaraguan charter). Bank and company bearer shares are permitted. Nicaragua has a well-developed indigenous gaming industry, which it is only now moving to regulate.

Nicaragua's Law 177 of 1994 criminalized money laundering related to drug-trafficking; however, money laundering not related to drugs remains legally undefined. Attempts to amend Law 177 to address this deficiency have been rejected by the National Assembly. Law 285 of 1999 reformed Law 177 only in that it requires banks to report cash deposits that exceed approximately \$10,000 to the Bank Superintendence, which forwards these reports for analysis to the Commission of Financial Analysis (CFA) within the National Anti-Drug Council. Law 285 also prohibits anonymous accounts, requires financial institutions to identify customers and maintain transaction records for five years, and requires travelers entering the country to declare cash, monetary instruments, or precious metals exceeding approximately \$10,000 or its foreign equivalent. Finally, 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 Superintendence and to the CFA. The CFA is not a financial intelligence unit; however, it 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 an ineffective operation. On the other hand, a largely USG supported "Economic Crimes Unit" within the Nicaraguan National Police has contributed to a number of high-level money laundering investigations and prosecutions.

In 2003, a draft law that establishes money laundering as an autonomous crime and requires more stringent reporting of large or suspicious bank deposits was introduced in the National Assembly. The new legislation also sets up a Commission of Financial Analysis that will conduct both analysis and investigations. However, this legislation has little support and it is unlikely that the Assembly in the near term will consider the draft law. The GON is also developing a new law that would regulate and tax the gaming industry and attempt to prevent money laundering within it.

Since its election, the Government of President Enrique Bolanos has pushed a strong anti-corruption campaign. Several prominent figures from the administration of former President Aleman have been arrested and convicted for corruption and money laundering. Other major figures continue to use parliamentary immunity to avoid money laundering charges in local courts.

Nicaragua is currently negotiating a financial information sharing agreement with Costa Rica, largely based on model legislation created by the Central American Parliament. It does not have such an agreement with the United States but has cooperated, on an ad hoc basis, in a number of recent cases. In this manner it has also benefited in several U.S. asset seizure cases such as a DEA-seized drug boat and the Florida properties of the former Nicaraguan tax director. In the case of assets seized within the country, the proceeds are generally apportioned between the lead agency (usually the police) and the general treasury.

Draft antiterrorism legislation, which would criminalize terrorism financing, is being circulated through various National Assembly committees but is not likely to pass anytime soon. In the meantime, most elements of terrorism and terrorism financing may be prosecuted under existing laws. The GON has the authority to identify, freeze, and seize terrorism-related assets but has not, as yet, identified any such cases. To the GON's knowledge, there are no hawala or other similar alternative remittance systems operating in Nicaragua, nor has there been a recognized use of gold or gem trading or charitable organizations to disguise such transactions.

Nicaragua is a party to the 1988 UN Drug Convention. It has also ratified the UN Convention against Transnational Organized Crime, the UN Convention against Corruption, and the UN Convention for the Suppression of the Financing of Terrorism. Nicaragua is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and 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. In 2002, Nicaragua was reinstated to the Caribbean Financial Action Task Force (CFATF) after having been suspended due to a lack of participation.

The GON should expand the predicate crimes for money laundering beyond narcotics trafficking. The GON should establish a functional financial intelligence unit and fully implement and fund its anti-money laundering regime. Nicaragua should take steps to immobilize its bearer shares and adequately regulate its gaming industry. The GON should criminalize terrorist financing. Until Nicaragua brings its anti-money laundering/antiterrorist financing regime up to international standards, its financial sector will remain vulnerable to abuse by criminal and terrorist organizations and their supporters.

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 addition, all foreign currency exchanges over 1 million CFA (approximately \$1,900) require written authorization from the Niger Ministry of Finance.

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. On November 27, 2003, the Niger Council of Ministers adopted a bill that formally prohibits money laundering and puts into place structures and regulations to deter such activity. The bill is expected to become law in early 2004 after passage by the National Assembly. When in force, this law will bring Niger into conformity with the rest of the WAEMU nations. The bill calls for the creation of a central office at the BCEAO for the coordination of money laundering issues and formally obliges all financial institutions in Niger to report suspicious activity. Currently, banks in Niger report suspicious activity to the BCEAO and to local law enforcement, although there are no legal requirements to do so. In 2002, one bank account in Niger was frozen due to its relationship to illegal financial activity.

The Government of Niger (GON) and the BCEAO actively comply with U.S.-led efforts to combat terrorist financing. When notified, the BCEAO promptly disseminates information to all financial institutions in Niger. Since January 1, 2003, there have been no reported cases of money laundering or terrorist financing in Niger.

The WAEMU Council of Ministers also issued a directive in September 2002 on the topic of terrorist financing, requesting member countries to pass legislation requiring banks to freeze the accounts of any persons or organizations on the UN 1267 Sanctions Committee 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.

Niger should criminalize money laundering and terrorist financing and sign the UN International Convention for the Suppression of the Financing of Terrorism. 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 democracy. Nigeria's large economy is also a hub of trafficking of persons and narcotics and a center of criminal financial activity for the entire continent. Individuals and criminal organizations have taken advantage of the country's location, weak laws, systemic corruption, lack of enforcement, and poor economic conditions to strengthen their ability to perpetrate all manner of financial crimes at home and abroad. Nigerian criminal organizations have proven adept at devising new ways of subverting international and domestic law enforcement efforts and evading detection. Their success in avoiding detection and prosecution has led to an increase in financial crimes of all types, including bank fraud, real estate fraud, identity theft, and advance fee fraud. Despite years of government effort to counter rampant crime and corruption, Nigerians continue to be plagued by crime.

Advance fee fraud is a lucrative financial crime that generates hundreds of millions of illicit dollars annually for criminals. 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 advance fee fraud. This type of fraud is referred to internationally as "Four-One-Nine" fraud (419 is a reference to the fraud section in Nigeria's criminal code). While there are many variations,

the main goal of 419 fraud is to deceive 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. Through the Internet, businesses and individuals around the world have been and continue to be targeted by perpetrators of 419 scams.

In June 2001 the Financial Action Task Force (FATF) placed Nigeria on the list of noncooperative countries and territories (NCCT) in combating money laundering. Among the deficiencies cited by the 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 a 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, the 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, the FATF recommended countermeasures against Nigeria if the Government of Nigeria (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, and President Olusegun Obasanjo signed the legislation into law the same day: an amendment to the 1995 Money Laundering Act that extends the scope of the law to cover the proceeds of all crimes; an amendment to the 1991 Banking and Other Financial Institutions (BOFI) Act that expands coverage of the law to stock brokerage firms and foreign currency exchange facilities, gives the Central Bank of Nigeria (CBN) greater power to deny banks licenses, and allows the CBN to freeze suspicious accounts; and the Economic and Financial Crimes Commission (Establishment) Act that establishes the Economic and Financial Crimes Commission (EFCC)—a financial intelligence unit—that will coordinate anti-money laundering investigations and information sharing. Since May 2003, the EFCC has seized assets valued at \$2 million. The new Economic and Financial Crimes Commission Act 2002 also criminalizes the financing of terrorism and participation in terrorism. Violation of the Act carries a penalty of up to life imprisonment.

In April 2003, the EFCC was formally constituted with the primary mandate to investigate and prosecute financial crimes. Since April 2003, the EFCC has recovered or seized assets valued at over 31 billion naira (\$219 million) from various people guilty of fraud inside and outside of Nigeria, and more than one billion naira (\$7 million) from a syndicate that included highly placed government officials who were defrauding the Federal Inland Revenue Service (FIRS). Several influential individuals have been arrested and are currently awaiting trial. In an effort to expedite the trial process, the Commission has been assigned two high court judges in Lagos and two in Abuja to hear all cases involving financial crimes. This signals an intent by the government to more aggressively investigate “419” and other economic crimes in Nigeria.

In November 2003, President Obasanjo presented bills on money laundering and economic crimes to the Senate for consideration. The bills’ intent is to further strengthen the government’s powers to combat financial crimes. Once passed, the money laundering law will apply to the proceeds of all financial crimes. It will also cover stock brokerage firms and foreign currency exchange facilities. The legislation will give the CBN greater power to deny banks licenses and freeze suspicious accounts. This legislation will strengthen the financial institutions by also requiring more stringent identification of accounts, removing a threshold for suspicious transactions, and lengthening the period for retention of records.

There is one case currently before the Nigerian courts involving money laundering.

Nigeria is a party to both the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. In June 2003, Nigeria ratified the UN International Convention for the Suppression of the Financing of Terrorism. On December 9, 2003, Nigeria signed the UN Convention Against Corruption. 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. Nigeria has also signed bi-lateral agreements for exchange of information on money laundering with South Africa, United Kingdom, and all Commonwealth and Economic Community of West African States countries.

The GON should continue to engage with the FATF to ensure that Nigeria's remaining anti-money laundering deficiencies are corrected. It should also bolster the EFCC by ensuring that it is adequately funded. The GON should construct a comprehensive anti-money laundering regime that willingly shares information with foreign regulatory and law enforcement agencies, that is capable of thwarting money laundering and thwarting terrorist financing and comports with all relevant international standards. The GON should criminalize the financing of terrorism consistent with the UN International Convention for the Suppression of the Financing of Terrorism.

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. The presence of a significant number of international business companies, operating offshore, makes Niue particularly vulnerable to money laundering. With a population of roughly 2,100, Niue reported that it had registered 9,229 IBCs as of December 2003. Allowed under Niue's International Business Companies Act 1994, the IBCs are not required to disclose their beneficial ownership or to keep a register of directors. Moreover, Niue allows bearer shares and the marketing of shelf companies, which are offered by Internet marketers complete with associated offshore bank accounts and mail-drop forwarding services. The IBCs are legally formed and registered by a Panamanian law firm on Niue's behalf. The government reported in December 2003 that it had not registered any offshore financial service businesses, such as insurance companies, mutual fund companies, trust companies, and agents.

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. Currently, the Proceeds of Crime Act allows the court to order the confiscation or forfeiture of property derived from a serious offense, once the offender has been convicted. The Act does not specifically address assets derived from narcotics trafficking, terrorism financing, or organized crime. The government is working to amend the Act to allow it to freeze transactions in which money laundering or terrorism financing is suspected.

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. To date, no movement has been made towards the establishment of any operational FIU, domestic or regional.

Should a Niuean FIU become operational, financial institutions will be required to prepare a written statement of their internal procedures to make their officers and employees aware of the laws in Niue about money laundering; the procedures, policies, and audit systems adopted by the institution to deal with money laundering; and procedures to train the institution's officers and employees to recognize and deal with money laundering; and then to submit the statement of those procedures to the unit. The FIU will also have powers to conduct investigations to ensure compliance with the Financial Transactions Reporting Act 2000 by financial institutions. Currently, casinos and notaries are not covered within the definition of "financial institution" under the Act, but the Government is considering promoting an amendment that would substitute the definition of "financial institution" from the IMF model Financial Transactions Reporting Act.

The Financial Transactions Reporting Act 2000 provides that one of the functions of the financial intelligence unit is to issue guidelines to financial institutions in relation to transaction record keeping and reporting obligations and to provide training programs for financial institutions about transaction record keeping and reporting obligations.

In June 2000, the Financial Action Task Force (FATF) placed Niue on the list of noncooperative 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.

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 is not a member of the United Nations. In November 2001, the government amended the United Nations Act 1946 to enable the Cabinet to promulgate regulations giving effect to UN Security Council resolutions. And, in September 2003, the Cabinet passed the United Nations Sanctions

(Terrorism Suppression and Afghanistan Measures) Regulations 2003. Those regulations implement UN Security Council Resolution 1373, as well as Resolutions 1267 and 1333.

Niue has not signed the Vienna Convention. 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 an FIU. Niue must ensure that the recently enacted reforms are fully and effectively implemented. Additionally, Niue should criminalize terrorist financing.

Norway

Norway is not considered an important regional financial center; there are 19 commercial banks in the country and approximately 125 savings banks. According to Oekokrim, the economic crime unit of the Ministry of Justice, which serves as Norway's financial intelligence unit (FIU), money laundering is linked with a wide range of criminal activity, including, but not limited to, narcotics trafficking. Most money laundering cases in Norway are related to domestic criminal activity, and no terrorist groups are known to have laundered funds in the country. Most money laundering occurs outside the banking system of Norway, due to the reporting requirements of the financial institutions; however, structuring of deposits still appears to be a problem within the financial system.

The Norwegian Penal Code includes many criminal offenses as predicates to money laundering. Norway's anti-money laundering legislation has been strengthened in recent years to conform to the FATF Forty Recommendations. In 2004, a new Money Laundering Act will take effect, replacing the provisions of the 1988 Financial Institutions Act. The new act will strengthen data registration requirements, broaden the obligation to report suspicious transactions, and make negligent contravention of the act a criminal offense.

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.

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 cash transactions (including cross-border transactions) by banks are routinely reported to the Central Bank and kept on file. Norway has not enacted secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law-enforcement authorities. The law also protects the reporting individuals; however, individual bankers may be held responsible if their institutions are used to launder money. Norway obligates foreign financial institutions operating in Norway to comply with domestic laws and regulations governing host country financial institutions. Money laundering controls are applied to all nonbank financial institutions, including insurance companies.

Money Laundering and Financial Crimes

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.

Oekokrim continues to establish systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets. According to Norwegian laws, assets derived from criminal acts (narcotics trading, money laundering, and support for terrorism), are to be seized and confiscated by the State. Legitimate businesses may also be seized if used to launder drug money or support terrorist activity, or are linked to other criminal proceeds. Norway destroys seized drugs, alcohol, and cigarettes, but auctions off other items, including automobiles, private property and buildings. The State receives the proceeds from the asset seizures and forfeitures. Norway's asset seizure enforcement meets international standards, and Oekokrim remains the principal entity responsible for tracing and seizing assets, although any police unit may do so in Norway. Norway's Money Laundering Act and Terrorist Financing Law ensure the availability of adequate records in connection with investigations of interest to the U.S. and other governments. To date, Norway has not enacted laws for sharing narcotics assets with other countries.

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. The law applies to anyone who supplies funds to, or collects funds for, individuals or groups that plan acts of terrorism, and makes the support of terrorists with equipment or services a criminal offense.

Norway has the authority to identify, freeze, and seize terrorist financial assets. On October 11, 2002, Norway adopted the European Union's (EU's) Common Position on the application of specific measures to combat terrorism. The Common Position details the names of major terrorists groups. Norway has also distributed to financial institutions the list of individuals and entities from the UN 1267 and UN 1333 Sanctions Committee's Consolidated list. Norway has not discovered any evidence that terrorist funds have been deposited in the country.

Alternative remittance systems are prohibited in Norway. In May 2003, three Somalis were convicted of violating banking regulations by sending unauthorized remittances overseas, and they each received suspended sentences of 45 days in jail. In August 2003, three additional Somalis were similarly convicted, with the leader of the group sentenced to a 14-month jail sentence after being convicted of laundering \$128,500. The prosecutor in the case determined that the group had illegally remitted approximately \$18 million between 1998 and 2001 through two hawala systems. The prosecutor noted that no evidence existed that the money was remitted to fund terrorism activities.

Norway works with Europol and is a member of the Financial Action Task Force (FATF), Interpol, and Schengen. Oekokrim is a member of the Egmont Group. Norway is a party to the 1988 UN Drug Convention. Norway is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the UN International Convention for the Suppression of the Financing of Terrorism; and the UN Convention against Transnational Organized Crime. Norway has now ratified all 12 of the International Conventions and Protocols relating to terrorism.

Norway should continue to enhance its anti-money/laundrying-antiterrorist financing regime. Norway should consider the adoption of laws that would allow the sharing of seized assets with third party jurisdictions which assisted in the conduct of the underlying investigation.

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. In 2003, Oman had a total of 16 banks with 356 branches. 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 nonbank financial institutions as well. In 2003, there were no arrests under the law.

In July 2003, Oman submitted a supplementary report to the United Nations with respect to UNSCR 1373 that stated "the legal freezing measures designated by the Money Laundering Act are applied to both residents and nonresidents holding funds, financial assets, or other economic resources in the Sultanate of Oman if they are linked to terrorist-related activities."

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. Compliance personnel are now present in all banks. Oman has plans to establish a Financial Intelligence Unit (FIU) that will receive suspicious transactions and help coordinate resulting investigations. Oman regulates charitable organizations under the Non-Governmental Organizations Act promulgated pursuant to Royal Decree 14/2000. Under this act, the Minister of Social Development is responsible for approving and monitoring all charitable contributions and fundraising activities.

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 distributed the UN 1267 terrorist asset freeze 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 become a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism.

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.

Pakistan

Financial crimes related to narcotics trafficking, terrorism, smuggling, tax evasion, and corruption remain a significant problem in Pakistan. 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. Since 2002, Pakistan's Ministry of Finance has been coordinating an interministerial effort to draft anti-money laundering and antiterrorist financing legislation to bring Pakistan into compliance

with international norms. As of late December 2003, this legislation remains inconsistent with international standards and has not yet received final cabinet approval, nor has it been submitted to the National Assembly. In the absence of such legislation, the Central Bank has created a money laundering unit, put forward a series of “know-your-customer” regulations, and instructed Pakistan’s five largest commercial banks to submit suspicious transaction reports to the Central Bank. Pakistan’s Securities and Exchange Commission, which has regulatory oversight for nonbank financial institutions, is preparing to form a financial crimes unit and is developing “know-your-customer” regulations that will require full disclosure of beneficial ownership of accounts.

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 money changers 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. According to U.S. sources, the GOP’s regulation of the domestic hawala business, as well as post-September 11 changes in the patterns of behavior of overseas Pakistanis, have resulted in the migration of a considerable share of hawala business into the formal banking sector.

There have also been reports of money laundering using gold and gems, as well as cash transfers by couriers. Pakistani criminal networks play a central role in the transshipment of narcotics and smuggled goods from Afghanistan to international markets. 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 countervaluation in hawala transactions. A nexus of private, unregulated charities has emerged as a major source of illicit funds for international terrorist networks. On December 12, 2003, Pakistan’s Central Bank announced that to date it had frozen bank accounts totaling \$10,780,000 belonging to 27 militant groups as part of a crackdown on terrorist financing.

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 anti-money laundering efforts. The National Accountability Bureau has been effective in investigating and prosecuting corruption, but has been accused of political bias in selecting its targets. Pakistan is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. As of December 2003, Pakistan had not signed the UN International Convention for the Suppression of the Financing of Terrorism. 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 antiterrorist 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. Tax reform is an essential component in helping to counteract the appeal of hawala.

Palau

An archipelago of more than 300 islands in the Western Pacific with a population of nearly 20,000 and per capita GDP of about \$6,000. Upon its independence in 1994, the Republic of Palau entered the Compact of Free Association with the United States. The U.S. dollar is legal tender. Palau is not a major financial center. Nor does it any longer offer offshore financial services. There are no offshore banks, trust companies, securities brokers/dealers or casinos in Palau. Palauan authorities believe that drug trafficking and prostitution are the primary sources of illegal proceeds that are laundered.

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 Law Review Task Force that recommended financial control legislation to the Olbill Era Kelulau (OEK), the national bicameral legislature in 2001. Following that, Palau took several steps toward addressing financial security through banking regulation and supervision and putting in place a legal framework for an anti-money laundering regime. Several pieces of legislation were enacted in June 2001.

The Money Laundering and Proceeds of Crimes Act (MLPCA) of 2001 criminalized money laundering and created a financial intelligence unit. This legislation imposes threshold and suspicious transactions reporting and record keeping requirements for five years from the date of the transaction. Credit and financial institutions are required to keep regular reports of all transactions made in cash or bearer securities in excess of U.S. \$10,000 or its equivalent in foreign cash or bearer securities. This threshold reporting also covers domestic or international transfers of funds of currency or securities involving a sum greater than U.S. \$10,000. All such transactions (domestic and/or international) are required to go through a credit or financial institution licensed under the laws of the Republic of Palau.

The Financial Institutions Act of 2001 established the Financial Institutions Commission, an independent regulatory agency, which is responsible for licensing, supervising and regulating financial institutions, defined as banks and security brokers and dealers in Palau. Currently, there are nine licensed banks in Palau. Seven of the banks are 100 percent owned by foreigners and foreigners and citizens of Palau jointly own two. Additionally, three other banks have had their licenses invalidated. Other entities subject to the provisions of the MLPCA, such as the seven money services businesses, two finance companies and five insurance companies, are essentially unsupervised. 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.

The lack of both human and fiscal resources has hampered the development of a viable anti-money laundering regime in Palau. There is not a functioning FIU and implementing regulations to ensure compliance with the MLPCA have yet to be written. The will of the Executive branch to comply with international standards, however, was clearly demonstrated by President Remengesau in 2003, when he vetoed a bill that would have extended the deadline for bank compliance and would have reduced the minimum capital for a bank from \$500,000 to \$250,000.

Palau has enacted several legislative mechanisms to foster international cooperation. The Mutual Assistance in Criminal Matters Act (MACA), passed in June 2001, enables authorities to cooperate with other jurisdictions in criminal enforcement actions related to money laundering and to share in seized assets. The Foreign Evidence Act of 2001 provides for the admissibility in civil and criminal proceedings of certain types of evidence obtained from a foreign State pursuant to a request by the Attorney General under the MACA. Under the Compact of Free Association with the United States, a full range of law enforcement cooperation is authorized.

Palau has taken several steps toward enacting a legal framework by which to combat money laundering. It has signed Pacific Island Forum anti-money laundering initiatives and as a member of the Asia/Pacific Group on Money Laundering, Palau is committed to implement the Financial Action Task Force Revised 40 Recommendations and its Eight Special Recommendations on Terrorist Financing. As a party to the UN Convention for the Suppression of the Financing of Terrorism, Palau should criminalize the financing of terrorism. In continuing its efforts to comport with international standards, Palau should promulgate implementing regulations to the MLPCA, establish a functioning FIU, lower or eliminate the threshold for reporting suspicious transactions and begin a broad-based implementation of the legal reforms already put in place.

Panama

The economy of Panama is services-based and heavily weighted toward maritime transportation, commerce, banking, and financial services. Tourism is taking a prominent role as Panama's cruise industry gains stature internationally. 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, 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. Lack of control over transfer of negotiable (bearer) bonds is another potential vulnerability that could be exploited by money launderers. The high volume of trade occurring through the CFZ (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 noncooperative country or territory in international efforts to fight money laundering (NCCT). 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. Both the FATF designation and the advisory were withdrawn in June 2001, following a number of significant actions taken by the Government of Panama (GOP) to remedy the cited deficiencies in its anti-money laundering regime. The GOP engaged in a coordinated effort to enact and implement laws, executive orders, and regulatory agreements with banks to bring Panama's anti-money laundering program into compliance with international standards.

Law No. 41 (Article 389) of October 2, 2000, amended the Penal Code by expanding the number of predicate offenses for money laundering beyond narcotics 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 to the Financial Analysis Unit (UAF)—Panama's financial intelligence unit (FIU)—currency transactions in excess of \$10,000 and suspicious financial

transactions. Law 42 also mandates that casinos, CFZ businesses, the national lottery, real estate agencies and developers, and insurance/reinsurance companies report to the UAF currency or quasi-currency transactions that exceed \$10,000. Furthermore, Law 42 requires Panamanian trust companies to identify to the Superintendence 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. By the end of 2003 the UAF had signed MOUs with 27 FIUs, including the U.S. FIU. 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 nonbank financial institutions and businesses in the CFZ.

Executive Order 213 of October 3, 2000, amending Executive Order 16 of 1984 relating to trust operations, provides for the dissemination of information related to trusts to appropriate administrative and judicial authorities. Furthermore, in October 2000, Panama's Superintendence of Banks issued Agreement No. 9-2000 that defines requirements that banks must follow for identification of customers, exercise of due diligence, and retention of transaction records.

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 of finance companies, and began drafting a law to regulate the operations of pawnshops and exchange houses. The Autonomous Panamanian Cooperative Institute 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 CFZ, 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 monies, 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, through enhanced communication and information flow, training programs, and technology, at strengthening the capabilities 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 Unidad de Inteligencia Financiera (UIF) for investigation. During 2002, the UAF referred 196 such cases to the Attorney General. 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 2003, 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. GOP cooperation in the investigation of the Western 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 Arnaldo 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 U.S. Embassy Narcotics Assistance Section cosponsored a roundtable on money laundering that offered practical training to financial institutions to assist them in meeting the reporting requirements under Law No. 42. Both private and public sector officials responsible for enforcement of money laundering laws participated in a number of training events during 2003.

Law No. 50 of July 2003 criminalizes terrorist financing and gives the UAF responsibility for prevention of this crime. There are no legal impediments to the GOP ability to prosecute or extradite suspected terrorists. Panama Public Force (PPF) and the Judicial System have limited resources to deter terrorists, due to insufficient personnel and lack of expertise in handling complex international investigations. On January 18, 2003, the GOP entered into a border security cooperation agreement with Colombia, and also increased funds to the PPF to help secure the frontier. In response to U.S. efforts to identify and block terrorist-related funds, the GOP continues to monitor suspicious financial transactions.

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 Seventh Hemispheric Congress on the Prevention of Money Laundering in August 2003. Panama is active in the multilateral Black Market Peso Exchange Group 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 Inter-American Drug Abuse Control Commission (OAS/CICAD), the Caribbean Financial Action Task Force (CFATF), and the Offshore Group of Banking Supervisors. The UAF is a member of the Egmont Group. Panama is a party to the 1988 UN Drug Convention. Panama is a signatory to 11 of the UN terrorism conventions and protocols. 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 yet ratified, the UN Convention against Transnational Organized Crime.

Panama should continue its regional assistance efforts. It should also 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. In particular, the GOP should institute controls over the transfer of bearer bonds.

Papua New Guinea

Papua New Guinea is not a regional financial center. Its banking sector is relatively small and fairly regulated. There are currently no laws against money laundering or terrorist financing. However, according to the Government of Papua New Guinea's (GPNG's) September 2003 report to the UN Counter-Terrorism Committee that monitors implementation of UN Security Council Resolution 1373 (CTC), money laundering in Papua New Guinea will be criminalized pursuant to the proposed "Proceeds of Crime Bill." The bill would obligate financial institutions to retain essential financial

documents for a specific period of time. Covered transactions will include transmission of funds between Papua New Guinea and a foreign country. The proposed legislation also calls for the communication of suspicious information by financial institutions to the police.

According to the September 2003 report to the CTC, the GPNG is also considering amendments to the Criminal Code Act that will cover the collection of funds, recruiting or soliciting of funds from other countries for terrorists/terrorist purposes “which will essentially make terrorist acts criminal offenses.” In addition, the National Intelligence Organization (NIO) is in the process of submitting a Plan of Action on counterterrorism and other transnational crimes. The Plan of Action will focus on coordination and sharing of intelligence. Currently interagency coordination does exist to some extent with regard to narcotics, and task force “Centre-points” have also been established to monitor and share intelligence information on drug trafficking, arms smuggling, human trafficking, and other border concerns. However, “financial tracking” is not yet fully developed.

Papua New Guinea is not a party to any bilateral or multilateral treaties on mutual assistance in criminal matters. The GPNG plans legislation in this area. A proposed review will address changes to modernize the extradition process to conform to international standards. 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 is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Papua New Guinea should enact a comprehensive anti-money laundering regime that criminalizes money laundering related to all forms of predicate offenses. Specific antiterrorism legislation implementing UNSCR 1373 and the UN International Convention on the Suppression of the Financing of Terrorism should also be adopted, including providing judicial jurisdiction for the crimes of terrorism and terrorist financing. Papua New Guinea should also become a party to the 1988 UN Drug Convention.

Paraguay

Paraguay is a principal money laundering center, and although accurate figures are not known, the National Anti-Drug Secretariat (SENAD) suspects that narcotics trafficking may generate about 40 percent of laundered funds. Money laundering occurs in both the banking and nonbanking financial systems.

Paraguay is particularly vulnerable to money laundering, as little personal background information is required to open a bank account or to make financial transactions in Paraguay. Paraguay is an attractive financial center for neighboring countries, particularly Brazil. Foreign banks are registered in Paraguay and nonresidents are allowed to hold bank accounts, but current regulations forbid banks from advertising or seeking deposits from outside the country. The Superintendent of Banks audits financial institutions and supervises all banks under the same rules and regulations. However, there are few effective controls over businesses, and there is a large informal economy outside the regulatory scope of the Government of Paraguay (GOP).

Money laundering in Paraguay is facilitated by the multi-billion dollar contraband re-export trade that is centered in Ciudad del Este (CDE), the heart of Paraguay’s informal economy, which lies outside the reach of the government’s authority. The area is well known for arms and drug trafficking as well as crimes against international property rights. 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. Government officials, in both Paraguay and the U.S., also suspect the area to be a source of terrorist financing. 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 develop strategies to

implement a formal, diversified economy. Important options that Paraguay is considering are “maquila” (assembly line industries) and tourism.

