



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

International Narcotics Control Strategy Report

Volume I

Drug and Chemical
Control

March 2005

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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 for 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 2005 INCSR, published in March 2005, covers the year January 1 to December 31, 2004 and is published in two volumes, the second of which covers money laundering and financial crimes. It is the 19th 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, 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 Volume 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 16, 2004

Presidential Determination No. 2004-47

Memorandum for the Secretary Of State: Presidential Determination on Major Drug Transit or Major Illicit Drug Producing Countries for FY05

Pursuant to section 706(1) of the Foreign Relations Authorization Act, Fiscal Year 2003 (Public Law 107-228) (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, Venezuela, and Vietnam.**

The Majors List applies by its terms to “countries.” The United States Government interprets the term broadly to include entities that exercise autonomy over actions or omissions that could lead to a decision to place them on the list and, subsequently, to determine their eligibility for certification.

A country’s presence on the Majors List is not necessarily an adverse reflection of its government’s counternarcotics efforts or level of cooperation with the United States. Consistent with the statutory definition of a major drug-transit or drug-producing country set forth in section 481(e)(5) of the Foreign Assistance Act of 1961, as amended (FAA), one of the reasons that major drug-transit or illicit drug producing countries are placed on the list is the combination of geo-graphical, commercial, and economic factors that allow drugs to transit or be produced despite the concerned government’s most assiduous enforcement measures.

Pursuant to section 706(2)(A) of the FRAA, I hereby designate Burma as a country that has failed demonstrably during the previous 12 months to adhere to its obligations under inter-national counternarcotics agreements and take the measures set forth in section 489(a)(1) of the FAA. Attached to this report is a justification (statement of explanation) for the determination on Burma, as required by section 706(2)(B).

I have removed Thailand from the list of major drug-transit or major illicit drug producing countries. Thailand’s opium poppy cultivation is well below the levels specified in the FRAA; no heroin processing laboratories have been found in Thailand for several years, and Thailand is no longer a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; nor is it a country through which such drugs or substances are transported.

In contrast to the Government of Haiti’s dismal performance last year under the Aristide regime, the new Interim Government of Haiti (IGOH), headed by Prime Minister Latortue, has taken substantive—if limited—counternarcotics actions in the few months it has been in office.

Nevertheless, we remain deeply concerned about the ability of Haitian law enforcement to reorganize and restructure sufficiently to carry out sustained counternarcotics efforts.

The decreased use of MDMA (Ecstasy) among young people in the United States is a hopeful sign, but we continue to place priority on stopping the threat of club drugs, including MDMA, of which The Netherlands continues to be the dominant source country. The Government of The Netherlands is an enthusiastic and capable partner, and we commend its efforts. We continue to be concerned, however, by obstacles to mutual legal assistance and extradition from The Netherlands. There is a need to work more deliberately to disrupt the criminal organizations responsible for the production and trafficking of synthetic drugs.

Specifically, we urge enhanced use of financial investigation, including full exploitation of anti-money laundering statutes and financial investigators to identify and dismantle trafficking organizations, and to seize and forfeit the assets acquired from the drug trade.

While the vast majority of illicit drugs entering the United States continue to come from South America and Mexico, we remain concerned about the substantial flow of illicit drugs from Canada. I commend Canada for its successful efforts to curb the diversion of precursor chemicals used in methamphetamine production.

We are now working intensively with Canadian authorities to address the increase in the smuggling of Canadian-produced marijuana into the United States; however we are concerned the lack of significant judicial sanctions against marijuana producers is resulting in greater involvement in the burgeoning marijuana industry by organized criminal groups. Canada has expressed concern to us about the flow of cocaine and other illicit substances through the United States into Canada. United States and Canadian law enforcement personnel have collaborated on a number of investigations that have led to the dismantling of several criminal organizations. The two governments will continue to work closely in the year ahead to confront these shared threats.

Nigeria put measures in place to increase the effectiveness of the National Drug Law Enforcement Agency, and also arrested a trafficker wanted by the United States, which met the agreed-upon interdiction targets. However, Nigeria must take significant and decisive action to investigate and prosecute political corruption, which continues to undermine the transparency of its government. President Obasanjo took steps to address corruption at the G-8 meetings in Sea Island, Georgia, by entering into a Compact to Promote Transparency and Combat Corruption. Positive transparent measures will in turn benefit Nigeria's counternarcotics efforts, the rule of law, and all democratic institutions.

Despite good faith efforts on the part of the central Afghanistan government, we are concerned about increased opium crop production in the provinces.

We are deeply concerned about heroin and methamphetamine linked to North Korea being trafficked to East Asian countries. We consider it highly likely that state agents and enterprises in North Korea are involved in the narcotics trade.

While we know that some opium poppy is cultivated in North Korea, 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, we are working closely with our partners in the region to stop North Korean involvement in illicit narcotics production and trafficking.

We appreciate the efforts of China, Hong Kong, Taiwan, and others in the region to stop the diversion of pseudoephedrine and ephedrine used to manufacture methamphetamine. However, considering the

growing methamphetamine problem in North America and Asia, additional collaborative efforts to control these precursor chemicals are necessary.

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 has authorized the Secretary of State to submit to Congress the annual report listing major illicit drug-producing and drug-transit countries (known as the “Majors List”). The same report contains Presidential determinations of the countries that have “failed demonstrably to make substantial efforts” during the previous 12 months to adhere to international counternarcotics agreements and take the counternarcotics measures specified in U.S. law.

As in previous years, this year’s certification determinations required the President to consider each country’s performance in areas such as reducing illicit cultivation, interdiction, and law enforcement cooperation; 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, the President 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, Venezuela, and Vietnam.**

The President removed Thailand from the list of major drug-transit or major illicit drug-producing countries. Thailand’s opium poppy cultivation is well below the levels specified in Section 706(1) of the Foreign Relations Authorization Act, FY 2002-2003(P.L.107-228)(the FRAA); no heroin processing laboratories have been found in Thailand for several years, and Thailand is no longer a significant direct source of illicit narcotic or psychotropic drugs or other controlled substances significantly affecting the United States; nor is it a country through which are transported such drugs or substances.

The President also reported to Congress his determination that Burma failed demonstrably, during the previous 12 months, to adhere to its obligations under international counternarcotics agreements and to take the measures set forth in U.S. law.

The President noted that, in sharp contrast to the Government of Haiti’s dismal performance last year under the Aristide regime, the New Interim Government of Haiti headed by Prime Minister Latortue, has taken substantive—if limited—counternarcotics actions in the few months it has been in office. The President remains concerned, however, about the ability of Haitian law enforcement to reorganize and restructure sufficiently to carry out sustained counternarcotics efforts.

The President cited decreased use of MDMA (ecstasy) among young people in the United States as a hopeful sign, but continues to place priority on stopping the threat of club drugs, including MDMA, of which the Netherlands continues to be the dominant source country. He characterized the Government of the Netherlands as an enthusiastic and capable partner, and commended its efforts. He continues to be concerned, however, by obstacles to mutual legal assistance and extradition from the Netherlands

and cited a need to work more deliberately to disrupt the criminal organizations responsible for the production and trafficking of synthetic drugs. Specifically, he urged enhanced use of financial investigations, and anti-money laundering statutes to identify and dismantle trafficking organizations.

While the vast majority of illicit drugs entering the United States continues to come from South America and Mexico, the President expressed his continuing concerns about the flow of illicit drugs from Canada. He commended Canada for its successful efforts to curb the diversion of precursor chemicals used in methamphetamine production, and noted that we are now working intensively with Canadian authorities to address the increase in the smuggling of Canadian-produced marijuana into the United States; however, we are concerned the lack of significant judicial sanctions against marijuana producers is resulting in greater involvement in the burgeoning marijuana industry by organized criminal groups.

The President reported that, although Nigeria arrested a trafficker wanted by the United States; met the modest, agreed upon interdiction targets; and put measures in place to increase the effectiveness of the National Drug Law Enforcement Agency; counternarcotics efforts continue to be undermined by pervasive corruption. He said Nigeria must take significant and decisive action to investigate and prosecute political corruption, and to increase transparency if it is to combat corruption effectively.

Despite good faith efforts on the part of the central Afghanistan Government, the President reported his concerns about the increased opium crop production and the Government's lack of capacity to prevail in the provinces.

The President expressed deep concerns about heroin and methamphetamine linked to North Korea being trafficked to East Asian countries; the high likelihood state agents and enterprises in North Korea are involved in the narcotics trade; and that there are clear indications that North Koreans traffic in, and probably manufacture, methamphetamine.

POLICY AND PROGRAM DEVELOPMENTS

Overview for 2004

U.S. Government counternarcotics control achievements in 2004 show that persistence pays. Working with our allies, we significantly cut the size of the Western Hemisphere's illicit drug crops, conducted successful interdiction operations against drugs bound for the United States, and weakened major drug trafficking organizations. We provided our partners essential training assistance to strengthen their law enforcement and judicial systems, while working with them to reduce their domestic drug consumption. We persuaded a greater number of governments to use extradition laws to deny powerful drug criminals a national safe haven they could once count on. We also fostered closer international cooperation among governments and financial institutions to make difficult for the drug trade to legitimize its enormous profits through complex and sophisticated money laundering schemes.

The Global Threat

The illicit drug trade is a threat to national security and international stability. It is inextricably linked with transnational organized crime and many terrorist organizations. The billions of dollars generated by the drug trade pay for a significant portion of all international criminal activity. Drug trafficking organizations in countries as far apart as Afghanistan, Colombia, Burma, and Mexico, direct the drug flows that poison societies, foster corruption, and finance international crime and terrorism. Cocaine revenues not only sustain the decades-old insurgency in Colombia, but also provide the operating funds for the networks of criminal organizations that move drugs to the U.S. through Central America, Mexico and the Caribbean. Afghan poppies, once the mainstay of the Taliban regime, have become the principal source of heroin for the international underworld and potentially help groups opposed to Afghanistan's democratic government. On a world scale, illegal drug revenues are so great that it is likely that most large international criminal enterprises rely to some extent on drug money to finance part of their operations.

Drug Threat to the United States

The principal imported drugs that directly threaten the United States are cocaine, heroin, marijuana, and synthetic amphetamine-type stimulants (ATS). Since all of the cocaine and heroin, much of the marijuana, and the greater part of the ATS drugs come from abroad, stemming their flow requires a coordinated international effort. Cocaine, though less prevalent today than a decade ago, remains our primary drug threat. An estimated 300 metric tons or more of cocaine enter the U.S. every year. It feeds addiction, fuels crime, and saps the social and economic health of the nation. Fortunately, it is also vulnerable to crop control and interdiction operations.

Coca and Cocaine

Unlike heroin, which can come from various geographical sources, all of the world's cocaine comes from coca grown in the Andean countries of Colombia, Peru, and Bolivia. Colombia dominates the trade by a wide margin. Colombian drug syndicates cultivate over 70 per cent of the world's coca and refine roughly 90 of the cocaine on the international market. By comparison, Peru and Bolivia cultivate about 20 percent and 10 percent respectively. It is obvious that we cannot expect a meaningful reduction in the overall cocaine supply without drastic reductions in Colombia. We have therefore directed the bulk of our counternarcotics resources to eliminating Colombian coca cultivation, disrupting cocaine production and flows, and keeping the drug from reaching our borders.

Constant pressure on the Colombian coca growers over the past three years has shown results. The joint Colombian-U.S. eradication campaign, carried out under the aegis of the Andean Counterdrug

Initiative, has inflicted serious damage on the crop. Although final USG cultivation estimates for 2004 had not been completed at the time of publication, the preliminary data are heartening. The U.S.-supported Anti-Narcotics Police Directorate sprayed over 136,000 hectares of coca, 3,000 hectares more than the 2003 record. They also aerially eradicated over 3,000 hectares of opium poppy.

With between 213 and 256 hectares required to produce a metric ton of finished cocaine (cocaine HCl), the hectares sprayed represent between 520 and 625 metric tons of cocaine that did not enter the supply chain. Using an average U.S. retail street price of \$100 per gram, a metric ton of cocaine is worth \$100 million. Spray operations thus theoretically kept between \$50 and \$60 billion out of international criminal channels.

Though Peru and Bolivia also carried out successful coca eradication campaigns in 2004, the governments of both countries faced increasingly strong opposition from cocalero (coca-grower) unions that link coca cultivation with national identity and sovereignty. Unlike Colombia, where coca has had few if any cultural roots, Peru and Bolivia have long traditions of coca consumption dating to pre-Columbian times. The coca plant is an icon in indigenous traditions. The cocaleros, quietly backed by trafficking interests, have equated coca eradication with the destruction of a sacred ancestral tradition that is an integral part of both countries' cultural identity. As formerly silent indigenous groups have become politically assertive, such appeals to ancient values have gained popular resonance and inspired caution in the governments of both countries. We can expect to see coca eradication campaigns continue, but at a pace tempered by local political and economic realities.

Interdiction

Interdiction operations in the Western Hemisphere region were remarkably successful in 2004. . In addition to direct U.S. Government action, Latin American governments seized more than 213 metric tons of cocaine and inflicted damage on several key drug trafficking organizations. Colombian Antinarcotics Police and Military Units broke all previous interdiction records by seizing over 178 Metric Tons of Cocaine HCl and cocaine base, and destroying 150 HCl processing laboratories. In Bolivia, counternarcotics forces seized over 8 metric tons of cocaine and destroyed 2,120 cocaine base labs. Peruvian authorities seized over 12 metric tons of cocaine base and HCl. Venezuelan and Mexican operations netted 19 metric tons and 25 metric tons of cocaine HCl respectively.

Mexican enforcement agencies, working closely with Colombian authorities, dismantled a major cocaine trafficking ring led by Juan Pablo “El Halcon” Rojas Lopez. They captured two senior lieutenants of the Arellano Felix Organization (AFO), Jorge “El Macumba” Aureliano Felix and Efrain “El Efra” Perez Arciniega, suspected respectively of handling security operations counterintelligence and “enforcement” activities for the drug group. They also arrested Gilberto “El Gilillo” Higuera Guerrero—a top-tier operator long affiliated with the AFO—outside of Mexicali, Baja California. The U.S. State Department Narcotics Rewards Program played a key role in bringing these three to justice.

These successes are tempered by sobering reports that the drug cartels continue to be directed by leaders incarcerated in Mexican maximum-security prisons. Continued power struggles have led to numerous murders in Northern Mexico. The cartels' reach is extensive: A member of Mexican President Fox's security staff was dismissed and is accused of selling information to the Juarez cartel.

Opium and Heroin

Eradicating opium poppy, the source of heroin, presents a different set of challenges. In contrast to coca, which is concentrated in one geographical area, opium poppy will grow in nearly every region of the world. It is an easily sown annual crop with as many as three harvests per year. Farmers often plant it in small patches in remote locations in mountainous terrain, making eradication operations

dangerous and difficult. Though most of the world's illicit opium poppy grows in Afghanistan and Southeast Asia, the bulk of heroin consumed in the United States comes from Colombian and Mexican poppies. Between them the two countries account for less than six percent of estimated world opium production, but they produce enough to satisfy most of the heroin demand in the United States.

Geography is an important factor in deciding the destination. In general, Mexican drug rings supply much of the U.S. heroin west of the Mississippi River, while Colombian syndicates supply states east of the Mississippi. Since eliminating opium poppies on the ground in Colombia and Mexico obviously can limit the flow of U.S.-bound heroin, we have long-standing joint eradication programs in both countries.

Colombian authorities eradicated 3,855 hectares of opium poppy in 2004, slightly surpassing the last year's figure of 3,830 hectares. Of these, 3,060 hectares were sprayed and 795 hectares uprooted via forced and voluntary manual eradication programs. The 2004 cultivation and production data were not available at the time of publication.

During the first 11 months of 2004, the Government of Mexico (GOM) reported eradicating almost 14,575 hectares of opium poppy, less than the 19,000 hectares reported for the same period in 2003, but an impressive number nonetheless. Full-year data could increase this figure. The 2004 cultivation and production data were not available at time of publication.

The remaining 90-plus percent of the world's estimated opium gum production occurs in Afghanistan and Burma, with Afghanistan accounting for over 80 percent of that figure. Afghan opium alone could probably satisfy world heroin demand. The area devoted to poppy cultivation in 2004 in Afghanistan set a new record: 206,700 hectares. Global heroin traffic cannot be reduced unless there are important reductions in Afghan opium poppy cultivation. Poppy eradication, however, is physically difficult and politically sensitive. Rugged terrain, and attacks by remnants of the Taliban regime present daily obstacles to the exercise of central government authority throughout the country. After decades of war, political misrule and economic chaos, a young democracy must now try to reconstruct a country with a prosperous, legitimate economy based on commodities other than opium,

Reducing opium poppy cultivation will not be easy. It will require both time and patience and developing alternative crops that will give farmers a decent income. For more than a decade, opium poppy has been Afghanistan's largest and most valuable cash crop. The old Taliban regime encouraged opium production, using taxes on the opium and trade as a revenue source to compensate for its other economic failures. Instead of legitimate crops, farmers were encouraged to plant opium poppy to raise operating funds for the regime. The economy became heavily dependent on opium. When, at the end of its tenure, the Taliban announced an opium ban-most likely to relieve a glut that had depressed heroin income-it was too late to restore a legitimate agricultural economy. With illicit opium sales accounting for between 40 and 60 per cent of the country's GDP (IMF data), the task of creating a viable, legitimate economy has fallen to Afghanistan's newly elected democratic government. It faces the daunting challenge of weaning the economy off opium revenues and finding viable economic alternatives without provoking violent uprisings in the areas of opium cultivation. The U.S. and its allies are working with the Afghan government to achieve this goal.

Because the drug trade is by nature clandestine, it is difficult to estimate precisely how much money it generates. The total \$400 billion value attributed to global drug trafficking is an educated guess. 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 governments of Afghanistan and the United States.

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. And since they use fairly common chemicals also used for a multitude of legitimate medical and industrial purposes, it is hard to control them.

Methamphetamine abuse is a 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 principal transit country for 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 now dominates much of the drug trade in Burma and Thailand, displacing heroin as 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 of the seizure of several thousand U.S. methamphetamine laboratories in 2004, with the largest numbers in Missouri (2,707), and Tennessee (1,259).

Ecstasy. There continues to be substantial global demand for MDMA (Ecstasy), the amphetamine analogue 3, 4-methylenedioxymethamphetamine. Clandestine laboratories in the Netherlands, and to a lesser extent in Belgium, remain major suppliers of MDMA to the international market. There is also an emerging problem of MDMA production in Canada. In 2004, a joint operation between the U.S. and Canadian governments dismantled a major ring producing MDMA in Canada and marketing it in both countries. Labs in Poland are major suppliers of amphetamines to the European market, with the United Kingdom and the Nordic countries among the heaviest consumers of amphetamine. In the United States, however, over the past three years Ecstasy use has plummeted among the teenage population most at risk. Past year and current use were each cut in half, while lifetime use dropped by almost two thirds.

Cannabis (Marijuana)

Cannabis (marijuana) production and consumption is a serious problem in many countries—including the United States, where it is by far the most widely used illicit drug. More than 10,000 metric tons of domestic marijuana and more than 5,000 metric tons of marijuana cultivated and harvested in Mexico and Canada is 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. The good news for the United States is that, according to the

December 2004 Monitoring the Future Study; marijuana use by U.S. teenagers has been declining since 1996, most likely because of a growing awareness of its dangers. Nonetheless, there is no dearth of potent marijuana on the market.

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. 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.

Institutional Reform

An important component of our international drug control policy has been to help governments strengthen their judicial and banking systems to narrow the opportunities for their exploitation by the drug trade. Law enforcement agencies in many key drug source and transit countries have arrested prominent traffickers, only to see them released by the decision of a single judge on questionable legal grounds. But the situation is gradually changing. In 2004, 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

Extradition is one of the most powerful law enforcement weapons in our arsenal. It is the sanction the drug trade and terrorist organizations fear most. The long list of prominent drug criminals serving long prison terms in the U.S. is a sober reminder to even the most powerful cartel bosses of what can happen when they are powerless to manipulate the judicial process through intimidation and bribery. In 2004, the United States continued to encourage other countries to facilitate extradition to the United States. Though the laws of several states still prohibit the extradition of their nationals, that situation is changing, as governments fighting the drug trade realize that extradition is a boon to their own law enforcement effectiveness. The number of drug-related extraditions to the U.S. from Colombia has increased dramatically. Over the past two and a half years, the Colombian government has extradited 180 drug criminals to the United States.

In 2004, Mexico extradited 34 fugitives to the United States in 2004 (up from the record numbers of 25 in 2002 and 31 in 2003). However, extraditions on drug charges have not increased: 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.

Disappointingly, on April 13, 2004, the Mexican Supreme Court reaffirmed its 2001 decision. This makes extradition illegal, and therefore impossible for crimes with potential life imprisonment without parole sentences, unless the United States provides adequate assurances that this sentence will not be imposed. (Extradition was granted in 2004 in most state cases in which the possible sentence is life imprisonment with a possibility of parole.) However, there is no parole in federal cases and U.S. conviction in cases involving more than five kilograms of cocaine, one kilogram of heroin, or fifty grams of pure methamphetamine carries a penalty of a minimum of 10 years and a maximum of life.

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 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 2004 to improve controls on cocaine and heroin processing chemicals, and those used for manufacturing synthetic drugs.

Controlling Supply

Our goal is to 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 destroying a hornets’ nest before the hornets escape. Theoretically, with no drug crops to harvest, cocaine or heroin cannot enter the distribution chain—reducing or eliminating the need for costly enforcement and interdiction operations.

The obvious solution, however, is not always feasible. Broad-scale (aerial and chemical) eradication is illegal in many countries. Even when eradication is possible, destroying a lucrative illicit crop carries enormous political, economic and social consequences for the producing country. Frequently it means attacking the livelihood of a large-and often the poorest-sector of the population. Elected governments that take away vital, if illegal income, without providing viable alternatives do not last long in office. Such market development can take decades. Therefore, law enforcement targets subsequent links in the supply chain: laboratory processing and interdiction of drug shipments in transit.

Essential to success is the flexibility to shift resources to those links where we can achieve both an immediate impact and long-term results. We have seen in Bolivia and Peru that the proper combination of effective eradication, law enforcement actions and alternative development programs

can deliver 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 2,300 hectares of coca and 800 hectares of poppy in 2004. To encourage farmers to abandon the production of drug crops, the USG has supported the cultivation of over 55,000 hectares of legal crops and completed 874 social and productive infrastructure projects since 2001. A total of 44,015 families have also benefited from these programs in 17 Departments. In Peru, alternative development programs are making coca reduction sustainable through improving local governance, strengthening rule of law and increasing the economic competitiveness of coca-growing areas. Since October 2002, over 27,000 families have voluntarily eradicated 7,271 hectares of coca including almost 2,500 hectares of coca in 2004. In Bolivia, USAID alternative development assistance complemented coca reduction efforts in the Chapare by strengthening licit livelihoods, community development, legal land tenure, and access to justice. Through FY-04, USAID helped some 28,290-farm families with AD support, and licit cultivation increased to 143,887 hectares. 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 in many places.

Illegal Drugs, Spraying, and the Environment

The debate continues 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 used to conduct aerial eradication in the growing areas. The active ingredient in the herbicide used in the aerial eradication program is glyphosate, one of the most widely used agricultural herbicides in the world, including Colombia. 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. The 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. As growers regularly abandon non-productive parcels to prepare new plots, the destructive cycle continues. 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.

Interdiction in the Transit Zone

Despite the international community's best efforts to attack the drug supply within source countries, the United States and our allies must continue to provide an effective presence in the transit zone, specifically for cocaine moving north out of South America. This has required a well-coordinated effort between transit zone countries and USG agencies including DOD, DHS, and DOJ. Source country intelligence combined with post seizure intelligence has improved dramatically in the last several years to yield better actionable intelligence within the transit zone. The Joint Inter-Agency Task Force-South with billeted international partners from throughout the Caribbean Basin has focused that intelligence to detect and monitor maritime drug movements while maneuvering interdiction assets into position to effect a seizure. The USG's efforts to create and expand authorities based on bilateral agreements with Caribbean and Latin American countries have eased the burden on these countries' law enforcement assets to conduct at sea boardings and search for contraband. These bilateral agreements have also allowed the USG to gain jurisdiction of cases and remove the corrosive pressure from large Trafficking Organizations on some foreign governments. This team effort led to unprecedented success by removing over 160 metric tons of cocaine from the transit zone in 2004 by USG assets. Continued success will depend on the allocation of tightly constrained resources to improve on the inroads and agreements reached in the last several years.

The Battle Against Corruption

The fight against the drug trade is also part of a broader struggle against corruption. The drug trade thrives on corruption in the way that an opportunistic disease flourishes amid conditions of social and moral decay. Drug organizations wield a powerful instrument for spreading corruption: the enormous sums of money generated by drug trafficking. In terms of weight and availability, there is currently no commodity more lucrative than illegal drugs. In most cases, drugs are relatively cheap to produce and offer enormous profit margins that allow the drug trade to generate criminal revenues on a scale without historical precedent. The revenues have become a mainstay of transnational organized crime and terrorists. At an average U.S. retail street price of one hundred dollars a gram, a metric ton of pure cocaine is worth a \$100 million on the streets of the US; twice as much if the drug is cut with additives. By this measure, the 100 or so metric tons of cocaine that the USG typically seizes each year could theoretically be worth as much as \$10 billion to the drug trade—more than the gross domestic product of many countries. Although only a portion of these profits may return directly to the drug syndicates, we are nonetheless speaking of hundreds of millions, if not billions, of dollars going into underworld channels. To put the magnitude of these sums into perspective, in FY 2005 the State

Department's budget for international drug control operations was approximately \$ one billion. That equates to roughly ten metric tons of cocaine; the drug syndicates have lost that much in a few shipments without any evidence that they felt the loss.

Wealth on this scale gives large trafficking organizations a practically unlimited capacity to corrupt, particularly in countries where government and law enforcement officials are poorly paid. For Colombia, where insurgents from Foreign Terrorist Organizations control and feed upon income from the drug trade, the threat is obvious. In economically weak countries without revolutionary movements, the drug trade's wealth makes it as great a threat to democratic government as an armed insurgency. Guerrilla armies or terrorist organizations overtly seek to topple governments by force; drug syndicates, like termites, prefer to destroy them surreptitiously from within. In theory, when a country's interior or defense minister, attorney general, or even president, is on its payroll, the drug trade can count on a secure operating environment. And the longer established the drug organization, the stronger its capacity to corrupt. The ultimate fear of all democratic leaders in drug-affected countries should be that one day traffickers might take de facto control of a country by putting a majority of elected officials, including the president, on the payroll. While this has not yet occurred, recent instances of drug syndicates' penetration of a Western Hemisphere country's President's office show that it is a real and immediate possibility. The more we deprive the drug trade of its capacity to corrupt, the less likely are we to see a true "narcocracy" spring up in our hemisphere.

Next Steps

The drug trade is nothing if not adaptable. It learns quickly from its mistakes, each time becoming a slightly more astute and dangerous enemy. Our past successes have forced it to become 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 also vulnerable. Its survival depends on an extensive infrastructure that is difficult to conceal and subject to attack at every stage. It needs raw materials, processing chemicals, means of transportation, and some way to move illegal cash into legitimate channels. Though drug syndicates are powerful in their underworld milieu, they lose their advantage when they have to operate in the legitimate world. They are most vulnerable when it comes to cashing in their profits. The drug trade's ability to generate vast amounts of cash is both its strength and its weakness. To stay in business it needs a steady flow of drugs to generate revenue; at the same time it requires a steady stream of money to buy the drugs. Like a legitimate enterprise, the drug syndicates partially finance future growth by borrowing against future earnings. So every metric ton of drugs that does not make it to market represents a potential loss of tens of millions of dollars in essential revenue. On the revenue end of the process, criminal proceeds are useless unless they can be legitimized and reinvested in new drug crops, arms, bribes, etc. to keep the syndicates operating. If we can cut off the flow of money and drugs long enough, we can choke off the lifeblood of the drug trade.

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

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 to address the needs and national security threat posed by the illicit drug trade. 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 2004, INL continued to fund 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 funded two regional demand reduction symposiums in Malaysia that resulted in the commitment of 800 Afghanistan mullahs to cooperate with the United States on providing mosque-based drug prevention and intervention services. Also as a result of the symposiums, leading Indonesian mullahs developed a plan to collaborate with the United States on providing drug prevention and outreach services through mosques and madrassahs. INL is also funding the establishment of drug prevention outreach centers and drug treatment aftercare centers in Muslim regions of southern Philippines and southern Thailand.

INL funding has provided new updated curricula to 24 Drug Abuse Resistance Education (D.A.R.E.) programs in Latin America and Asia. Countries in South America continued to implement their own national-level, counternarcotics media campaigns based on technical assistance funded by INL, school-based programs based on INL-funded training were established in Brazil and Chile. INL funding was also used to provide drug treatment training in Ecuador for Department of Correction officials. Funds were used to organize the regional Latin American Therapeutic Communities

Conference in Ecuador where over 50 workshops were offered on science-based drug treatment and rehabilitation principles.