Paraguay continued to experience banking failures, including the closing of the National Workers’ Bank (BNT), the collapse of Banco Aleman in June 2002, and that of Multi-Banco in June 2003. The most spectacular case involved \$16 million diverted from the Central Bank to private accounts allegedly linked to the family of former President Luis Gonzalez Macchi. 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 made significant progress in 2003 with regard to strengthening its anti-money laundering regime. A new law was drafted to improve the effectiveness of Paraguay’s money laundering legislation and establish a single functional Financial Intelligence Unit (FIU). The draft of the new legislation was completed in November 2003 and is scheduled to be formally introduced in Congress in March 2004.

Until the new law is passed, money laundering is considered 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. Since a defendant cannot be charged with money laundering unless he or she has first been convicted of the predicate offense, many judges are apparently reluctant to prosecute any defendant on money laundering charges because a sentence has already been issued for a predicate offense. Law 1015 of 1996 also contains “due diligence” and “banker negligence” provisions and applies money laundering controls to nonbanking financial institutions, such as exchange houses. 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 anti-money laundering law with respect to their cooperation with law enforcement agencies.

Additional provisions of Law 1015 require banks and financial institutions to know and record the identity of customers engaging in significant currency transactions and to report those suspicious activities to the FIU, the Unidad de Análisis Financiera (UAF) that began operating in 1997 within the Secretary for the Prevention of Money Laundering (SEPRELAD) under the auspices of the Ministry of Industry and Commerce (MIC). However, for many years the UAF has been regarded as ineffective and hampered by a burdensome bureaucratic structure, lack of financial support and the inability to keep trained personnel. The UAF’s weaknesses were reflected in the small number of cases presented to the Public Ministry (Attorney General’s office) for prosecution. Before 2001, only one went to trial and it was dismissed on procedural grounds. The majority of the cases prepared by the UAF were incomplete and were returned to the UAF by prosecutors for more information or investigation. These included most of the 46 suspicious financial transactions by ethnic Arabs that the FIU had compiled immediately following September 11, 2001 which showed millions in dollars of 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 FIU did help buttress the criminal case against one suspected fund-raiser for terrorist organizations. This person was sentenced to six and one-half years in prison for tax evasion.

In an effort to invigorate the investigations against money laundering, the SEPRELAD was transferred in July 2002, by Presidential Decree, to the Attorney General’s Office. While this transfer allowed for

improvement in some areas, particularly in management, progress has been slow. The UAF lacked a standardized form for the filing of suspicious activity reports (SARs), which inhibited the reporting and analysis process. Analysis was also limited because SAR reporting currently is manual, and the UAF analysts had to input the information from the SAR forms into the UAF database. Reporting requirements for large currency transactions were not appropriately enforced. There were also serious concerns with regard to the UAF's personnel, its handling of confidential information, cumbersome record keeping and concerns about possible corruption within the FIU. As a result, in August 2003, SEPRELAD was returned to the direction of the Ministry of Industry and Commerce, and a new director was named. By October, existing personnel began to be vetted and replaced as appropriate.

A complicating factor for Paraguay in the wake of the September 11, 2001 terrorist attacks, was the creation of a parallel investigative unit by the Superintendent of Banks. The intended purpose of this new FIU was principally to coordinate the review of Paraguayan financial institutions' databanks for suspected terrorist activity. Although the banking FIU did conduct some initial investigations, it did not collaborate effectively with the FIU under the Ministry of Industry and Commerce. Moreover, the existence of two FIU's in Paraguay, with duplicative activities, was contrary to international standards established by the Egmont Group, which Paraguay joined in 1998. As defined by the Egmont Group, a financial intelligence unit must be a central, national agency responsible for receiving, analyzing and disseminating financial information. In an effort to rectify the situation, in November 2003 the Superintendent of Banks abolished its FIU equivalent and established instead a banking "Risk Control Division" with the primary responsibility of reviewing national financial institution's records for suspected terrorist activity. The Risk Control Division was also empowered to coordinate information exchange with the Central Banks of other MERCOSUR countries, but was not given authority already contained in the Ministry of Industry and Commerce's FIU to conduct investigative work associated with financial suspicious activity reports.

The new money laundering legislation, if approved by the Paraguayan Parliament following its scheduled presentation in March of 2004, will institute important national reforms. In addition to confirming the FIU-SEPRELAD as Paraguay's lead and sole financial investigative unit, it establishes the FIU-SEPRELAD as an independent secretariat or agency reporting directly to the Office of the President (similar to the local drug enforcement agency, the SENAD). The draft law also establishes money laundering as an autonomous crime punishable by a prison term of five to 20 years. It establishes predicate offenses as any crime that is punishable by a prison term exceeding six months and specifically criminalizes money laundering tied to the financing of terrorist groups or acts. The draft legislation further allows prosecutors to recommend that judges freeze or confiscate assets connected to money laundering and its predicate offenses, and it creates a special asset forfeiture fund (to be administered by a consortium of national governmental agencies) to support programs for crime prevention and suppression, including combating money laundering and related training.

The full range of relevant institutions will be required to report suspicious transactions to the FIU-SEPRELAD and to maintain registries of large currency transactions that equal or exceed \$10,000. Other provisions of the draft law include penalties for failure to file or falsify reports, "know-your-client provisions," and standardized record keeping for a minimum of seven years. The FIU-SEPRELAD will also refer cases as appropriate for further police (SENAD) investigation and to the Attorney General's Office for prosecution. It will also serve as the central entity for related information exchanges with other concerned foreign entities. The law further specifies that the investigative unit of the police is the principal authority for carrying out all antidrug and other financial investigations, and will also have the authority to initiate investigation of cases on its own. Due to allegations of malfeasance and corruption against the Paraguayan Customs Service, there is currently little or no coordination between the two entities.

Under the draft legislation, those institutions that must interact with the FIU-SEPRELAD include, inter alia, banks, financial institutions, insurance agencies, currency exchange houses, securities

companies and brokers (stock exchange), investment companies, money transmitters, administrators of mutual investment and pension funds, credit unions, operators of gambling facilities, real estate agencies, nongovernmental organizations, pawnshops and dealers in jewels, precious stones and metals, automobiles, art and antiques.

With only 10 prosecutors dedicated to financial crimes, Paraguay currently has only limited resources to investigate and prosecute money laundering and financial crimes. Moreover, prosecutors have little experience working with FIU--SEPRELAD, and until the new law is enacted, most judges have little incentive to investigate money laundering cases because many believe that sentencing on predicate offenses is sufficient punishment. Thus, there have not been any successful money laundering prosecutions in Paraguay so far, and improvement is unlikely until the new law becomes a reality.

The GOP ratified the OAS Inter-American Convention on Terrorism on October 30, 2003, and has signed, but not yet ratified, 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 underwent a mutual evaluation on anti-money laundering practices in 2003. Paraguay is also a member of the Egmont Group. 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 entered into force on September 29, 2003. On December 9, 2003, Paraguay signed the UN Convention against Corruption, which is not yet in force internationally. Paraguay is also a member of the "3 Plus 1" Counterterrorism Dialogue.

While the GOP took a number of positive steps in 2003, there are other initiatives that should be pursued in 2004 to increase the effectiveness of Paraguay's efforts to combat money laundering and terrorist financing. Most important is enactment of the new money laundering law that meets international standards. The GOP should also continue efforts to combat corruption, especially with regard to the Customs service and tax authority, and increase information sharing among concerned agencies when and if the corruption issues are resolved. Paraguay does not have an antiterrorism law or a law criminalizing terrorist financing. While the new money laundering law will increase the GOP's abilities to combat terrorist financing, the GOP should take steps as quickly as possible to ensure that comprehensive antiterrorism legislation is passed. It is essential that the UAF-SEPRELAD receive the financial and human resources necessary to operate as an effective, fully functioning FIU capable of effectively combating money laundering, terrorist financing and other financial crimes.

Peru

Peru is not a major regional financial center nor an 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 largely cash-based, facilitating possible money laundering. Peru's economy is approximately 65 percent dollarized, increasing its vulnerability to laundering 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 Government of Peru (GOP) officials. In 2003, the 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. There are currently five known money laundering cases underway in the Peruvian court system, but no convictions for money laundering offenses have occurred to date in Peru.

In 2002 the GOP strengthened its anti-money laundering regime by creating a financial intelligence unit (FIU), expanding the type of institutions required to file suspicious transaction reports, increasing the number of predicate crimes, criminalizing willful blindness, and reinstating reporting requirements for large cash transactions. 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

On April 12, 2002, President Toledo signed Law 27693, which provided for the creation of Peru’s first FIU, the Unidad de Inteligencia Financiera (UIF). The UIF is an autonomous body located under the Office of the Prime Minister, and is responsible for receiving, analyzing, and disseminating suspicious transaction reports. Prior to Law 27693, 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 UIF reports 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. Now stock funds or brokers, the customs agency, casinos, auto dealers, construction or real estate firms, and other sectors, in addition to banks and financial institutions, are all required to report suspicious transactions to the UIF within 30 days. These entities are also required to maintain registries of suspicious activity reports (SARs). The UIF is also empowered to request financial transaction information from exchange houses, metal and antiques traders, and travel agencies.

Law 27693 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. Nonfinancial 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. Law 27693 does not address the issue of reporting the transportation of cash or monetary instruments into or out of Peru.

On June 20, 2002, a new law was passed, Law 27765, that expands the predicate offenses for money laundering to include the laundering of assets related to serious crimes, such as drug trafficking, terrorism, corruption, trafficking of persons, and kidnapping. However, Peru has not enacted legislation that criminalizes the financing of terrorism. 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 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.

The UIF began operations in June 2003. A director was appointed in April 2003 and the unit had hired approximately 20 staff members by the end of 2003. The UIF secured approximately 5 million in initial funding from a government fund, “Fedadoi,” of monies recovered after having been diverted or stolen under the prior Fujimori regime. The UIF began receiving SARs from financial sector institutions on September 1; from public notaries on September 22; from casinos, lotteries and other gaming institutions on October 22; and from all other obligated entities between November 10 and December 19, 2003. The UIF had received roughly 50 SARs by December 2003. Senior UIF staff has visited the U.S., Guatemala, Colombia and other countries to observe the operations of other FIUs.

In spite of significant advancements in Peru’s money laundering legislation, the powers of the UIF are still limited. On November 6, 2003, the UIF proposed introduction of a draft law to modify Law 27693, the law that created Peru’s UIF. The draft law expands the budgetary sources of the UIF and increases the number of entities that are required to file or maintain reports. The new law, however, does not grant the UIF the ability to impose sanctions for failure to report. Bank secrecy is protected by the Peruvian constitution, and the UIF is in the process of proposing an amendment that would grant it the ability to lift bank secrecy provisions and obtain further account information of persons who are the subject of suspicious transaction reports.

Peru currently lacks comprehensive and effective asset forfeiture legislation. The Financial Investigative Office of the Peruvian National Police 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. While Peruvian law does provide for asset forfeiture in money laundering cases, and these funds can be used in part to finance the UIF, there exists no clear mechanism to distribute seized assets among government agencies. The government’s “Fedadoi” fund currently holds around 75 million in monies recovered after having been stolen or diverted during the Fujimori administration.

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 as a foreign terrorist organization pursuant to Section 219 of the Immigration and Nationality Act and under Executive Order (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. Foreign Ministry Officials are working with other GOP agencies to complete the necessary legal revisions that will permit asset-freezing actions.

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 UNSCR 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.

Peru ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001, and the OAS Inter-American Convention on Terrorism on June 4, 2003. 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 entered into force on September 29, 2003. 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.

The GOP has made serious advancements in strengthening its anti-money laundering regime in 2003. However, much progress is still required. 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 enact legislation that criminalizes the financing of terrorism and allows for administrative as well as judicial blocking of terrorist assets.

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 the trafficking of narcotics and arms 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 noncooperative countries and territories (NCCT) in the fight against money laundering. The major deficiencies cited by the 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; the advisory is still in effect.

With the March 2003 enactment of the amendments to the Anti-Money Laundering Act of 2001 (AMLA), the Government of the Republic of the Philippines (GORP) made important progress in developing its anti-money laundering and terrorist financing regime. The FATF deemed the amendments to have sufficiently addressed the main legal deficiencies in the Philippines anti-money laundering regime and the international organization decided not to formally apply countermeasures. In June 2003, FATF invited the Philippines to submit an implementation plan to enable FATF to evaluate the execution of its legislative changes. The GORP is currently in the implementation phase. The Philippines will remain on the NCCT list until sufficient implementation of the legal and regulatory framework has taken place.

The major accomplishments of the Amendments to the AMLA are the following: a). Lowered the threshold amount for covered transactions (cash or other equivalent monetary instrument) from 4,000,000 pesos to 500,000 pesos (\$80,000 to \$10,000) within one (1) banking day. b). Expanded financial institution reporting requirements to include the reporting of suspicious transactions, regardless of amount. c). Authorized the Central Bank (Bangko Sentral ng Pilipinas or BSP) to examine any particular deposit or investment with any bank or nonbank institution in the course of a periodic or special examination (in accordance with the rules of examination of the BSP), to ensure institution compliance with the Anti-Money Laundering Act. d) Deleted the prohibitions of the Anti-Money Laundering Council to examine particular deposits or investments opened or created before the Act. The AMLC is now able to respond to a request from foreign authorities regarding deposits and investments made prior to the coming into effect of the AMLA.

The Anti-Money Laundering Act 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.

Money Laundering and Financial Crimes

The Anti-Money Laundering Council (AMLC), the Philippine financial intelligence unit (FIU), was established under the AMLA. The AMLC is comprised of the Governor of the Central Bank, Commissioner of the Insurance Commission, and the Chairman of the Securities and Exchange Commission. By law, the AMLC Secretariat is an independent agency that is responsible for receiving, maintaining, analyzing, and evaluating covered suspicious transactions, provides advice and assistance to relevant authorities, and issues publications. In practice however, the AMLC is experiencing operational difficulties.

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 GORP, in its first year of operations the AMLC received 299 STRs and 186,621 Covered Transaction Reports (CTRs).

An interagency Financial Systems Assessment Team (FSAT) conducted an on-site evaluation of the Philippines' anti-money laundering/counterterrorist financing (AML/CTF) regime in October 2003. The FSAT team identified GORP vulnerabilities in the areas of financial regulatory practice, FIU investigative and information technology resources, law enforcement, and prosecution that inhibit the full exploitation of the GORP's newly amended anti-money laundering legislation and Implementation Plan and made specific recommendations for assistance and training.

Despite major improvements to the legal framework, there is an area of concern regarding bank compliance and bank secrecy that has not yet been resolved. The BSP does not have a mechanism in place to assure that the financial community is adhering to the reporting requirements. While bank secrecy provisions to the BSP's supervisory functions were lifted in Section 11 of the AMLA, implementation appears to be a problem. Due to Philippine "privacy issues," examiners of the BSP are not allowed to review documents held by covered institutions in order to determine if the covered institutions are complying with the reporting requirement. They are only allowed to ask the AMLC, as a result of their examination, if an STR has been filed. If the AMLC determines one was not filed, then it has the responsibility to make inquiries of the covered institution. This process is entirely too cumbersome for due diligence.

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. The GORP has signed and ratified the UN Convention against Transnational Organized Crime.

The GORP became a party to, the UN International Convention for the Suppression of the Financing of Terrorism on January 7, 2004. An Anti-Terrorism Bill covering the financing of terrorism is pending in both Houses of the Congress but a vote on the legislation is not expected until after the May 2004 general election. In the absence of an Anti-Terrorism Law, the Anti-Money Laundering Council is able to freeze funds and transactions identified with or traced to designated terrorist organizations and/or individuals upon request of the United Nations Security Council, the U.S. and other foreign governments.

The Government of the Republic of the Philippines should continue to enhance and implement its newly amended anti-money laundering legislation. In particular, the GORP must effectively implement the laws and procedures it has put in place. The GORP should ensure that adequate financial and human resources are in place to properly equip and train law enforcement and regulatory

personnel. Finally, the GORP should enact and implement legislation that criminalizes terrorism and terrorist financing.

Poland

Its location between the former Soviet Union republics and countries of the European Union and the lucrative markets beyond places Poland directly in the path of narcotics-traffickers and organized crime groups. Narcotics trafficking, organized crime activity, auto theft, smuggling, extortion, counterfeiting, burglary 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 insurance companies and casinos may likewise be venues for money laundering activity. The unregistered or gray economy, used primarily for tax evasion, is estimated at between 14 and 20 percent of GDP; the Government of Poland (GOP) believes the black economy is only 1 percent of GDP.

The National Security Strategy of Poland has labeled the anti-money laundering effort as a top priority. 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. It also contains "safe harbor" provisions that exempt financial institution employees from normal restrictions on the disclosure of confidential banking information. The "Act of 16 November" 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 2002, Poland amended its customs law to require the reporting of any cross-border movement of more than 10,000 euro in currency or financial instruments.

Article 299 of the Criminal Code criminalizes money laundering. The article places Poland in the group of countries with the "all crimes" approach to the predicate offense, addresses self-laundering, and criminalizes tipping off. The Parliament passed amendments to the law on countering the trading in assets from illegal or unknown sources and on countering the financing of terrorism on March 14, 2003. The law requires that GIIF be notified about all financial deals exceeding 15,000 euros. A major weakness of Poland's former money laundering regime was that it did not cover many nonbank 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 has been widened. Financial institutions subject to the reporting requirements include banks, the National Depository for Securities, the post offices, auction houses, antique shops, brokerages, casinos, insurance companies, investment and pension funds, leasing firms, private currency exchange offices, real estate agencies, and notaries public. Legal professionals and accountants are still not covered by the legislation. 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 were prepared, and underwent a first reading before the Sejm on December 11, 2003. These amendments were to address remaining areas which were not fully in line with the Second European Union (EU) Directive. Poland will become an EU member on May 1, 2004, and has worked diligently to bring its laws into full conformity with EU obligations. These amendments broaden the scope of institutions obligated to report to include lawyers, auditors and charities; add corporate criminal liability to the penal code; and give the GOP authorization to act against terrorism financing. Poland is still working on amendments to the criminal code, which would further improve the government's ability to seize assets.

In its first year of existence, GIIF received over 350 suspicious transaction reports (STRs). In 2002, GIIF received 670 STRs, from which prosecutors prepared 70 cases. In the first eleven months of 2003, GIIF received 621 STRs, of which it forwarded 134 to prosecutors. Most of the STRs in 2003 came from commercial banks and insurance companies. To date, there have been over 100 cases of money laundering, 20 in the first quarter of 2003 alone. There have been only two convictions under the money laundering law, although investigations begun by GIIF have led to convictions for other offenses. 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. In the first nine months of 2003, GIIF suspended 14 transactions, and blocked eight accounts worth 12.5 million euro.

GIIF is upgrading its computer system to incorporate an expected two million transactions per month, including currency transaction reports exceeding 15,000 euros, and with provision for banks to submit reports securely and electronically. This new system should be complete and ready to go on line by July 1, 2004. GIIF also does on-site training and compliance-monitoring investigations. By late 2003, GIIF staff had completed on-site compliance investigations of all 61 commercial banks in Poland, and undertook a second, stricter control cycle. (The number of commercial banks has decreased and stands at 61; there are also 700 cooperative banks, which are very small and are grouped together for supervision purposes.) However, there is a lack of coordination between GIIF and other supervisory bodies, so there are some overlapping responsibilities, and some gaps in coverage.

There are two main police units that deal with the detection and prevention of money laundering. These are the General Investigative Bureau and the Unit for Combating Financial Crime. Both units cooperate well with GIIF overall, although there is a stated need for coordination at the higher levels. The Polish Code of Criminal Procedure, Article 237, allows for some Special Investigative Measures. This is problematic since money laundering investigations are not specifically covered, although it is possible that organized crime provisions might apply in some cases.

The GOP also recently created an office of antiterrorist operations within the National Police to coordinate and supervise regional antiterrorism units, as well as to train local police in antiterrorism measures. However, Poland has not criminalized terrorist financing. The Ministry of Justice has completed draft amendments to the criminal code that would criminalize terrorist financing as well as elements of all terrorism-related activity, and the amendments have been presented to the Minister of Justice. The next step is an inter-ministerial discussion on the amendments, which is scheduled to take place in early 2004.

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, which went into full effect on April 1, 2003. In November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which was in fact a Polish initiative. In 2003, Poland ratified the UN Convention for the Suppression of the Financing of Terrorism. 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) and has undergone first and second round mutual evaluations by that group. GIIF has been an active participant in the Egmont Group since it joined in 2002, and in FIU.net, the EU-sponsored information exchange network for FIUs.

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. As Polish law requires GIIF to have memoranda of understanding (MOU) with other international competent authorities before it can

participate in information exchanges, GIIF has been diligent in signing MOUs with its counterparts in other countries. GIIF has signed 20 MOUs in the past 18 months. The GIIF-FinCEN MOU was signed in fall 2003. For the first eleven months of 2003, 201 requests were received by GIIF from foreign authorities, and GIIF made 80 requests to foreign authorities; three cases were opened using foreign information.

The GOP has taken a number of steps to put in place a comprehensive anti-money laundering regime to meet international standards. Improvements could further be made by promoting training at the sector level and by working to better coordinate investigations between relevant investigating agencies and prosecutors, so as to obtain an improved record of prosecutions and convictions. The GOP should also pass specific antiterrorist financing legislation.

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 currency exchanges, wire transfers, and real estate purchases are used for laundering criminal proceeds.

Portugal has a comprehensive anti-money laundering regime that criminalizes money laundering and other serious offenses, including terrorism, arms trafficking, kidnapping, and corruption. All cross-border movements of currency that exceed 12,000 euros 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. Nonfinancial institutions, such as casinos, property dealers, lotteries, and dealers in high-value assets, must also identify customers engaging in large transactions, maintain records, and report suspicious transactions to the Office of the Public Prosecutor.

In February 2002, the law governing money laundering (Act 10/2002) was brought into force. This law extended the list of entities obliged to report large transactions, 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, the obligated entities have the duty to report any suspicious operation, independent of the transaction amount.

Act 10/2002 also expands money laundering to include as predicate crimes arms trafficking, extortion, prostitution, trafficking in nuclear materials, trafficking in persons, trafficking in human organs or tissues, child pornography, trafficking in listed species, and tax fraud.

Portugal has established regulatory agencies, including the Central Bank of Portugal, the Portuguese Insurance Institution, the Gambling General Inspectorate, and the Economic Activities General Inspectorate, to monitor and enforce the reporting requirements of the obliged entities.

Portugal's incorporation of the 2001 European Union (EU) Money Laundering Directive has not been completed. The Portuguese parliament has given the initial approval to the new law and the draft is currently under review by the committee and must be voted on by the whole assembly again. Portugal expects the law to take effect in early 2004.

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 suspicious transaction reports (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 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, from banks and other financial entities. A total of 1,013 STRs have been filed between 1998 and 2002.

Portuguese laws provide for the confiscation of property and assets connected to money laundering, and authorize the Judicial Police to trace illicitly obtained assets, (including those passing through casinos and lotteries), even if the predicate crime is committed outside of Portugal. Act 10/2002 has also eased prosecutions. Police may now request files of individuals under investigation and, with a court order, can obtain and use audio and videotape as evidence in court. The law allows the Public Prosecutor to request that a lien be placed on the assets of individuals being prosecuted, in order to facilitate asset seizures related to narcotics and weapons trafficking, terrorism, and money laundering.

The 2002 law shifted the burden of proof in cases of criminal assets forfeiture from the government to the defendant; an individual must prove that his assets were not obtained as a result of his illegal activities. The law defines criminal assets as those owned by an individual at the time of indictment and thereafter. The law also presumes that assets transferred by an individual to a third party within the previous five years are still his, unless proven otherwise.

Portugal has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets. The financial sector cooperates fully with the Judicial Police and the Public Prosecutor. Between January and November of 2002, the Judicial Police conducted 30 investigations of money laundering in connection with narcotics trafficking. Those investigations resulted in the arrest of seven individuals and the confiscation of approximately \$3.5 million.

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 groups, of which there are approximately 6,500 companies 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 nonresidents 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. Exchange of information agreements contained in double taxation treaties allow for the disclosure of information relating to narcotics or weapons trafficking. Bearer shares are not permitted.

In August 2003, Portugal passed Act 52/2003, which pertains to the fight against terrorism. The 2003 law specifically defines money laundering and criminalizes the transfer of funds related to the commission of terrorist acts. Additional legislation on terrorist financing is being drafted for consideration by parliament in 2004. Portugal has created a Terrorist Financing Task Force that includes the Ministries of Finance and Justice, the Judicial Police, the Security and Intelligence Service, the Bank of Portugal and the Portuguese Insurance Institution.

Portugal has applied all of the FATF recommendations on terrorist financing. Names of individuals and entities included on the UN 1267 sanctions consolidated list, or that the U.S. and EU have linked

to terrorism, are passed to private sector organizations through the Bank of Portugal, Stock Exchange Commission, and the Portuguese Insurance Institution. In practice, the actual seizure of assets would only occur once the European Union's clearinghouse process agrees to the EU-wide seizure of assets of terrorists and terrorist-linked groups. Portugal is actively cooperating in the search and identification of assets used for terrorist financing. To date, no significant assets have been identified or seized.

Portugal is a member of the Council of Europe, the European Union, and the Financial Action Task Force (FATF). Portugal held the FATF presidency from 1999 to 2000. Portugal is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Portugal is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and became a party to the UN International Convention for the Suppression of the Financing of Terrorism on October 18, 2002. The Money Laundering Investigation Unit of Portugal's Judicial Police is a member of the Egmont Group.

Portugal has put into place a comprehensive and effective regime to combat money laundering. The GOP's passage of new laws in 2002 strengthen its ability to investigate and prosecute, and the more recent steps taken in 2003 seek to extend the regime's reach to terrorist financing. The GOP should continue to exercise due diligence over its offshore sector, and closely monitor domestic nonbank 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 15 licensed financial institutions, and two Islamic banks; 16 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 by Qatari law.

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 15 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.

The Anti-Money Laundering Law established the National Anti-Money Laundering Committee (NAMLC) to oversee and coordinate money laundering combating efforts. It is chaired by the Deputy Governor of the QCB, in addition to seven other members from the Ministries of Interior, Civil Affairs and Housing, Economy and Commerce, Finance, Justice, and a representative from the QCB. The NAMLC is in the process of setting up its financial intelligence unit (FIU).

In addition to reporting suspicious transactions, financial institutions (including businesses conducting hawala transactions) must report all cash transactions of 30,000 Qatari rials (approximately \$10,000) or above to the QCB. In 2002, the threshold was raised to QR100,000 (approximately \$33,000). Any

transaction of QR100, 000 or higher will be investigated by the QCB in coordination with the Ministries of Justice and Interior. 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, legal 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 has taken steps to combat the financing of terrorism, including requiring banks to freeze the assets of the individuals and entities listed on the UN 1267 Sanctions Committee's consolidated list. In 2002, the GOQ established a national committee, to review the consolidated designation lists and to recommend any necessary actions against individuals or entities found in Qatar. On August 24, 2003, the Anti-Money Laundering law was amended (amendment 21/2003) and published in the official gazette. Amendment 21 revised three articles in the anti-money laundering law. Article 2 was amended to broaden the definition for money laundering to include any activities related to terrorist financing. Article 8 added the customs and ports authority to the NAMLC. Article 12 authorized the Central Bank governor to freeze suspicious accounts up to ten days and to inform the attorney general within three days of any action taken. The Attorney General may renew or nullify the freeze order for a period of up to three months. After this process, a freeze order may not be renewed unless authorized by court order.

Qatar's charities are under the 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 disbursements; 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 is in the process of establishing its financial intelligence unit (FIU). The Qataris have little financial crimes investigative experience. 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. The Government of Qatar (GOQ) continues to investigate a seizure which occurred in November 2002 of approximately \$400,000 worth of gold which had been smuggled into the country.

Qatar participates in the Financial Action Task Force (FATF) activities through its membership within the GCC. Qatar is a party to the 1988 UN Drug Convention. Qatar should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

The amendments to Qatar's new money laundering law to address terrorist financing 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. Qatar has demonstrated a willingness to work with other countries' FIUs in the fight against financial crimes. Qatar should continue to work to ensure that law enforcement, prosecutors, and customs authorities are active in recognizing and pursuing various forms of money laundering.

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 persons and, therefore, vulnerable to money laundering. The majority of crimes generating illicit funds in 2003 were tax/VAT fraud and tax evasion. Romania also has one of the highest occurrences of online credit card fraud in the world. As in other countries in Eastern Europe, corruption and the presence of organized crime activity facilitate money laundering. The Romania National Office Against Money Laundering estimates \$1.64 billion euros (\$2.02 billion) has been laundered in Romania since 2001. Money laundered comes primarily from domestic criminal activity carried out by international crime networks. Romania saw a surge in organized crime activity during the first part of 2003. Transparency International placed Romania in the top tier of the world's most corrupt countries. The proceeds of financial crimes and from the smuggling of cigarettes, alcohol, coffee, and other dutiable commodities are also believed to be laundered in Romania. From Romania, most of the laundered funds go to Cyprus (222 million euros in 2003).

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 mandates provisions for customer identification; record keeping; reporting transactions of a suspicious or unusual nature; currency transaction reporting for transactions over 10,000 euros; a financial intelligence unit (FIU), known as the National Office for the Prevention and Control of Money Laundering (NOPCML); and internal anti-money laundering procedures and training for all domestic financial institutions covered by the law. The list of entities subject to money laundering controls includes banks, nonbank financial institutions, attorneys, accountants, and notaries. However, in practice, these controls have not been as rigorous as those imposed on banks. 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 Supervision in the insurance sector has recently been tightened.

In December 2002, the Law on the Prevention and Sanctioning of Money Laundering went into effect, changing the list of predicate offenses to the "all-crimes" approach and requiring that every banking operation involving a sum exceeding 10,000 euros be reported to the NOPCML and monitored. The law also revises certain provisions in the former law. In addition, the new law expands the number and

types of entities required to report to the NOPCML. 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 suspicious transaction reports (STRs) and currency transaction reports (CTR), with the CTR amounts conforming to European Union (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. In accordance with a new national strategy on money laundering, lawyers are now obligated to report to the NOPCML. In addition, and in line with the Second EU Directive, tipping off has been prohibited. Romanian law permits the disclosure of client and ownership information to bank supervisors and law enforcement authorities, and protects banking officials with respect to their cooperation with law enforcement.

The NOPCML receives and evaluates STRs as well as CTRs. 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. In 2002, MOPCML received 433 suspicious transaction reports filed on over 1,600 persons. During the first three-quarters of 2003, NOPCML had received 342 reports and investigated more than 1,500 persons. Of these, 256 cases were referred to the Prosecutor's Office. However, efforts to prosecute these cases have been hampered by delays in reporting suspicious transactions, by a lack of resources in some regions, and by insufficient training in conducting complex historical financial investigations. The Law on the Prevention and Sanctioning of Money Laundering increased the powers of NOPCML, but it did not provide for an increase in administrative capacity. Romania has been working closely with Italy to improve the efficiency and effectiveness of NOPCML. Romanian law has some, but limited, provisions for asset forfeiture in the Law on Combating Corruption, No. 78/2000, and the Law on Combating Tax Evasion, No. 87/1994. The Directorate of Economic and Financial Crimes of the national police also has a mandate to pursue money laundering. Despite hundreds of money laundering cases investigated since 2001, the interface with the justice system remains ineffective.

The GOR announced a national anti-corruption plan in early 2003 and passed a law against organized crime, codifying the provisions of the UN Convention in January 2003, as well as a new anti-corruption law in April 2003. In the thirteen months since the September 2002 founding of the Anti-Corruption Prosecutor's Office (PNA), over 2200 cases of corruption have been investigated. A new Criminal Procedure Code was passed and became effective on July 1, 2003. The new Code contains provisions for authorizing wiretapping, intercepting, and recording telephone calls for up to 30 days, in certain circumstances. These circumstances, as provided for within the new Code, include terrorism acts and money laundering.

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 the taking of measures, or the production or acquisition of means or instruments with an intention to commit terrorist acts, are offenses of exactly the same level as terrorist acts themselves. These offenses are punishable with imprisonment ranging from five to 20 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 Ordinance 153 was passed to strengthen the government's ability to carry out the obligations under UNSCR 1373, including the identification, freezing and seizure of terrorist funds or assets. The National Bank of Romania receives lists of individuals and terrorist organizations from the UN. Sanctions Committee, EU, and USG, and circulates these to banks and financial institutions. No arrests or prosecutions have been carried out in regard to terrorism financing.

In April 2002, the GOR's Supreme Defense Council of the Country (CSAT) 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. The GOR has also set up an interministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations.

The EU's Europe Agreement with Romania provides for cooperation in the fight against drug abuse and 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). A mutual evaluation in April 1999 by that Committee 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 has been working to address these concerns, bringing in legal experts from the EU to consult. In late 2003, Romania also underwent a Financial Sector Assessment Program (FSAP) by the World Bank as part of that organization's pilot program.

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, the Agreement on Cooperation to Prevent and Combat Transborder Crime, and the UN Convention against Transnational Organized Crime. 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, and in December signed the UN Convention Against Corruption. Romania ratified the UN International Convention for the Suppression of the Financing of Terrorism in January 2003.

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. The GOR should adopt procedures for the timely freezing, seizure and forfeiture of crime or terrorism related assets. The GOR should adopt reporting requirements for the cross-border movement of currency and monetary instruments.

Russia

Russia's ability to combat the laundering of criminal financial proceeds domestically and internationally has been considerably strengthened over the past two years by aggressive enactment and implementation of comprehensive money laundering and counterterrorism financing legislation. Despite notable progress and demonstrated political will to aggressively combat these phenomena, the magnitude of money laundering remains large, because of the number and scale of contributing factors. Russia's abundance of natural resources, infiltration of society by organized crime, high level of corruption (Transparency International Corruption Perceptions Index 2003 assigns Russia a score of 2.7 out of 10. "Highly clean" rates a "10" and the 2.7 score—unchanged from 2002—puts Russia in 86th place out of 133 countries), porous borders, role as a geographic gateway to Europe and Asia, weak banking system, and under-funding of regulatory and law enforcement agencies continue to leave it vulnerable to money laundering. Russia is still used for money laundering by Russian criminals moving funds out of Russia and by criminals from neighboring countries because of familiarity with the language, culture and economic system. The majority of these funds do not appear to be from activities related to narcotics production or trafficking, although these activities are

believed to occur. Most of the proceeds of criminal or quasi-criminal activity are believed to derive primarily from domestic sources, including evasion of customs duties and smuggling operations. Such activities, however, are not believed to be connected to narcotics trafficking.

Net flows of money out of the country, primarily attributed to unrepatriated export earnings, tax evasion, and a weak banking system, have slowed noticeably in recent years, due in part to the 1998 ruble devaluation and higher oil prices, which together have led to more than 6 percent annual growth in the economy between 1999 and 2002. The growth in GDP, along with a renewed government effort to advance lagging economic structural reforms, raised business and investor confidence over Russia's prospects in its second decade of transition, which in turn led to have led to a gradual reduction in capital flight.

The capital flight for 2003 totaled \$2.7 billion, however, the underlying quarterly flows were quite volatile. The 2003 figure is down from \$8.3 billion in 2002 and \$15.2 billion in 2001. A significant but by no means predominant portion of capital flight constitutes proceeds of criminal activity. Central Bank officials have not linked the resumption in capital flight to the current scandal surrounding the arrest and indictment for tax evasion and embezzlement of Mikhail Khodorkovskiy, the CEO of the country's largest oil producer, Yukos.

Russian Federation Federal Law No. 115-FZ "On Combating Legalization (Laundering) of Criminally Gained Income and Financing of Terrorism" became effective on February 1, 2002, with subsequent amendments to the laws on banking, the securities markets, and the criminal code in October 2002, January 2003, and December 2003. The law requires obligated banking and nonbanking 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) and involve any one of a list of specified characteristics, including, for example, the purchase of securities with cash or the use of foreign currency. Financial institutions must also report suspicious or unusual 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 CBR curtailed establishing correspondent relations with offshore banks by raising the standards for "eligible" offshore financial institutions and thereby reducing the number. In August 2003, the CBR issued order 1317-U, which regulates the relations of Russian financial institutions with their counterparts in offshore zones. In addition to requiring reporting of all transactions, offshore banks are in some cases subject to enhanced due diligence and maintenance of additional mandatory reserves to offset potential risks undertaken by the Russian institution for specific transactions. Foreign financial entities, including those from known offshore havens, are not permitted to operate directly in Russia: they must do so solely through subsidiaries incorporated in Russia, which are subject to domestic supervisory authorities. During the process of incorporation and licensing, each director of the Russian company must be identified and investigated by Russian authorities; therefore nominee or anonymous directors are, as a practical matter, not permitted under Russian law and regulation. Enforcement of these procedures will be carried out as part of the regular domestic bank inspection process. (Since the regulation is brand new, there is not yet a track record of enforcement.) For Russian businesses that want to open operations abroad, including in offshore zones, government permission is required. The Ministry of Economic Development and Trade (MEDT) has a department that reviews requests from Russian firms, and the CBR must also approve the overseas currency transfer if the MEDT approves. In both these cases, the regulatory body for the offshore activity is the same as for domestic activity.

The CBR has issued guidelines regarding anti-money laundering practices within credit institutions, to include know your customer (KYC) and bank due diligence programs; yet, according to a Financial Action Task Force (FATF) report of April 2003, KYC regulations in Russia are currently inadequate. Though banks are required to know, record, and report identities of customers in suspicious transaction report (STR) filings, and to maintain appropriate records, the current requirement to identify beneficial owners of accounts refers only to establishing the identity of the legal or natural person who controls the funds, not the original source or true owner, thereby in effect allowing a bank to simply identify the nominal owner of the account. According to recent press reports, however, the Central Bank is in the process of drafting amendments to the current banking laws to bring them in line with the revised FATF Forty Recommendations, for consideration by parliament in spring 2004. Amendments to make identification and reporting of all suspicious transactions mandatory, as opposed to only transactions containing certain features, are also underway. Additionally, consistent with FATF recommendations, the criminal code was amended in December 2003, removing a specific monetary threshold for crimes connected with money laundering, and thus paving the way for prosecution of criminal offenses regardless of the sum involved.

Still, issues remain in this sphere. According to the FATF, a recent CBR audit revealed that although most Russian credit institutions perform their obligations as required by Russian money laundering and terrorist finance laws, approximately nine percent of credit institutions and 11.7 percent of credit institution branches were found to be out of compliance with one or more of the requirements of Russian law. Typical breaches involve inadequate record keeping, failure to follow client identification requirements as set out in the internal control rules, mistakes in formulating and submitting records in electronic form to the CBR, and incorrectly classifying transactions as not being subject to obligatory control.

Article 8 of Russian Federation Law 115-FZ calls for the Financial Monitoring Committee (FMC), an independent executive agency administratively subordinated to the Ministry of Finance, to serve as Russia's financial intelligence unit (FIU). The FMC is responsible for coordinating all of Russia's anti-money laundering and counterterrorism financing efforts. The FMC, which first became operational in February 2002, is as an administrative FIU, having no law enforcement investigative powers.

The FMC opened seven regional departments in 2003. Each of the territorial offices corresponds with one of the seven federal districts that comprise the Russian Federation. The Central Federal District office is headquartered in Moscow; the remaining six are located in the major financial/industrial regions throughout Russia. The primary functions of the territorial offices are to establish cooperation with regional law enforcement and other authorities to enhance information that comes into the FMC, and to supervise anti-money laundering and terrorism financing legislation compliance by institutions under FMC supervision. Additionally, the satellite offices must identify and register at the regional level all of the pawnshops, leasing, and gaming entities under their jurisdiction. They also are charged with coordinating efforts between the CBR and other supervisory agencies with respect to implementation of anti-money laundering and counterterrorist financing regimes.

Recent amendments to the anti-money laundering law have increased the FMC's information gathering authority to include activities of investment foundations, nonstate 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-related financial transactions up to one week. (Banks may freeze transactions for two days, and the FMC may follow up with an additional five days.) Consistent with FATF recommendations, further amendments are currently being drafted to expand the list of entities and individuals obliged to report to the FMC on suspicious financial operations. New entities will include lawyers, notaries, realtors, accountants, auditors, and other individuals providing legal services. Using encrypted software provided by the FMC, virtually all reporting from credit, securities, and insurance institutions is submitted via electronic means.

To date, the FMC has received over one million reports, approximately 50 percent of which are mandatory (currency) transaction reports and the other 50 percent suspicious transaction reports. According to the FMC, 12,000 of these reports contained evidence of criminal activity and were turned over to competent law enforcement authorities—the Ministry of Internal Affairs, the State Narcotics Control Committee, or the Federal State Security Service—for investigation, which resulted in the opening of 200 criminal cases. Thirteen of those criminal cases have thus far been sent to court.

In October 2003, the Russian Ministry of Internal Affairs (MVD) announced money laundering investigations against two large banks, Sodbiznesbank and Eurotrust. According to the MVD, four senior officials from Sodbiznesbank were allegedly involved in illegal transactions involving approximately \$16.1 million, and three employees at Eurotrust were under investigation for laundering approximately \$258 million of criminal proceeds.

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 noncooperative 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. In February 2003, the FATF granted Russia observer status, and following a successful FATF mutual evaluation in April, Russia became a full FATF member at the June 2003 plenary. At its first plenary as a full-fledged FATF member, Russia announced its intention to create a FATF-Style Regional Body (FSRB) for the five Central Asian States of Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. Russia is currently pursuing this initiative.

Russia has a legislative and financial monitoring scheme that facilitates the tracking and seizure of all criminal proceeds. None of this legislation, however, is specifically tied to narcotics proceeds. Russia's laws criminalizing money laundering and terrorist financing also provide for the forfeiture of criminal proceeds. Russian legislation provides for a variety of investigative techniques such as search, seizure and compelling the production of documents, as well as the identification, freezing, seizing and confiscation of funds/assets. Where sufficient grounds exist to suppose that property was obtained as the result of a crime, investigators and prosecutors can apply to the court to have the property frozen or seized. Law enforcement agencies have power to identify and trace property that is, or may become, subject to confiscation or is suspected of being the proceeds of crime or terrorist financing. In accordance with its international agreements, Russia recognizes rulings of foreign courts relating to the confiscation of proceeds from crime within its territory and can fully or partially transfer confiscated proceeds of crime to the foreign state whose court issued the confiscation order. However, Russian law still does not provide for the seizure of instruments of crime. Businesses can be seized only if it can be shown that they were acquired with criminal proceeds. Legitimate businesses cannot be seized solely on the basis that they were used to facilitate the commission of a crime. While Russian law enforcement has adequate police powers to trace and seize assets, most Russian law enforcement personnel lack experience and expertise in these areas.

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. Further, Article 205.1 of the criminal code, which was enacted in October 2002, criminalizes terrorist financing. 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 million) in support of federal antiterrorism programs and improvement of national security.

In February 2003, at the request of the General Procuracy, the Russian Supreme Court issued an official list of 15 terrorist organizations. According to press reports, the financial assets of these organizations were immediately frozen. In addition, Russia has assisted the United States in investigation of terrorist financing, providing vital financial documentation and other evidence establishing the criminal activities of the Benevolence International Foundation (BIF). Russian authorities have also provided U.S. federal law enforcement authorities with valuable evidence relating to terrorist fundraising activities of an individual currently being prosecuted in the United States for possession of counterfeit currency.

The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. To date, the FMC has signed cooperation agreements with the FIUs of the United States, Poland, Britain, the Czech Republic, Belgium, Italy, Panama, France, Estonia and Ukraine. Additionally, the FMC is an active member of the Egmont Group of FIUs, having taken on sponsorship of several candidate countries for 2004. The FBI, DEA and Homeland Security all exchange operational information with their Russian counterparts on a regular basis.

In addition to membership in the FATF, Russia holds membership in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). 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, and is expected to soon ratify, the UN Convention against Transnational Organized Crime, which entered into force on September 29, 2003. In November 2002, Russia ratified the UN International Convention for the Suppression of the Financing of Terrorism. Russia also became a signatory to the UN Convention Against Corruption, which has not yet entered into force, on December 9, 2003.

The enactment of comprehensive anti-money laundering legislation in 2001, followed by creation of a fully functioning FIU in 2002 and entry into the FATF in 2003, marked major milestones in Russia's anti-money laundering regime. Although Russia has developed a solid foundation for combating money laundering and can effectively begin to serve as a role model for other governments in its region, legal loopholes remain open that Russia should immediately address. Russia should enact legislation that would provide for the seizure of instruments, as opposed to merely the proceeds, of criminal activity. Russia should also enact more stringent banking legislation requiring financial institutions to identify the true source, or beneficial owner, of funds, as opposed to identifying only the person or entity that controls the funds of a particular account. Russia should continue to address deficiencies in anti-money laundering compliance programs at banking and nonbanking financial institutions, through continued education and outreach to the affected industries. Finally, Russia should continue its active participation in international fora.

Rwanda

Rwanda is not considered a major financial center. Since recovering from the 1994 Genocide and war, Rwanda's banking system has been controlled by the government and is now in the process of privatization. The system lacks the efficiencies of more modern banking systems. However, with advancing stability in the country, Rwanda could become a greater risk as its banking system develops and countries like Kenya or Tanzania become less hospitable to money launderers.

There have been no documented reports of money laundering in Rwanda, primarily due to the government's monitoring through the Central Bank of monetary transfers totaling more than \$50,000, whether internal or international. The authority for such monitoring is granted in the Rwandan

Banking Act of 2000. We do not know if Rwandan financial institutions engage in international narcotics-trafficking transactions or whether Rwanda has entered into bilateral agreements for the exchange of information on money laundering with other countries. Since Rwanda has been the recipient of large amounts of foreign assistance, the IMF and the World Bank provide some monitoring of the banking sector, particularly with regard to government spending. In addition, the majority of charitable and nonprofit entities are recipients of international aid and are largely monitored by their donors, the IMF and/or the World Bank.

There has been significant evidence of the Government of Rwanda (GOR) indirectly engaging in mineral transfers from the Congo during the Rwandan occupation of the eastern Congo that ended in the fall of 2002. The National Bank of Rwanda (BNR) and the Rwandan Private Sector Federation (the Rwandan equivalent of the chamber of commerce) both confirmed the large amounts of Rwandan profits obtained from the processing of coltan from 1999 through 2001. According to the BNR, the profits reportedly peaked at \$3 million in customs fees and banking profits in a two-month period in 2000. These profits helped fuel the Rwandan GDP growth rate of 9 percent for 2002. Neither organization could confirm significant transactions in Congolese diamonds.

For the past two years, Rwanda has been completely overhauling its legal system. Additional legislation will be presented to the newly elected parliament. Potential loopholes remain in the legal system. These include a lack of provision for the prosecution of potential money laundering cases and, in the area of imports and exports, a lack of regulation except post-checks on transferred goods. According to legal experts with the Rwandan Finance Ministry and the Prosecutor General's office, no laws under consideration would curb secrecy in respect to client and ownership information in either domestic or offshore financial transactions. Additionally, there are no laws in place concerning banker negligence or the forfeiture and seizure of assets in cases involving narcotics trafficking, serious crimes or terrorists. In addition, no arrests for money laundering or terrorist financing have occurred in Rwanda since January 1, 2003. On December 5, 2003, the cabinet decided to establish a unit within the Ministry of Internal Security to fight global terrorism.

Rwanda has officially committed itself to locating and freezing terrorist assets identified by the international community. However, Rwanda has yet to develop fully its laws and its ability to enforce regulations against terrorist financing in accordance with the relevant UN resolutions. The GOR does, however, retain the power to identify, freeze, and seize terrorist finance-related assets. The Ministry of Finance circulates lists of identified individuals and organizations included on the UN 1267 Sanctions Committee's consolidated list, and Rwanda is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The GOR cooperates with the United States when requested in connection with investigations and proceedings related to narcotics, terrorism, terrorist financing, and other serious crimes. For example, the Rwandan National Police's (RNP) Economic Crimes Division has recently cooperated with the USG in check embezzlement investigations that have led to arrests in Uganda. However, the RNP lacks the experience, training, and resources to be effective in investigating and enforcing laws concerning modern money laundering and terrorist financing. Furthermore, no formal body of laws or regulations concerning this cooperation currently exists in Rwanda, although Rwanda is a party to the 1988 UN Drug Convention, and the UN Convention against Transnational Organized Crime.

Rwanda should enact comprehensive anti-money laundering legislation covering all serious crimes including terrorist financing and take steps to develop a viable anti-money laundering regime. Rwanda should also consider becoming an observer to the East and South Africa Anti-Money Laundering Group.

Samoa

Samoa does not have major organized crime, fraud, or drug problems. The most common crimes that generate revenue within the jurisdiction 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 (approximately \$354,000), 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), the Samoa Financial Intelligence Unit (FIU) currently working under the auspices of the Governor of the Central Bank. The MLPA receives and analyzes disclosures, and if it establishes reasonable grounds to suspect that a transaction involves the proceeds of crime, it refers the information to the Attorney General and the Commissioner of Police. In 2003, Samoa established under the authority of the Ministry of the Prime Minister, an independent and permanent Transnational Crime Unit (TCU). The TCU is staffed by personnel from the Samoa Police Service, Immigration Division of the Ministry of the Prime Minister and Division of Customs. The TCU is responsible for intelligence gathering and analysis and investigating transnational crimes, including money laundering, terrorist financing and the smuggling of narcotics and people.

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

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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 six 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 six offshore banks, Samoa currently has 10,502 international business corporations (IBCs), three international insurance companies, five trustee companies, and 181 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. However, according to a 2003 Samoa Report to the UN Counter Terrorism Committee, Samoa is currently reviewing the legal framework for the effective operation of the MLPA in order to strengthen domestic and international information exchange. In addition, the Office of the Attorney General, in conjunction with the Central Bank of Samoa, the Ministry of Police and the Division of Customs of the Ministry for Revenue, is currently preparing amendments to the Money Laundering Prevention Act of 2000 for purposes of strengthening and complementing legislation that is being drafted or developed, including the Proceeds of Crime Bill, the Mutual Assistance in Criminal Matters Bill, and the Extradition Amendment Bill.

Samoa signed the UN International Convention for the Suppression of the Financing of Terrorism in November 2001, and ratified it on September 27, 2002. In April 2002, Samoa became a party to 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. 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.

San Marino

San Marino, a small independent enclave located within Italy, is the 3rd smallest country in Europe after the Holy See and Monaco. San Marino claims to be the oldest republic in the world founded in 301 A.D. San Marino's policies and social trends closely track those of its larger neighbor. San Marino has a small economy but a rather large financial sector. The Government of San Marino (GOSM) passed money laundering legislation in 1998. In June 2003 a law was passed that provides functional integration between the Office of Banking Supervision and the Central Bank, strengthening the supervisory system that will help counter money laundering and terrorist financing. Also in 2003, the Office of Banking Supervision issued Circular No. 33 addressed to banks and financial companies that obligates the collection of customers' personal data and their business/professional activity. The GOSM has also introduced a draft law on the "Provisions of Anti-Terrorism, Anti-Money Laundering and Anti-Insider Trading." The draft legislation criminalizes terrorism; introduces rules supplementing the Anti-Money Laundering law of 1998 by incorporating modifications recommended by the FATF and the Council of Europe; provides for the freezing of financial assets or property; allows special investigative techniques; and contains rules on insider trading. In April 2003, San Marino had its second round of mutual evaluations by MONEYVAL.

The GOSM is a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should become a party to the UN convention against Transnational Crime.

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. Sao Tome should become a party to both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Crime.

Saudi Arabia

Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little known money laundering enforcement in Saudi Arabia related to traditional predicate offenses. However, Saudi donors and unregulated charities have been a major source of financing to extremist and terrorist groups over the past 25 years. Following the al-Qaida bombings in Riyadh on May 12, 2003, the government of Saudi Arabia has taken steps to help counteract terrorist financing.

All ten commercial banks in Saudi Arabia operate as standard "western-style" financial institutions. There are no "Islamic" banks in Saudi Arabia. In 2003 Saudi Arabia approved a new anti-money laundering law that for the first time contains criminal penalties for money laundering and terrorist financing. The law bans conducting commercial or financial transactions with persons or entities using pseudonyms or acting anonymously; requires financial institutions to maintain records of transactions for a minimum of ten years and adopt precautionary measures to uncover and prevent money laundering operations; requires banks and financial institutions to report suspicious transactions; authorizes government prosecutors to investigate money laundering and terrorist financing; and allows for the exchange of information and judicial actions against money laundering operations with countries with which Saudi Arabia has official agreements. Saudi Arabia did pursue anti-money laundering investigations prior to the enactment of the 2003 law. It is believed 70-80 percent of those cases involved narcotics related money laundering.

Saudi Arabian Monetary Authority (SAMA) guidelines correspond to the forty anti-money laundering recommendations of the Financial Action Task Force (FATF). On May 27, 2003 SAMA issued updated anti-money laundering and counter terrorist finance guidelines for the Saudi banking system. The guidelines require that banks have mechanisms to monitor all types of “Specially Designated Nationals” as listed by SAMA; that fund transfer systems be capable of detecting specially designated names; that SAMA circulars on opening accounts and dealing with charity and donation collection be strictly adhered to; and that the banks be able to provide the remitter’s identifying information for all outgoing transfers. Saudi law prohibits nonresident individuals or corporations from opening bank accounts in Saudi Arabia without the specific authorization of the SAMA.

All banks are also required to report any suspicious transactions to the recently created Saudi Financial Intelligence Unit (FIU), which is under the authority of the General Security Department of the Interior Ministry. The Saudi FIU is in its early formative stages, but it appears the FIU will collect and analyze suspicious transaction reports and other available information and decide to make referrals the Mabahith or other entities for action. The FIU will be staffed by officers from the Mabahith, SAMA, the Ministry of Commerce, and the Ministry of Interior’s Bureau of Investigation and Prosecution.

Saudi Arabia appears to be implementing UN Security Council Resolutions on terrorist financing. It has frozen accounts of individuals and organizations in response to information provided by the USG. The Government of Saudi Arabia (GOSA) signed a multilateral agreement under the auspices of the Arab League to fight terrorism. Saudi Arabia has signed but not ratified the UN International Convention for the Suppression of the Financing of Terrorism. In September 2003, the FATF and the GCC carried out a “mutual evaluation” of Saudi Arabia to assess compliance with the FATF anti-money laundering and terrorist finance recommendations.

Hawala transactions outside banks and licensed moneychangers are illegal in Saudi Arabia. Reportedly, some 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 in combating potential money laundering and terrorist financing is that the senders and users of fund transfers through this formal financial sector are clearly identified.

Contributions to charities in Saudi Arabia are usually Zakat, which is an Islamic religious duty with specified humanitarian purposes. However, over the past decade, according to a 2002 report to the United Nations Security Council, al-Qaida and other jihadist organizations collected between \$300 and \$500 million and the majority of those funds originated from Saudi charities and private donors.

To help address this problem, in 2003, Saudi Arabia established a High Commission for oversight of all charities. Charities in Saudi Arabia are to be licensed, registered, audited, and supervised. New rules announced in 2003 include stipulations that accounts can be only opened in Saudi Riyals; there are enhanced customer identification requirements; there is one main consolidated account for each charity; there are no cash disbursements—payments may be made only by checks payable to the first beneficiary and deposited in a Saudi bank; the use of ATM and credit cards for charitable purposes will not be permitted; there will be no transfers outside of Saudi Arabia. The Saudi government is still working to implement these measures.

Saudi Arabia took specific legal and regulatory steps in 2003 to combat money laundering and terrorist financing. Progress is being made in establishing an operational Financial Intelligence Unit. 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. Saudi Arabia should move rapidly to monitor and enforce the new anti-money laundering and terrorist finance laws, regulations and guidelines. The new requirements relating to charities are far reaching. However, significant loopholes remain including

the definition of a charitable organization and the ability of a group or individual previously affiliated with suspect charitable organizations to simply cease referring to itself as a charity. Saudi Arabia should take affirmative steps to close loopholes and should ratify the UN International Convention for the Suppression of the Financing of Terrorism.

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.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. GIABA recently hosted a self-evaluation exercise on anti-money laundering capabilities in conjunction with the International Monetary Fund and ECOWAS member states. 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, which is also linked to the euro. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information.

Although current law limits money laundering to drug-related activities, a draft law is being prepared which will make money laundering a crime unto itself. The law would apply to banks, nonbank 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.

Senegal is expected to soon adopt a Uniform Act on Money Laundering that implements standards drafted by the WAEMU member states in conjunction with GIABA and the BCEAO. Under the harmonized WAEMU standards, Senegal will join the other seven WAEMU countries and ultimately the 15 members of ECOWAS in updating the judicial and penal code concerning money laundering and crimes of corruption, establishing a Financial Intelligence Unit (FIU), and strengthening law enforcement and detection capability of money laundering and corruption. Senegal is working closely with the Department of Treasury, multilateral organizations such as the World Bank, and other donors on providing training on money laundering to the financial community, law enforcement professionals, and the judiciary.

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.