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. Research to assess the long-term impact of INL-funded drug-treatment training in Peru was completed in 2004. Results of that study showed that drug use among those who received treatment had declined in every category. Specifically it showed that in the 30 days prior to treatment 90 percent of the clients had used drugs and at the 6 month follow-up after treatment only 34 percent were found to have used drugs; in the 30 days prior to treatment 30 percent reported using cocaine and at 6 month follow-up after treatment only 8 percent had used cocaine; in the 30 days prior to treatment 37 percent of those studied reported using cannabis and at 6 month follow-up after treatment only 13 percent had used cannabis; 72 percent of those who received treatment were employed; and over 90 percent had no further contact with the criminal justice system (i.e., arrests) after treatment.

Following publication and dissemination of an INL-funded, research-based demonstration program for high-risk youth in Peru, the Italian government contributed over \$800,000 to the project while the Government of Luxembourg contributed nearly \$500,000 to extend the project to adolescent girls. Research on selected prevention programs in Bolivia, Jamaica, Peru and Brazil that have developed promising prevention and antiviolence modalities from INL-funded training were completed in 2004. Additional programs in other regions will be studied in 2005 and results for all countries are expected to be published at the end of 2005.

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.

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.

Worldwide Illicit Drug Cultivation

1997–2004 (All Figures in Hectares)

	2004	2003	2002	2001	2000	1999	1998	1997
Opium								
Afghanistan	206,700	61,000	30,750	1,685	64,510	51,500	41,720	39,150
India								2,050
Iran								
Pakistan	3,100		622	213	515	1,570	3,030	4,100
Total SW Asia	209,800	61,000	31,372	1,898	65,025	53,070	44,750	45,300
Burma	30,900	47,130	78,000	105,000	108,700	89,500	130,300	155,150
China								
Laos	10,000	18,900	23,200	22,000	23,150	21,800	26,100	28,150
Thailand			750	820	890	835	1,350	1,650
Vietnam			1,000	2,300	2,300	2,100	3,000	6,150
Total SE Asia	40,900	66,030	102,950	130,120	135,040	114,235	160,750	191,100
Colombia			6,500	6,500	7,500	7,500	6,100	6,600
Lebanon								
Guatemala								
Mexico			2,700	4,400	1,900	3,600	5,500	4,000
Total Other			9,200	10,900	9,400	11,100	11,600	10,600
Total Opium		127,030	143,522	142,918	209,465	178,405	217,100	247,000
Coca								
Bolivia ¹	24,600	28,450	24,400	19,900	14,600	21,800	38,000	45,800
Colombia		113,850	144,450	169,800	136,200	122,500	101,800	79,500
Peru		31,150	36,600	34,000	34,200	38,700	51,000	68,800
Ecuador								
Total Coca	24,600	59,600	205,450	223,700	185,000	183,000	190,800	194,100
Cannabis								
Mexico			3,900	3,900	3,900	3,700	4,600	4,800
Colombia	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Jamaica								317
Total Cannabis	5,000	5,000	8,900	8,900	8,900	8,700	9,600	10,117

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

Worldwide Illicit Drug Cultivation

1989–1996 (All Figures in Hectares)

	1996	1995	1994	1993	1992	1991	1990	1989
Opium								
Afghanistan	37,950	38,740	29,180	21,080	19,470	17,190	12,370	18,650
India	3,100	4,750	5,500	4,400				
Iran								
Pakistan	3,400	6,950	7,270	6,280	8,170	8,205	8,220	6,050
Total SW Asia	44,450	50,440	41,950	31,760	27,640	25,395	20,590	24,700
Burma	163,100	154,070	154,070	146,600	153,700	160,000	150,100	143,000
China		1,275	1,965					
Laos	25,250	19,650	19,650	18,520	25,610	29,625	30,580	42,130
Thailand	2,170	1,750	2,110	2,110	2,050	3,000	3,435	4,075
Total SE Asia	3,150		177,795	167,230	181,360	192,625	184,185	189,205
Colombia	193,670	176,745				1,160		
Lebanon	6,300	6,540	20,000	20,000	20,000	3,400	3,200	4,500
Guatemala	90	150		440	na	1,145	845	1,220
Mexico		39	50	438	730	3,765	5,450	6,600
Vietnam	5,100	5,050	5,795	3,960	3,310			
Total Other	11,490	11,779	25,845	24,838	24,040	9,470	9,495	12,320
Total Opium	249,610	238,964	245,590	223,828	233,040	227,490	214,200	226,225
Coca								
Bolivia	48,100	48,600	48,100	47,200	45,500	47,900	50,300	52,900
Colombia	67,200	50,900	45,000	39,700	37,100	37,500	40,100	42,400
Peru	94,400	115,300	108,600	108,800	129,100	120,800	121,300	120,400
Ecuador						40	120	150
Total Coca	209,700	214,800	201,700	195,700	211,700	206,240	211,820	215,850
Cannabis								
Mexico	6,500	6,900	10,550	11,220	16,420	17,915	35,050	53,900
Colombia	5,000	5,000	4,986	5,000	2,000	2,000	1,500	2,270
Jamaica	527	305	308	744	389	950	1,220	280
Total Cannabis	12,027	12,205	15,844	16,964	18,809	20,865	37,770	56,450

Worldwide Potential Illicit Drug Production 1997–2004 (All Figures in Metric Tons)

	2004	2003	2002	2001	2000	1999	1998	1997
Opium Gum								
Afghanistan	4,950	2,865	1,278	74	3,656	2,861	2,340	2,184
India								30
Iran								
Pakistan	70		5	5	11	37	66	85
Total SW Asia	5,020	2,865	1,283	79	3,667	2,898	2,406	2,299
Burma	292	484	630	865	1,085	1,090	1,750	2,365
China								
Laos	49	200	180	200	210	140	140	210
Thailand			9	6	6	6	16	25
Vietnam			10	15	15	11	20	45
Total SE Asia	341	684	829	1,086	1,316	1,247	1,926	2,645
Colombia						75	61	66
Lebanon								
Guatemala								
Mexico			47	71	21	43	60	46
Total Other			47	71	21	118	121	112
Total Opium	5,361	3,549	2,159	1,236	5,004	4,263	4,453	5,056
Coca Leaf								
Bolivia ¹		17,210	19,800	20,200	26,800	22,800	52,900	70,100
Colombia ²					583,000	521,400	437,600	347,000
Peru			52,700	52,600	54,400	69,200	95,600	130,200
Ecuador								
Total Coca³	5,361	17,210	72,500	72,800	664,200	613,400	586,100	547,300
Cannabis								
Mexico			7,900	7,400	7,000	3,700	8,300	8,600
Colombia	4,000		4,000	4,000	4,000	4,000	4,000	4,133
Jamaica								214
Belize								
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total Cannabis	7,500	3,500	15,400	14,900	14,500	11,200	15,800	16,447

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 1989–1996 (All Figures in Metric Tons)

	1996	1995	1994	1993	1992	1991	1990	1989
Opium Gum								
Afghanistan	2,174	1,250	950	685	640	570	415	585
India	47	77	90					
Iran								
Pakistan	75	155	160	140	175	180	165	130
Total SW Asia	2,296	1,482	1,200	825	815	750	580	715
Burma	2,560	2,340	2,030	2,575	2,280	2,350	2,255	2,430
China		19	25					
Laos	200	180	85	180	230	265	275	380
Thailand	30	25	17	42	24	35	40	50
Vietnam	25							
Total SE Asia	2,815	2,564	2,157	2,797	2,534	2,650	2,570	2,860
Colombia	63	65						
Lebanon	1	1		4		34	32	45
Guatemala						11	13	12
Mexico	54	53	60	49	40	41	62	66
Total Other	118	119	60	53	40	86	107	123
Total Opium	4,285	4,165	3,417	3,675	3,389	3,486	3,257	3,698
Coca Leaf								
Bolivia	75,100	85,000	89,800	84,400	80,300	78,000	77,000	78,200
Colombia	302,900	229,300	35,800	31,700	29,600	30,000	32,100	33,900
Peru	174,700	183,600	165,300	155,500	223,900	222,700	196,900	186,300
Ecuador				100	100	40	170	270
Total Coca	552,700	497,900	290,900	271,700	333,900	330,740	306,170	298,670
Cannabis								
Mexico	11,700	12,400	5,540	6,280	7,795	7,775	19,715	30,200
Colombia	4,133	4,133	4,138	4,125	1,650	1,650	1,500	2,800
Jamaica	356	206	208	502	263	641	825	190
Belize						49	60	65
Others	3,500	3,500	3,500	3,500	3,500	3,500	3,500	3,500
Total	19,689	20,239	13,386	14,407	13,208	13,615	25,600	36,755

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
32. Central African Republic	Accession	15 October 2001
33. Chad	Accession	09 June 1995
34. Chile	20 December 1988	13 March 1990

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

Policy and Program Development

Country	Date Signed	Date Became a Party
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. Kyrgyz Republic	Accession	7 October 1994
85. Latvia	Accession	24 February 1994
86. Lebanon	Accession	11 March 1996
87. Lesotho	Accession	28 March 1995
88. Libyan Arab Jamahiriya	Accession	22 July 1996
89. Lithuania	Accession	8 June 1998
90. Luxembourg	26 September 1989	29 April 1992
91. Macedonia, Former Yugoslav Rep.	Accession	18 October 1993
92. Madagascar	Accession	12 March 1991
93. Malawi	Accession	12 October 1995
94. Malaysia	20 December 1988	11 May 1993
95. Maldives	5 December 1989	7 December 2000
96. Mali	Accession	31 October 1995
97. Malta	Accession	28 February 1996
98. Mauritania	Accession	1 July 1993
99. Mauritius	20 December 1988	6 March 2001
100. Mexico	16 February 1989	11 April 1990
101. Moldova	Accession	19 February 1995
102. Monaco	24 February 1989	23 April 1991
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

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

Policy and Program Development

Country	Date Signed	Date Became a Party
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

Department of State (INL) Budget (\$000)

	FY 2004 Actual	FY 2005 Estimate	FY 2006 Request
Andean Counterdrug Initiative (ACI)			
Bolivia Total	91,000	90,272	80,000
<i>Bolivia: Alternative Development/Institution Building</i>	41,752	41,664	37,000
<i>Bolivia: Interdiction</i>	49,248	48,608	43,000
Brazil Total	10,200	8,928	6,000
Colombia Total	473,900	462,767	463,000
<i>Colombia: Alternative Development/Institution Building</i>	149,279	124,694	124,757
<i>Colombia: Interdiction</i>	324,621	310,694	310,850
<i>Colombia: Rule of Law</i>		27,379	27,393
Ecuador Total	35,000	25,792	20,000
<i>Ecuador: Alternative Development/Institution Building</i>	14,912	14,880	11,540
<i>Ecuador: Interdiction</i>	20,088	10,912	8,460
Guatemala Total		992	
Nicaragua Total		992	
Panama Total	6,487	5,952	4,500
Peru Total	116,000	115,370	97,000
<i>Peru: Alternative Development/Institution Building</i>	49,705	53,866	43,000
<i>Peru: Interdiction</i>	66,295	61,504	54,000
Venezuela Total	5,000	2,976	3,000
Air Bridge Denial Program		11,111	21,000
Critical Flight Safety Program			40,000
Total ACI	737,587	725,152	734,500
South Asia			
Afghanistan		89,280	260,000
Afghanistan ERF	50,000		
Afghanistan SUP	170,000		
Pakistan	31,500	32,150	40,000
Subtotal South Asia	251,500	121,430	300,000
Western Hemisphere			
Bahamas	1,000	992	500
Guatemala	3,000	2,820	2,500
Haiti			15,000
Jamaica	1,500	1,488	1,000
Mexico	37,000	39,680	30,000
Latin America Regional	4,850	3,224	2,000
Subtotal Western Hemisphere	47,350	45,384	51,000

Department of State (INL) Budget
(Continued)
(\$000)

	FY 2004 Actual	FY 2005 Actual	FY 2006 Requested
Global			
Anticorruption/Rule of Law		6,746	3,000
Asia Regional	1,000	495	
Civilian Police Program	2,700	2,678	2,700
Demand Reduction	5,000	9,920	3,000
INL Anticrime Programs	11,324	8,333	10,000
International Law Enforcement Academies	14,500	12,734	13,500
International Organizations	12,200	5,000	10,000
Interregional Aviation Support	70,000	66,620	70,000
Program Development and Support	13,850	13,850	14,000
Systems Support and Upgrades	5,000	694	
Trafficking in Persons	12,000	4,960	5,000
United Nations Crime Center	1,000	496	
Subtotal Global	148,574	135,347	131,200
Total Regional and Global	460,274	326,189	523,874
Total	1,197,861	1,051,341	1,258,374

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, 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 13,000 officials from 68 countries in Africa, Asia, Europe and Latin America. The annual ILEA budget averages approximately \$16-17 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, anticorruption, 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 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 one Senior Executive program and 12 to 14 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, Kyrgyz Republic, 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 400 students annually.

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

Historical Operations

Operation Alcatraz. Operation Alcatraz is a SOD supported multi-national, multi-jurisdictional OCDETF wire intercept operation targeting North Coast of Colombia-based drug transportation organizations headed by Freddy Witt-Rodriguez, Gabriel Zuniga, both Colombian Nationals, and Jamaica-based drug transportation organizations headed by CPOT Norman Ramcharan and his brother RPOT Leebert Ramcharan, Norris Nembhard and Robroy Williams, all Jamaican Nationals. The Colombian organizations have been linked to the Autodefensas Unidas De Colombia (AUC) and are responsible for transporting multi-ton quantities of cocaine via go-fast vessels from the North Coast of Colombia to the Caribbean for subsequent transshipment to the United States. This operation, which has utilized 230 Colombian wire intercepts, has required a high level of multi-national cooperation and coordination between the governments of Colombia, Jamaica, Panama, the United Kingdom, and the U.S. As of December 31, 2004, this operation has resulted in the arrests of 59 defendants, including CPOT Norman Ramcharan (UK), and the seizure of 10,710 kilograms of cocaine and \$513,000 in U.S. currency. An additional \$5,000,000 in assets related to the traffickers in this operation has been targeted for forfeiture.