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 and ratified, the UN Convention against Transnational Organized Crime. The Government of Senegal has also indicated that the ratification of the UN International Convention for the Suppression of Financing of Terrorism is underway.

Senegal should criminalize terrorist financing and money laundering for all serious crimes. The GOS should work with its counterparts in GIABA and its partners in WAEMU to establish a comprehensive anti-money laundering regime in the region. Senegal should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Serbia and Montenegro

At the crossroads of Europe and on the highway known as the “Balkan route,” narcotics trafficking; smuggling of persons, drugs, weapons and pirated goods; money laundering; and other criminal activities continue in Serbia and Montenegro (SAM, formerly the Federal Republic of Yugoslavia (FRY)). The 2001 Foreign Currency and Foreign Trade Laws, as well as more effective enforcement of intellectual property rights laws, have reduced the volume of smuggled and pirated goods in the SAM substantially. Nonetheless, the country still has a significant black market for such goods. Income from narcotics trafficking, however, is typically not used to support this black market but instead is laundered in the real estate market, one of the most popular ways to legalize criminal proceeds in SAM. Trade-based money laundering, in the form of over- and under-invoicing, is another of the most common methods of money laundering. The Government maintains that the majority of criminal proceeds from narcotics trafficking laundered in the country are derived from illegal activities of the Kosovar “Narco-Mafia,” and Serbian officials estimate that up to half of all financial transactions in SAM may be connected in some way to money laundering. SAM has had an uphill battle against an entrenched problem; estimates of money laundered by Yugoslavia’s former president Slobodan Milosevic and his associates go as high as one billion U.S. dollars.

The European Union has an ongoing lawsuit in New York against the U.S. tobacco company RJ Reynolds. The EU accuses RJR of knowingly selling cigarettes to criminal networks, which paid for

their purchases using money earned in drug and arms smuggling. Among the claims made by the EU plaintiffs is that Republic of Montenegro Prime Minister Djukanovic was a witting participant and profiteer in this smuggling and money laundering scheme. The lawsuit alleges, inter alia, that the Italian Mafia established Montenegrin Tabak Transit (MTT) in the mid-1990s under the official sanction of the Montenegrin Foreign Investment Agency and the special protection of Djukanovic. MTT in turn funneled mafia payments—in the form of “licensing payments”—to then Yugoslav President Milosevic’s regime and to Djukanovic and other officials, using banks in Switzerland and Liechtenstein.

It is also worth noting that Serbian judicial authorities have an ongoing investigation against two former high-ranking civil servants on money laundering charges, the former security adviser to the Serbian Prime Minister, and the former director of the Serbian Bank Rehabilitation Agency, who allegedly were involved in laundering money through offshore accounts in several financial safe haven countries. The two officials have stepped down from their government posts.

State Union: In March 2002, the leadership of the FRY, Serbia and Montenegro signed the Belgrade Agreement on restructuring the relationship between the two republics. On February 4, 2003, the FRY parliament voted to adopt a new Constitutional Charter that established the state union of “Serbia and Montenegro.” Under this state union structure, most governmental authority previously addressed by federal Yugoslav authorities devolved to the individual republics. As a result, responsibility for the laws and institutions determining policies and legislation has been shifted. Consequently, both the Republic of Serbia (Serbia) and the smaller Republic of Montenegro (Montenegro) have addressed money laundering and terrorism financing—but each has done so in its own way. Banks in both republics have demonstrated remarkable tolerance for and compliance with the laws in their respective jurisdictions.

In 2001, the federal Yugoslav authorities prepared a national strategy to fight terrorism and established a national coordinating body. However, this body fell into abeyance when the FRY transformed into the state union in February 2003. Ratification to international Conventions as well as treaties currently lies at the overarching State Union level.

Serbia: The Yugoslav Federal Assembly adopted an anti-Money Laundering Law in September 2001; it came into effect in July 2002. The law defines money laundering to mean depositing, or introducing into the financial system in any other manner, money which has been acquired through illegal activity. This includes money derived from the gray market economy and from arms and narcotics trafficking. Criminal penalties for money laundering violations range from six months’ to eight years’ imprisonment, while civil penalties range from 45,000 to 450,000 dinars (\$650 to \$6,500) per offense.

Among the entities required to take actions and measures aimed at uncovering and preventing money laundering under the law are: commercial and savings banks and other financial credit institutions, the postal savings bank, the post office, commercial enterprises, all government entities, the National Bank of Yugoslavia and its clearing and payments department, foreign exchange bureaus, casinos, pawnshops, stock exchanges, and national lottery organizers. The obliged entities are required to identify persons opening an account “or establishing any other kind of lasting business cooperation with the client” and to report on every cash transaction exceeding 10,000 euros or 600,000 dinars, as well as any suspicious transaction. Similar reporting thresholds apply to insurance policies and cross-border currency transactions. The law also provides for record keeping and established special procedures for tracking terrorist financing.

The law also provides for the establishment of a financial intelligence unit (FIU), the Federal Commission for the Prevention of Money Laundering (FCPML), to assume responsibility for receiving and disseminating currency and suspicious transaction reports; it also has responsibility for countering the financing of terrorism via its Department for the Suppression of the Financing of Terrorism. FCPML is authorized to suspend a suspicious transaction or freeze assets for 48 hours.

In March 2002, the FCPML was established as an independent federal body by governmental decree; it became operational on July 1, 2002. At its founding, both the law and the FIU were at the federal level, and in name were applicable to both Serbia and Montenegro. On February 4, 2003, reflecting the dissolution of the centralized federal state into the two republic entities, and pursuant to Article 13 of the Constitutional Charter and Implementation Law, the FCPML, up until then a federal FIU, became the FIU for the Serbian Republic. In its first year of existence, FCPML has received over 60,000 reports, and 162 suspicious cases were disseminated to law enforcement. In its first 18 months, the Serbian Administration has forwarded eight cases of possible money laundering to the prosecutor's office, with four still being investigated and two now in court proceedings. In July 2003, FCPML became a member of the Egmont Group and participates actively in information exchange with counterpart FIUs.

On July 18, 2003, Serbia passed a new law codifying the powers of the Central Bank, decreasing its independence and establishing parliamentary control over its operations. Bank supervision in the National Bank of Serbia was inactive for a three-month period due to turnover, but a new Director of Bank Supervision has since arrived.

A new draft money laundering law implementing all international standards, extending the list of obligated entities to include attorneys and accountants and harmonizing legislation with all European Union (EU) Directives, was under review and submitted in the beginning of October 2003. The new law was approved by all of the relevant authorities, but then a parliamentary crisis broke out, and the procedure was suspended. On December 28, 2003, Serbia held a parliamentary election and as a result, the ratio between parties in the Parliament has changed. Once a new government is formed, an urgent procedure for the adoption of the draft law will be requested. However, there is still the possibility that the bill will need to pass to the relevant authorities for approval once again.

The Serbian FCPML is the authority charged with enforcing the UN terrorism sanction lists; although it routinely checks for accounts, it has found no evidence of terrorism financing within the banking system and no evidence of alternative remittance systems in use. The Department for Combating Organized Crime (UBPOK), in the Ministry of Interior, is the law enforcement body responsible for countering terrorism. UBPOK cooperates and shares information with its counterpart agencies in all of the countries bordering Serbia and Montenegro.

Serbia has no terrorism financing law consistent with the standards contained in international conventions, and its legislative and institutional framework for combating terrorism financing remains weak. Draft legislation is pending. Despite the fact that according to the Serbian Criminal Code, business licenses of legal or natural persons may be revoked and business activities banned if the subject is found guilty of criminal activities, including narcotics trafficking or terrorism financing, Serbia is hamstrung with regard to international assistance in investigating terrorism financing. Serbia's police may not make use of the Mutual Legal Assistance Treaty (MLAT) process in terrorism financing cases, and therefore forfeit any available international assistance, because under Serbian law, the MLAT process is restricted to crimes with penal sentences equal to or exceeding ten years. Under current law, the maximum term for a money laundering or terrorism financing offense is eight years. Under Serbia's Criminal Procedure Code, an MLAT request for assistance in investigating terrorism activities requires the approval of an investigative judge. However, investigative judges, for a number of reasons, often do not grant these requests. Serbia is currently in the process of amending its Criminal Procedure Code to bring it into conformity with Council of Europe standards. Serbia has no asset seizure or forfeiture law. Actual asset seizures can only be carried out by court order.

Montenegro: In 1996, in an effort to lure needed funds, Montenegro proclaimed itself an offshore area and allowed financial intermediaries to do business—without controls—for a percentage of the profit. Hundreds of millions of dollars worth of money passed through Montenegrin offshore accounts annually; speculation is that much of the money came from criminal activity.

Montenegro has changed in a very short time. In August 2002, the Central Bank of Montenegro (CBCG) issued a decree that required banks and other financial institutions to report suspicious transactions, establish anti-money laundering control programs and train their employees on money laundering matters. Finally, in response to the proliferation of its offshore sector in the past decade, the Montenegrin government required offshore banks to re-register, post a one million Euro bond or fee, and to reestablish themselves as regular banks. Since none of the offshore entities has done this, the Central Bank considers them all dissolved. The Finance Ministry has not released complete information about the disposition of the 400 offshore entities whose names they turned over to CBCG.

Montenegro passed anti-money laundering legislation on September 24, 2003. The new law obligates banks, post offices, state entities, casinos, lotteries and betting houses, insurance companies, jewelers, travel agencies, auto and boat dealers, and stock exchange entities to file reports on all transactions exceeding 15,000 euros as well as on any related transactions that aggregate 15,000 euro or more, even if each particular transaction does not exceed the threshold. Failure to report, according to the law, could result in fines up to 20,000 euros as well as sentences of up to 12 years. The new law establishes record keeping requirements and provides for the establishment of an FIU that would receive, analyze, and disseminate the reports to the competent authorities. The Government of the Republic of Montenegro adopted "The Act on Forming FIU" in December of 2003 and had a deadline of the end of January 2004 for naming the head of this agency.

Money laundering was also criminalized in a new Criminal Code. Montenegro amended its Criminal Code in June 2003 to enable the government to confiscate money and property involved in criminal activity. Additionally, according to the Code, business licenses of legal or natural persons may be revoked and business activities banned if the subject is found guilty of criminal activities, including narcotics trafficking or terrorism financing. Montenegro is currently in the process of amending its Criminal Procedure Code to bring it into conformity with Council of Europe standards. Montenegro has no asset seizure or forfeiture law. Actual asset seizures can only be carried out by court order.

Montenegro has no antiterrorism financing law that approaches international standards, nor does Montenegro's anti-money laundering legislation include the detection and prevention of terrorism financing within the scope of the FIU's responsibilities. Rather, the Sector for Bank Control, within the Montenegrin Central Bank (CBCG), will take this responsibility. CBCG has the authority to suspend a transaction or freeze assets on suspicion of money laundering or terrorism financing for up to 72 hours. No terrorism financing has been detected within the Montenegrin banking system.

Kosovo: Since 1999, Kosovo has been governed by the United Nations Interim Administration in Kosovo (UNMIK). It does not fall under the jurisdiction of either Serbia or Montenegro. Recognizing that as Kosovo's neighbors tighten their anti-money laundering regimes, Kosovo itself could become a haven for money laundering, the UN has determined that Kosovo must adopt a strict approach to the fight against money laundering. As part of the transition toward autonomous governance, the UN has focused on involving the Kosovar-run Provisional Institutions of Self-Governance (PISG) in ten areas, including the operations of a financial intelligence unit.

Currently, the operative law in Kosovo incorporates laws in effect in Kosovo prior to 1989, supplementary UNMIK regulations, as well as laws promulgated from the Kosovo Assembly. However, none of these laws provides any clear prohibition of money laundering or requires that suspicious transactions be reported. Additionally, it is unclear whether UNMIK can designate organizations or persons involved in terrorist acts or freeze/confiscate assets of such entities. Legal advisors were seeking to resolve these issues at the close of 2003. A draft law was drawn up in February 2003, called "On the Deterrence of Money Laundering and Related Offenses"; this law appears to be approximately as comprehensive as similar laws in Kosovo's Balkan neighbors. However, the draft regulation has been in internal UN legal review and was not yet promulgated by the end of 2003. If the Regulation is implemented as drafted, a Kosovo Financial Intelligence Centre

(KFIC) will be established to ensure compliance with the proposed Regulation's record keeping and reporting requirements. The Regulation, as drafted, would also regulate financial accounting of nongovernmental organizations, which has been an area of terrorist financing concern in Kosovo.

SAM has no laws governing its cooperation with other governments, related to narcotics, terrorism, or terrorist financing. Cooperation is instead based on participation in Interpol, bilateral cooperation agreements, and agreements concerning international legal assistance. There are no laws at all governing the sharing of confiscated assets with other countries, nor is any legislation under consideration; SAM may at this time enter into bilateral agreements for this purpose.

Serbia and Montenegro has a legal assistance arrangement with the U.S., governed by the 1901 Convention on Extradition of Offenders. SAM has signed 34 bilateral agreements on mutual legal assistance with 25 countries: Albania, Algeria, Austria, Belgium, Bulgaria, the Czech Republic, Denmark, France, Greece, The Netherlands, Croatia, Iraq, Italy, Cyprus, Germany, Poland, Romania, Hungary, Mongolia, Russian Federation, Slovakia, Spain, Switzerland, Turkey, the United Kingdom, and the United States. These agreements authorize extradition of suspected terrorists. Both SAM and its constituent republics cooperate with their counterparts and neighbors. In April 2003, SAM joined eight other participants in the South Eastern Europe Cooperation Process, in adopting a joint "Belgrade Declaration" to call for the continuation of regional cooperation and the intensification of the fight against terrorism and organized crime. SAM worked with Interpol to set up an office for that organization in Belgrade as part of its efforts to contribute to the fight against terrorism and other transnational crimes.

Serbia and Montenegro is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. On October 9, 2003, SAM ratified the Council of Europe's Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and the Convention will go into full force on February 1, 2004. SAM has ratified eight of the 12 UN Conventions or Protocols dealing with terrorism, including the UN International Convention for the Suppression of the Financing of Terrorism, although the domestic implementation procedures are not providing the framework for full application in either republic. In December 2003, SAM became a signatory to the UN Convention Against Corruption. As a new member of the Council of Europe, SAM is a full and active member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and underwent a first-round evaluation by a team from that Committee in October 2003.

Montenegro should establish its FIU and both Serbia and Montenegro should work to ensure that resources are available for the FIUs to work effectively and efficiently. Both republics should expand their anti-money laundering legislation to include all serious crimes, and enact legislation to establish asset seizure and forfeiture regimes. Both should also continue to participate in international fora that offer training and technical assistance for police, customs, and judiciary officials involved with combating money laundering and terrorist financing. They should also both criminalize terrorism financing specifically and implement a comprehensive framework to support an antiterrorism regime of international standards.

Seychelles

Seychelles is 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 nonresident 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. Three offshore insurance companies have been licensed, but no mutual fund companies. The International Corporate Service Providers Act 2003 will be entering into force very soon. This act is designed to regulate all the activities of the corporate service providers as well as the trustee service providers. It will strengthen existing legislation regarding due diligence and know your customer rules.

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.

No offshore casinos or Internet gaming sites have yet been licensed; if they are, they will be subject to stringent legislation modeled on the Australian Internet Gaming Act. There are no cross-border currency reporting requirements, but the point of entry at the international airport is under constant supervision by Customs and the Police, who search suspicious incoming or outgoing passengers.

In 1995, the GOS passed the Economic Development Act (EDA), which 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. As a result of the enactment of the EDA, FinCEN issued an advisory to U.S. banks and financial institutions calling on them to exercise enhanced scrutiny with respect to transactions involving Seychelles. The GOS repealed the EDA in 2000. In May 2003, FinCEN withdrew its advisory, since the repeal of the EDA effectively addressed the concerns that had prompted the issuance of the advisory.

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. There are no bank secrecy laws in Seychelles. 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, money laundering controls are applied to nonbanking financial institutions, including exchange houses, stock brokerages, casinos, and insurance agencies, but not to lawyers and accountants. No arrests and/or prosecutions have been made for money laundering and terrorist financing since January 1, 2003.

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 a 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 AMLA. The Central Bank of the Seychelles receives and analyzes suspicious activity reports and disseminates them to the competent authorities. In

November 2002 the Central Bank circulated to all local commercial banks a document on due diligence issued by the Basel Committee

The Government of Seychelles intends to enact early in 2004 the Prevention of Terrorism Bill 2004. The proposed legislation will recognize the government's authority to identify, freeze, and seize terrorist finance-related assets. Currently the Mutual Assistance in Criminal Matters Act of 1995 empowers the Seychelles Central Authority to search and seize anything relevant to a proceeding or investigation relating to a criminal matter involving a serious offense under a written law of a requesting state.

The proposed Prevention of Terrorism Bill will strengthen the government's hand in this area. It will specifically provide for the forfeiture of assets. Even now the Seychelles authorities can work with states that are members of the Commonwealth, or have a treaty for bilateral mutual legal assistance with the Seychelles regarding criminal matters. Under current legislation assets used in the commission of a terrorist act can be seized, and legitimate businesses can be seized if used to launder drug money, support terrorist activity, or are otherwise related to criminal activities. Both civil and criminal forfeiture are allowed under current legislation. To date, no assets have been identified, frozen, or seized pertaining to terrorist financing, upon request of such a foreign state.

The transactions of charitable and nonprofit entities are scrutinized by the authorities to prevent their misuse, and such systems as hawala are regulated.

The Seychelles is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The Seychelles implements fully the FATF Forty Recommendations on money laundering and its Eight Special recommendations on Terrorist Financing. The Seychelles is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The Seychelles has signed the UN International Convention for the Suppression of the Financing of Terrorism. The Seychelles circulates to relevant authorities the updated lists of designations under Executive Order 13224. The Seychelles is in ongoing discussions with Kenya and Mauritius regarding a memoranda of understanding on drug trafficking.

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 become a party to the UN International Convention for the Suppression of the Financing of Terrorism and 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 are also allegations that the diamond trade intersects terrorist financing operations. The diamond trade is susceptible at many levels of exploitation, including cross-border trade, secondary level traders and agents, and suspect buyers. Furthermore, law enforcement and customs have limited understanding and capability to effectively investigate and control money laundering.

There is no specific legislation concerning money laundering. However, the Ministry of Justice is in the process of developing such laws. Progress towards implementing these laws has been stymied by severe lack of knowledge and technical capacity on behalf of the relevant Government of Sierra Leone

Ministries. Under the proposed 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. Sierra Leone is currently meeting with members of (ECOWAS) to develop a draft model money laundering law.

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. Sierra Leone is 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 as a major offshore financial center, Singapore is attractive to potential launderers. Bank secrecy laws and the lack of routine currency reporting requirements 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 nonbank financial system, including large numbers of money changers and remittance agencies.

Singapore has a sizeable offshore financial sector. In 2003, there were 116 commercial banks in Singapore, of which 50 were offshore banks, down significantly from 83 in December 2000. There are also 27 full banks and 39 wholesale banks in Singapore. All offshore banks 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, including regarding money laundering and suspicious transactions. Any person who wishes to engage in business, whether local or foreign, must register under the Companies Act. Every Singapore-incorporated company must have at least two directors, one of whom must be ordinarily resident in Singapore, and one or more company secretaries, who must be resident in Singapore. There is no nationality requirement. A company incorporated in Singapore has the same status and powers as a natural person. Bearer shares are not permitted. Casinos and Internet gaming sites are illegal in Singapore.

The Monetary Authority of Singapore (MAS) performs extensive checks on all applicants for banking licenses. These include a check to see if the bank is under adequate home country banking supervision, how long the bank has been in business, and its general reputation within the financial community. The MAS will need to revise its regulations, in line with the Revised FATF 40 Recommendations, to proscribe banks from entering into correspondent relationships with prohibited shell banks.

As a matter of policy, Singapore strongly opposes money laundering and terrorist financing. The Corruption, Drug Trafficking, and other Serious Crimes (Confiscation of Benefits) Act of 1999 (CDSA) criminalizes the laundering of proceeds from narcotics and over 180 other serious offenses, including foreign offenses which would be serious offenses if they had been committed in Singapore. The list of offenses may need to be revised to ensure consistency with the expanded list of predicate crimes under Recommendation 1 of the FATF's Revised Forty Recommendations in adopted in June,

2003. 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, 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 first 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 Singapore enforcement agencies on money laundering cases. These Notices are regulatory in nature and are enforceable by prosecution. Similar guidelines exist for securities dealers and other financial service providers. 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.

In November 2002, the MAS revised its Notices to banks to enhance customer identification and record keeping requirements. The requirements to obtain satisfactory evidence of the identity of intermediary and/or beneficial owners apply to all accounts, including trust, nominee and fiduciary accounts. Additional identification requirements also apply to account applicants that are shell companies, clubs, societies or charities. The MAS recognizes that the Notices to banks will have to be further adapted to reflect the revised FATF Forty Recommendations adopted in June 2003.

The Suspicious Transaction Reporting Office (STRO) is Singapore's financial intelligence unit (FIU). Part of the Singapore Police Force's Commercial Affairs Department, it began operating on January 10, 2000. In the first ten months of 2003, the STRO received 1372 suspicious transaction reports (STRs), up from 1118 reports in 2002 and 549 reports in 2001. Of the reports received, 334 resulted in investigations in the first ten months of 2003, as compared to 436 resultant investigations during the whole of 2002, and just 264 resultant investigations during the whole of 2001.

As a leading financial center in Southeast Asia, Singapore has been a key player in the regional effort to stop terrorist financing in Southeast Asia. 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. In January 2003, the Singapore Government released a white paper describing its investigations into the Jemaah Islamiyah (JI) terrorist network. The government is known to have detained five persons in 2003 as suspected terrorists; one of these was later released with restrictions placed on his associations and movements

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—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 regulations include a list of terrorists that is based on the UNSCR 1267 consolidated list. Singapore updates the regulations periodically to include additional names added by the UNSCR 1267 Committee. The most recent update is S 606/2003, the MAS (Anti-Terrorism Measures) Regulations 2003, dated December 22, 2003.

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 issues revised circulars updating the freeze order after new names were added to the UNSCR 1267 consolidated list, although the process is not always 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. In 2002 the regulations were strengthened. The firms now have to submit a financial statement every three months, and report the largest amount transmitted on a single day. Firms must also answer questions about the way they conduct business and about their overseas partners. Informal networks, such as hawalas, 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. A total of 1,564 charities were registered as of December 31, 2002. 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. A total of 37 permits were issued in 2002 for fund raising for foreign charitable purposes. 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. In 2003, Singapore ratified the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention on the Marking of Plastic Explosives. It also passed legislation in November 2003 enabling it to comply with the UN Convention on the Suppression of Unlawful Acts Against Maritime Navigation. Singapore is a member of the Financial Action Task Force (FATF), the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. In addition, as of January 2004, the IMF and the World Bank were in the final stages of conducting an assessment of Singapore's anti-money laundering and counterterrorist financing framework.

To bolster law enforcement cooperation and facilitate information exchange, Singapore enacted the Mutual Assistance in Criminal Matters Act (MACMA) in March 2000. The MACMA provides for international cooperation on any of the 182 predicate "serious offenses" listed under the CDSA of 1999. The provisions of the MACMA apply to countries that have concluded treaties, memoranda of understanding, or other agreements with Singapore. In the first ten months of 2003, the STRO received 68 requests for information exchange from overseas law enforcement bodies, compared to 69 such requests received in 2002, and 45 requests in 2001. 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 MACMA. This agreement, which entered into force in early 2001, facilitates the exchange of banking and corporate information on drug money laundering suspects and targets, including access to bank records. It also entails reciprocal honoring of seizure/forfeiture warrants. This agreement applies only to narcotics cases, and does not cover nonnarcotics-related money laundering, terrorist financing, or financial fraud.

The Terrorism (Suppression of Financing) Act provides for mutual legal assistance in cases where there is no treaty, memorandum (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, and continues to actively seek MOUs with additional FIUs. In May 2003 the Singapore Government issued a regulation pursuant to the Terrorism Act and the MACMA that will enable it to provide legal assistance to the United States and the United Kingdom in matters related to terrorism financing offenses. The U.S. and Singapore are currently discussing a possible mutual legal assistance treaty. Singapore concluded a mutual legal assistance agreement with Hong Kong in 2003.

Singapore 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 narcotics traffickers, international criminals, terrorists, terrorist organizations or their supporters do not misuse Singapore's financial system. The conclusion of broad mutual legal assistance agreements would further Singapore's ability to work internationally to address these problem. In addition, Singapore may have to amend various laws to ensure consistency with the FATF's revised forty recommendations approved in June 2003.

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 have been quite problematic for Slovak authorities. In fact, the most frequent predicate offenses for money laundering break down as follows: 57 percent fraud, 21 percent tax evasion, and 5 percent embezzlement.

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. In January 2001, nonbank financial institutions (casinos, post offices, brokers, stock exchanges, commodity exchanges, asset management companies, insurance companies, real estate companies, tax advisors, auditors, and credit unions), which have been particularly susceptible to laundering, became subject to suspicious transaction reporting requirements. A money laundering conviction does not require a conviction for the predicate offense, and a predicate offense does not have to occur in Slovakia to be considered as such. The failure of an obligated entity to report, as well as tipping off, are criminal offenses.

New anonymous passbook savings accounts are banned as of October 2000. In 2002, a new preventive law came into effect, and legislative amendments abolished all existing bearer passbooks. Owners of anonymous accounts had until December 31, 2003, to close them; however, the law offers a three-year noninterest-bearing grace period to collect money in the accounts before it is confiscated. As of January 1, 2007, bearer passbook accounts will cease to exist. The new law also extended reporting requirements to antique, art, and collectible brokers; dealers in precious metals or stones, or other high-value goods; legal advisors; consultants; securities dealers; foundations; financial managers and consultants; and accounting services. “Obligated persons” are required to identify all customers, including legal entities, if they find that the customers prepared or conducted transactions deemed as suspicious or involving a sum, or related sums exceeding 15,000 euros within a 12-month period. Insurance sellers must identify all clients whose premium exceeds 1,000 euros in a year or whose one-time premium exceeds 2,500 euros. Casinos are obligated to identify all customers. Transactions may be delayed by the entities up to 48 hours, with another 24-hour extension allowed if authorized by the Financial Police. If the suspicion is unfounded, the state assumes the burden of compensation for losses stemming from the delay.

In late 2003, the Slovak cabinet approved a law on measures against entities which acquired property through illegal income; the law is waiting for parliamentary approval. According to the law, an undocumented increase in property exceeding the minimum monthly wage multiplied by 200 is considered to be possibly illegal. Anyone with suspicions of illegally acquired property may report it to the police, who are then obliged to investigate the allegations, ultimately reporting it to the Office of the Attorney General if findings are conclusive.

As recommended in its second-round MONEYVAL evaluation in 2001, the Government of Slovakia (GOS) has replaced basic legislation, and Slovakian legislation is now in full harmony with the Second European Union (EU) Directive. The FATF’s 2002-3 Annual Report stated that the amended legislation provided a “basically sound preventive legal structure.” New and improved customer identification procedures were to be presented to Parliament no later than the end of 2003, and throughout 2003 the banking sector was being evaluated for compliance with laws and regulations. In a controversial move, “suspicious transactions” has been amended to read “unusual business activity.”

Slovakia’s financial intelligence unit (FIU), the OFiS of the Bureau of Financial Police (OFiS-UFP), has jurisdictional responsibilities over money laundering violations. Established in 1996, the OFiS-UFP receives and evaluates suspicious transaction reports (STRs), 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. In 2002, OFiS-UFP received 570 reports alleging unusual transactions totaling SKK 24.1 billion (\$719 million). Over 90 percent (517) of the reports came from banks, 44 from insurance companies, five from the central securities registrar, three from betting houses and one from the post office. Out of the total package, 157 reports were submitted to the OFiS-UFP for further inspection, 93 to police investigators for the purpose of criminal proceeding, 50 to the appropriate tax office and 158 were re-classified as "suspicious business operation." Criminal prosecutions have been proposed in 69 cases; of these, 46 have already been launched. During the first six months of 2003, OFiS-UFP received 213 financial disclosure reports, 90 percent of which came from the banking sector. (The GOS attributes a low level of reporting from some sectors to lack of supervision.) Of these, twelve were passed on for further investigation. Approximately seven percent of those reports led to criminal prosecutions. In 2002, the OFiS-UFP conducted 25 on-site inspections of obliged entities as follows: six insurance companies, 11 leasing companies, four foreign exchange houses, two securities brokers and two real-estate brokerages. According to available information, 17 inspections have been completed without penalties, three are yet unfinished and in five cases inspectors levied fines (cumulatively amounting to SKK 700,000, or \$20,895).

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 fora related to combating money laundering. The year 2003 saw no major changes to the FIU, which is still seeking to increase its administrative capacity. However, the newly created Bureau for the Fight Against Corruption has siphoned some staff from the FIU.