Operation Busted Manatee. On June 23, CPOT Elias COBOS-Munoz and 56 associates were arrested at the culmination of Operation Busted Manatee, a 29-month, multi-jurisdictional Organized

Crime Drug Enforcement Task Force (OCDETF) investigation. Arrests occurred in the United States, Canada, Colombia, Panama, Jamaica, and the Bahamas. The investigation, coordinated by the DEA Special Operations Division, was conducted by DEA offices in New York, Miami, Nassau, Kingston, Panama, Bogotá, Cartagena, and Ottawa. According to intelligence information, COBOS-Munoz has been the leader of a Colombian-based drug trafficking organization responsible for the importation of more than 13,000 pounds of cocaine per month from Colombia to the United States since 2000. The supply and transportation networks targeted by this effort were responsible for approximately 10 percent of the cocaine available in the United States. As of December 31, 2004, Operation Busted Manatee had resulted in 96 arrests and the seizure of 6,354 kilograms of cocaine, 1,165 pounds of marijuana and \$28,877,755 in assets. This investigation was conducted with Immigration and Customs Enforcement, the Internal Revenue Service, the Florida Highway Patrol, the New York Police Department, the Royal Canadian Mounted Police, the Royal Bahamas Police Force, the Colombian National Police, the Jamaican Constabulary and Defense Force, the Panama Judicial Police, and Her Majesty's Customs and Excise.

Operation Brain Drain. On September 15-22, 2004, an 18-month multi-jurisdictional OCDETF/PTO investigation targeting ephedrine and methamphetamine trafficking organizations in the United States and Canada culminated in the arrest of 59 individuals. Armando Solis, the leader of a central California methamphetamine trafficking organization, and Rodger Bruneau, who supplied ephedrine through a Canadian pharmaceutical company since 2000, were among those arrested. According to investigative information, Bruneau is responsible for the illegal sale of 10 tons of ephedrine since 2001. As of December 31, 2004, Operation Brain Drain had resulted in 101 arrests and the seizure of two clandestine labs (including a "super lab"), more than .6 metric tons of ephedrine powder, 1.7 million ephedrine tablets, .04 metric tons of methamphetamine, \$479,257 in U.S. currency, 21 vehicles, 30 weapons, and \$3.5 million in Canadian currency. If converted, the seized ephedrine would produce over .5 metric tons of methamphetamine. This investigation was coordinated by the DEA Special Operations Division (SOD) and conducted by DEA offices in Sacramento, California, Buffalo, New York, Miami, Florida, the DEA Vancouver Resident Office, the Internal Revenue Service (IRS), Immigration and Customs Enforcement (ICE), and the Royal Canadian Mounted Police (RCMP).

Operation Candy Box. Operation Candy Box was a three-year investigation that targeted a Vietnamese MDMA and marijuana distribution organization operating in the United States and Canada. The target organization imported MDMA powder from the Netherlands and in clandestine laboratories in Canada, pressed it into approximately one million MDMA tablets per month for distribution in the United States and Canada. Approximately \$5 million per month in drug proceeds were transported to Canada in bulk currency and/or laundered through a network of Vietnamese-owned money remitters and travel agencies in both the United States and Canada.

Operation Candy Box concluded on March 31, 2004 with dismantlement of the organization and the arrest of 161 individuals in Canada and throughout the United States. As of December 31, 2004, Operation Candy Box had resulted in a total of 224 arrests and the seizure of \$8.9 million in U.S. currency, 409,300 MDMA tablets, 1,546 pounds of MDMA powder, 1,976 pounds of marijuana, 6.5 pounds of methamphetamine, 62 weapons, and 38 vehicles.

Caribbean Initiative. The Caribbean Initiative was a series of investigations coordinated by the Special Operations Division that targeted Colombian cocaine trafficking organizations utilizing the Caribbean corridor to transport drugs destined for the United States. These organizations were responsible for distributing three metric tons of cocaine in the United States every month, amounting to at least 10 to 20 per cent of the U.S. cocaine supply. Through use of electronic eavesdropping techniques, DEA worked with foreign law enforcement counterparts to identify and attack the most significant drug traffickers impacting this region as well as their command and control infrastructure and financial operations.

The Caribbean Initiative included eight successful investigations which each dismantled large-scale organizations. The four-year initiative concluded in June 2004 and as of December 31, 2004 resulted in a total of 354 arrests, including five Consolidated Priority Organization Targets (CPOTs) and the seizure of 26,584 kilograms of cocaine, 7,196 pounds of marijuana, and more than \$86 million in currency and other assets.

Operation Caso M. Operation Caso M was an SOD supported multi-jurisdictional, multi-national OCEDEF targeting the Dominican Republic-based Colombian cocaine trafficking organization, headed by CPOT Jose Arismendy Almonte-Pena, a Dominican National. The ALMONTE-Pena organization was one of the most significant cocaine transportation and distribution organizations operating in the Caribbean, transporting approximately 2,000 kilograms of cocaine each month from South America to Puerto Rico and the Caribbean for distribution in the continental United States. Operation Caso M which was initiated in October 2002, by the DEA and the Federal Bureau of Investigation (FBI), encompassed investigations in seven domestic judicial districts and the countries of Colombia, Dominican Republic and Venezuela and demonstrated a high level of cooperation among multi-national partners in the Caribbean. Operation Caso M culminated in November 2003, and as of December 31, 2004, resulted in 23 arrests including CPOT ALMONTE-Pena, the seizure of 193 kilograms of cocaine and \$4,464,000 in assets/U.S. currency.

Operation Choque. This OCEDEF and Special Operations Division (SOD) coordinated investigation has produced 94 arrests and the seizure of 1,407 kilograms of cocaine, 523 pounds of marijuana, 10 pounds of methamphetamine, and \$10.6 million in U.S. currency. More significantly Operation Choque has dismantled a money transportation organization associated with Joaquin Guzman-Loera and Vicente Carrillo-Fuentes responsible for moving over \$87 million in drug proceeds from the U.S. to Mexico since December 2002. Operation Choque has also disrupted a significant international drug distribution cell based in Guatemala, headed by CPOT Jorge Mario Paredes-Cordova that was supplying cocaine to the New York and Chicago areas. DEA agents employed the use of 50 court-authorized wiretaps during the course of the investigation. Operation Choque encompasses investigations in 11 judicial districts (Colorado, Chicago, New York, Greensboro, NC, Albuquerque, NM, Indianapolis, IN, Detroit, MI, Amarillo, TX, El Paso, TX, Houston, TX, Phoenix, AZ, Wilmington, DE and four countries (United States, Mexico, Guatemala, and Colombia).

Operation Containment. Operation Containment is an intensive, multinational, law enforcement initiative that was congressionally mandated in 2002 and is led by DEA. It involves countries in Central Asia, the Caucasus, the Middle East, Europe, and Russia.

The following 18 countries are participating in Op Containment:

Afghanistan, Armenia, Azerbaijan, Bulgaria, Germany, Greece, India, Kazakhstan, Kyrgyz Republic, Pakistan, Tajikistan, Turkey, Turkmenistan, Russia, Ukraine, Uzbekistan, United States, and the United Kingdom.

The following are the goals of Operation Containment.

- Implement a coordinated post-Taliban heroin counternarcotics strategy to reduce the production of opium through the prevention of poppy cultivation and destruction of known opium stockpiles and heroin laboratories.
- Diminish the availability of heroin and morphine base in countries surrounding Afghanistan and along the Balkan and Silk Road trafficking routes.
- Deny safe havens to criminal organizations involved in drug trafficking, drug related terrorist activities, and money laundering. To deprive these organizations of their financial basis for their activities.

- Engage in proactive enforcement and intelligence gathering operations targeting the command and control structure of heroin trafficking organizations operating in Afghanistan and the greater Southwest and Central Asian region.
- Continue implementing administrative, diplomatic, and investigative measures needed to reduce the flow of Afghan heroin into world markets and prevent Afghanistan from becoming a major heroin supplier to the United States.
- In order to accomplish these goals DEA has enhanced the staffing levels of the Kabul CO to seven special agents, three intelligence analysts, and two support personnel. The intelligence analysts will be assigned to the following locations: the CFC-A Intelligence Fusion Center in Kabul, the CJTF-76 at Bagram Air Base, and the other government agency fusion center on the Embassy compound.
- Further office enhancements have already taken place with increased special agent positions at the Ankara, Turkey CO, Istanbul, Turkey RO, London, England CO, and Moscow, Russia CO. An IA and Admin position is also in place in the Ankara, Turkey CO.
- DEA also plans to enhance the special agent staffing levels at the Tashkent, Uzbekistan CO and Brussels, Belgium CO. In addition, DEA plans to open up a new DEA Country Office in Bishkek, Kyrgyz Republic.
- In a response to a request by the Administration and the U.S. Ambassador to Afghanistan, DEA detailed its Assistant Administrator for Intelligence to serve as the Counter Narcotics Coordinator (CNC) in Afghanistan. The CNC has been in Kabul since mid-August 2004, and is responsible for overseeing all U.S. Government counternarcotics programs in Afghanistan.
- In May of 2003, DEA established a SIU in Tashkent, Uzbekistan—a country critical to containing the threat of Afghan opium.
- The Kabul CO's primary counterpart in Afghanistan is the Counter Narcotics Police—Afghanistan (CNP-A). DEA has established the National Interdiction Unit (NIU), which are CNP-A officers who have been selected to work narcotic enforcement operations with the Kabul CO and later assisting the FAST program agents. DEA will advise, train, and mentor these NIU officers. On October 28, 2004, the first class of CNP-A NIU, graduated from their six-week training program. The class of 28 graduating officers included 2 women. On December 16, 2004, the second NIU class of 24 officers, including two women, graduated and is operationally deployed. It is expected that by April of 2005 100 NIU officers will have completed their training and will work directly with Kabul CO and FAST program agents.

On September 28 and 29, 2004, the DEA Ankara, Turkey CO and the Turkish National Police co-hosted delegates from the above 18 partner countries. This action oriented conference resulted in proactive initiatives designed to counter the threat from Afghanistan opiates within the region. Four initiatives were developed in order to accomplish the above-mentioned goals.

- Collective identification and targeting of five major Drug Trafficking Organizations (DTOs).
- Promotion of international money laundering investigations against regional DTOs.
- Participants agreed to develop a target list of DTOs actively involved in the illicit distribution of acetic anhydride (AA) and other precursor chemicals. In addition, they agreed on the collective identification of Heroin Chemists operating in the region.

- All agreed on increased sharing of investigative leads and intelligence since DTOs operate across national boundaries. Participants agreed to forward these leads and intelligence to the Regional Drug Intelligence Initiative in Tashkent, Uzbekistan. Leads and intelligence will also be shared with the Intelligence Fusion Centers in Kabul, Afghanistan comprised of various government agencies.

In FY 2004, Operation Containment resulted in the seizures of 14.9 metric tons of heroin, 7.7 metric tons of morphine base, 5.9 metric tons of opium gum, 77 metric tons of cannabis, approximately 3.6 tons of precursor chemicals, 498 arrests, and the seizure of 11 heroin labs, and led to the dismantlement or disruption of major distribution and transportation organizations involved in the Southwest Asian heroin drug trade. In the first quarter FY 2005, Operation Containment resulted in the seizure of 2.4 metric tons of heroin, 985 kilograms of morphine base, 3.0 metric tons of opium gum, 152.9 tons of cannabis, and 195 arrests.

Some of the noteworthy seizures for the first quarter of FY 2005 are listed below:

- In November and December 2004, the Kabul CO and CNP-A arrested three Afghan National drug traffickers in Kabul, Afghanistan. All three defendants were part of a Kabul CO initiated undercover operation, which resulted in the seizure of four kilograms of heroin. The defendants were indicted within the Southern District of New York for conspiracy to import 200 kilograms of heroin into the U.S. All three traffickers are in Afghan custody pending their extradition and or lawful surrender to the U.S. for prosecution.
- On December 4, 2004, the Istanbul, Turkey RO and the Turkish National Police (TNP) seized 566 kilograms of heroin concealed inside hollow pieces of marble in Mersin, Turkey. Four Turkish Nationals were arrested and approximately 100,000 Euro (\$133,263 USD) was seized. The heroin originated in Afghanistan and was destined for markets in the Netherlands.
- On November 28, 2004, the Kabul CO and the CNP-A NIU raided two mountainous compounds in Lowgar Province, Afghanistan and seized approximately 140 metric tons of marijuana. The marijuana was in the process of being converted into hashish.
- On November 9, 2004, the Istanbul RO and TNP seized 110 kilograms of heroin in a stash location in Istanbul, Turkey. A total of eight (8) Turkish Nationals and two foreign nationals were arrested. The heroin originated in Afghanistan and was destined for markets in Western Europe.
- On October 20, 2004, the Istanbul RO and TNP seized 60 kilograms of heroin from a vehicle in Istanbul, Turkey. Five (5) Turkish Nationals were arrested. The heroin originated in Afghanistan and was destined for markets in the Netherlands.
- On October 19, 2004, the Istanbul RO and TNP seized 82 kilograms of heroin from the trunk of a vehicle in Istanbul, Turkey. Twelve (12) Turkish Nationals were arrested and nine (9) illegal firearms seized. The heroin originated in Afghanistan and was destined for markets in Western Europe.

Operation Cyber-Pharming. On August 26, 2004, the DEA Bangkok Country Office and DEA Newark Division completed Operation Cyber-Pharming, an eight-month investigation, with the dismantlement of a pharmaceutical controlled-substance Internet trafficking organization in Thailand. The Royal Thai Police arrested Achitphon Khonseechai, the leader of the organization, and seven associates on charges that could result in a sentence of more than 20 years to life imprisonment. Khonseechai operated a Bangkok-based Internet website and pharmacy that shipped millions of dosage units of various pharmaceutical controlled substances, including Valium®, Xanax®,

phenobarbital, and codeine combination drugs, to at least 36 states since 2003. Customers of the website were only required to complete an online questionnaire prior to receiving drugs. As of December 31, 2004, Operation Cyber-Pharming has resulted in eight arrests and the seizure of approximately 500,000 dosage units of various pharmaceutical controlled substances. This investigation was conducted in coordination with the following Thai agencies: Customs Department, Bangkok Intelligence Center, Office of the Narcotics Control Board, Postal Inspectors, Food and Drug Administration, and Express Mail Service.

Operation Double Talk. Operation Double Talk is a SOD supported multi-jurisdiction, multi-national OCDETF wire-intercept operation targeting Bahamian-based cocaine trafficking organization headed by Melvin Maycock and Sean Adderly, both Bahamian nationals operating in Jamaica and the Bahamas. Initially, NYFD T-43 conducted T-IIIs against cocaine/heroin trafficking cells run by Juan CESPEDES. As a result of the New York operations, not only was a cocaine distribution cell (moving 500 kilogram shipments) disrupted but also a Heroin mill capable of distributing approximately 30-50 kilograms per month was seized and assets worth more than \$5,000,000 are being forfeited by the Southern District of New York and DEA. Additionally, The Miami Field Division working in conjunction with The New York Field Division conducted the first non-consensual intercepts of Satellite telephones in the U.S. This organization is responsible for transporting multi-hundred kilograms of cocaine via maritime methods from Jamaica to the United States via the Bahamas. These loads of cocaine were being transported into Miami, Florida from the Bahamas and then further trucked up to New York for distribution. The inherent violence of these traffickers became clearly established when in February 2004, one of the primary targets, Sean Adderly was brutally murdered in Negril, Jamaica as a result of drug related activities. As of December 31, 2004, Operation Double Talk had resulted in 31 arrests and the seizure of 285 kilograms of cocaine, 1, 500 pounds of marijuana, and \$8,409,200 in assets.