The GOS 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 were fully incorporated in March 2003. All competent authorities in the Slovak Republic have full power to freeze or confiscate terrorist assets in accordance with UNSCR 1373. The GOS agreed to freeze all accounts owned by entities on the UN or U.S. lists immediately. No terrorism finance related accounts have been frozen or seized in Slovakia, but were a terrorism-related account to be identified, the Financial Police would hold any related financial transaction for up to 48 hours, and then gather evidence to freeze the account and seize any assets.

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 in December 2003 it signed the UN Convention Against Corruption and ratified the UN Convention against Transnational Organized Crime. 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). Slovakia sends experts to conduct mutual evaluations on fellow member countries; it also underwent mutual evaluations by this group in 1998 and 2001.

The OFiS-UFP is a member of the Egmont Group. Slovakia has MOUs with the FIUs 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 regime. 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 improve supervision of some nonbank sectors to ensure reporting requirements are followed. Slovakia should provide adequate resources to assure its FIU, law enforcement and prosecutorial agencies are adequately funded and trained to effectively perform their various responsibilities. Slovakia should criminalize terrorist financing.

Slovenia

While not a major money laundering country, Slovenia's economic stability and location on the Balkan drug route offer attractive opportunities for money laundering. Narcotics trafficking, especially heroin via the "Balkan route" smuggled by mainly Albanian and Serbian nationals, is a growing problem and 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 nonresident accounts, and occurs through the banking system, foreign exchange houses, real estate transactions, and cross-border currency transport.

Slovenia's Law on the Prevention of Money Laundering was enacted in 1994 and amended in 2001. The law criminalizes money laundering and requires all financial institutions, casinos, and legal and natural persons to report suspicious transactions and currency transactions above 5 million Slovenian tolar (approximately \$24,000.) Records must be retained for a minimum of five years. Financial supervisory bodies include the Bank of Slovenia, the Securities Market Agency, the Insurance Supervisory Agency, and the Office for Gaming Supervision. The Bank of Slovenia has supervisory power over bureaux de change, and in February 2003 issued a handbook for those bodies complete with reporting requirements, auditing procedures, and indicators.

Slovenia's financial intelligence unit, the Office for Money Laundering Prevention (OMLP), was established in 1995 and has a staff of 17. It is a member of the Egmont Group. In 2002, OMLP received 92 cases of suspected money laundering and temporarily seized nearly 310 million tolar. In its eight years of operations, OMLP has received 831 suspicious cases and closed 732. Foreign nationals were involved in nearly half of the cases. A special financial crime division was established within the general police directorate in 2000. This unit is in charge of conducting preliminary investigations into money laundering cases and other economic crimes. However, the backlog of cases has become problematic in that about half of all cases fell outside of the statute of limitations before they could be tried. Of the procedures that made it to court in time, 90 percent ended in conviction. Law enforcement authorities, prosecutors, and judges all suffer from a lack of training and experience with regard to pursuing financial crime. Despite this, though, four money laundering cases were brought to fruition by July 2003. Of the four, one was acquitted, and the three convictions are currently on appeal. In two of these cases assets were confiscated.

In October 2001, the Slovenian Parliament passed an anti-money laundering law that updates 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 tolar (approximately \$14,400). December 2001 saw the passage of a new law that increases the power of supervisory authorities to prohibit the establishment of new bearer passbook accounts, as well as phases out already existing bearer passbook accounts. Further amendments to the law, which extend reporting obligations to lawyers, law firms, notaries, auctioneers, art dealers, gaming houses, and lottery

concessions, were passed and entered into force in July 2002. Additional identification requirements were also implemented, most notably beneficial owner identification in every case.

The 2002 amendments also gave OMLP more power and latitude in opening cases and sharing information. The amount of time during which transactions could be held was increased from 48 to 72 hours, and record keeping was extended from five to ten years. Another new change is the penal requirement of five years' imprisonment for money laundering. Negligent money laundering is criminalized, but there has never been a conviction for that. Slovenian legislation is now harmonized with the provisions outlined in the Second EU Directive.

Additional legislation was proposed in 2003. Laws concerning foreign currency exchange and banking were at the Parliament level; these laws would make changes to requirements for exchange offices and supervision. In addition, Parliament also received a draft Law on Criminal Procedure. In mid-2003, OMLP drafted a law on asset sharing in conjunction with the Ministries of Justice and Interior.

The 1902 extradition treaty between the U.S. and the Kingdom of Serbia remains in force between the U.S. and Slovenia. Slovenia is actively involved in regional efforts to combat money laundering and terrorism financing, working overall throughout the Balkans and Eastern Europe, especially with Serbia, Montenegro, Ukraine, and Russia. As a EU accession country slated to join in May 2004, Slovenia has been working to expand cooperation. It has run a regional counternarcotics conference with Croatian counterparts, and hosted a regional anti-money laundering conference for eight of its Balkan neighbors.

Slovenia is a member of the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) and has undergone a mutual evaluation by the Committee, as well as lending its own experts to evaluate other member countries. Slovenia also actively participates in other programs combating money laundering and terrorism financing run through the EU, the Council of Europe, Interpol and the United Nations. Slovenia is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, and ratified the Civil Law Convention on Corruption in July 2003. Slovenia is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. In July 2003 Slovenia signed the European Convention on the Suppression of Terrorism.

Slovenia should pass specific antiterrorist financing legislation and should continue to work with its law enforcement and judicial authorities to increase the levels of action and experience in pursuing financial crime.

Solomon Islands

The Solomon Islands is not a regional financial center. The Islands' banking system is small. The country has not criminalized money laundering. According to a report by the Solomon Islands to the UN Counter Terrorism Committee, in 2003 the Solomon Islands introduced a draft Bill on Money Laundering. The draft Bill provides a mechanism that prevents the movement of funds for terrorist purposes and enhances the exchange of financial intelligence with other countries.

The Solomon Islands is not a party to the 1988 UN Drug Convention.

The Solomon Islands should pass anti-money laundering and counter terrorism financing legislation that conforms to international standards. The Solomon Islands should become a party to 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, its relatively sophisticated banking and financial sector, and its large cash-based market, all make it a very attractive target for transnational and domestic crime syndicates. Nigerian, Pakistani, and Indian drug traffickers, Chinese Triads, and Russian Mafia have all been identified as operating in South Africa along with native South African criminal groups. Although the links between different types of crime have been observed throughout the region, money laundering is primarily related to narcotics trade. The other dominating types of crimes related to money laundering are: fraud, theft, corruption, currency speculation, illicit dealings in precious metals and diamonds, human trafficking, and smuggling. South Africa is not an offshore financial center.

The Proceeds of Crime Act, No. 76 of 1996, criminalizes money laundering for all serious crimes. This Act was superseded by the Prevention of Organized Crime Act (No. 121 of 1998), which confirmed the criminal character of money laundering, mandated the reporting of suspicious transactions, and provided a "safe harbor" for good faith compliance. Violation of this Act, carries a fine of up to R 100 million or imprisonment for up to 30 years. Subsequent regulations direct that the reports be sent to the Commercial Crime Unit of the South African Police Service. Both of these Acts contain criminal and civil forfeiture provisions.

In November 2001 President Mbeki signed the Financial Intelligence Centre Act (FICA) into law. The FICA established both the Financial Intelligence Centre (FIC) and the Money Laundering Advisory Council to advise the Minister of Finance on policies and measures to combat money laundering. The mandate of the Financial Intelligence Center (FIC) is to coordinate policy and efforts to counter money laundering activities. The FIC similarly acts as a centralized repository of information and statistics on money laundering. The FICA requires a wide range of financial institutions and businesses to identify customers, maintain records of transactions for at least five years, appoint compliance officers to train employees to comply with the law, and report transactions of a suspicious or unusual nature. Such businesses 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. 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. If there is suspicion of terrorist financing, that information is to be forwarded to the National Intelligence Service. The FIC began operating in February 2003. In July 2003 the FIC was admitted as a member of the Egmont Group of financial intelligence units.

Because of the cash-driven nature of the South African economy, alternative remittance systems that bypass the formal financial sector exist. Currently, there is no legal obligation requiring alternative remittance systems to report cash transactions.

The House of Assembly passed a bill proposed by the South African Law Commission in 2001, criminalizing specifically the financing of terrorism, on November 21, 2003, under the title "The Constitutional Democracy Against Terrorism and Related Activities Act of 2004." According to this act, any person who engages in a terrorist activity is guilty of the offense of terrorism. There is a special provision criminalizing the financing of terrorism. This act will complement and amend the FICA of 2001. The FIC will combat terrorist financing as well as money laundering, based on this new act. The Act also calls for the jurisdiction's authority to identify, freeze and seize money laundering related assets.

As of December 2003, 30 money laundering cases are under investigation and only a very few actual cases have been prosecuted for money laundering or terrorist financing.

In June 2003, South Africa became the first African nation to be admitted into the Financial Action Task Force thus strengthening its money laundering control capacity. South Africa is also an active

member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) having signed the memorandum of understanding in 2003.

The GOSA is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. South Africa has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

In 2003, South Africa improved and strengthened its anti-money laundering regime and its overall legal capacity to combat money laundering in all its forms, and has made new efforts to prosecute a number of money launderers.

Spain

Money laundered in Spain is primarily from the proceeds of the Colombian cocaine trade, although money laundered through other Latin American countries also plays a role. Hashish proceeds from Morocco enter Spain as well as some heroin money from Turkish smugglers. There is also some concern about the black market smuggling of goods to avoid taxation, especially tobacco and electronics from Gibraltar. The majority of laundered money enters as bulk cash via individuals carrying cash in their luggage or hidden on their bodies when arriving at international airports; containers loaded with currency entering the larger ports (such as Algeciras); and money smuggled by small craft along the coastline. Money also enters and leaves Spain through the commercial banking system and informal nonbank outlets (such as “Locutorios”), which make small international transfers for the immigrant community. Although little of the money laundered in Spain is believed to be used for terrorist financing, money from the extortion of businesses in the Basque region is moved through the financial system and used to finance the Basque group ETA. Spain is aware of the problem; however the money is difficult to track.

The Government of Spain (GOS) remains committed to combating narcotics trafficking, terrorism, and financial crimes, and continues to work hard to tighten financial controls. The criminalization of money laundering was added to the penal code in 1988 when laundering the proceeds from narcotics trafficking was made a criminal offense. In 1995 the law was expanded to cover all serious crimes that required a prison sentence greater than three years. All forms of money laundering were made financial crimes in amendments to the code on November 25, 2003, which will take effect on October 1, 2004.

The penal code can also apply to individuals in financial firms if their institutions have been used for financial crimes. An amendment to the penal code in 1991 made such persons culpable for both fraudulent acts and negligence connected with money laundering.

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.

Royal Decree 998/2003 of July 5, 2003 modified the structure of the Ministry of Interior to facilitate more active combating of drug trafficking. This law creates an Advisory Committee on Observation that will attempt to follow the use of technologies by criminal organizations and money launderers and take measures to ensure that Spanish law enforcement authorities are able to meet the new challenges.

Specific measures to prevent money laundering were written to regulate the legal entities in the financial sector and individuals moving large sums of cash, in December 1993 (Law No. 19/1993), as

an expansion to the criminal code which previously applied only to physical persons. The regulations for enactment were established by Royal Decree 925/1995, which set the standards for regulation of the financial system. The regulations were amended in 2003 and 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 money laundering law applies to most entities active in the financial system, including banks, mutual savings associations, credit companies, insurance companies, financial advisers, brokerage and securities firms, postal services, currency exchange outlets, casinos, and individuals and unofficial financial institutions exchanging or transmitting money (alternative remittance systems). The 2003 amendments add lawyers and notaries as covered entities. Previously, notaries and lawyers were required to report suspicious cases, but now they are considered part of the financial system that is under the supervision of appropriate regulators.

Law 19/2003 obligates financial institutions to make monthly reports on large transactions. Banks are required to report all international transfers greater than 30,000 euros. The law also requires the declaration and reporting of internal transfers of funds greater than 80,500 euros.

In addition to suspicious transactions, individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000 euros. Previously, the Spanish authorities could only keep 12 percent if they uncovered illegal activity, but had to return the remainder with a Bank of Spain check, which effectively laundered the money. Law 19/2003 increases the seizure to 100 percent if illegal activity under financial crimes ordinances can be proven. Spanish authorities claim they have seen a drop in cash carriers since the enactment in July 2003. For cases where the money can not be connected to criminal activity, but it also has not been declared, the authorities may keep between 25 and 100 percent, depending on the amount of the currency being carried.

The Commission for the Prevention of Money Laundering and Financial Crimes (CPBC) coordinates the fight against money laundering in Spain. The Secretary of State for Economy heads the commission and all of the agencies involved in the prevention of money laundering participate. The representatives include the National Drug Plan Office, the Ministry of Economy, the Federal Prosecutors (Fiscalia), Customs, the Spanish National Police, the Guardia Civil, CNMV (equivalent to the SEC), the Treasury, the Bank of Spain, and the Director General of Insurance and Pension Funds. Any member of the Commission may request an investigation, should suspicious activity be brought to his or her attention.

The CPBC delegates responsibility to two additional organizations. The first is a secretariat in the Treasury, located in the Ministry of Economy. Following investigation and a guilty verdict by a court, this regulating body carries out penalties. Sanctions can include closure, fines, account freezes, or seizures of assets. Changes in Law 19/2003 now allow seizures of assets of third parties in criminal transactions, and a seizure of real estate in an amount equivalent to the illegal profit. One weakness that remains in financial sanctions is that the joint owner may access joint accounts if he or she can show financial need.

The second organization is the Executive Service of the Commission for the Prevention of Money Laundering (SEPBLAC), which serves as Spain's financial intelligence unit. SEPBLAC receives and analyzes suspicious activity reports (SARs) and currency transaction reports. SEPBLAC has the primary responsibility for any investigation in money laundering cases and directly supervises the anti-money laundering procedures of banks and financial institutions. Incriminating information is turned over to the Federal Prosecutors for prosecution. Spanish banks are required by law to maintain fiscal information for five years and mercantile records for six years.

The Fund of Seized Goods of Narcotics Traffickers receives seized assets. This agency was established under the National Drug Plan. The proceeds from the funds are divided, with half going to

drug treatment programs and half to a foundation that supports the officers fighting narcotics trafficking.

Terrorist financing issues are governed by a separate code of law and commission, the Commission of Vigilance of Terrorist Finance Activities (CVAFT). This commission was created under Law 12/2003 on the Prevention and Blocking of the Financing of Terrorism. The commission is headed by the Ministry of Interior and includes representatives from the Fiscalia and Ministries of Justice and Economy. Currently, only the head of CVAFT can request information in terrorist financing cases, so other members must rely on the commission head to begin an investigation.

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. The Spanish are more active in freezing terrorist accounts, than drug money laundering accounts. Their ability to freeze accounts in the most recent law is more aggressive than that of most of their European counterparts. Though many laws are transposed from EU directives, Law 12/2003 goes beyond EU requirements.

All legal charities are placed on a register maintained by the Ministry of Justice. Responsibility for policing registered charities lies with the Ministry of Public Administration. If the charity fails to comply with the requirements, sanctions or other criminal charges may be levied.

Spain is a member of the FATF, and co-chairs the FATF terrorist finance working group. Spain is 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). Spain is a major provider of counterterrorism assistance. The GOS ratified the UN Convention against Transnational Organized Crime 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.

The GOS 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. In 2003, U.S. law enforcement authorities cooperated with the GOS in an investigation that resulted in the seizure of over \$10 million in cash, jewelry, planes, and real estate.

Seizures of assets involving more than one country and the division of the assets depend on the relationship with the third country. EU working groups will determine how to divide the proceeds for member countries. Outside of the EU, bilateral commissions are formed with countries that are members of FATF, FATF-like bodies and the Egmont Group, to deal with the division of seized assets. With other countries, negotiations are conducted on an ad hoc basis.

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. Money laundering currently is not a criminal offense. There are strict bank secrecy laws, under which

the Government of Sri Lanka is required to obtain a court order to obtain banking information of bank customers. In a bid to tackle money laundering and terrorist financing in the absence of a specific legal framework, in December 2001, the Central Bank introduced regulations on customer due diligence. These regulations apply to commercial banks and licensed specialized banks coming under the Central Bank. The Government is in the process of finalizing draft legislation to deal with money laundering. It is believed there will be three separate laws: 1. A financial transaction reporting law modeled on those in the Commonwealth; 2. A law on countering terrorist financing based on UN and FATF models; and 3. A law to criminalize proceeds from crimes. Currently, financial transactions relating to terrorism and narcotics are illegal under Central Bank regulations and banking laws.

Many areas of concern exist in Sri Lanka's anti-money laundering efforts. The Central Bank continues to allow the operation of bearer certificates of deposits. In July 2003, in order to check money laundering through bearer certificates, the Central Bank required banks to maintain a record of people purchasing these certificates. The Government offered a tax amnesty to Sri Lankans in 2003. Under the amnesty, individuals and companies could declare previously undisclosed wealth accrued from any source. The amnesty granted immunity from taxes and investigations. The amnesty was aimed at widening the tax base. Casinos are another area of concern as there is no law to regulate their operations. Sri Lanka has also become a transit point for illegal migration of Sri Lankans and other Asian nationals to Europe and the Gulf.

There is an indigenous alternative remittance system in the form of informal money transfer systems. Sri Lankan migrant workers, mainly in the Middle East, use a hawala-like system to remit their earnings. Various payments out of Sri Lanka also use this system. Sri Lankan commercial banks are increasing their presence and services in the Middle East in order to cater to this clientele.

Sri Lanka is not considered an offshore financial center. Offshore banking units are allowed to operate as a part of a commercial bank operating in the country in order to facilitate trade finance. They are subject to Central Bank supervision. Bearer shares are not permitted for banks and companies.

Regulations under the United Nations Act No. 45 of 1968 provide for freezing and forfeiture of assets of financiers of terrorism. There is no specific provision in law to freeze and forfeit narcotics related assets. 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 new money laundering legislation are expected to include asset forfeiture and seizure provisions for narcotics related crimes and money laundering.

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. Sri Lanka has signed but not ratified the UN Convention against Transnational Organized Crime.

Sri Lanka should initiate a comprehensive anti-money laundering program that has as its foundation anti-money laundering and antiterrorist financing laws. The proceeds of all crime should be included as predicate offenses for money laundering. The practice of bearer certificates of deposit should be terminated. There should be a formalized system of reporting suspicious transactions from financial institutions to a Financial Intelligence Unit (FIU). Casinos should also be made subject to financial intelligence reporting to the FIU. Sri Lanka should devote adequate resources to train police and customs officials to recognize and investigate different forms of money laundering, including alternative remittance systems.

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. An inadequately regulated economic citizenship program adds to the problem.

Most of the offshore financial activity in the federation is concentrated in Nevis in which there is one offshore bank (a wholly owned subsidiary of a domestic bank), approximately 13,800 international business companies (IBCs), and 950 trusts. The Nevis domestic structure consists of five domestic banks, four domestic insurance companies (all of which are subsidiaries of St. Kitts companies), and one money remitter. There are also 65 trust and company service providers. In St. Kitts, there are four domestic banks, two credit unions, four domestic insurance companies, two money remitters, and 15 company service providers. There are also four 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 are two casinos in St. Kitts, and three casino licenses are pending. Applicants may apply as an IBC for an Internet gaming license, but none have been issued, despite the fact the Internet Gaming Commission indicates that St. Kitts and Nevis (SKN) has 42 Internet gaming sites.

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 St. Kitts and Nevis (SKN), and for making recommendations regarding approval of offshore bank licenses. The St. Kitts and Nevis Financial Services Commission, with regulators on both islands, regulates nonbank financial institutions for anti-money laundering compliance.

In June 2000, the Financial Action Task Force (FATF) placed St. Kitts and Nevis on the list of noncooperative countries and territories in the fight against money laundering (NCCT). The FATF in its report cited several concerns surrounding the anti-money laundering regime of SKN. 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, the FATF, with certain ongoing 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 June 2003, the FATF stated that the GOSKN had adequately addressed all of its previously identified deficiencies and would no longer require monitoring by the FATF.

The Financial Intelligence Unit Act No. 15 of 2000 authorizes the creation of the Financial Intelligence Unit (FIU). The FIU began operations in 2001 and has a director, deputy director, and four police officers. The FIU receives, collects, and investigate suspicious activity reports (SARs). The FIU is also charged with liaising with foreign jurisdictions. By November 2003, the FIU had received 77 SARs. During its first two years of operation the FIU received over 100 SARs and froze over \$1.6 million. The Proceeds of Crime Act No. 16 of 2000 criminalizes money laundering for serious offenses (defined to include more than drug offenses) and imposes penalties ranging from imprisonment to monetary fines. The Act also overrides secrecy provisions that may have constituted obstacles to the access of administrative and judicial authorities to information with respect to account holders or beneficial owners. Other measures designed to remedy shortcomings in SKN's anti-money laundering regime include the Financial Services Commission Act No. 17 of 2000, the 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 SKN 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. In 2003, the Nevis island administration announced plans to strengthen regulatory oversight of service providers.

St. Kitts and Nevis enacted the Anti-Terrorism Act No. 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 nonprofit entities. St. Kitts and Nevis circulates lists of terrorists and terrorist entities to all financial institutions. To date, no accounts associated with terrorists or terrorist entities have been found in SKN.

St. Kitts and Nevis is a member of the Caribbean Financial Action Task Force (CFATF) and the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). 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. 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, SKN remains vulnerable to money laundering and other financial crimes. St. Kitts and Nevis should continue to devote sufficient resources to effectively implement its anti-money laundering regime. Specifically, the GOSKN also needs to determine the volume of Internet gaming sites present on the islands. Oversight of these entities is crucial as they are vulnerable to abuse by criminal and terrorist groups. Additionally, the GOSKN should adequately oversee, or should curtail its economic citizenship program.

St. Lucia

St. Lucia has developed an offshore financial service center that could potentially make the island more vulnerable to money laundering and other financial crimes. The Government of St. Lucia (GOSL) also is considering the establishment of gaming enterprises.

Money Laundering and Financial Crimes

Currently, St. Lucia has two offshore banks, 1,052 international business companies, 20 international trusts, 12 international insurance companies, 15 registered agents and trustees (service providers), two money remitters, two mutual fund administrators and four domestic banks. The GOSL has been cooperative with the USG in financial crime investigations.

The 1993 Proceeds of Crime Act criminalizes money laundering with respect to narcotics. The Proceeds of Crime Act also provides 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 requires financial institutions to retain information on new accounts and details of transactions for seven years.

Many of the 1993 Proceeds of Crime Act provisions are superseded by the 1999 Money Laundering (Prevention) Act, which criminalizes 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 Money Laundering (Prevention) 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 orders, 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 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 IBC’s 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 Financial Intelligence Authority Act No. 17 of 2002 authorizes the establishment of a Financial Intelligence Unit (FIU) for St. Lucia, which became operational in October 2003. Some of the functions of the Money Laundering (Prevention) Authority have been transferred to the new Financial

Intelligence Unit (FIU). The FIU will receive suspicious transaction 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.

In September 2003, legislation was adopted merging the Money Laundering (Prevention) Authority with the FIU. The legislation also extends anti-money laundering compliance requirements to credit unions, money remitters and pawnbrokers, as well as strengthens criminal penalties for money laundering. There have been no money laundering convictions to date in St. Lucia.

The GOSL established the Committee on Financial Services in 2001. The Committee, which meets monthly, is designed to safeguard St. Lucia's financial services sector. The Committee is composed of the Minister of Finance, the Attorney General, the Solicitor General, the Director of Public Prosecutions, the Director of Financial Services, the Registrar of Business Companies, the Commissioner of Police, the Deputy Permanent Secretary of the Ministry of Commerce, the police officer in charge of Special Branch, the Comptroller of Inland Revenue and others. The GOSL announced in 2003 its intention to form an integrated regulatory unit to supervise the onshore and offshore financial institutions the GOSL currently regulates. The Eastern Caribbean Central Bank regulates St. Lucia's domestic banking sector.

Anti-terrorism and counterterrorist financing legislation is pending before the St. Lucia Parliament. The GOSL has not signed the UN International Convention for the Suppression of the Financing of Terrorism. In 2002, St. Lucia signed the Inter-American Convention Against Terrorism, which includes counterterrorist financing provisions. St. Lucia circulates lists of terrorists and terrorist entities to all financial institutions. To date, no accounts associated with terrorists or terrorist entities have been found 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 to the establishment of its offshore sector. St. Lucia underwent its Second Round evaluation in September 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. St. Lucia has a Tax Information Exchange Agreement with the United States.

The GOSL should ratify the UN International Convention for the Suppression of the Financing of Terrorism and adopt antiterrorism financing legislation. St. Lucia should continue to enhance and implement its money laundering legislation and programs.

St. Vincent and the Grenadines

Until its government fully implements the financial sector and anti-money laundering laws it has enacted, St. Vincent and the Grenadines (SVG) will remain vulnerable to money laundering and other financial crimes, as a result of the rapid expansion and inadequate regulation of its offshore sector in recent years.

SVG's offshore sector includes ten offshore banks (down from 42 in 2000), 6,342 international business companies (IBCs) (down from over 11,000 in 2000), four offshore insurance companies, nine mutual funds, and 394 international trusts. SVG's domestic sector comprises five commercial banks,

one development bank, two savings and loans, one building society, three credit unions, and one money remitter. There are also 21 insurance companies. 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.

In June 2000, the Financial Action Task Force (FATF) placed SVG on the list of noncooperative countries and territories in the fight against money laundering (NCCT). The FATF in its report cited several concerns, including the fact that SVG had not put in place anti-money laundering regulations or guidelines with respect to offshore financial institutions. The 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. In June 2003, the FATF recognized that GOSVG had sufficiently addressed deficiencies identified by the FATF through enactment and implementation of appropriate legal reforms, and SVG was removed from the NCCT list. The FATF encouraged GOSVG to consider tightening provisions relating to the granting of exemptions from customer identification requirements. In July 2003, the U.S. Treasury Department withdrew its advisory against the GOSVG.

Since July 2000, the GOSVG 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. The GOSVG 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. The GOSVG prepared a further amended International Banks Act with a view to improving licensing procedures and better regulating the offshore banking sector.

The GOSVG enacted the International Business Companies Amendment Act No. 26 of 2002, which became effective on May 27, 2002, to immobilize and register bearer shares. The GOSVG 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. In April 2001, the GOSVG revoked its economic citizenship program, which provided the legal basis to sell SVG citizenship and passports, although no passports were reported to have been issued under the program.

SVG enacted the Proceeds of Crime and Money Laundering (Prevention) Act 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 related regulations establish mandatory record keeping rules and limited customer identification/verification requirements.

The Financial Intelligence Unit Act No. 38 of 2001 established the Financial Intelligence Unit (FIU) that began operation in May 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 became a member of the Egmont Group in June 2003. By November 2003, the FIU had received 283 suspicious activity reports.

There were no money laundering convictions, but the GOSVG has frozen approximately \$1.5 million and confiscated approximately \$40,000. SVG officials also cooperated with a U.S. investigation of a major suspected money launderer in 2002. The GOSVG in 2003 reintroduced a customs declaration form to be completed and signed by incoming travelers. Incoming travelers are required to declare currency over approximately \$3,800.

The GOSVG enacted the United Nations Terrorism Measures Act No. 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. The GOSVG has not undertaken any specific initiatives focused on the misuse of charitable and nonprofit entities. The GOSVG circulates lists of terrorists and terrorist entities to all financial institutions in St. Vincent and the Grenadines. To date, no accounts associated with terrorists have been found in SVG.

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 (OAS/CICAD). SVG is a party to the 1988 UN Drug Convention and acceded to the Inter-American Convention Against Corruption in 2001. SVG signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. 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 all remaining concerns raised by the international community concerning its anti-money laundering regime, including in the areas of customer identification, physical presence, money remitters, outstanding bearer shares and money laundering prosecutions. The GOSVG should continue to provide training to its regulatory, law enforcement and FIU personnel on money laundering operations and investigations and strengthen the FIU's relationship with its foreign counterparts. The GOSVG also should ensure that it properly supervises the offshore sector.

Suriname

Suriname is not a regional financial center. Narcotics-related money laundering occurs primarily through unregulated private sector activities, specifically casinos, gold mining and car dealerships. Narcotics-related money laundering is closely linked to transnational criminal activity related to the transshipment of Colombian cocaine and is believed to occur through both the nonbanking financial system (i.e., money exchange businesses or *cambios*) and through a variety of other means including, but not limited to, the sale of gold purchased with illicit money and the manipulation of commercial and state controlled bank accounts. The money laundering proceeds are believed to be controlled by both local drug-trafficking organizations and organized crime.