Operation Lucky Mai. On June 7, 2004, DEA culminated a one-year OCDETF/ PTO investigation, Operation Lucky Mai, with the dismantlement of an international marijuana trafficking and money laundering organization. The operation resulted in the arrest of 31 individuals in the United States and Canada, including leaders of the organization Oanh Phan and Trong Nguyen. According to intelligence information, since 2002, the organization operated several large-scale indoor marijuana cultivation sites in Canada. The resulting high potency marijuana was subsequently exported to distribution cells in the United States. During a six-month period in 2003, the organization produced approximately 9.1 metric tons of marijuana per month. An estimated \$70 million in drug proceeds was laundered by the organization from the United States to Toronto, Canada. As of December 31, 2004, Operation Lucky Mai had resulted in 41 arrests and the seizure of over \$5 million in U.S. currency, 5 metric tons of marijuana, and 3,000 MDMA tablets. This investigation was supported by the SOD and conducted with the Michigan State Police, ICE, IRS, the Canadian Customs and Revenue Agency, and the RCMP.

Operation Mapale. From November 21-December 5, the Bogotá CO, the Colombian National Police, and the Colombian military executed Operation Mapale II, targeting laboratories controlled by the Autodefensas Unidas de Colombia (AUC), the Fuerzas Armadas Revolucionarias de Colombia (FARC), and the North Valley Cartel in southwest Colombia. Results include the seizure of 800 kilograms of cocaine HCl, 70 kilograms of cocaine base, 13 kilograms of heroin, 9560 gallons of liquid precursor chemicals, 1,540 kilograms of precursor chemicals, \$40,454 U.S. currency, and the destruction of 22 cocaine laboratories and 103 hectares of coca plants. Ten arrests were made. Results of Operation Mapale and Operation Mapale II combined include the seizure of 1,297 kilograms of cocaine HCl, 12,941 kilograms of cocaine base, 13 kilograms of heroin, 54,629 gallons of liquid precursor chemicals, 38,002 kilograms of solid precursor chemicals, \$55,839 U.S. currency, the destruction of 81 cocaine laboratories and 103 hectares of coca plants, and 16 arrests.

Operation Northern Star. Operation Northern Star was an 18-month investigation targeting the illegal importation of pseudoephedrine, an essential chemical used in the production of methamphetamine. The investigation revealed that three Canadian chemical companies sold bulk quantities of pseudoephedrine to a trafficking organization that smuggled the chemical across the U.S.-Canadian Border and transported the substance to the west coast where it was sold to methamphetamine “super lab” operators. Operation Northern Star concluded in April 2003 and resulted in a total of 97 arrests and the seizure of more than 17 metric tons of pseudoephedrine (which could produce approximately 10.4 metric tons of methamphetamine) and \$3.9 million in U.S. currency. The trafficking organization and one of the Canadian companies were dismantled. The two remaining Canadian companies were disrupted.

Operation Panama Express. Operation Panama Express is a joint operation designed to disrupt and dismantle major maritime drug smuggling organizations operating from the Pacific and Caribbean coasts of Colombia. The operation is conducted by DEA and several other federal, state, and local law enforcement authorities, including the Federal Bureau of Investigation, Immigration and Customs Enforcement, and the Joint Interagency Task Force (JIATF). Begun in February 2000 as a Special Enforcement Operation known as “Operation Privateer,” the effort was renamed Panama Express in October 2003. As of December 31, 2004: 236,800 kilograms of cocaine seized; 102,714 kilograms scuttled; 775 arrests.

Operation Uprising. Operation Uprising is a Special Operations Division (SOD) supported multi-jurisdictional, multi-national investigation targeting members of the Fuerzas Armadas Revolucionarias de Colombia (Revolutionary Armed Forces of Colombia or FARC), including CPOTs Pedro Antonio Marin (a.k.a. Manuel Marulanda Velez), Jorge Briceño Suarez (a.k.a. Mono Jojoy), Jose Benito Cabrera Cuevas (a.k.a. Fabian Ramirez), and Tomas Molina Caracas (a.k.a. Negro Acacio), and the independent drug trafficking organizations supplied by the FARC.

1st Quarter, FY 2005. In October 2004, Venezuelan National Guard, DEA Caracas, and SOD Bilateral Case Group (BCG) agents arrested Corredor Ibague without incident in Venezuela. In November 2004, Carlos Ivan Mendes Mesquita, his son, and five additional defendants were arrested at a ranch in Northeastern Paraguay. During the execution of the warrant, the officers seized a twin-engine aircraft with a suspected load of 500 kilograms of cocaine. Several other important associates of Corredor Ibague also have been arrested.

In October 2004, the Colombian Military reported the capture of Jorge Enrique Rodriguez (a.k.a. Ivan Vargas), commander of the FARC 24th Front. Monies to finance the activities of the Front were generated from drug trafficking and kidnapping in the Southern Bolivar region of Colombia. Colombian authorities also captured Rodriguez’ girlfriend, Laura Emilise Rueda (a.k.a. Alejandra). Rueda reportedly was the Finance Chief of the FARC 24th Front. Colombian authorities assert that Rueda was in charge of coordinating the sale of cocaine produced by the FARC as well as acquiring supplies, weapons and munitions.

The continued success of Operation Uprising has been the result of the joint efforts of the Bogota Country Office, Panama City Country Office, Brasilia Brazil Country Office, Sao Paulo Resident Office, Foreign Operations Group of the Caribbean Field Division operating in Suriname, Caracas Country Office, Asuncion Country Office, Curacao Country Office, The Hague Country Office and the BCG.

As of December 31, 2004, Operation Uprising has resulted in 98 arrests and the seizure of 7,733.5 kilograms of cocaine and 205.5 kilograms of cocaine base. The most current phase of Operation Uprising is targeting the FARC 14th Front and the upper leadership of the entire FARC organization.

Operation United Eagles. In August 2003, the DEA Mexico Country Office initiated Operation United Eagles, a fugitive apprehension effort to apprehend Consolidated Priority Organization Targets

operating or living in Mexico. A fugitive apprehension team was created and as currently consists of 50 members of the Mexican Agencia Federal de Investigaciones (AFI) trained by DEA, U.S. Marshals and FBI.

Initially, Operation United Eagles has focused on locating and apprehending key leaders of the ARRELLANO-Felix Organization. As of December 31, 2004, Operation United Eagles has resulted in the arrest of 19 members of the AFO, including 5 “Tier I” members: Efran PEREZ, Jorge Aureliano-Felix, Gilberto HIGUERA-Guerrero, Giberto Camacho Valle, and Marco Antonio SIMENTAL-Garcia.

Operation Web Tryp. On July 21, 2004, Operation Web Tryp, an 18-month OCDETF and Priority Target investigation, resulted in the arrest of 10 individuals, including the operators of five internet websites. The individuals were arrested in California, Arizona, Louisiana, Georgia, and Virginia on charges of conspiracy and trafficking in drug analogues. Charges were filed utilizing the Controlled Substance Analogue Enforcement Act (CSAEA). Prior to the CSAEA, alterations to the chemical structure of a controlled substance would render the drug legal. The websites operated for an average of 2-3 years and had thousands of customers. Two fatal and 14 non-fatal overdoses have been connected with these internet operations.

After the July take down, DEA provided customer lists to the United Kingdom (UK) National Crime Squad for intelligence purposes. On December 15, the UK National Crime Squad and local UK police arrested 24 individuals in the UK for receiving drug analogues. Those arrested were customers of the five U.S.-based internet websites dismantled as a result of Operation Web Tryp. As of December 31, 2004, Operation Web Tryp had resulted in a total of 36 arrests. This investigation was coordinated by the DEA Special Operations Division (SOD) and conducted by DEA offices in San Diego and Riverside, California; Las Vegas, Nevada; Phoenix, Arizona; Albuquerque, New Mexico; Fargo, North Dakota; Baton Rouge, Louisiana; Macon, Georgia; Norfolk, Virginia; New York, New York; and London. Other agencies that also participated in the investigation include the Federal Bureau of Investigation (FBI), Immigration and Customs Enforcement (ICE), Food and Drug Administration (FDA), Internal Revenue Service (IRS), U.S. Postal Inspection Service (USPS), Naval Criminal Investigative Service, and the U.S. Forestry Service (USFS).

Operation White Dollar. On May 4, 2004, DEA, in cooperation with law enforcement entities in Canada, Colombia, Great Britain, New York, and Florida, culminated a two-year, multi-jurisdictional OCDETF investigation with the dismantlement of an international money laundering organization. Operation White Dollar resulted in the arrests of 27 individuals in the United States, Colombia, and Canada, including leaders Gabriel and Nicholas Otalvaro-Ortiz. Four Colombian companies involved in the scheme were also indicted and their common owner has agreed to the forfeiture of \$20 million from a seized bank account. The Otalvaro-Ortiz money laundering organization used the Colombian Black Market Peso Exchange to purchase drug proceeds from the United States and Canada at a reduced rate. This investigation was coordinated by the DEA’s SOD and the Office of Financial Operations with assistance from the IRS, the New York Police Department, the Office of the Special Narcotics Prosecutor for the City of New York, the Manhattan District Attorney’s Office, the South Florida Money Laundering Strike Force, the RCMP, the British National Crime Squad, and the Colombian Departamento Administrativo De Seguridad. As of December 31, 2004, Operation White Dollar resulted in the following:

- arrests: 27;
- value of assets seized: \$22,838,684.08;
- amounts laundered: \$7,465,659.00;
- amount of commissions received: \$449,045.15;

- total number of Transactions: 30.

1st Quarter FY2005 (October 1, 2004-December 31, 2004)

Arrest of Norte Valle Cartel (NVC) Lieutenant Dagoberto FLOREZ-Rios in Colombia. On December 28, the DEA Bogotá Country Office reported the arrest of NVC lieutenant Dagoberto FLOREZ-Rios by the Colombian National Police, Sensitive Investigative Unit, at a farm near Medellín, Colombia. One of five NVC fugitives being sought in Colombia, FLOREZ-Rios was indicted in April 2004 for cocaine trafficking and money laundering in the U.S. District Court, Eastern District of New York. FLOREZ-Rios was responsible for laundering drug proceeds for the NVC utilizing real estate investments, wire transfers, and money exchange houses.

Consolidated Priority Organization Target (CPOT) WONG Moon-chi Extradited to Hong Kong. On December 22, CPOT WONG Moon-chi was extradited from Cambodia to Hong Kong to face charges of trafficking in marijuana, amphetamine, and heroin. WONG was arrested on December 8 in Cambodia by the Cambodian National Police in a coordinated effort with the DEA Hong Kong and Canberra Country Offices and the Australian Federal Police. A member of the 14K Triad, the largest Hong Kong based ethnic Chinese organized crime group, WONG was one of the first CPOTS designated in September 2002. According to Chinese authorities, WONG is the organizer of a 1996 shipment of 1,300 pounds of heroin seized in China destined for the United States. WONG is also responsible for a 1996 seizure in China of four tons of marijuana destined for Japan and a 2002 seizure of 75 pounds of heroin en route from Cambodia to China.

Financial Consolidated Priority Organization Target (CPOT) Gilberto RODRIGUEZ-Orejuela Extradited to the United States. On December 4, Financial CPOT Gilberto RODRIGUEZ-Orejuela was extradited from Bogotá, Colombia to the United States to face charges of drug trafficking and money laundering. RODRIGUEZ-Orejuela was indicted in December 2003 in the U.S. District Court for the Southern District of New York and in January 2004 in the U.S. District Court for the Southern District of Florida as the result of OCDETF investigations conducted by the DEA New York and Miami Divisions and the DEA Bogotá Country Office. RODRIGUEZ-Orejuela and his brother Miguel founded and directed the notorious Cali cartel that became the world's chief supplier of cocaine in the 1990s and earned an estimated \$8 billion in annual profits.

Financial Consolidated Priority Organization Target (CPOT) Lino Antonio SIERRA-Vargas arrested in Colombia. On December 1, Financial CPOT Lino Antonio SIERRA-Vargas was arrested by the Colombian National Police in Colombia as the result of an eighteen-month OCDETF investigation conducted by the DEA Miami Division and the DEA Bogotá Country Office. SIERRA-Vargas was indicted in June on charges of conspiracy and money laundering in the U.S. District Court for the Southern District of Florida. Since 1997, SIERRA-Vargas was responsible for the distribution of 4.4 tons of cocaine and the laundering of more than \$5 million in drug proceeds. SIERRA-Vargas is awaiting extradition to the United States.

Afghanistan Heroin Trafficker Arrested. On November 27, as the result of a four-month investigation conducted by the DEA Kabul Country Office, Haji BAHRAM was arrested by the Counter Narcotics Police-Afghanistan. BAHRAM, aka Haji Bahram KHAN, a member of the Misri KHAN Afghanistan-based heroin trafficking organization, was indicted in September for conspiracy and heroin trafficking in the U.S. District Court, Southern District of New York. Misri KHAN was previously arrested in Afghanistan on November 4. According to the indictment, BAHRAM and KHAN negotiated the shipment of 440 pounds of heroin from Afghanistan to the United States. BAHRAM and KHAN are awaiting extradition to the United States.

Shipment of 1,900 Pounds of Opium Seized in Afghanistan. On November 17, 2004, the DEA Kabul Country Office (KCO) reported the seizure of 1,900 pounds of opium by the Counter Narcotics

Police-Afghanistan in Kabul, Afghanistan. The opium was being transported in a tanker-trailer truck. According to intelligence information, the opium originated in Northern Afghanistan and was being shipped to Kandahar, Afghanistan. The KCO is assisting the Counter Narcotics Police in development of investigative leads in an attempt to identify the organization responsible for shipping the opium.

Consolidated Priority Organization Target (CPOT) Zeev ROSENSTEIN Arrested. On November 8, 2004, the DEA Miami Division reported the arrest of CPOT Zeev ROSENSTEIN by the Israeli National Police in Tel Aviv, Israel. The arrest is the result of a three-year investigation and September indictment of ROSENSTEIN for trafficking MDMA in the U.S. District Court, Southern District of Florida. According to intelligence information, ROSENSTEIN is the leader of an Israeli criminal organization responsible for financing, coordinating and smuggling multi-million tablet shipments of MDMA from Belgium and Holland to the United States, Israel and Europe. Investigative information has linked ROSENSTEIN to a 2001 seizure in New York of 700,000 MDMA tablets and \$187,000 in U.S. currency. Extradition of ROSENSTEIN to the United States is pending.