Suriname's overall anti-money laundering regime remains weak. The Government of Suriname (GOS) is attempting to implement a package of anti-money laundering legislation passed in 2002 based on recommendations made by the Caribbean Financial Action Task Force (CFATF). This legislation addresses multiple issues including (a) criminalizing money laundering, (b) establishing a financial intelligence unit (FIU) to track and report on unusual and suspicious financial transactions, and (c) requiring financial service providers to store information on clients for seven years and to confirm the identities of clients, individual or corporate, before completing requested financial services. 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 law, "Reporting of Unusual Transactions" was enacted in September 2002 and entered into force in March 2003. This law requires financial institutions, other intermediaries and natural legal persons who conduct financial services to report suspicious financial transactions to the FIU. In addition, there is an amendment to the criminal code allowing authorities to confiscate illegally obtained proceeds and assets obtained partly or completely through criminal offenses.

The Central Bank issued guidelines for the prevention of money laundering in 1996 that contain a definition of a suspicious transaction as any transaction that deviates from the usual account and customer activities and that are not "normal" daily banking business. These guidelines are not mandatory.

The FIU opened an office in early 2003 and is receiving extensive training. The FIU, which falls under the auspices of the Attorney General's office, is tasked with identifying, recording and reporting the identity of customers engaging in suspicious financial transactions. After an initial rough start, the head of the FIU resigned effective January 2004 after less than six months in office. No replacement has been announced.

Suriname's financial regime will be challenged in early 2004 by a planned currency change which will drop three zeros from the currency and change the name from the Surinamese Guilder to the Surinamese Dollar. Oversight of this transition will provide a significant test for the newly established FIU to prevent money launderers from exploiting the change in currency. The Central Bank, however, has anticipated this problem and will require that suspicious transactions be reported/investigated. Any currency conversions after an initial three-month grace period must be converted at the Central Bank with an explanation of why the currency was not converted earlier.

The GOS has not criminalized terrorist financing, however, GOS officials are working with the Caribbean Anti-Money Laundering Program to draft legislation requiring transparency in the financial sector that would contain specific provisions for terrorist financing.

The GOS has an agreement with the Netherlands on extradition and legal assistance with regard to criminal matters. Suriname also has bilateral treaties and cooperation agreements with the United States, on narcotics trafficking, and with Colombia, France and Netherlands Antilles on transnational organized crime. 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 (OAS/CICAD). Suriname is party to the 1988 UN Drug Convention and signed the Inter American Convention against Terrorism in June 2002.

Suriname should continue its efforts to fully implement its anti-money laundering legislation, particularly the establishment of the FIU, and train its personnel. The GOS should criminalize terrorist financing and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

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. It also requires banks to retain records for five years to improve the ability to trace suspicious transactions and patterns. The penalty for money laundering is six years imprisonment, a fine amounting to roughly \$3,500, or both. The Act also allows for providing assistance to foreign countries that have entered into mutual assistance treaties with the Government of Swaziland.

As of December 2003, the Central Bank received fewer than 10 reports of suspicious transactions. The police bear responsibility for investigating such cases, but no investigations have taken place. The police would also be responsible for seizing any assets related to money laundering, but no seizures have taken place under the Money Laundering Act of 2001. To assist the banking community with tracking suspicious transactions, the Central Bank distributed anti-money laundering guidelines to all banks in late 2002.

Swaziland is party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Swaziland has signed, but not yet ratified, the UN International Convention against Transnational Organized Crime. Swaziland is also a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. In August 2002, Swaziland hosted the ESAAMLG plenary and Council of Ministers meeting. Swaziland served as President of ESAAMLG from August 2002 to August 2003.

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 obligates banks, credit market companies, securities businesses, exchange offices, remittance dealers, insurance brokers, life insurance companies and casinos to report suspicious activity to the police financial intelligence unit (FIU). The law also 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 does not allow individual officers of obligated institutions to be penalized for noncompliance; however, the Swedish Supervisory Authority has the ability to sanction noncompliant institutions. 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.

Sweden's FIU received 4,155 suspicious transaction reports in 2001, a 60 percent increase from 2000 due to the implementation of the European Union's Anti-Money Laundering Directive through Swedish law, which required bureaux de change to report suspicious activity. In 2002, the FIU received 8,008 suspicious transaction reports, and 10,000 reports in 2003.

Sweden ratified the International Convention for the Suppression of the Financing of Terrorism on June 6th 2002, and on July 1st 2002, a new act on penalties for financing serious crimes entered into force. According to the act, it is punishable to collect, provide or receive money or other funds with the intention that they should be used, or in the knowledge that they are to be used, in order to commit serious crimes that are classified as terrorism in international conventions. Attempts to commit such crimes are also punishable. Banks and financial institutions are obliged to observe and report to the police transactions that are suspected to comprise funds that will be used to finance serious crimes.

Freezing of assets based on UN Security Council Resolutions is carried out by implementation of EC law.

Sweden is in the process of implementing the second EU Directive on Money Laundering, which expands the reporting requirements to occupational groups such as lawyers, accountants, real estate agents, tax-advisers, and dealers in high value items. The proposal is out for public review, and the new law will come into effect by January 1, 2005.

Sweden has endorsed the 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. It is also a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

Sweden should continue to expand its anti-money laundering-antiterrorist financing regime. Sweden should adopt reporting requirements for the cross-border transportation of currency or monetary instruments. Sweden should ensure legislation is enacted to extend suspicious transaction reporting requirements to intermediaries, such as attorneys, accountants and financial advisors.

Switzerland

Switzerland is a major international financial center, with some 370 banks maintaining headquarters there. In addition, approximately 12,000 to 15,000 fiduciaries function as nonbank financial institutions. Narcotics-related money laundering proceeds are largely controlled by foreign drug-trafficking organizations. Authorities suspect that Switzerland is vulnerable at the layering and integration stages. Switzerland's central geographic location; relative political, social, and monetary stability; wide range and sophistication 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 are sensitive to the size of the Swiss private banking industry relative to the size of the economy, and waive bank secrecy rules in the prosecution of money laundering and other criminal cases. An estimated \$2.9 trillion is represented by deposits in Swiss institutions, with foreigners accounting for over half of the input into the financial system; this amount is 12 times the GDP of the country.

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.

Switzerland ranks fifth in the highly profitable art work trading market, and exported \$877 million worth of art work worldwide in 2003. Generating about \$200 billion a year in turnover, the market offers lucrative opportunities for organized crime to transfer stolen art or to use art to launder criminal funds. The U.S. is by far Switzerland's most important trading partner, and purchased \$442 million of "Swiss" works of art in 2003. The Swiss art market is especially attractive for unethical transactions, since art works, which may have been smuggled into Switzerland, can legally be re-exported as genuine Swiss art work after five years. Swiss officials, concerned about the possible abuse of the Swiss art dealer market, drafted new legislative changes to enlarge the scope of existing anti-money laundering legislation to include art dealers. Additionally, on June 17, 2003, the parliament adopted a

bill on the transfer of cultural goods, which regulates the return of looted cultural objects. The new legislation, which is expected to come into force by mid-2004, extends the timeframe from the current five years to meet the UN International Standards of 30 years as defined in the 1970 UNESCO Convention. It also will enable police forces to search bonded warehouses and art galleries.

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 nonbank financial institutions. Consequently, all nonbank 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 nonbanking sector. The SROs must be independent of the management of the intermediaries they supervise and must enforce compliance with due diligence obligations. Noncompliance can result in a fine or a revoked license. About 7,000 fiduciaries operate in this previously unregulated arena. The MLCA is not afraid to take action against financial intermediaries: 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. Reporting regulations on international money transactions, applicable to money transmitters in particular, have recently been tightened as well.

In January 2002, the Government Efficiency Bill took effect. Under this bill, the Chief Public Prosecutor became vested with the power to prosecute crimes provided by Article 340bis of the Swiss Penal Code; money laundering falls under these provisions. Formerly, the individual cantons were charged with investigating money laundering offenses on their own. Additional legislation, effective January 1, 2002, increased the effectiveness of the prosecution of organized crime, money laundering, corruption, and other white-collar crime, 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.

In December 2002, the new money laundering ordinances of the Swiss Federal Banking Commission were adopted; these became effective on July 1, 2003. These new regulations, aimed at the banking and securities industries, codify a risk-based approach to suspicious transaction and client identification, and install a global Know Your Customer (KYC) risk management program for all banks, including those with branches and subsidiaries abroad. In the case of higher-risk business relationships, additional investigation by the financial intermediary is required. The changes also require increased due diligence in the cases of politically exposed persons by ensuring that decisions to commence relationships with such persons be undertaken by the senior executive body of a firm. 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.

The new ordinances also present new rules against terrorism financing, stating that instruments currently used to prevent money laundering are also applicable to the prevention of terrorism financing; if a financial intermediary investigates the background of an unusual or suspicious transaction, and linkages with a terrorist organization are revealed, the institution must report the matter to the Swiss financial intelligence unit (FIU) immediately. Additionally, the ordinance mandates computer-based transaction monitoring systems for all but the smallest financial intermediaries. Consistent with Financial Action Task Force (FATF) standards, all cross-border wire transfers must now contain details about the funds remitters. The provisions of the ordinance also address Swiss supervision of subsidiaries belonging to a consolidated group of financial intermediaries

(for which information channels must be established), and all provisions apply to correspondent banking relationships as well. Shell banks—banks with no physical presence at their place of incorporation—may not maintain any correspondent bank accounts.

In October 2003, the Swiss cabinet also mandated an interdepartmental working group led by the Ministry of Finance in order to comply with the new set of FATF Forty Recommendations adopted in June 2003. In December 2003, the MLCA effected a new money laundering ordinance which implements the new FATF Forty Recommendations. FATF is expected to review implementation by early 2005.

In July 2003, the government-sponsored Zimmerli Commission, charged by the Finance Ministry with examining reform of finance market regulators, presented 46 recommendations. Most notably, the Committee recommended merging the Federal Banking Commission and the Federal Office for Private Insurance, or the banking and insurance sectors, into a single, integrated financial market supervision body, possibly known as FINMA. These proposals are expected to be drafted into legislation and adopted by the Swiss parliament in 2006; the changes that would need to be made are extremely far-reaching.

Auditing firms, which in the past enjoyed preferential treatment compared to their clients, have also been put under scrutiny. The Swiss Ministry of Justice has drafted a bill on auditing firms oversight, which is expected to be introduced to parliament during 2004.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's 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 five days until a prosecutor decides whether to take further action. MROS's staff, particularly the nonbanking sector staff, increased in 2002, so the FIU staff, now eight, has doubled since its establishment in 1998. In June 2003, MROS released figures for the previous year: From 2002 into 2003, money laundering cases rose 56 percent over 2001 figures, with more than 650 reports of suspicious transactions (STRs) worth approximately \$500 million. For the first time, the majority of reports came from the nonbank sector, probably due to the stricter reporting regulations directed at nonbank financial intermediaries. However, while the percentage of STRs coming from banks has decreased, the number of STRs from the banks has actually continued to increase.

Switzerland's banking industry offers the same account services for both residents and nonresidents. 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 nonresidents 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 nonresidents. 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.

Swiss casino operators have joined counterparts from Greece, Austria, Finland, Spain, Portugal, and the United Kingdom to form a new Casino Operators' Association. Among the stated priorities for the group are addressing issues surrounding money laundering and how to stop it, and responsible gaming practices.

The European Union (EU) finance ministers issued a warning to Switzerland in 2002, saying that Switzerland's lack of action was hampering the global crackdown on money laundering and other financial crimes, and threatened sanctions if Switzerland did 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.

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. The Swiss believe that their system of self-regulation, which incorporates a "culture of cooperation" between regulators and banks, equals or exceeds that of other countries. The primary interest of the Swiss system is to avert bad risks by countering them at the account-opening phase, where due diligence and KYC address the issues, rather than relying on an early-warning system keeping up with all filed transactions. The Convention on Due Diligence is very comprehensive, requiring the identification of the client and the beneficial owner, who needs to be a physical person. Because of the due diligence approach the Swiss have taken, there are fewer STRs filed than in other countries, but the ones that are filed lead to the opening of criminal investigations 80 percent of the time. In January 2003, Switzerland won a battle when the EU backed away from demands that Switzerland scrap banking secrecy. Despite the measures that Switzerland has taken, it is likely to endure more criticism from other countries for its continued banking secrecy laws and its refusal to look upon tax evasion as a crime.

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 at the time), making it the largest fine ever imposed by the Commission. The recipient of the fine will be the International Red Cross Committee, a Swiss organization.

If financial institutions determine that assets were derived from criminal activity, the assets must be frozen immediately until a prosecutor decides on further action. Under Swiss law, suspect assets may be frozen for up to five days while a prosecutor investigates the suspicious activity. 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. The Swiss used this provision in 2001 to signal Peru that they had uncovered accounts linked to former Peruvian presidential advisor Vladimiro Montesinos. On March 31, 2003, the Swiss Federal Court rejected an appeal by Raul Salinas, brother of a former president of Mexico and main suspect in a major money laundering affair, to release millions of dollars blocked on 10 different Swiss bank accounts.

During 2002, the Swiss Federal Council presented a bill to the Nationalrat, Switzerland's lower house, that addressed a number of terrorism issues surrounding ratification of the UN terrorism conventions. This bill included an independent provision on terrorist financing that introduces criminal liability for legal persons involved in terrorism financing. The Swiss House was scheduled to consider it in the first half of 2003. The newly amended Swiss penal code makes terrorism financing a predicate offense for money laundering. Changes in the Criminal Code in 2003 also make terrorism financing a predicate offense in money laundering, and expand the scope of application to legal persons.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and nonbank 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 the UN 1267 Sanctions Committee. In the 2002 reporting period, MROS received reports of 15 cases possibly linked to the funding of terrorism. The total amount of money involved was \$1.03 million. All the reports involved individuals and institutions appearing on the U.S. Government's lists. The 15 reports were transmitted to the Swiss federal prosecutor in Berne.

Along with U.S. Government and UN lists, the Swiss Economic and Finance Ministries have drawn up their own list of approximately 44 individuals and entities connected with international terrorism or its financing. Swiss authorities have thus far blocked about 82 accounts totaling \$25 million from individuals or companies linked to Usama bin Ladin and al-Qaida under UN resolutions. The Swiss Federal Prosecutor also froze separately 41 accounts representing about \$25 million, on the grounds that they were related to terrorism financing, but the extent to which these funds overlap with the UN lists has yet to be determined. In January 2003, the Swiss Ministry of Justice handed over banking information to U.S. authorities, following a legal assistance request issued in April 2002. The request related to a bank transfer of \$1.4 million, which took place between June 2000 and September 2001, and was addressed to the Benevolence International Foundation, a Chicago-based Islamic foundation with alleged ties to al-Qaida and other terrorist groups. The transfer originated from a Swiss bank account whose account holder was a company located in the Virgin Islands. The firm had initially lodged a complaint against this decision to the supreme Swiss federal court but was turned down in November 2002.

Switzerland is a signatory of, but has not yet ratified, the UN Convention against Transnational Organized Crime. Switzerland has ratified the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of Proceeds from Crime. In September 2003, Switzerland ratified the UN International Convention for the Suppression of the Financing of Terrorism, and in December 2003 signed the UN Convention Against Corruption. To date, Switzerland has not ratified the 1988 UN Drug Convention.

Swiss authorities cooperate with counterpart bodies from other countries. MROS cooperation with other FIUs has increased by more than 20 percent in 2003. Requests for cooperation with Liechtenstein, Switzerland's closest neighbor both culturally and geographically, have tripled. 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. The U.S.-Swiss extradition treaty permits extradition for any unlawful act punishable by imprisonment in both countries. 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.

Switzerland should extend its anti-money laundering program to include dealers in high-end goods. Switzerland can also continue to improve on its anti-money laundering regime, as it has been doing, and address deficiencies that it finds, as well as continuing to work toward full implementation of its anti-money laundering/antiterrorist financing regime.

Syria

The U.S. Department of State had designated Syria as a State Sponsor of Terrorism. Given its extremely underdeveloped banking sector, 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, although in early 2004 a limited number of private banks received permission to begin operating in Syria. The existing public banks are inefficient and highly regulated, and focus almost exclusively on financing public enterprises. The Government of Syria (SARG) heavily restricts foreign currency flows out of the country, which contributes to the use of alternative systems of moving money or transferring value. Syrian businessmen also 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, and currency smuggling. Such money laundering methodologies are often used to finance terrorism throughout the region and elsewhere. Although a positive development in terms of modernization of the financial sector, the opening of private banks in Syria makes the banking system increasingly vulnerable to money laundering until such time as the SARG implements measures to facilitate its oversight of financial transactions.

Due to distrust of public banks, currency restrictions, and displeasure with the official exchange rate, most Syrians prefer to utilize informal banking systems to transfer currency into Syria, sometimes by physically moving cash via Syrian bus and shipping companies with offices in the region. Relatives, friends and colleagues often provide a similar service using foreign bank accounts, particularly in Lebanon. For example, a Syrian businessman with excess Syrian pounds can pay for his expatriate cousin's new Damascus apartment in local currency, and the cousin then transfers a commensurate amount of hard currency to a designated overseas account. In instances where no relative or friend is available and/or the amount to be transferred is too high, a few money changers, well known to the business community and operating with tacit SARG approval, also provide a means of depositing hard currency in overseas accounts. These mechanisms are a form of hawala.

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 have in the past employed a rigid interest rate structure that discourages savings deposits, particularly during periods of inflation. Only the Commercial Bank of Syria has been permitted to provide commercial banking services until January 2004 when the first private banks opened. The Commercial Bank, as the sole legal trader of foreign currencies, also effectively has controlled all foreign trade and all foreign currency transactions. In addition to monopolizing the exchange of foreign currencies, the SARG 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, although it is expected that the SARG may take steps toward eliminating the multiple exchange rate system in 2004. Until that is changed, however, this inefficient system also 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 SARG officials. A large percentage of Lebanon's banking services involve Syrian accounts.

In April 2001 Law No. 28 legalized private banking and Law No. 29 established rules on bank secrecy. The first private banks opened in January 2004, but the services they provide are limited under current governmental regulations. Clients may open savings and checking accounts, for example, but deposits to foreign currency accounts can be made by wire transfer only, and not by cash. Much still needs to be done to fundamentally restructure the banking sector, particularly in terms of either suspending or amending existing regulations that prohibit a newly-licensed private bank from operating fully. The SARG continues to work on detailed regulations that will govern the operation of private banks.

In September 2003, Syria passed Legislative Decree No. 59, creating an Anti-money Laundering Commission. While this is an important movement in principle toward addressing vulnerabilities in the banking sector, particularly the new vulnerabilities which can arise with the opening of private

banks, it is not yet clear what relationship the commission will have with financial institutions or whether the commission will hold effective investigative powers.

Syria is a party to the 1988 UN Drug Convention. Syria should become a party to the UN International Convention for the Suppression of the Financing of Terrorism, and should immediately stop all support of terrorist organizations.

As a first step in crafting a viable anti-money laundering program, Syria should approve comprehensive anti-money laundering and antiterrorism finance legislation that adheres to world standards. Syria should then take meaningful steps to enforce the law and follow-up rules and regulations governing the banking sector.

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 nonbank 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).

The Legislative Yuan amended the MLCA in 2003, to expand the list of predicate crimes for money laundering, widen the range of institutions subject to suspicious transaction reporting, and mandate compulsory reporting of significant currency transactions of over New Taiwan (NT)\$1 million to the MLPC. As a result of the amendments, the list of institutions subject to reporting requirements was expanded to include casinos, automobile dealers, jewelers, boat and plane dealers, real estate brokers, credit card firms, insurance companies and securities dealers, as well as traditional financial institutions. In addition, two new articles were added to the MLCA, granting prosecutors and judges the power to freeze assets related to suspicious transactions, and giving law enforcement more powers related to asset forfeiture and the sharing of confiscated assets.

In terms of reporting requirements, financial institutions are required to identify, record, and report the identities of customers engaging in significant or suspicious transactions. Reports of suspicious transactions are required at the time of the transaction. Institutions are also required to maintain records necessary to reconstruct significant transactions for an adequate amount of time. Bank secrecy laws are overridden by anti-money laundering legislation, allowing the MLPC to access all relevant financial account information. Financial institutions are held responsible if they do not report suspicious transactions.

In 2003, the MLPC received 1,485 reports of possible money laundering activity, of which 1,057 cases were closed, 168 involved probable crimes, and 260 remain under review. The MLPC referred 76 cases to other departments of the Ministry of Justice Investigation Bureau (MJIB) for review, and referred 92 cases to the police.

Individuals are required to report currency transported into or out of Taiwan in excess of NT\$60,000 (approximately \$1,765), \$5,000, or \$5,000 worth of foreign currency. Starting in March 2004, over 6,000 Chinese renminbi (\$725) must also be reported. When foreign currency in excess of

NT\$500,000 (approximately \$14,700) is brought into or out of Taiwan, the bank customer is required to report the transfer to the Central Bank, though there is no requirement for Central Bank approval prior to the transaction. Prior approval is required, however, for exchanges between New Taiwan dollars and foreign exchange when the amount exceeds \$5 million for an individual resident and \$50 million for a corporate entity.

The authorities on Taiwan are actively involved in countering the financing of terrorism. As of December 2003, a new “Counter-Terrorism Action Law” (CTAL) was drafted and was under consideration by the legislature. The new law would explicitly designate the financing of terrorism as a major crime. Under the proposed CTAL, the National Police Administration, the MJIB and the Coast Guard would be able to seize terrorist assets even without a criminal case in Taiwan. Also, in emergency situations, law enforcement agencies would be able to freeze assets for three days without a court order. Assets and income obtained from terrorist-related crimes could also be permanently confiscated under the CTAL, unless the assets could be identified as belonging to victims of the crimes.

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. In accordance with UN Security Council Resolution 1373, the MLCA was amended to allow the freezing of accounts suspected of being linked to terrorism. No targeted assets have been identified to date. According to the MLPC, in 2003, financial institutions in Taiwan reported six possible cases of terrorist financing. However, in all six cases, the suspects were determined not to be terrorists.

Alternative remittance systems, or underground banks, are considered to be operating in violation of Banking Law Article 29. Authorities on Taiwan consider these entities to be unregulated financial institutions. Foreign labor employment brokers are authorized to use banks to remit income earned by foreign workers to their home countries. These remittances are not regulated or reported. Thus, money laundering regulations are not imposed on these foreign labor employment brokers. However, if the brokers accept money in Taiwan dollars for delivery overseas in another currency, they are violating Taiwan law. It is also illegal for small shops to accept money in Taiwan dollars and remit it overseas. Violators are subject to a maximum of three years in prison, and/or forfeiture of the remittance and/or a fine equal to the remittance amount. Authorities on Taiwan do not believe that charitable and nonprofit organizations in Taiwan are being used as conduits for the financing of terrorism.

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. Similarly, Taiwan cannot be a party to the UN International Convention for the Suppression of the Financing of Terrorism, as a nonmember of the United Nations, but it has agreed unilaterally to abide by its provisions. 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 that comports with international standards. The MLCA amendments of 2003 address a number of vulnerabilities, especially in the area of asset forfeiture. The authorities on Taiwan should continue to strengthen the existing anti-money laundering regime as they implement the new measures. The

authorities on Taiwan should also enact legislation that would promulgate regulations regarding alternate remittance systems.

Tajikistan

Tajikistan is not an important financial center in the region and does not have a developed banking system. In many rural areas of the country, the use of a barter system is common.

The most significant financial crime in 2003 was a Ponzi scheme that defrauded many people out of thousands of dollars. The smuggling of consumer goods is a concern. In most cases, goods such as tobacco, alcohol, and fuel are not officially imported into Tajikistan. For example, a shipment intended for Kazakhstan transiting Tajikistan never reaches Kazakhstan. The same practice occurs with goods intended for Afghanistan. While there is certainly a black market for smuggled goods, there is little evidence that items are financed with narcotics money, with the exception of imported cars and luxury items. Drug traffickers can sell drugs outside the country, buy goods with the proceeds, import the goods into Tajikistan, and sell them. One recent money laundering case involved the purchase of Russian cars with the proceeds of narcotics. The cars were subsequently imported into Tajikistan and sold at prices lower than the Russian purchase price. Tajikistan is not an offshore center, but offshore zones are often used while concluding deals with foreign enterprises.

The Tajik Criminal Code of May 21, 1998 Legalization (laundering) of Illegally Obtained Income prohibits money laundering. This prohibition includes not only narcotics money laundering but also circumvention of other financial currency controls. However, under the law banks are not required to know, record, or report the identity of customers engaging in significant transactions unless criminal proceedings have been undertaken against a specific individual or organization. Financial institutions make no regular reports of transactions or other activity, and reporting officers have no special legal protections with respect to cooperating with law enforcement. Several laws and regulations have been adopted including Civil Code Article 284 that addresses the misuse of gold, precious metals and gems. The government has not addressed other forms of alternative remittance systems.

The Law on Banking Activity of May 23, 1998 addresses bank secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities for domestic and offshore financial services companies. Tajikistan has cross-border currency reporting requirements. Travelers may depart with a maximum amount of \$2,000 but may enter with unlimited quantities. In 2003 there were no reported arrests or prosecutions for money laundering or terrorist financing.

Tajikistan does not currently have any asset-seizure mechanisms. Corrupt ion and the undeveloped legal sector make such a program difficult. The Government passed Criminal Code, Art. 57 stating that asset forfeiture is possible but it also specified exceptions. A program is being developed to allow the Drug Control Agency to utilize this law as one means of achieving self-sustainability.

Terrorist finance is considered to be a “serious crime” under the 1998 money laundering statute. Tajikistan has not adopted laws or regulations that ensure the availability of adequate records in connection with narcotics, terrorism, terrorist financing or other investigations. Tajikistan signed the UN Convention Against Terrorism Financing, the CIS Agreement on the Legal Assistance and Cooperation on Civil, Family and Criminal Cases of January 22, 1993, and is a member of the CIS Antiterrorism Center. Tajik authorities have been cooperative with U.S. efforts to trace and halt terrorist-related funds.

Tajikistan is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Tajikistan should enact anti-money laundering and terrorist finance legislation that adheres to world standards.

Tanzania

Tanzania is not considered an important regional financial center, but is vulnerable to money laundering because of the weaknesses of its financial institutions and law enforcement capabilities. 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 narcotics trafficking and the emerging casino industry as areas of concern for money laundering. The prevalence of 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 financial transactions exceeding 10,000 shillings (approximately \$109) 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.

The Government of Tanzania (GOT) became a party to the UN International Convention for the Suppression of the Financing of Terrorism in January 2003. Tanzania is a party to the 1988 UN Drug Convention and has signed the UN Convention against Transnational Organized Crime. Tanzania is a member of the Eastern and Southern African 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. Tanzania continues to host the ESAAMLG task force meetings held each March.

In line with Tanzania's commitment to supporting the ESAAMLG, Tanzania has created a multi-disciplinary committee on money laundering and a drafting committee that are preparing a review of the existing law and developing belated comprehensive money laundering legislation. The provisions included in this legislation should provide for the creation of a financial intelligence unit (FIU) that collects mandatory suspicious transaction reporting from financial institutions. This FIU should be empowered to share information with other FIUs and foreign law enforcement agencies.

Tanzania should continue to work through ESAAMLG to establish a FIU and develop a comprehensive anti-money laundering regime that comports with all international standards.

Thailand

Thailand is a major risk for money laundering. Smuggling of narcotics and contraband and evasion of customs duty are significant problems, although physical transit of heroin produced in Burma and Laos through Thailand has been reduced considerably in the past decade. 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.

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. On August 11, 2003, Prime Minister Thaksin Shinawatra issued two Executive Decrees to enact measures related to terrorism and terrorist financing as permitted under the Thai Constitution. The two decrees amend section 135 of the penal code and criminalize both terrorism and terrorist financing and make terrorist related crimes the eighth predicate offense under the money laundering statute. In early 2004, the Thai cabinet approved amendments to AMLA to create an asset forfeiture fund, authorize asset sharing, and add the following additional predicate offenses: weapons smuggling, illegal gambling; government procurement fraud; crimes affecting natural resources and the environment; intellectual property rights infringement; and Money Exchange Control Act violations. Legislation is expected to be considered by the Parliament during 2004. Since October 27, 2000, there have been 68 convictions under the AMLA. Cases are proceeding for civil forfeiture against property involved in drug trafficking, prostitution, public fraud and embezzlement, customs evasion, and corruption offenses. The value of assets either forfeited or under seizure total 2,602,523,212.62 Baht (approx. \$65 million).

In addition to the passage of terrorist related legislation in 2003, 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 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) that 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 AMLA created the Anti-Money Laundering Office (AMLO), which became fully operational in 2001. AMLO is Thailand's financial intelligence unit (FIU). When first established, AMLO reported directly to the Prime Minister. In October 2002, a reorganization of the executive branch took place, and AMLO was designated as an independent agency under the Ministry of Justice. AMLO receives, analyzes, and processes suspicious and large transaction reports, as required by the AMLA. From January through September 2003, the AMLO received 636,129 currency transaction reports and 84,967 suspicious transaction reports. 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 to 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. Although insurance companies are covered under the definition in AMLA of a financial institution, 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, but 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 of a financial institution's compliance with the AMLA or BOT regulations. Besides this lack of power to conduct transactional testing, BOT does not currently examine its financial institutions for anti-money laundering compliance. However, as a result of discussions between BOT and AMLO, they have agreed to jointly conduct such examinations and expect to begin sometime in 2004.

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 (\$12,500). The proposal is not yet in effect. 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) has established the Department of Special Investigation (DSI), within the Ministry of Justice pursuant to the Special Investigations Act of 2004. The DSI and the Royal Thai Police (RTP) will conduct criminal investigations of money laundering and related predicate offenses, while the AMLO will handle civil asset forfeiture cases. The DSI will become operational following the promulgation of ministerial regulations, which is expected to occur in 2004. It is also anticipated that the DSI and the RTP will enter into a memorandum of understanding to delineate investigative responsibilities.

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, 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. In December 2000, Thailand signed, but has not yet ratified, the UN Convention against Transnational Organized Crime, and is studying its domestic laws to determine what implementing legislation is required. Thailand has signed the UN Convention against Corruption, the first legally binding international agreement aimed at combating corruption, in Merida, Mexico on December 9, 2003. 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.

AMLO became a member of the Asia/Pacific Group on Money Laundering in April 2001 and the Egmont Group of financial intelligence units in June 2001. AMLO hosted the Pacific Rim Money Laundering and Financial Crimes Conference from March 24 through 26, 2003, in Bangkok.

The Royal Thai Government should continue to implement its anti-money laundering program, but until the RTG provides a viable mechanism for all of 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. Thailand appears to recognize the utility in this concept as evidenced by the recent Cabinet approval to introduce legislation to amend AMLA.

During the past year, the RTG has instituted a practice of providing rewards to investigators up to 25 percent of the value of the asset forfeited. Such a practice raises ethical concerns, can distort the law enforcement motive when seizing property, can encourage overreaching and illegal seizures, and is a practice that should be revisited.

Thailand should become a party to the relevant UN multilateral conventions, including: International Convention for the Suppression of the Financing of Terrorism; Convention against Transnational Organized Crime; and Convention Against Corruption.

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 sub-regional 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 narcotics 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 Sanctions Committee consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. The GOT closely regulates charities and other nongovernmental 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 on the UN 1267 Sanctions Committee 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 the UN International Convention for the Suppression of the Financing of Terrorism. Togo has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Togo should criminalize money laundering for all serious crimes and should enforce existing laws and regulations.

Tonga

Tonga is an archipelago, located in the South Pacific, about two-thirds of the way from Hawaii to New Zealand. Tourism is the second largest source of hard currency earnings following remittances. Tonga is neither a financial center nor an offshore jurisdiction. An additional source of revenue is the registry of approximately 65 ships from 25 countries, including the United States. Tonga became a party to the UN International Convention for the Suppression of the Financing of Terrorism in December 2002.

In a report to the UN Counter-Terrorism Committee, Tonga reported that its Government Committee on Money Laundering and the Financing of Terrorism was working on proposed new legislation and amendments to bring its legislative framework into line with international best practices. Tonga should enact legislation that specifically criminalizes the financing of terrorism and should consider joining the Asia/Pacific Group on Money Laundering.

Trinidad and Tobago

Trinidad and Tobago has a well-developed and modern banking sector that makes it an increasingly significant regional financial center. Trinidad and Tobago (T&T) is not an offshore financial center. Narcotics proceeds are implicated in some money laundering, but this is not a known important source of financial crimes in T&T. Criminal proceeds laundered in T&T are derived primarily from domestic criminal activity and from the activity of nationals involved in crime abroad.

The Proceeds of Crime Act of 2000 (POCA) expands money laundering predicate offenses to include all serious crimes. The POCA requires financial institutions to proactively report suspicious transactions, and banks and financial institutions are required to maintain records necessary to

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reconstruct transactions for a number of years. Secrecy laws are limited to standard client confidentiality provisions. 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. 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.

The Central Bank has set anti-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, financial services businesses and financial intermediaries. Credit unions and exchange houses are not subject to the guidelines.

Government of Trinidad and Tobago (GOTT) customs regulations require that any sum above approximately \$5,000 (in currency or monetary instruments) entering or leaving the country be declared. Cash above approximately \$10,000 may be seized, with judicial approval, pending determination of its legitimate source.

The GOTT is progressing operationally to establish a financial intelligence unit. In November 2003, as part of that goal, the GOTT Ministry of Finance inaugurated a new Criminal Investigation Division within the Bureau of Inland Revenue. The GOTT has an inter-ministerial counternarcotics/crime task force that investigates narcotics trafficking and related money laundering. Since January 1, 2003, there are five on-going money laundering investigations.

The 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 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.

Legislation specifically aimed to criminalize the financing of terrorism has been stalled in Parliament because the opposition party has blocked terrorist financing reform as part of its domestic political agenda. The GOTT is developing financial sector supervision regulations that acknowledge and monitor alternative remittance systems. The use of charitable or nonprofit entities has been reported whenever suspect by the banking system. 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, or 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. There has not yet been any identified evidence of terrorist financing in T&T.

Trinidad and Tobago is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. The GOTT has not become a signatory to the UN International Convention for the Suppression of the Financing of Terrorism. T&T is also a member of the Caribbean Financial Action Task Force (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. T&T is also a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). In 1999, an MLAT with the United States entered into force. In 2000, the United States 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 antiterrorist financing legislation that will provide the authority to identify, freeze and seize terrorist assets. The GOTT should also continue to implement its anti-money laundering program and its efforts to improve its ability to investigate money laundering.

Tunisia

Tunisia is not considered an important regional financial center due in large part to the very strict control exercised by the Central Bank over all aspects of financial transactions and the general nonconvertibility of the Tunisian dinar. There is no discernible money laundering activity reported to be occurring in Tunisia through formal financial institutions.

Although there is no specific anti-money laundering law in Tunisia, Law No. 92-52 (of May 18, 1992) against narcotics trafficking includes provisions that could contribute to combat money laundering. Under Articles 2 and 30 of this law anyone aiding in narcotic operations or transfers of proceeds in connection with these operations, including financial institutions, can be punished. On December 9, 2003 the Tunisian Parliament passed Law No. 94/2003 criminalizing support and financing to individuals, organizations or activities related to terrorism.

The Tunisian penal code allows for the sequestering, confiscating, or seizure of assets and property in certain situations including narcotics trafficking and terrorist activities. The definition of “assets” is quite broad and could cover any number of financial or physical assets. Financial assets are traced by the Central Bank and the Economic Enforcement Agency, each of which has broad powers for investigating and seizing financial assets. Tunisia has no legal provisions for sharing seized criminal assets with other governments.

Financial institutions are required to gather full identifying information for personal and business accounts. In addition, all supporting documentation must be maintained for 10 years. Only certain categories of individuals and businesses are allowed to open foreign currency or convertible dinar accounts and all of these accounts are monitored by the Central Bank. Because there is no law against money laundering in general, there is no obligation for a financial institution to report suspicious activities or provisions for holding bankers responsible if their institution is used for money laundering. However, the prevailing practice is for institutions to verbally report any unusual activity to the Central Bank, who will notify the investigative Economic Enforcement Agency. There are no “secret” or numbered accounts in Tunisia.

Offshore financial institutions are held to the same regulatory standards as onshore institutions. Offshore institutions undergo the same due diligence process as onshore banks and are licensed only after the Central Bank investigates their reference and recommends that the Ministry of Finance approve their application. Tunisian law also makes provisions for “moral integrity” checks of major shareholders, directors, and officers of financial institutions at any time doubts may arise. Anonymous directors are not allowed. Tunisia currently hosts 12 offshore banks, approximately 1,200 offshore companies and approximately 300 offshore trading companies. There are no offshore casinos or Internet gaming sites. Bearer financial instruments or shares are prohibited (Act No. 35 of 2000.)

Although the Tunisian government maintains that there are no alternative fund transfer systems such as hawala since all fund transfers must go through the banks or National Post Office, it is precisely due to these restrictions and currency exchange controls there are underground methods of moving money or transferring value in and out of the country. While a gray market in consumer goods does exist in the country, there is no evidence that this trade is funded by illicit proceeds. Residents are generally prohibited from holding or exporting foreign currency except in certain cases (travel or business needs, etc.) Nonresidents entering Tunisia with foreign currency or other instruments are required to declare

the total amount if they wish to re-export a portion (not exceeding 1,000 dinar or approximately \$840) or deposit any of the money in a Tunisian bank. Nonresidents do not need to declare currency exports of under 1,000 dinar. In December 2002, the legislature discussed tightening gold import regulations in light of an emerging parallel gold market. Customs may at any time require declarations for gold or securities.

Tunisia is a party to the 1988 UN Drug Convention. It has signed and ratified the UN Convention against Transnational Organized Crime. The Central Bank has adhered to all requests from the UN 1267 Sanctions Committee. To date no terrorist assets have been identified in Tunisia. Tunisia is party to the UN International Convention for the Suppression of Financing of Terrorism. Tunisia has varying bilateral agreements on “criminal matters” with 29 countries and is party to 12 international agreements on counterterrorism.

Tunisia should pass a comprehensive anti-money laundering law that adheres to world standards as the first step in developing a viable anti-money laundering program.

Turkey

Turkey is an important regional financial center, particularly for Central Asia and the Caucasus, as well as for the Middle East and Eastern Europe. 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. It 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, and informed observers estimate that as much as 50 percent of the economy is unregistered. There is no significant black market for smuggled goods in Turkey.

Money laundering takes place in both banks and nonbank 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. It is believed that Turkish-based traffickers transfer money to pay narcotics suppliers in Pakistan and Afghanistan, primarily through Istanbul exchange houses. The exchanges then wire transfer the funds through Turkish banks to accounts in Dubai and other locations in the United Arab Emirates. The money is then paid, often through alternative remittance systems, to the Pakistani and Afghan traffickers.

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 nonbank financial institutions, including insurance firms and jewelry dealers. However, the number of STRs being filed is quite low, even taking into consideration the fact that the Turkish economy is cash-based. 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 Government of Turkey (GOT) has drafted a bill that will provide such protection, but it has not yet been enacted. Turkey also has in place a system for identifying, tracing, freezing, and seizing narcotics-related assets, although Turkish law allows for only criminal forfeiture.

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. The

circular also requires exchange offices to sign contracts with their clients. Additionally, noninterest-utilizing 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.

Since the financial crisis of 2000, the GOT has taken over 19 of Turkey's 81 banks and has significantly tightened oversight of the banking system through an independent regulatory authority, the Banking Regulatory and Supervisory Agency (BRSA), which conducts anti-money laundering compliance reviews at banks under authority delegated from the Financial Crimes Investigation Board (MASAK). However, BRSA's reputation was hurt recently by its failure to detect a major bank fraud involving Imar Bank. There is also some concern about the current government's commitment to BRSA's continued independence.

The 1996 anti-money laundering law established MASAK, which is part of the Ministry of Finance. MASAK, which became operational in 1997, 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. Since its inception, MASAK has pursued more than 500 money laundering cases. Of those, 59 have been prosecuted, with only two cases resulting in convictions as of December 2003. Part of this is due to the fact that Turkey's police, prosecutors, judges, and investigators still need substantial training in dealing with financial crimes and because of a lack of coordination between the courts that prosecute the predicate offenses and the courts that prosecute money laundering cases. Most of the cases involve nonnarcotics criminal actions or tax evasion; roughly 30 percent are narcotics related.

MASAK itself is not yet functioning at the optimal level of efficiency. It requires additional legal authority, continuity of senior management, training, and computers. Training and equipment needs are being addressed by a European Union accession project, which is expected to commence by mid-2004. In 2003 MASAK prepared an amendment to the seminal 1996 law, that MASAK hopes Parliament will ratify in early 2004. The new law will broaden the definition of money laundering and expand the list of predicate offenses. It will also increase MASAK's authority and expand its ability to cooperate with other GOT agencies. After passage of the proposed legislation, MASAK expects to conduct compliance reviews of banks itself instead of relying on the BRSA. The GOT is also drafting legislation that will enable MASAK to conduct money laundering investigations into bank owners who misuse their banks' capital, to investigate the proceeds of bribery and corruption, and to investigate fraudulent bankruptcy cases. If all these changes are implemented, Turkey's anti-money laundering law will include all predicate offenses listed by the Financial Action Task Force (FATF).

Turkey cooperates closely with the United States and its neighbors in the Southeast Europe Cooperation Initiative (SECI). Turkey and the United States have an MLAT and cooperate closely on narcotics and money laundering investigations. Following the election of a new government in Turkey in November 2002, many of the key officials responsible for counternarcotics and anti-money laundering programs (including the head of MASAK) were replaced in 2003. Recently, the timeliness of MASAK's response to requests made through the assistance mechanisms of the Egmont Group has been declining.

Turkey has traditionally taken a strong stance against terrorism. In February 2002, MASAK issued General Communiqué No. 3 that detailed a new type of STR to be filed by financial institutions in cases of terrorist financing. The GOT complies with UNSCR 1373 through the distribution to interested GOT agencies (but not financial institutions) of ministerial decrees. Financial institutions

receive the lists through the Turkish Bankers Association. The GOT has the authority to identify and freeze the assets of terrorist individuals and groups designated by the UN 1267 Sanctions Committee, and it froze such assets in several cases during 2002. However, the process can be cumbersome and is not particularly effective; in 2003, a joint FBI-Royal Canadian Mounted Police investigation on terrorist financing was hampered by the lack of a specific law criminalizing the financing of terrorism. The proposed legislation described above should ameliorate the situation. In the interim, there are various laws with provisions that 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 or to any organization which acts to influence public services, media, proceedings of bids, concessions, and licenses, or to gain votes, by using or threatening violence. To commit crimes by implicitly or explicitly intimidating and cowering people is illegal under the provisions of the Law No. 4422 on the Prevention of Benefit-Oriented Criminal Organizations.

Turkey is a member of the FATF. MASAK is an active member of the Egmont Group. Turkey is a party to the 1988 UN Drug Convention and in December 2003 ratified the UN Convention against Transnational Organized Crime. Additionally, in April 2003 Turkey ratified the Council of Europe (COE) Civil Law on Corruption. In May 2002, Turkey became a party to the UN International Convention for the Suppression of Terrorist Bombings. Turkey also became a party to the UN International Convention for Suppression of the Financing of Terrorism on June 28, 2002. Turkey has signed, but not yet ratified, the COE Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime.

Turkey has declared its commitment to fight money laundering and terrorist financing. However, it needs to strengthen its legislative basis for this by swiftly enacting the draft laws to strengthen MASAK's powers and to criminalize terrorist financing. It should also obtain training for its prosecutors, judges, and investigators and improve the coordination between the courts in order to enable them to obtain more convictions for money laundering. 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 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 is susceptible to money laundering. There is some concern that several of the country's foreign-owned hotels and casinos could be vulnerable to financial fraud and used for money laundering. In addition, the national currency, the manat, has a 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. In 2003, the Government of Turkmenistan did not report any suspected cases of money laundering.

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's tax inspectorate has responsibility for uncovering irregularities that might be

indicative of financial crimes and money laundering. The tax inspectorate works in coordination with Turkmen law enforcement. Turkmenistan is a party to the 1988 UN Drug Convention.

Turkmenistan is urged to sign the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Turkmenistan should pass anti-money laundering and terrorist finance legislation that adheres to world standards.

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. There was no updated information to add in 2004.

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 on-site 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 shares issued after enactment and allows for a phase-in period for existing bearer shares of 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 criminalizes money laundering related to all crimes and establishes extensive asset forfeiture provisions and "safe harbor" protection for good faith compliance with reporting requirements. The Law also establishes a Money Laundering Reporting Authority (MLRA), chaired by the Attorney General, to receive, analyze, and disseminate financial disclosures such as suspicious activity reports (SARs). 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 nonstatutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI's anti-

money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARs to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which analyzes and investigates financial disclosures. The FCU also acts as TCI's financial intelligence unit (FIU).

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 of them. The report noted the need for improved supervision, which the government acknowledged. 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 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 FIU. 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. The TCI should criminalize the financing of terrorists and terrorism, and enhance its on-site supervision program. TCI should expand efforts to cooperate with foreign law enforcement and administrative authorities. TCI should provide adequate resources and authorities to provide supervisory oversight of its offshore sector in order to further ensure criminal or terrorist organizations do not abuse the TCI's financial sector.

Uganda

Uganda is not a regional money laundering center. Ugandan law enforcement agencies suspect that Uganda's bank and nonbank financial sectors 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 issued "Know Your Customer" guidelines; however, the bank does not have the authority to penalize noncompliance. In December 2003, the Ministry of Finance submitted to parliament a comprehensive anti-money laundering bill developed based on FATF's Forty Recommendations on Money Laundering. This legislation would criminalize money laundering for all serious crimes.

Uganda is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) and served as chairman of ESAAMLG in 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.

Uganda criminalized terrorist financing in the Anti-Terrorism Act of June 2002. Uganda is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Uganda should enact comprehensive anti-money laundering legislation and construct a viable anti-money laundering regime capable of thwarting terrorist financing.

Ukraine

Although Ukraine has adopted, enacted, and implemented comprehensive anti-money laundering legislation over the past year, high level and widespread corruption, organized crime, smuggling, and tax evasion continue to plague Ukraine's economy. Transparency International has rated Ukraine 2.4—unchanged from 2002—on a scale where 10 means “highly clean.” Money laundering in Ukraine is not primarily related to proceeds from narcotics trafficking. Instead, proceeds originate in criminal activities such as smuggling of goods or trafficking in humans, and large-scale corruption by government official and others. Ukraine's former Prime Minister, Pavlo Lazarenko, is currently out on bail awaiting trial in San Francisco on charges that he laundered over \$114 million, which he allegedly obtained illegally while serving as Prime Minister. Ukraine has provided assistance to the United States in connection with this prosecution. Retail outlets that sell luxury goods and other businesses (including casinos and some restaurants) in Kiev and elsewhere are suspected of being fronts for money laundering and/or tax evasion.

When the Financial Action Task Force (FATF), in September 2001, placed Ukraine on the list of noncooperative countries and territories in the fight against money laundering (NCCT), 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, the United States Treasury Department issued an advisory to all U.S. financial institutions instructing them to “give enhanced scrutiny” to all transactions involving Ukraine. 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 its original October 2002 deadline until December 15, 2002. On November 28, 2002, President Kuchma signed into law Ukrainian Law No. 249-IV, an anti-money laundering package “On Prevention and Counteraction to the Legalization (Laundering) of the Proceeds from Crime.” On December 20, 2002, the FATF determined that Ukraine's AML 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 designated Ukraine as a jurisdiction of primary money laundering concern on December 20, 2002. In response to the imminent threat of countermeasures, Ukraine passed further comprehensive legislative amendments in December 2002 and February 2003, in accordance with FATF demands. Immediately upon passage of the February amendments, the FATF withdrew its call for members to invoke countermeasures and the U.S. followed suit on April 17, 2003 by revoking Ukraine's designation under Section 311 of the USA PATRIOT Act as a jurisdiction of primary money laundering concern.

By passing comprehensive anti-money laundering (AML) legislation, Ukraine was not only able to avoid the countermeasures threatened by the FATF, but to initiate the process of NCCT de-listing. At the FATF plenary in September 2003, Ukraine was invited to submit an implementation plan, and upon review by the FATF Europe Review Group (ERG), an on-site visit to assess Ukraine's progress in developing its anti-money laundering regime has been scheduled for January 19-23, 2004. The results of the on-site visit by the FATF evaluation team will be reported to the FATF ERG prior to the Paris plenary on February 25, 2004. The ERG will give its recommendation as to whether or not the NCCT designation should be lifted and a decision will be taken by the general plenary at that time.

As a member of the Council of Europe, Ukraine has undergone two mutual evaluations by that group's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), in May 2000 and September 2003. Although Ukraine criminalized drug money laundering in 1995, the initial 2000 mutual evaluation report was highly critical of Ukraine. The 2003 evaluation presented quite a different finding, as evaluators noted that a number of the previously noted deficiencies had been remedied, especially with regard to passage of a basic anti-money laundering law in November 2002.

Two subsequent sets of amendments adopted in December 2002 and February 2003 have further helped bring Ukraine into compliance with internationally-recognized standards, as set forth by the FATF, the Vienna and Strasbourg conventions, the European Union (EU) directives on prevention of use of the financial system for money laundering purposes, and the Basel principles applicable to banks. Effective September 1, 2001, the Government of Ukraine (GOU) criminalized nondrug money laundering in the Criminal Code of Ukraine. Subsequent amendments adopted in January 2003 include willful blindness provisions and also expand the scope of predicate crimes for money laundering to include any action that is punishable under the criminal code by imprisonment of three years or more, excluding certain specified actions. 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 anti-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. Further amendments in February 2003 require banks to establish and implement bank compliance programs, conduct due diligence to identify beneficial account owners prior to opening an account or conducting certain transactions, and maintain records on suspicious transactions and the people carrying them out, for a period of five years. Cross-border transportation of cash sums exceeding \$1000 must be declared by travelers.

In August 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services" was signed. The law establishes regulatory controls over nonbank 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 the State Commission on Regulation of Financial Services Markets, which, with the National Bank of Ukraine and the State Commission on Securities and the Stock Exchange, has the primary responsibility for regulating financial services markets. Amendments introduced in February 2003 set forth additional requirements similar to those prescribed for banks for all nonbanking financial institutions.

The AML legislation calls for customer identification, reporting of suspicious and unusual transactions to the State Department of Financial Monitoring, 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. Subsequent amendments to Articles 5, 6, and 8, respectively, mandate establishment of bank compliance programs and appointment of bank compliance officers who may be subject to criminal liability for noncompliance. They also mandate that financial institutions identify beneficial owners of accounts, and that employees of entities of initial financial monitoring unconditionally report transactions suspected for money laundering or terrorism finance. The AML legislation includes a "safe harbor" provision that protects reporting institutions from liability for cooperating with law enforcement agencies.

Significantly, amendments to Article 11 of the Law reduce the monetary threshold beyond which transactions and operations are subject to compulsory financial monitoring, from Ukrainian hryvnias (UAH) 300,000 (approximately \$57,750) for cashless payments and UAH 100,000 (approximately \$19,250) for payments in cash to one single amount for both, UAH 80,000 (approximately \$15,400). The compulsory transaction-reporting threshold stands only if the transaction also meets one or more suspicious activity indicators as set forth in the law. Any transaction that is suspected of being connected to terrorist activity is to be reported to the appropriate authorities immediately.

On December 10, 2001, the Ukrainian Presidential Decree “Concerning the Establishment of a Financial Monitoring Department” mandated the creation of the State Department of Financial Monitoring (FMD) by January 1, 2002, to function as Ukraine’s FIU. Under the terms of this decree, the FMD is an independent authority administratively subordinated to the Ministry of Finance and is the sole agency authorized to receive and analyze financial information from first line financial institutions. Ukraine’s basic AML law establishes a two-tiered system of financial monitoring and combating of criminal proceeds, including terrorist financing provisions. It also identifies the participants: entities of initial financial monitoring, or those legal entities that carry out financial transactions; and entities of state financial monitoring, or those regulating entities charged with regulation and supervision of activities of the service providers. The overall regulatory authority in the system is vested in the FMD, which became operational on June 12, 2003, in accordance with Article 4 of the AML law.

The FMD is an administrative agency with no investigative or arrest authority. It is authorized to collect and analyze suspicious transactions, including those related to terrorism financing, and to transfer financial intelligence information to competent law enforcement authorities for investigation. FMD also has authority to conclude interagency agreements, and can exchange intelligence on financial transactions with a money laundering or terrorist financing nexus with other FIUs. As of October 21, 2003, memoranda of understanding were concluded between the FMD and the financial intelligence units of the Russian Federation, the Slovak Republic, Estonia, Spain, and the Kingdom of Belgium.

To date, the FMD has received 209,025 suspicious transaction reports (STRs), the bulk of which have been reported by banks. Approximately ten percent of these have been identified by the FIU for “active research” and 3,211 separate materials have been sent to competent law enforcement agencies. From June 12, 2003, the date the FMD became operational, through December 2003, FMD has referred 11 criminal cases to the General Prosecutor’s Office, two cases to the State Tax Administration, three cases to the Ministry for Internal Relations, and two cases to the Security Service.

Regarding criminal prosecution of anti-money laundering cases, 25 cases were brought before the courts during the last five months of 2001, for which three convictions were obtained. In 2002, 287 criminal AML cases were brought before the courts and 77 convictions were obtained. For the first nine months of 2003, 128 criminal AML cases were brought before the courts, resulting in 40 convictions.

Ukraine is in the initial stages of drafting a law that may permit asset forfeiture. Ukraine has yet to establish a system and a legal basis for freezing and seizing assets derived from serious crimes.

In response to earlier criticisms by the FATF regarding lack of coordination and information-sharing among agencies, the Cabinet of Ministers issued Decree No. 1896 on December 10, 2003, establishing a Unified State Informational System of Prevention and Counteraction of Money Laundering and Terrorism Financing, which will allow for integration of disparate state databases and foster better interagency cooperation.

Amendments to criminalize terrorism finance and to vest the Security Service of Ukraine with authority to investigate terrorism finance have been proposed. 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 U.S. 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.

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 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.

The FMD acknowledges the existence and use of alternative remittance systems such as hawala. FMD personnel have attended seminars and exchanged information about such systems. The FMD and security agencies monitor charitable organizations and other nonprofit entities that might be used to finance terrorism.

The FMD is a viable candidate for joining the Egmont Group of FIUs in 2004, having been successfully vetted by the Egmont Legal Working Group at the June 2003 plenary. 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. 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. In January 2002, the European Convention on the Suppression of Terrorism was signed. Ukraine ratified the UN International Convention for the Suppression of the Financing of Terrorism in September 2002. Ukraine also became a signatory to the UN Convention Against Corruption, which has not yet entered into force, on December 11, 2003.

Ukraine has demonstrated considerable political will to combat money laundering by strengthening, clarifying, and implementing its newly adopted laws. As evidenced by the strides made by its FIU, the NBU, and other actors in the financial and legal sectors, Ukraine has clearly shown its ability to implement a comprehensive anti-money laundering regime. The GOU should criminalize the financing and support of terrorists and terrorism. The GOU should adopt an asset forfeiture regime. The GOU should continue to enhance and implement its newly adopted anti-money laundering regime and to work towards NCCT de-listing and accession of its FIU to the Egmont Group of FIUs in 2004.

United Arab Emirates

The United Arab Emirates (UAE), which remains a cash-based society, is considered an important regional financial center for the Gulf region. The financial sector is modern and outward looking. Dubai, in particular, is a major banking center. About 50 million people are projected to pass through Dubai's airport by the year 2010. The UAE's robust economic development and liberal business environment have attracted a massive influx of people and capital. Approximately 80 percent of the UAE population is comprised of nonnationals. Because of the UAE's role as the primary transportation and trading hub for the Gulf states, East Africa, and South Asia, and with expanding

trade ties with the countries of the former Soviet Union, the UAE has the potential to be a major center for money laundering. That potential is exacerbated by the large number of resident expatriates from these areas, many of whom are engaged in legitimate trade with their homelands.

Following the September 11 terrorist attacks in the United States, and revelations that terrorists had moved funds through the UAE, the Emirates' authorities acted swiftly to address potential vulnerabilities and, in close concert with the United States, to freeze the funds of groups with terrorist links, including the Al-Barakat organization, which was headquartered in Dubai. Both federal and emirate-level officials have gone on record as recognizing the threat money laundering activities in the UAE pose to the nation's security and have taken significant steps in 2003 to better monitor cash flows through the UAE financial system.

While the laundering of narcotics funds may take place in the UAE, given the country's close proximity to Afghanistan—where 70 percent of the world's opium is produced—the potential exploitation of the UAE financial system by foreign terrorists and terrorist financing groups is the primary concern.

In January 2002, the President of the United Arab Emirates promulgated Law No. 4 criminalizing all forms of money laundering activities. The law calls for stringent reporting requirements for wire transfers exceeding \$545 and currency importation/exportation limits set roughly at \$11,700. The law imposes stiff criminal penalties (up to seven years in prison and a fine of up to 300,000 dirhams (\$81,700), as well as seizure of assets if found guilty) for money laundering and also provides safe harbor provisions for those who report such crimes. Banks and other financial institutions supervised by the Central Bank (exchange houses, investment companies, and brokerages) are required to follow strict "know your customer" guidelines; all financial transactions over \$54,000, regardless of their nature, must be reported to the Central Bank. Financial institutions also are required to maintain records on transactions for five years.