Leader of Afghanistan Heroin Trafficking Organization Arrested. On November 5, 2004, the four-month investigation of an Afghanistan-based heroin trafficking organization by the DEA Kabul Country Office and the Afghan Counter Narcotics Police resulted in the arrest of Misri KHAN in Kabul, Afghanistan. KHAN, the leader of the drug trafficking organization, and four associates were indicted for conspiracy to import 440 pounds of heroin into the United States in September 2004 in the U.S. District Court, Southern District of New York. According to intelligence information, KHAN's organization manufactured and exported large shipments of heroin from Afghanistan and Pakistan to the United States, Asia, and Europe. KHAN's extradition to the United States is pending.

Top Lieutenant of CPOT Osiel CARDENAS-Guillen Arrested in Mexico. On October 29, 2004, the DEA Monterrey, Mexico Resident Office reported the arrest of Rogelio PIZANA-Gonzalez—a top lieutenant in the CPOT Osiel CARDENAS-Guillen drug trafficking organization—by the Mexican Agencia Federal de Investigaciones in Matamoros, Tamaulipas, Mexico. A Mexican federal agent was killed and two local police officers injured during a shoot-out that occurred during the arrest. Two of PIZANA-Gonzalez's bodyguards were also killed. In April 2002, PIZANA-Gonzalez was indicted on charges of conspiracy to import and distribute cocaine in the U.S. District Court, Southern District of Texas. According to intelligence information, PIZANA-Gonzalez was in charge of cocaine and marijuana transportation for the CARDENAS-Guillen organization and controlled a rural land corridor and a river crossing into the United States. PIZANA-Gonzalez has been linked to over 60 drug-related murders in Mexico. His extradition to the United States is pending.

Seizure of 2.2 Tons of Opium in Afghanistan. On October 25, 2004, the DEA Kabul Country Office (KCO) reported the seizure of 2.2 tons of opium in Nangarhar Province, Afghanistan. The opium was seized at a market and a nearby residential compound during a joint operation conducted by the KCO, the British Task Force 333, the British Drug Liaison Office, and the Counter-Narcotics Police—Afghanistan. Seventy-five individuals were detained for questioning and two were arrested. The operation was carried out with the support of the Combined Forces Command—Afghanistan Intelligence Fusion Center.

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Operation Money Clip, Phase 1 Resulted in Dismantlement of Money Laundering and Poly-Drug Trafficking Organization. On October 19, 2004, a one-year multi-jurisdictional Organized

Crime Drug Enforcement Task Force (OCDETF) investigation coordinated by the DEA Special Operations Division resulted in the dismantlement of a Mexican-based money laundering and poly-drug trafficking organization. Eighty-three individuals were arrested during this operation that involved investigations in several U.S. cities and Mexico. As of December 31, 2004, Operation Money Clip has resulted in seizures of \$4.4 million in U.S. currency, 2,552 kilograms of cocaine, 74 pounds of crystal methamphetamine, 40,295 pounds of marijuana, and 3 pounds of heroin. The organization laundered as much as \$200 million in drug proceeds and was responsible for the distribution of approximately 1,100 pounds of cocaine, 200 pounds of methamphetamine, 44 pounds of heroin, and 10,000 pounds of marijuana per month since 2002. This investigation was conducted with the Department of Homeland Security, Immigration and Customs Enforcement, and numerous U.S. state and local enforcement agencies.

Seizure of More Than 180 Pounds of Heroin and Arrest of 11 in Turkey. On October 19, 2004, investigations conducted by the DEA Istanbul Resident Office and the Turkish National Police resulted in seizures of more than 180 pounds of heroin in Istanbul, Turkey. A total of 11 Turkish nationals from two drug trafficking organizations were arrested as a result of the operations. According to intelligence information, one of the organizations involved is supplied by an Afghanistan source of supply identified and targeted in September as part of the Operation Containment targeting initiative.

Operation Sierra Mist. Operation Sierra Mist, is a Special Operations Division (SOD) supported multi-jurisdictional, multi-national Organized Crime Drug Enforcement Task Force (OCDETF) investigation targeting the communications of Auto Defensas De Colombia (AUC) Para military leaders Consolidated Priority Target (CPOT) Hernan Giraldo-Serna, Rodrigo Tovar-Pupo, and their supporting lieutenants.

On October 16, 2004, AUC lieutenant Alvaro PADILLA-Redondo was arrested in Colombia by the Colombian National Police, Antinarcotics Unit, as part of a four-year multi-jurisdictional investigation conducted by the DEA Cartagena Resident Office, the DEA Miami and New York Divisions, and the DEA Las Vegas District Office. In June 2004, PADILLA-Redondo, a member of the Consolidated Priority Organization Target Hernan GIRALDO-Serna drug trafficking organization, was indicted for conspiracy to import cocaine into the United States in the U.S. District Court, District of Columbia. According to intelligence information, PADILLA-Redondo was responsible for the security of maritime cocaine loading operations on the North coast area of Colombia. Extradition of PADILLA-Redondo to the United States is pending. As of December 31, 2004, Operation Sierra Mist has resulted in 20 arrests and the seizure of 17 cocaine laboratories, 8, 140 kilograms of cocaine, 20,590 gallons of precursor chemicals, and \$1.9 million in assets.

Operation Escandalo, Airline Chief of Security Arrested for Cocaine Smuggling. On October 14, 2004, the DEA Fort Lauderdale District Office arrested Stephanie AMBROISE in Miami, Florida, based on a criminal complaint issued in the Southern District of Florida on October 12, 2004. AMBROISE was the chief of security for American Airlines at the Port-au-Prince International Airport in Haiti. AMBROISE is the latest individual arrested in an investigation of cocaine smuggling under ousted Haitian President Jean-Bertrand Aristide. According to investigative information, AMBROISE was associated with several traffickers and used her position at the Port-au-Prince airport to bypass security. Intelligence indicates that she was responsible for the shipment of over 1,300 pounds of cocaine from Haiti to the United States per month from 2001-2003 and received \$2,000 in payment for each kilogram of cocaine smuggled. Other individuals arrested during this investigation include former Haitian Senator Flourel CELESTIN, former Chief of Palace Security Oriel JEAN, former Haitian National Police Commissaire Romaine LESTIN, former Chief of the Haitian National Police Narcotics Unit Evitz BRILLIANT, former Director General of the Haitian National Police Jean Nesley LUCIEN, and former Haitian National Police Commander Rudy THERASSAN. In addition, Consolidated Priority Organization Target Jean Eliobert JASME, Regional Priority Organization

Target Carlos OVALLE, and Haitian traffickers Beaudouin Jacques KETANT and Wista LOUIS have also been arrested. With the exception of AMBROISE who is currently out on bond, as of December 31, 2004, all of the aforementioned defendants were incarcerated in the United States. The investigation is being conducted with Immigration and Customs Enforcement, the Federal Bureau of Investigation, and the Internal Revenue Service.

Arrest of Financial CPOT Gabriel PUERTA-Parra in Colombia. On October 8, 2004, the DEA Bogotá Country Office reported the arrest of Financial CPOT Gabriel PUERTA-Parra by the Colombian National Police Sensitive Investigative Unit at a ranch in La Vega, Colombia. PUERTA-Parra, a former attorney for the Departamento Administrativo de Seguridad, the Colombian equivalent to the FBI, was indicted in the U.S District Courts for the District of Columbia and the Southern District of Florida. Charges included violation of the Racketeer Influenced and Corrupt Organization Act, conspiracy, cocaine trafficking, and money laundering. According to intelligence information, PUERTA-Parra was a key counselor and advisor to the North Valley Cartel since the 1980's and an attorney for former Medellín Cartel leader Pablo ESCOBAR. PUERTA-Parra utilized a large range of legitimate businesses including investment and real estate companies, agricultural enterprises, and currency exchanges to launder drug proceeds through the United States, Mexico, Colombia, Ecuador, and Vanuatu. Extradition of PUERTA-Parra to the United States is pending.

4th Quarter FY2004 (July 1, 2004-September 30, 2004)

\$500 Million Pharmacy Chain Controlled by Financial CPOTs Miguel and Gilberto RODRIGUEZ-Orejuela Seized in Colombia. On September 22, the DEA Bogotá Country Office (BCO) reported the seizure in Colombia of 463 pharmacies and a pharmaceutical laboratory controlled by financial CPOTs Miguel and Gilberto RODRIGUEZ-Orejuela. The real property and inventory have been valued at an estimated \$500 million, the largest asset seizure in Colombia to date. The seizures were made by the Colombian National Police based on a two-year money laundering investigation conducted with the BCO, the DEA New York Division Strike Force, and the Office of Foreign Asset Control. Seizures occurred simultaneously in 28 of 32 regions in Colombia and involved the coordination of 3,200 law enforcement officers country-wide. The investigation revealed that the first pharmacy was purchased by Gilberto RODRIGUEZ-Orejuela in 1972. The brothers have utilized drug profits to develop the franchise and until the seizures, used the stores to launder drug proceeds. The Colombian government has replaced the company's top executives and future profits will be used to fund counternarcotics programs. Miguel and Gilberto RODRIGUEZ-Orejuela are currently incarcerated in Colombia as a result of drug-trafficking convictions.

CPOT Rodrigo MURILLO-Pardo Extradited to the United States. On September 21, CPOT Rodrigo MURILLO-Pardo was extradited from Colombia to the United States to face charges of trafficking in cocaine. MURILLO-Pardo is one of 25 traffickers and the second CPOT extradited from Colombia during September. MURILLO-Pardo was indicted in September 2002 in the U.S. District Court for the Southern District of California after a two-year investigation conducted by the DEA San Diego Division and the Bogotá Country Office. He was arrested in November 2002 by the Colombian National Police. At the time of MURILLO-Pardo's arrest, over \$4.9 million in U.S. currency was seized from his residence. According to investigative information, MURILLO-Pardo was responsible for the attempted importation of 20 tons of cocaine in 2001 that were seized in the Pacific Ocean by U.S. authorities. MURILLO-Pardo's cocaine and marijuana trafficking organization was dismantled in 2002.

Operation Choque OCDETF Investigation Resulted in Arrest of CPOT Associate in Mexico. On September 16, the DEA Ciudad Juarez and Colorado Springs Resident Office reported the arrest of Miguel ARRIOLA-Marquez and two individuals by the Mexican Agencia Federales de Investigaciones, Sensitive Investigative Unit, in Mexico. ARRIOLA-Marquez, a leader in a Saucillo,

Chihuahua, Mexico-based cocaine and money laundering organization, is an associate of CPOT Joaquin GUZMAN-Loera. Miguel and his brother Oscar ARRIOLA-Marquez were indicted in the U.S. District Court for the District of Colorado in December 2003 after a one-year OCDETF and DEA Special Operations Division supported investigation for trafficking in cocaine and money laundering. According to intelligence information, the ARRIOLA-Marquez organization was responsible for the importation of 18 tons of cocaine from Mexico into the United States and the transportation of approximately \$10 million to Mexico per year since 1999. As of October 1, 2004, this investigation has resulted in 97 arrests, the seizure of 1,407 kilograms of cocaine and \$10.6 million.

CPOT Jose Maria HENAO-Mejia Extradited to the United States. On September 10, CPOT Jose Maria HENAO-Mejia was extradited from Colombia to the United States to face charges of conspiracy and trafficking in cocaine. HENAO-Mejia was indicted in June 2002 in the U.S. District Court for the Southern District of New York after a one-year investigation conducted by the DEA New York, Miami, and Newark Divisions, the Bridgeport Resident Office, and the Bogotá Country Office. HENAO-Mejia was arrested in Colombia in September 2002 pursuant to a provisional arrest warrant. According to intelligence information, HENAO-Mejia was the leader of a Medellín, Colombia based drug trafficking organization responsible for the importation of 60 tons of cocaine into the United States per year since 1999, or a total of 360 tons during that time period. The HENAO-Mejia organization was one of eight different CPOTs dismantled in 2003.

Seizure of 11,200 MDMA Tablets and 300 Pounds of Marijuana at the United States-Canada Border. On September 10, the DEA Spokane Resident Office reported the seizure of 11,200 MDMA tablets and 300 pounds of high-potency marijuana by the U.S. Border Patrol at the United States border with Canada in eastern Washington State. Two U.S. citizens were arrested while attempting to enter the United States with the drugs. Subsequent investigation resulted in the arrest of a Vietnamese national in Seattle, Washington. Investigative information indicates the pair were acting as couriers for a Vancouver, British Columbia based organization and had made three trips to the United States within the past two months. The MDMA and marijuana were intended for distribution in the Seattle area. This investigation was conducted with Immigration and Customs Enforcement, the Internal Revenue Service, the Washington Highway Patrol, the Spokane County Sheriff's Office, the Spokane Police Department, and the Royal Canadian Mounted Police.

Consolidated Priority Organization Target (CPOT) Itzhak ABERGIL Arrested. On September 7, the DEA Brussels Country Office reported the arrest of CPOT Itzhak ABERGIL in Amsterdam, Holland. ABERGIL, the leader of an international drug trafficking organization based in Israel, was detained for further investigation by Dutch law enforcement authorities at the request of the Belgian Federal Police. ABERGIL's organization is being investigated by United States authorities for numerous criminal activities including trafficking in cocaine and MDMA, money laundering, kidnapping, murder, extortion, and illegal gambling. His organization operates in the United States, Europe, and other countries.

Cooperative Operation Resulted in Seizure of 33 Pounds of Heroin and Weapons in Afghanistan. On August 31, the DEA Kabul Country Office in conjunction with the newly formed Afghanistan Counter Narcotics Police, Narcotics Interdiction Unit (NIU), seized 33 pounds of heroin and a weapons cache at a remote rural residence in Kunduz Province, Afghanistan. The weapons included assault rifles, a machine gun, and a rocket propelled grenade launcher with multiple rounds. One Afghan national was arrested. The operation involved 16 hours travel one way by a convoy of police vehicles to reach the target site and was the first raid operation conducted by the NIU outside of the Kabul area.

Seizure of One Ton of Opium and Weapons in Afghanistan. On August 30, the DEA Kabul Country Office reported the seizure of one ton of opium, a cache of weapons, and a rocket launcher in an operation conducted jointly with the Afghanistan Counter Narcotics Police in Helmand Province,

Afghanistan. The opium and weapons were seized from two adjacent rural residences and included six AK-47 rifles, a rocket propelled grenade (RPG) launcher, and several RPG rounds. Two individuals were arrested during the operation.

Operation Cyber-Pharming, Pharmaceutical Controlled Substance Internet Trafficking Organization Dismantled in Thailand. On August 26, the DEA Bangkok Country Office and DEA Newark Division culminated an eight-month investigation with the dismantlement of a pharmaceutical controlled substance internet trafficking organization in Thailand. The Royal Thai Police arrested Achitphon KHONSEECHAI, the leader of the organization, and seven associates on charges that could result in a sentence of more than 20 years to life imprisonment. According to intelligence information, KHONSEECHAI operated a Bangkok-based internet website and pharmacy that shipped millions of dosage units of various pharmaceutical controlled substances, including Valium, Xanax, phenobarbital, and codeine combination drugs, to at least 36 states since 2003. Customers of the website were only required to complete an on-line questionnaire prior to receiving drugs. Seized during the operation were approximately 500,000 dosage units of various pharmaceutical controlled substances, a credit card processing machine, computers and hard drives. This investigation was conducted in coordination with the following Thai agencies: Customs Department, Bangkok Intelligence Center, Office of the Narcotics Control Board, Postal Inspectors, Food and Drug Administration, and Express Mail Service.

Arrest of Fuerzas Armadas Revolucionarias de Colombia (FARC) Associate in Panama. On August 6, Miguel OSORIO-Castaño, a FARC associate and drug transportation broker, was arrested in Panama as part of a two-year investigation conducted by the DEA Special Operations Division Bilateral Case Group. OSORIO-Castaño was indicted in April 2004 in the United States District Court, District of Columbia, for conspiracy and intent to import cocaine into the United States. According to intelligence information, OSORIO-Castaño is a member of the Jose RODRIGUEZ cocaine trafficking organization associated with FARC leader and CPOT Jose Benito CARBRERA-Cuevas. The RODRIGUEZ drug trafficking organization is responsible for the importation of approximately five tons of cocaine monthly to the United States from Colombia since 2003. OSORIO-Castaño was expelled from Panama and transported to the United States by DEA aircraft. This investigation was conducted with DEA County Offices in Bogotá, Panama City, Brasilia, Caracas, Asuncion, Curacao, and The Hague, the DEA Sao Paulo Resident Office, and the Panamanian National Police.

Operation Tornado, Seizure of Fuerzas Armadas Revolucionarias de Colombia (FARC) Cocaine Laboratory in Colombia. On August 5, in coordination with the DEA Bogota Country Office, the Colombian National Police Anti-Narcotics Jungla Group seized an active cocaine hydrochloride (HCL) laboratory operated by the FARC. The laboratory was located near the town of Pisanda in the Narino region of Colombia. Production capacity of the laboratory is estimated at 1.6 tons of cocaine per week. Total seizures included 1.6 tons of cocaine HCL, 1,300 pounds of solid processing chemicals, and 5,000 gallons of liquid chemicals

Operation Cold Remedy/Aztec Flu, Seizure of 11.5 Million Pseudoephedrine Tablets in Mexico. On July 31, based on information provided by the DEA Guadalajara Resident Office, the Agencia Federal de Investigaciones (Mexican Federal Police) seized 11.5 million tablets of pseudoephedrine at the port of Manzanillo. The tablets were sent by a Hong Kong pharmaceutical manufacturer for delivery to a fictitious company in Mexico. If converted, the pseudoephedrine would have yielded approximately 1,000 pounds of methamphetamine or 96 million dosage units. On July 8, the Agencia Federal de Investigaciones seized another of 4 million tablets of pseudoephedrine in Mexico City. These tablets were also sent by a Hong Kong pharmaceutical manufacturer for delivery to a fictitious company in Mexico. If converted, the pseudoephedrine would have yielded approximately 33.6 million dosage units of methamphetamine. The investigations were conducted in coordination with the Subprocuraduria de Investigaciones Especializada en Delincuencia Organizada (Mexican Prosecutor's

Office). As of December 31, 2004, Operation Aztec Flu/Operation Cold Remedy has resulted in the seizure of more than 67 million pseudoephedrine tablets.

Operation Bulldozer, Arrest of CPOT Transportation Officer. On July 29, the DEA Bogotá Country Office reported the arrest of Mauricio JARAMILLO-Correa, a transportation officer for the Colombia-based Victor and Miguel MEJIA-Munero CPOT drug trafficking organization. JARAMILLO-Correa was arrested by the Colombian National Police Sensitive Investigative Unit at a ranch near Medellín, Colombia. In August 2003, JARAMILLO-Correa was indicted in the U.S. District Court, Southern District of Texas, for conspiracy and importation of cocaine from Panama into the United States. As of October 1, 2004, this investigation has resulted in 42 arrests and the seizure of 2,226 kilograms of cocaine, 5 kilograms of heroin, and \$2.8 million in U.S. currency. This investigation was coordinated by the DEA Special Operations Division and conducted by the DEA Corpus Christi Resident Office, Panama and Mexico City Country Offices, Panama's Policia Tecnica Judicial, and the Mexican Agencia Federal de Investigaciones.

Operation Streamline, Arrest of Proposed CPOT Juan Carlos CRESPO-Ballesteros. On July 27, a two-year Organized Crime Drug Enforcement Task Force (OCDETF) investigation conducted by the DEA Bogotá Country Office resulted in the arrest of proposed Colombian heroin CPOT, Juan Carlos CRESPO-Ballesteros, and four bodyguards by the Colombian National Police. CRESPO-Ballesteros was indicted during June 2004 in U.S. District Court, Southern District of Florida, for conspiracy to import heroin into the United States. According to intelligence information, CRESPO-Ballesteros is linked to the Fuerzas Armadas Revolucionarias de Colombia (FARC) and was responsible for the importation of approximately 1,000 pounds of heroin per year from Colombia to the United States since 2002. The drugs have an estimated street value of more than \$100 million. Investigative efforts revealed that drug proceeds were returned to Colombia by body couriers and wire transfers. Ten individuals who regularly received drug proceeds from the organization are being prosecuted in Colombia. As of October 1, 2004, this investigation has resulted in 32 arrests and the seizure of over 130 pounds of heroin. The investigation was coordinated by the DEA Special Operations Division and conducted with the DEA New York, Newark, Philadelphia and Miami Divisions and the DEA Charlotte District Office.

Operation Rio Tuluá, Seizure of Three Fuerzas Armadas Revolucionarias de Colombia (FARC) Cocaine Laboratories in Colombia. On July 18 and 26, in coordination with the DEA Bogotá Country Office, the Colombian National Police (CNP) Anti-Narcotics Jungla Group seized three active cocaine hydrochloride (HCL) laboratories operated by the FARC. The laboratories were located in the Tuluá, Valle del Cauca area of Colombia. Total seizures from the laboratories included over 3 tons of cocaine HCL, 16.5 tons of solid processing chemicals, and 3,000 gallons of liquid chemicals. These seizures are part of a DEA and CNP cooperative effort initiated in July 2004 to target cocaine processing laboratories in the region

\$979,000 Seized from Bank Accounts of Consolidated Priority Organization Target (CPOT) Hernan PRADA-Cortez. From July 19 to July 26 as the result of a four-year Organized Crime Drug Enforcement Task Force (OCDETF) investigation, the DEA Orlando District Office seized a total of \$979,000 from bank accounts used to launder drug proceeds for the CPOT Hernan PRADA-Cortez cocaine trafficking organization. According to intelligence information, these U.S. bank accounts were utilized to wire money for PRADA-Cortez and other drug trafficking organizations from the United States to Colombian-based money brokers. Investigative information identified the laundering of over \$3.6 million in drug proceeds from August 2000 through April 2004. To date, this investigation has resulted in the December 2003 arrest of Regional Priority Organization Target Carlos OVALLE, the seizure of over \$3 million, and the identification of over 50 domestic and international bank accounts used to launder drug proceeds.

Operation Synergy, Heroin Trafficking Organization Dismantled. On July 8, a one-year multi-jurisdictional OCDETF investigation culminated with the dismantlement of a Colombian heroin trafficking organization. Based on an indictment obtained in U.S. District Court in the Southern District of Florida, Luis Alfonso ALAYON-Cortes, the leader of the organization, and 23 associates were arrested in the United States, Colombia, and the Dominican Republic. According to intelligence information, the ALAYON-Cortes organization imported more than 60 pounds of heroin into the United States per month since 2003. During the investigation, a clothing factory operated by the organization was discovered in Ecuador where kilogram quantities of heroin were sewn in clothing for smuggling by couriers. To date, the investigation has resulted in 58 arrests and the seizure of 225 pounds of heroin. This Priority Target investigation, entitled Operation Synergy, was coordinated by the DEA Special Operations Division and conducted by DEA offices in New York; Boston; New Haven; Cleveland; Orlando; Tampa; Miami; Bogotá, Colombia; Caracas, Venezuela; and Quito, Ecuador. The Federal Bureau of Investigation, Immigration and Customs Enforcement, and the Colombian National Police also participated in this investigation.

2nd & 3rd Quarter FY2004 (January 1, 2004-June 30, 2004)

\$2.1 Million Seized at Cali Airport. On June 21, the DEA Bogotá Country Office (BCO) reported a total of over \$2.1 million in seizures of U.S. currency at the Cali International Airport. The seizures were accomplished by the DEA trained and equipped Colombian National Police, Cali Airport Interdiction Unit (CAIU). Seizures were made on two separate dates in June from four couriers arriving in Colombia from Mexico. Initiated in April 2004 to detect passengers engaged in drug trafficking or currency smuggling, the CAIU is part of an overall Colombian airport interdiction program started by the BCO in 2003.

Operation Lemony, Seizure of 1,400 Pounds of Cocaine from Sailing Vessel. On June 20, 2004, as the result of an investigation conducted by the DEA Santo Domingo Country Office and the DEA Special Operations Division Bilateral Case Group, the Spanish National Police seized over 1,400 pounds of cocaine from a sailing vessel located off the coast of Spain. The captain and a crew member were arrested. Seven additional arrests were made at two locations in Spain. According to intelligence information, the vessel was utilized by a cocaine trafficking organization based in the Dominican Republic to transport cocaine from Colombia to the United States and Europe. The investigation, also conducted with Her Majesty's Customs and Excise, has resulted in a total of 30 arrests and the seizure of 3,488 kilograms of cocaine.

OCDETF Investigation Culminated with Dismantlement of a Marijuana Trafficking Organization. On June 17, a one-year OCDETF and Priority Target investigation conducted by the DEA Albany District Office culminated in the dismantlement of a high-potency marijuana trafficking organization operating in the United States and Canada. The leader of the organization, Lawrence MITCHELL, and 26 associates were arrested. One of the individuals arrested was a dispatcher with the New York State Police. According to intelligence information, since 2002, the MITCHELL organization imported over 800 pounds of marijuana per month from Canada to the United States. MITCHELL, a Native American, resided on the Canadian side of the Akwesasne-Mohawk Indian Reservation and utilized the remote nature of the area to insulate his trafficking activities. This investigation was coordinated by the DEA Special Operations Division and conducted with the Internal Revenue Service, Immigration and Customs Enforcement, the U.S. Border Patrol, the Royal Canadian Mounted Police, the St. Regis Mohawk Tribal Police, and the New York State Police.

OCDETF Investigation Culminated with Dismantlement of a Marijuana Trafficking Organization. On June 17, a one-year OCDETF and Priority Target investigation conducted by the DEA Albany District Office culminated in the dismantlement of a high-potency marijuana trafficking organization operating in the United States and Canada. The leader of the organization, Lawrence

MITCHELL, and 26 associates were arrested. One of the individuals arrested was a dispatcher with the New York State Police. According to intelligence information, since 2002, the MITCHELL organization imported over 800 pounds of marijuana per month from Canada to the United States. MITCHELL, a Native American, resided on the Canadian side of the Akwesasne-Mohawk Indian Reservation and utilized the remote nature of the area to insulate his trafficking activities. This investigation was coordinated by the DEA Special Operations Division and conducted with the Internal Revenue Service, Immigration and Customs Enforcement, the U.S. Border Patrol, the Royal Canadian Mounted Police, the St. Regis Mohawk Tribal Police, and the New York State Police.

International Crystal Methamphetamine Trafficking Organization Dismantled, Third “Super-Laboratory” Seized. On June 9, based on information provided by the DEA Kuala Lumpur Country Office, the Royal Malaysian Police Narcotics Department culminated an 18-month investigation with the dismantlement of a crystal methamphetamine trafficking organization in Malaysia. The leader of this organization, Kwok Hung LAM, and seven senior members were arrested. According to intelligence information, LAM is associated with Chinese organized crime and operated several crystal methamphetamine laboratories in Asia. Simultaneous with the arrest of LAM, a crystal methamphetamine “super laboratory” operated in Fiji by the LAM organization was seized as the result of a six-month DEA Canberra Country Office cooperative investigation with the Fijian National Police. Seven additional individuals were arrested at that time. The laboratory had a production capacity of 50 pounds of crystal methamphetamine per batch. This is the third crystal methamphetamine “super laboratory” seized on the Island of Fiji. These investigations were also conducted with the assistance of the Australian Federal Police and the New Zealand National Police.

Organized Crime Drug Enforcement Task Force (OCDETF) Investigation Culminated with the Dismantlement of an International Marijuana Trafficking and Money Laundering Organization. On June 7, the DEA Detroit Division culminated a one-year Priority Target OCDETF investigation with the dismantlement of an international marijuana trafficking and money laundering organization. The operation resulted in the arrest of 31 individuals in the United States and Canada, including leaders of the organization Oanh PHAN and Trong NGUYEN. According to intelligence information, since 2002, the organization operated several large-scale indoor marijuana cultivation sites in Canada. The resulting high potency marijuana was subsequently exported to distribution cells in the United States. During a six month period in 2003, the organization produced approximately 10 tons of marijuana per month. An estimated \$70 million in drug proceeds was laundered by the organization from the United States to Toronto, Canada. To date, the investigation has resulted in 41 arrests and the seizure of over \$2 million in U.S. currency. This investigation was supported by the DEA Special Operations Division and conducted with the Michigan State Police, Immigration and Customs Enforcement, the Internal Revenue Service, the Canadian Customs and Revenue Agency, and the Royal Canadian Mounted Police.

Two Pharmaceutical Companies, 350,000 MDMA Tablets, and 1.4 Tons of Methaqualone Seized in India. On June 5, the DEA New Delhi Country Office reported the seizure of two pharmaceutical manufacturing companies, 350,000 MDMA tablets, and 1.4 tons of methaqualone (Quaaludes) by the Indian Directorate of Revenue Intelligence. This is the largest seizure of MDMA ever in India. Mohan MANKANI, owner of a pharmaceutical company in Bidar, India, and Anil TYAGI, owner of a pharmaceutical company in Jeedimetla, India, were among the five individuals arrested. According to intelligence information, MANKANI is the leader of an India-based trafficking organization with ties to the United Arab Emirates. The MDMA and methaqualone were manufactured at MANKANI’s company and tableted at TYAGI’s firm.