The Central Bank (CB) announced that it received 633 suspicious transaction reports from August 2001 to August 2003, of which 497 were from banks, 49 from money changers, and 87 from customs departments. Thirteen accounts have been frozen as a result of these STRs.

Money laundering may take place within the formal banking system, including the numerous money exchange houses, but is believed to be largely confined to the informal and largely undocumented "hawala" remittance system. The fact that hawala is an undocumented and nontransparent system, and is highly resilient in response to enforcement and regulatory efforts, makes it difficult to control and an attractive mechanism for terrorist and criminal exploitation. The UAE has begun to make progress in publicly accepting its vulnerability and involvement vis-à-vis hawala. New regulations to improve oversight of the hawala system were implemented in 2002. There is no accurate estimate of the number of UAE-based hawala brokers.

The CB now supervises 61 hawala brokers, which—like other financial institutions in the UAE—are now required to submit sheets containing names and addresses of transferors and beneficiaries to the CB and to complete suspicious transaction reports. The new attention on hawala is encouraging more people to use regulated exchange houses in the UAE. Traders in Dubai's Central Souk (Market) said hawala exchange rates are now only 3 percent cheaper than formal exchange houses, persuading many to use the formal, and more secure, banking network.

The UAE Government (UAEG) also has admitted the need to better regulate "near-cash" items such as gold, jewelry, and gemstones, especially in the burgeoning markets in Dubai. The UAE acceded to the Kimberley Process (KP) in November 2002 and began certifying rough diamonds exported from the UAE on January 1, 2003. The Dubai Metals and Commodities Center (DMCC) is the quasi-governmental organization charged with issuing KP certificates in the UAE, and employs four individuals full-time to administer the KP program. Prior to January 1, 2003, the DMCC circulated a

sample UAE certificate to all KP member states and embarked on a public relations campaign to educate the estimated 50 diamond traders operating in Dubai concerning the new KP requirements.

UAE customs officials may delay or even confiscate diamonds entering the UAE from a KP member country without the proper KP certificate.

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 CB intends to sponsor a follow-up conference on hawala in April 2004 to assess the effectiveness of hawala registration and documentation requirements that went into effect in November 2002.

The supervision of the UAE banking and financial sector falls under the authority of the CB. The CB 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 CB 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 CB, and thus are generally applicable to those financial entities that fall under its supervision. There are a number of circulars issued by the CB requiring customer identification and providing for a basic suspicious transaction-reporting obligation. 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 CB issued Circular 24/2000, which consolidates and expands anti-money laundering requirements for the financial sector. The circular, which is applicable to all banks, money exchanges, finance companies, and other financial institutions operating in the UAE, 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 CB and acts as the financial Intelligence unit (FIU). Financial institutions under the supervision of the CB 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 Central Bank conducted 58 workshops on money laundering and terrorist finance for banks and other financial institutions in 2003.

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. In addition, a number of money laundering cases involving foreign nationals have been referred to courts. Some cases ended in convictions.

The UAE authorities have arrested two individuals on suspicion of money laundering. This is the first time that the UAE has arrested suspected money launderers since the legislation went into effect; however, the UAEG has frozen financial assets under the law. Likewise, 23 other suspected money laundering cases have been referred to the public prosecutor's office for further review.

The CB has circulated to all financial institutions under its supervision the lists of individuals and entities suspected of terrorism and terrorist financing, included in UN Security Council resolutions. To date, the Central Bank has frozen a total of \$3.13 million in 18 bank accounts in the UAE since 9/11. Additionally, the AMLSCU has provided international organizations and its counterpart FIUs data on 172 cases related to terrorist financing.

In 2002, the UAEG worked in partnership with the United States to block terrorist financing, and froze the assets of more than 150 named terrorist entities—including significant assets in the UAE belonging to the Al-Barakat terrorist financing group.

The UAEG monitors registered charities in the country and requires them to keep records of donations and beneficiaries. The Ministry of Labor and Social Affairs regulates charities and charitable organizations in the UAE. The UAEG is much more sensitive post-9/11 to the oversight of charities and accounting of transfers abroad. In 2002, the UAEG mandated that all licensed charities interested in transferring funds overseas must do so via one of three umbrella organizations: the Red Crescent Authority, the Zayed Charitable Foundation, or the Muhammad Bin Rashid Charitable Trust. These three quasi-governmental bodies are properly managed, and in a position to ensure that overseas financial transfers go to legitimate parties. As an additional step, the UAEG has contacted the governments in numerous aid receiving countries to compile a list of recognized, acceptable recipients for UAE charitable assistance.

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. There is little Customs scrutiny of goods going into and out of the free trade zones. The UAE is not an offshore financial center; nonresidents are not permitted to open bank accounts here and offshore banking is prohibited. 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. A Mutual Legal Assistance Treaty (MLAT), which will codify that cooperation, is in the process of being negotiated.

The UAE Government has begun constructing a far-reaching anti-money laundering program. The UAE government has sought to crack down on potential vulnerabilities in the financial markets and is cooperating in the international effort to prevent money laundering, particularly by terrorists.

However, there remain areas requiring further action. Law enforcement and customs officials should begin to take the initiative to recognize money laundering activity and proactively develop cases without waiting for referrals from the AMLSCU. UAE officials should give greater scrutiny to trade based money laundering in all of its forms. The Central Bank should be more diligent in its efforts to encourage hawala dealers to participate in the registration program. The AMLSCU should take a more active role in participating in international anti-money laundering gatherings and increasing its ties with other FIUs.

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 a major source of illegal proceeds for money laundering, the proceeds of other offenses, such as financial fraud and the smuggling of people and 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, cash smuggling into and out of the UK, gatekeepers (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 two Directives 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 other serious crimes is criminalized by subsequent legislation. Banks and nonbank financial institutions in the UK must report suspicious transactions.

In November 2001, money laundering regulations were extended to money service bureaus (e.g., bureaux de change, money transmission companies). As of January 1, 2004, more sectors are subject to formal suspicious transaction reporting (STR) requirements, including attorneys, solicitors, accountants, real estate agents, and dealers in high-value goods such as cars and jewelry. 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 went into force on January 1, 2003. The final regulations will take effect on March 1, 2004. 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 Act 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. A total of \$28.5 million in cash seizures was made under the new act in 2003.

The UK's banking sector provides accounts to residents and nonresidents, who can open accounts through private banking activities and 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 nonresident accounts for a tax advantage or for investment purposes.

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.

In December 2003, the FSA fined Abbey National, the UK's sixth largest bank, 2.3 million British pounds (approximately \$4.2 million), for "extremely serious failings" in its anti-money laundering procedures during the period 2001-2003. According to the FSA, Abbey National was cited for failure to report suspicious banking transactions in a timely manner, as well as failure to carry out proper identity checks on new customers.

STRs are filed with the Financial Intelligence Division (FID), formerly the Economic Crime Bureau, of the National Criminal Intelligence Service (NCIS). The NCIS serves as the UK's financial intelligence unit (FIU). The FID analyzes reports, develops intelligence, and passes information to police forces and HM Customs and Excise for investigation. In 2001, the FID received approximately 32,000 STRs, and 65,000 STRs in 2002. The FID estimates it will receive roughly 100,000 STRs in 2003.

The Proceeds of Crime Act 2002 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 a 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. It also allows for the recovery of property that is, or represents, property obtained through unlawful conduct, or that is intended to be used in unlawful conduct. Furthermore, the Act shifts the burden of proof to the holder of the assets (for example, to prove that the assets were acquired through lawful means). In the absence of such proof, assets may be forfeit, even without a criminal conviction. 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. Officials at the ARA reported that a total of \$28.5 million (16.2 million British pounds) in cash seizures had been made under the Act as of December 2003.

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 FID 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 workload. The Metropolitan Police responded to the growing emphasis on terrorist financing by expanding the focus and strength of its specialist financial unit dedicated to this area of investigations. This unit is now called the National Terrorist Financing Investigative Unit (NTFIU).

In 2003, the UK issued 21 terrorist asset freeze orders on 72 individuals and 16 organizations. Two of the orders implemented the European Union's September 2003 decision to freeze all funds, other financial assets, and economic resources of Hamas. 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 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. The UK ratified the UN International Convention for the Suppression of the Financing of Terrorism on March 7, 2001. In December 2000, the UK signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The UK is a member of the FATF and the European Union. 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 States and UK recently negotiated an asset sharing agreement that is 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/counterterrorist financing program and its active participation in international organizations to combat the domestic and global threat of money laundering and the support and financing of terrorists and their organizations.

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. The near collapse likely explains the diminished attractiveness of Uruguayan financial institutions to money launderers in the region.

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. In December 2003, the Uruguayan Chamber of Representatives approved a bill designed to limit bank secrecy and confidentiality. The bill is specifically intended to increase credit transparency by eliminating bank secrecy for information pertaining to personal loans, financial credits, mortgages, or similar obligations. The bill does not, however, lift bank secrecy for law enforcement investigations regarding money laundering or terrorist finance.

Several government bodies seek to combat money laundering. The President's Vice-Minister of the Presidency heads 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. In 2000, the Financial Information and Analysis Unit (UIAF), was created within the Superintendence of Financial Intermediation Institutions that has the responsibility of coordinating all anti-money laundering efforts. The UIAF is Uruguay's Financial Intelligence Unit (FIU). It receives, analyzes, and remits to judicial authorities suspicious

transaction reports for possible investigation. Central Bank Circular 1722 enables the UIAF to respond to requests from foreign analogs.

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).

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 court can confiscate or preventively impound assets; proceeds or instruments used or intended to be used in money laundering crimes. Real estate ownership is registered in the name of the titleholder. However, ownership of a specific property cannot not be traced unless the “pardon”—the identification number of the property in the registry—is known. This system makes tracking money laundering in this important sector extremely 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 to the UIAF. 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 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 has been a member of the Financial Action task force for South America (GAFISUD) since its inception in December 2000 and served as its President in 2003. GAFISUD Mutual evaluation report stated that Uruguay’s anti-money laundering regime meets the FATF 40 recommendations. The report also recognized Uruguay’s efforts to train public and private sector players in money laundering-related issues. While Uruguay’s past role as a financial center put it at risk of becoming a money laundering center, the mutual evaluation team did not find any major money laundering criminal activity producing economic profits. The report included several suggestions to expand the scope of Uruguayan money laundering legislation as it relates to gambling, real estate, certain professions (primarily in the legal and financial services sectors), and the smuggling of cash and securities. It also suggested the Government of Uruguay

Uruguay remains active in international anti-money laundering efforts. In addition to its membership in GAFISUD, 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. It is a party to the 1988 UN Drug Convention. Uruguay has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and became a party to the UN International Convention for the Suppression of the Financing of Terrorism on January 8, 2004. In

addition, for 2004 Uruguay holds the presidency of the Interamerican Committee against Terrorism (CICTE).

The GOU should take steps necessary to bring it into compliance with the FATF Special Eight Recommendations on Terrorist Financing including the criminalizing of terrorist financing. The GOU should enact legislation that requires the identification and registration of real estate—a sector particularly vulnerable to money laundering. Effective implementation and enforcement of anti-money 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. Uruguay should become a party to the UN Convention against Transnational Organized Crime.

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 and fear that the Government of Uzbekistan (GOU) may seize one's assets. In Uzbekistan, the majority of the population holds savings in the form of cash stored at home. There is a significant black market for smuggled goods in Uzbekistan. Contraband and narcotics smuggling generates illicit funds that are not laundered through the official banking system. Since the 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. According to the GOU, nonbank financial crimes, such as the over invoicing for procurements, have increased substantially. It is thought that narcotic traffickers also 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. The proceeds of narcotics trafficking are controlled by local and regional drug-trafficking organizations.

Though Uzbekistan has formally removed currency exchange controls, in practice, obtaining currency conversion for a moderate to large sum of money remains difficult. This system inadvertently encourages 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 nonresidents may bring the equivalent of \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a one percent duty. Nonresidents 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. Though not legislatively mandated, 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. The Central Bank unofficially requires commercial banks to report on private transfers to foreign banks that exceed \$10,000. Institutions must report suspicious transactions immediately, via phone call and follow up memorandum to the Central Bank of Uzbekistan. Depending on the type of transaction, banks are required to maintain records for time deposits for a minimum of three years, generally not an adequate period to reconstruct suspect transactions. Money laundering controls are not applied to nonbanking

financial institutions such as exchange houses, stock brokerages, casinos, insurance companies or professional intermediaries such as lawyers and accountants.

In September 2003, Uzbekistan enacted a bank secrecy law that prevents the disclosure of client and ownership information to bank supervisors and law enforcement authorities for domestic and offshore financial services companies. Private bank information can be disclosed to prosecution and investigative authorities, provided there is a criminal investigation underway. The information can be provided to the courts on the basis of a written request in relation to cases currently under consideration. Protected banking information can also be disclosed to tax authorities in cases involving the taxation of a bank's client.

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. 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 has established systems for identifying, tracing, freezing, seizing, and forfeiting proceeds of narcotics and other money laundering related crimes. Since 2000, at least 200 million soum in assets have been seized. At that time, a special fund was established that directs the assets derived from the sale of confiscated proceeds and instruments of drug related offenses. The fund supports entities of the National Security Service, the Ministry of Interior, the State Customs Committee, and the Border Guard Committee, all of which are directly involved in combating illicit drug trafficking. A total of 42 million soum (approximately \$35-40,000) has been distributed by this fund since it was established.

Article 155 of Uzbekistan's criminal code and Law Number 167 "On Fighting Terrorism" of 15 December 2000 criminalizes terrorist financing. These laws were 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 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 are designated as responsible for implementing the antiterrorist 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 has circulated to its financial institutions the list of individuals and entities that have been included on the UN 1267 sanction list.

Uzbekistan is a party to the International convention for the Suppression of the Financing of Terrorism. 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.

Uzbekistan should continue to refine its anti-money laundering and terrorist financing legislation to world standards. Uzbekistan should establish a suspicious activity reporting system from bank and nonbank financial institutions and a Financial Intelligence Unit (FIU) to analyze the reports and disseminate them for investigation. Uzbekistan authorities need to do more to combat smuggling and trade based money laundering.

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 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.

As of January 1, 2003, the Reserve Bank of Vanuatu has regulated Vanuatu's 55 offshore banks, formerly regulated by the FSC. This requirement was one of many recommendations of the 2002 International Monetary Fund Module II Assessment Report (IMFR) that found Vanuatu's onshore and offshore sectors to be "noncompliant" with many international standards.

The Financial Transaction Reporting Act (FTRA) of 2000 established Vanuatu's Financial Intelligence Unit (FIU) within the State Law Office. The FIU receives suspicious transaction reports (STRs) filed by banks 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.

The IMFR noted several weaknesses in Vanuatu's anti-money laundering regime. Consequently, the government of Vanuatu (GOV) has prepared a policy paper currently being considered by the Council of Ministers for tabling by the parliament in mid-2004. The amendments to the FTRA would require mandatory customer identification requirements, broaden the range of covered institutions required to file STRs to include auditors, trust companies, company service providers and provide safe harbor for both individuals and institutions required to file STRs. The proposed amendments would override any extant banking and or other secrecy provisions and clarify the FIU's investigative powers.

Regulatory agencies in Vanuatu have instituted stricter procedures for issuance of offshore banking licenses, and continue to review the status of previously issued licenses. All financial institutions, both

domestic and offshore, are required to report suspicious transactions and to maintain records of all transactions for six years, including the identities of the parties involved.

The Serious Offenses (Confiscation of Proceeds) Act 1989 criminalized the laundering of proceeds from all serious crimes and provided for seizure of criminal assets and confiscation after a conviction. The new Proceeds of Crime Act (2002) retains the criminalization of the laundering of proceeds from all serious crimes, criminalizes the financing of terrorism and, includes full forfeiture and restraining, monitoring and production powers regarding assets.

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 restraint 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. The Extradition Act of 2002 includes money laundering within the scope of extraditable offenses.

The amended International Banking Act has now placed Vanuatu's international and offshore banks under the supervision of the Reserve Bank of Vanuatu. Section 5(5) of the Act states that if existing licensees wish to carry on international banking business after December 31, 2003, the licensee should have submitted an application to the Reserve Bank of Vanuatu under section 6 of the Act for a license to carry on international banking business. If an unregistered licensee continues to conduct international banking business after December 31, 2003, it will be in contravention of section 4 of the Act, and, if found guilty, the licensee will be subject to a fine and/or imprisonment in the case of an individual. Under section 19 of the Act, the Reserve Bank can conduct investigations where it suspects that an unlicensed person/entity is carrying on international banking business. One of the most significant requirements of the amended legislation is the banning of "shell" banks. As of January 1, 2004, all offshore banks registered in Vanuatu must have a physical presence in Vanuatu, and management, directors and employees must be in residence. At the September 2003 APG Plenary, Vanuatu noted its intention to draft new legislation regarding trust companies and company service providers. The new legislation will cover disclosure of information with other regulatory authorities, capital and solvency requirements and fit and proper requirements. Additionally, Vanuatu is drafting legislation to comply for compliance with standards set by the International Associations of Insurance Supervisors.

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.

In April 2002, the Organization for Economic Cooperation and Development (OECD) launched an initiative to address harmful tax practices worldwide. Vanuatu was one of seven countries listed as an "uncooperative tax haven". In January 2004, the OECD revealed that it has removed Vanuatu from its list of "uncooperative tax havens," following Vanuatu's earlier announcement that it will implement measures under the Harmful Tax Initiative. The OECD stated in a news release that it welcomes the commitment that Vanuatu has made to improve the transparency of its tax and regulatory systems and to establish, by December 2005, effective exchange of information for tax matters with OECD countries. This move by OECD has made Vanuatu the first country to secure removal from the list of uncooperative tax havens.

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 should immobilize bearer shares, require complete identification of the beneficial ownership of IBCs, and implement all provisions of its newly enacted Proceeds of Crime Act, and enact all necessary legislation for its onshore and offshore financial sectors that would bring both sectors into compliance with international standards. Vanuatu should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism, the Convention against Transnational Organized Crime and the 1988 UN Drug Convention

Venezuela

Venezuela is not a regional financial center, nor does it have an offshore financial sector. The relatively small but modern banking sector, which consists of 52 banks, primarily serves the domestic market. Venezuela's proximity to drug producing countries, weaknesses in its anti-money laundering system, and corruption, continue to make Venezuela particularly vulnerable to money laundering. The main source of money laundering in Venezuela stems from proceeds generated by Colombia's cocaine and heroin trafficking organizations. Reportedly, 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 prosecutors' unfamiliarity with the accusatory judicial system, as well as their having to assume 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 in 2002. 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, adds conspiracy as a criminal offense, strengthens due diligence requirements, establishes a fully autonomous financial intelligence unit (FIU), and provides law enforcement with stronger investigative powers by authorizing the use of modern investigative techniques such as the use of undercover agents. Although 97 of its 150 articles were approved in 2002, not a single additional article was passed in 2003. The bill remains in its final reading at the National Assembly. If the Organized Crime bill is ultimately enacted, the GOV would meet the requirements of the 1998 Vienna Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime, all of which the GOV has ratified.

Under Resolution 333-97 of 1997, entitled "Standards for the Prevention, Control, and Prosecution of Money Laundering," the Superintendence of Banks and Other Financial Institutions (SUDEBAN) has implemented controls to prevent and investigate money laundering. These include 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 file reports with Venezuela's FIU, the Unidad Nacional de Inteligencia Financiera (UNIF), created under the SUDEBAN in July 1997.

The UNIF receives suspicious activity reports (SARs) and reports of currency transactions exceeding 4.5 million bolívares (approximately \$2,800) from institutions regulated by SUDEBAN, the Office of the Insurance Examiner, the National Securities and Exchange Commission, the Bureau of Registration and Notaries, the Central Bank of Venezuela, and the Bank Deposits and Protection Guarantee Fund. Some institutions regulated by SUDEBAN, such as tax collection entities and public service payroll agencies, are exempt from the reporting requirement. SUDEBAN also allows certain customers of financial institutions—those who demonstrate “habituality” in the types and amounts of transactions they conduct—to be excluded from currency transaction reports filed with the UNIF. In addition to filing SARs and currency transaction reports, the UNIF also receives reports on the transfer of foreign currency exceeding \$10,000, the sale and purchase of foreign currency exceeding \$10,000, and summaries of cash transactions by states, exceeding 4.5 million bolívares. 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. Each currency exchange house in the country has and employs systems to electronically transmit transaction reports to SUDEBAN.

The UNIF analyzes SARs and other reports, and refers those deemed appropriate for further investigation to the Public Ministry (the Office of the Attorney General). The Public Ministry subsequently opens and oversees the criminal investigation. The Venezuelan Constitution guarantees the right to bank privacy and confidentiality, but in cases under investigation by the UNIF, SUDEBAN or the Public Ministry, or by order of the Judge of Control, bank secrecy may be waived. Comprehensive financial and law enforcement information is available to the UNIF.

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. No law enforcement offices have dedicated specific resources to investigating and prosecuting money laundering. There is no special prosecutorial unit for the prosecution of money laundering cases under the Public Ministry, which is the only entity legally capable of initiating money laundering investigations. Currently only the drug prosecutors conduct money laundering investigations. There are only 20 drug prosecutors for all of Venezuela, most of whom lack the technical financial experience to successfully prosecute money laundering investigations, and there are no financial analysts or forensic accountants dedicated to assisting them with the preparation of their cases. Indeed, there have only been three money laundering convictions in Venezuela since 1993, and all of them were narcotics related.

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.

The UNIF has been a member of the Egmont Group since 1999 and has signed bilateral information exchange agreements with counterparts worldwide. Venezuela participates in the Organization of American States Inter-American Commission on Drug Abuse Control (OAS/CICAD) Experts Group to Control Money Laundering, is a member of the Caribbean Financial Action Task Force (CFATF), and the Multilateral Working Group against the Black Market Peso Exchange System and as of July 2003, became a member of GAFISUD, the South American Financial Task Force.

Venezuela is a party to the 1988 UN Drug Convention and ratified the UN Convention against Transnational Organized Crime, which entered into force on September 29, 2003. On September 23, 2003, the GOV ratified the UN International Convention for the Suppression of the Financing of Terrorism. The GOV has signed the UN Convention Against Corruption.

The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 antidrug 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 including the criminalization of terrorist financing as well as institute measures to expedite the freezing of terrorist assets. 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 derived from all serious 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 through gold shops and other informal mechanisms to remit or receive funds from overseas. Officially, expatriate remittances account for \$2.5 billion U.S. dollars and unofficially the number may be more than double that amount. It is believed that a percentage of transactions in the formal and alternative remittance systems result from narcotics proceeds.

Although Vietnam does not yet have a separate law on money laundering or terrorist financing; it is currently working on anti-money laundering legislation, that is being circulated among ministries and agencies for their comment and input. In addition, 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. 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.

International financial institutions and other donors have been working with the Government of Vietnam on draft banking legislation. The GVN is also working with international agencies to increase its banking supervision capabilities.

The Government of Vietnam is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The GVN has signed the UN Convention against Transnational Organized Crime. 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

The Yemeni financial system is not yet well developed. Thus, the extent of money laundering is not known. The prevalence of hawala makes Yemen vulnerable to money laundering. The banking sector is relatively small with 17 commercial banks, including three Islamic banks. The Central Bank of Yemen (CBY) supervises the country's banks. Local banks account for approximately 62 percent of the total banking activities, while foreign banks cover the other 38 percent.

Yemen's parliament passed a comprehensive anti-money laundering legislation in April 2003. The legislation 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 of imprisonment. There is no specific legislation relating to counterterrorist financing in Yemen. But terrorism is covered in various pieces of legislation that treat terrorism and its financing as serious crimes.

The April 2003 law requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that desire to open accounts or deal with them, to keep records of transactions for up to ten years, and to report suspicious transactions. In addition, the law requires that reports be submitted to an information-gathering unit within the CBY. The unit acts as the financial intelligence unit (FIU), which in turn will report to the Anti-Money Laundering Committee (AMLC). The AMLC is composed of representatives from the Ministries of Finance, Justice, Interior, and Industry and Commerce, the CBY, and the board of banks, and is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

Several training workshops on the new legislation have been conducted by the CBY in 2003. The 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 law permits the extradition of non-Yemeni criminals in accordance with international treaties or bilateral agreements.

Prior to passage of the anti-money laundering law, 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.

In 2003, DHS/ICE agents in New York conducted an investigation of a company suspected to be involved in the smuggling and distribution of pseudoephedrine. The investigation disclosed employees at the business were sending a large number of negotiable checks to Sana, Yemen. Analysis of the documents seized as a result of search warrants and bank records revealed that the suspects had also wire transferred money to an individual with suspected ties to the al-Qaida organization. ICE agents also initiated an investigation pursuant to an outbound seizure of suspected hawala generated funds seized en-route to Yemen, concealed in jars of honey. The investigation disclosed that the courier, and the reputed owner/broker of the funds, was actively involved in a hawala network.

In response to UNSCR 1267/1390/1452 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. In September 2003, the CBY issued Circular No.

75304 containing a consolidated list of all persons and entities belonging to al-Qaida (182) and the Taliban (153).

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 also imposes penalties of fines and/or imprisonment on any society or its members convicted of 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. Yemen is a party to the Arab Convention for the Suppression of Terrorism.

Yemen is making progress in enforcing its domestic anti-money laundering program. The passage of the anti-money laundering legislation represents a significant first step in meeting international standards. However, development of the FIU and international cooperation with criminal investigations are only getting started. The CBY is still organizing its enforcement mechanism. Its effectiveness will demonstrate the authorities' commitment to ending money laundering. Yemen should also examine the prevalence of alternative remittance systems such as hawala and trade-based money laundering. As a next step, Yemen should also enact specific legislation with respect to terrorist financing and forfeiture of the assets of those suspected of terrorism. Yemen should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Zambia

Zambia is not a major financial center. Reports indicate, however, that proceeds of narcotics transactions and money derived from public corruption are major sources of laundered money. Law enforcement officials also indicate that bulk cash smuggling is a concern.

The Prevention of Money Laundering Bill Act of 2001 makes money laundering a criminal offense, stiffens penalties for financial crimes, requires financial institutions to report suspicious transactions to regulators and retain transaction records for a period of ten years, allows seizure of assets related to money laundering, and increases the investigative and prosecutorial powers of the Drug Enforcement Commission (DEC). It also establishes an Anti-Money Laundering Authority that is chaired by the attorney general and includes the heads of Zambia's principal law enforcement agencies, Revenue Authority, and Central Bank. The DEC has the responsibility for investigating money laundering offenses. When regulatory agencies have reason to suspect money laundering, they must report this to the DEC, which acts as the enforcement arm of the anti-money laundering authority, and make relevant records available to investigators. The law authorizes investigators to seize property when they have reasonable grounds to believe that it is derived from money laundering. Following a conviction under the anti-money laundering law, the court may order the forfeiture to the state of property seized during an investigation. In 2003, three officers of a commercial bank were tried and convicted for money laundering offenses. The penalty for money laundering is imprisonment for a term not exceeding ten years and/or a fine.

The anti-money laundering law does not contain specific provisions on the financing of terrorism; the Government of Zambia (GOZ) does have the authority to order financial institutions to freeze assets, but this can be difficult if there is no evidence of a domestic crime. Zambia lacks comprehensive and reliable mechanisms for freezing the assets of terrorist organizations.

In 2003 an anti-money laundering unit was established under the DEC. The main purpose of the unit is to lead efforts within the GOZ to counter money laundering and enforce the Prevention of Money Laundering Act.

In August 2003, the Republic of Zambia signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) memorandum of understanding. 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. Zambia is a party to the 1988 UN Drug Convention.

Zambia should expand its anti-money laundering unit into a fully operational financial intelligence unit (FIU) that is recognized by international standards. Zambia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Zambia should also criminalize terrorist financing.

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 December 2003, the Government of Zimbabwe submitted the Anti-Money Laundering and Proceeds of Crime Bill to Parliament. The bill is expected to pass in 2004. The bill would apply to all forms of money laundering and 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. The pending legislation would also address terrorist financing and the tracking and seizing of assets. In the context of the Government's history of using the legal system selectively and aggressively to target political opponents, the legislation as drafted could raise significant human rights concerns.

Zimbabwe is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the United Nations Convention against Transnational Organized Crime.

Zimbabwe should enact a comprehensive anti-money laundering regime (with appropriate due process protections) that criminalizes terrorist financing and money laundering for all serious crimes. Zimbabwe recently joined the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), the FATF-style regional body, in August 2003 and should sign the ESAAMLG Memorandum of Understanding. Zimbabwe should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.