Seizure of 6.2 Tons of Cocaine and Arrest of Six in Venezuela. On June 11, as the result of an investigation conducted by the DEA Caracas Country Office, the Cuerpo de Investigaciones Cientificas Peanles y Criminalisticas (Venezuelan Federal Police) seized 6.2 tons of cocaine from three ranches located in the city of Valle de la Pascua, Venezuela. Five Venezuelans and one

Colombian national were arrested during the operation. According to intelligence information, the ranches were utilized by a Colombian drug trafficking organization to store cocaine prior to shipment to Mexico and the United States. This investigation was conducted with the State of Guarico Police and the Direccion Investigaciones Servicios Inteligencia Policial (Venezuelan Intelligence Service).

Organized Crime Drug Enforcement Task Force (OCDETF) Investigation Dismantled Marijuana Trafficking and Money Laundering Organization. On June 3, a 17-month Priority Target investigation conducted by the DEA Seattle Field Division culminated in the dismantlement of a marijuana trafficking and money laundering organization in Seattle, Washington. Five individuals, including the leader of the organization Tri Duc PHAN, were arrested and charged with conspiracy to distribute marijuana, money laundering, and bulk cash money smuggling. According to intelligence information, since 2002, the PHAN organization was distributing approximately 800 pounds of high-potency marijuana per month from Canada to Washington State for distribution in the United States. An estimated \$1 million in drug proceeds per month were subsequently transported to Canada in bulk cash shipments. To date, the investigation has resulted in the seizure of \$360,000 in U.S. currency with an anticipated additional forfeiture of \$1.26 million. This investigation was conducted in coordination with Immigration and Customs Enforcement and the Royal Canadian Mounted Police.

Five Arrested in Mexican Pseudoephedrine Trafficking Investigation. On May 26, a 14-month investigation conducted by the DEA Hong Kong Country Office (HKCO) and the DEA Mexico City Country Office (MCCO), resulted in the arrest of five Mexican nationals by the Agencia Federal de Investigaciones (Mexican Federal Police). The individuals were arrested after taking possession of a shipment of pharmaceutical pseudoephedrine sent from Hong Kong to Mexico. According to intelligence information, from December 2001 through December 2003, 85 shipments of pseudoephedrine, totaling over 422 million dosage units, were sent by Hong Kong pharmaceutical companies to fictitious businesses in Mexico. If converted, the pseudoephedrine would yield approximately 19 tons of methamphetamine, or 3.5 billion dosage units. Since March 2003, this operation has resulted in 21 arrests and the seizure of approximately 40 million tablets of pseudoephedrine in the United States, Panama and Mexico. This investigation was conducted in coordination with the Subprocuraduria de Investigaciones Especializada en Delincuencia Organizada (Mexican Prosecutor's Office).

Seizure of 264 Pounds of Heroin in Afghanistan. On May 24, based on information obtained by the DEA Kabul Country Office and the U.S. Marine Corps Anti-Terrorist Intelligence Cell, the Afghanistan Ministry of the Interior Counter Narcotics Police and the Kabul City Gates Team seized 264 pounds of heroin in Kabul, Afghanistan. One Afghan national was taken into custody. According to intelligence information, the heroin had a wholesale value of \$500,000.

10.2 Tons of Marijuana Seized in Mexico. On May 21, based on information provided by the DEA Guadalajara Resident Office, the Mexican Ministerio Publico Federal Office (Federal Prosecutor's Office) seized 10.2 tons of marijuana from a commercial tanker-trailer truck as it was preparing to depart Guadalajara, Mexico. The driver of the truck was arrested. According to intelligence information, the marijuana, with a wholesale value of \$500,000, was destined for the United States.

Organized Crime Drug Enforcement Task Force (OCDETF) Investigation Results in \$20 Million Forfeiture and Dismantlement of an International Money Laundering Organization. On May 4, the DEA New York and Miami Divisions, in conjunction with the DEA Bogotá Country Office, culminated a two-year, multi-jurisdictional OCDETF investigation with the dismantlement of an international money laundering organization. The operation resulted in the arrests of 25 individuals in the United States, Colombia and Canada including leaders Gabriel and Nicholas OTALVARO-Ortiz. Four Colombian companies involved in the scheme were also indicted and their common owner has agreed to the forfeiture of \$20 million from a seized bank account. Warrants have been issued for an additional \$1 million from more than 20 other bank accounts. The OTALVARO-Ortiz money

laundering organization utilized the Colombian Black Market Peso Exchange to purchase drug proceeds from the United States and Canada at a reduced rate. This investigation was coordinated by the DEA Special Operations Division and the Office of Financial Operations and conducted with the assistance of the Internal Revenue Service; the New York Police Department; the Office of the Special Narcotics Prosecutor for the City of New York; the Manhattan District Attorney's Office; the South Florida Money Laundering Strike Force; the Royal Canadian Mounted Police; the British National Crime Squad; and the Colombian Departamento Administrativo De Seguridad.

Newly Constructed Cocaine Processing Laboratory Dismantled in Peru. On April 25, the DEA Lima Country Office and the Peru Sensitive Investigative Unit culminated a two-month investigation with the dismantlement of a new 1,200 square foot cocaine processing laboratory in a remote area of Peru. Four Peruvian nationals were arrested at the time. According to investigators on-site, the laboratory was fully equipped but had not yet been utilized. Based on the amount of raw material present, the laboratory had a production capacity of 2 metric tons of finished cocaine. Seized during the operation were 350 pounds of cocaine base; large quantities of processing chemicals, including approximately 4,000 gallons of hydrochloric acid and 220 pounds of potassium permanganate; a 20-ton hydraulic press; and rectangular aluminum molds to form cocaine "bricks." To date, this investigation has resulted in the seizure of over 1,200 pounds of cocaine base and the arrests of 15 individuals. The operation was conducted with the assistance of the Peruvian National Police.

Seizure of Two Fuerzas Armadas Revolucionarias de Colombia (FARC) Cocaine HCL Laboratories in Colombia. On April 25 and 28, in coordination with the DEA Bogotá Country Office, the Colombian Military Counter Drug Brigade seized two cocaine laboratories operated by the Revolutionary Armed Forces of Colombia (FARC). Located in the Narino region of Colombia, one of the labs had a production capacity of five metric tons of cocaine per month. The other, also in Narino, was capable of producing three metric tons of cocaine per month. These seizures were part of an ongoing cooperative effort that has resulted in the destruction of six cocaine HCL labs, over 200 cocaine base labs, approximately 160 pounds of cocaine HCL and 1000 pounds of cocaine base.

Colombian Heroin Trafficking Organization Dismantled. On April 23, the DEA Bogotá Country Office and DEA New York Division culminated a seven-month investigation of a Pereira, Colombia heroin trafficking organization with the arrest of 21 individuals. The organization has been effectively dismantled by this operation. Twenty of the arrests, including organization leaders and brothers Omar DIAZ-Betancur and Hernan DIAZ-Betancur, occurred in Colombia and one in New Jersey. According to intelligence information, the DIAZ-Betancur drug trafficking organization was responsible for the monthly importation of 10 to 20 pounds of heroin from Colombia to New York since 2003. This investigation was coordinated by the DEA Special Operations Division and conducted with the Colombian National Police. To date, the investigation has resulted in the seizure of over 600 pounds of heroin and the arrest of 31 persons.

Arrest of Consolidated Priority Organization Target (CPOT) Otto Roberto HERRERA-Garcia. On April 21, based on an indictment obtained by the DEA SOD Bilateral Case Group, the Mexican Agencia Federal de Investigaciones (AFI) assisted by the DEA Mexico City Country Office, arrested CPOT Otto Roberto HERRERA-Garcia at the Mexico City airport. HERRERA-Garcia is the leader of a Guatemalan-based drug transportation organization responsible for the importation of cocaine from Colombia to the United States through El Salvador, Guatemala and Mexico. Intelligence information indicates the organization transported between five and seven metric tons of cocaine monthly since 2001. HERRERA-Garcia was indicted in October 2003 in the District of Columbia for conspiracy and importation of cocaine. HERRERA-Garcia is being detained by Mexican authorities pending extradition to the United States. To date, this two-year investigation has resulted in four arrests in El Salvador, Guatemala and Panama and the seizure of over \$14 million dollars in U.S. currency.

Results of First United States/Mexico Sanction-Based Demand Reduction Initiative Announced.

On April 13, the DEA San Diego Division released the results of a 60-day methamphetamine initiative which for the first time, coordinated sanction-based demand reduction efforts in the United States and Mexico. The program, known as “Operation Speed Bump,” was designed to combine law enforcement with treatment, raise public awareness, and foster cooperation in the San Diego, California and Tijuana, Mexico areas. The operation resulted in a total of 834 trafficking arrests in both countries. Over 40 pounds of methamphetamine was seized and three clandestine methamphetamine laboratories in Mexico were located and dismantled. In addition, 75 methamphetamine abusers were referred for drug treatment, 17 demand reduction presentations were given to school and civic groups and 11 “drug-endangered” children were placed into the protective custody of California’s child welfare service. The bi-lateral effort included local, state and Federal law enforcement, in conjunction with health officials, in the United States and Mexico.

Shipment of 4.4 Tons of Methamphetamine Precursor to Mexico Blocked. On April 5, the DEA Office of Diversion Control, Chemical Control Section, blocked the shipment of 4.4 tons of bulk pseudoephedrine powder destined for Mexico. If used in a clandestine laboratory, the pseudoephedrine could make over 2.5 tons of methamphetamine. Originating in India and intended for a pharmaceutical company in Guadalajara, Mexico, the pseudoephedrine was to be brought into the United States for re-export. Based on an agreement between the Government of India and DEA, India will not export pseudoephedrine to the United States without authorization from DEA. According to intelligence information, approximately 80 percent of the Mexican company’s customers were either fictitious or ordered lesser amounts of pseudoephedrine than shipment records indicated. In light of the intelligence, DEA declined to authorize the shipment and India refused to export the pseudoephedrine. Information concerning this action was referred to the Mexican Attorney General’s Office. This investigation was conducted with the assistance of the DEA Mexico City Country Office and the Mexican Federal Commission for the Protection against Sanitary Risks.

Sicilian Organized Crime Drug Trafficking Organization Dismantled. On April 4, as a result of a three-year investigation conducted by the DEA Rome Country Office, the Spanish National Police arrested Sicilian Organized Crime members and Priority Targets Roberto and Alesandro PANNUNZI in Spain. The drug trafficking activities of the PANNUNZI organization have been documented for over 30 years. According to intelligence information, in 2001 and 2002 the organization arranged shipments of cocaine totaling over eight tons from Colombia to be distributed to Italian crime groups in Europe. The PANNUNZI organization operated in Colombia, Peru, Venezuela, Portugal, Spain, Greece, South Africa, Switzerland, and the Netherlands. The arrests completed the dismantlement of the organization. To date, this investigation has resulted in a total of 42 arrests in three countries.

Seizure of 4.4 Tons of Morphine Base in Turkey. On March 29, the Turkish National Police (TNP) in coordination with the DEA Istanbul Resident Office (IRO) arrested five Turkish nationals and seized approximately 4.4 tons of morphine base from a truck located in an industrial complex in Istanbul, Turkey. Information obtained from the TNP has indicated this seizure is associated with the Atilla OZYILDIRIM Priority Target Organization. OZYILDIRIM was arrested in March 2002, at which time 7.5 tons of morphine base was seized. Investigative efforts revealed OZYILDIRIM and his criminal associates comprised a major international narcotics trafficking organization that was involved in not only the production of heroin but its distribution as well. To date, the investigation has resulted in 33 arrests, the seizure of approximately 12 tons of morphine base, 1,942 pounds of heroin, 660 gallons of acetic anhydride, a chemical precursor necessary for the production of heroin, and two operational heroin conversion laboratories.

Consolidated Priority Organization Target (CPOT) Linked Money Laundering Cell Dismantled.

On March 25, an 18-month multi-jurisdictional OCDETF investigation conducted by the DEA Los Angeles Division with the assistance of the DEA Miami Division and supported by the DEA Special Operations Division dismantled an international money laundering organization linked to CPOT

Itzhak ABERGIL. ABERGIL is the head of an Israeli criminal organization operating in Israel, Europe, the United States and other countries. Arrested on charges of extortion and money laundering were six individuals in Los Angeles, California; Miami, Florida; and Toronto, Canada to include Priority Targets Hai WAKNINE and Gabriel BEN-HAROSH. WAKNINE and BEN-HAROSH were responsible for the financing and facilitating of MDMA trafficking from Belgium and Holland into the United States. To date, the investigation has resulted in 46 arrests, the seizure of 2.8 million tablets of MDMA and over \$2 million dollars.

Extradition of Consolidated Priority Organization Target (CPOT) Juquin Mario VALENCIA-Trujillo. On March 18, CPOT Juquin Mario VALENCIA-Trujillo was extradited to the United States from Colombia to face cocaine and money laundering charges in the Middle District of Florida. VALENCIA-Trujillo was the head of a Colombian cocaine trafficking and money laundering organization that, according to intelligence estimates, was responsible for smuggling more than 100 metric tons of cocaine per year into the United States from 1991 through 1999. The organization transported the cocaine from Colombia through Mexico for distribution in Tampa and Miami, Florida; Houston, Texas; Los Angeles, California and New York City. The January 2003 arrest of VALENCIA-Trujillo preceded the seizure by the Colombian Government of an estimated \$25 million of his assets. The arrest and seizure resulted from Operation Panama Express, an ongoing nine-year Organized Crime and Drug Enforcement Task Force (OCDETF) investigation being conducted by the Tampa District Office, in conjunction with the Federal Bureau of Investigation, the Bureau of Immigration and Customs Enforcement and the United States Coast Guard. Thus far, Operation Panama Express has resulted in a combined total of more than 500 arrests and the seizure of 260 metric tons of cocaine from February 2000 to date.

Two Organized Crime and Drug Enforcement Task Force (OCDETF) Investigations Resulted in Arrests of 20 Airline Employees for Cocaine Smuggling. On March 11, the DEA Caribbean Division culminated two multi-jurisdictional OCDETF reverse undercover investigations with the arrests of 20 current and former airline ramp workers employed at the Luis Munoz Marin International Airport (LMMIA) in Puerto Rico. An additional employee later surrendered to authorities. Initiated in 2002, these Priority Target Organization investigations targeted the cocaine trafficking activities of two groups of airline ramp employees that facilitated the transportation of cocaine originating in Central and South America past security checkpoints at LMMIA for distribution to airports located in Pennsylvania, Texas, Florida, New Jersey and New York. These individuals have been charged with conspiracy and trafficking of a combined total of 528 pounds of cocaine. An additional 390 pounds of cocaine were seized during the course of both investigations. These investigations were conducted with the assistance of the Puerto Rico Police Department and the Puerto Rico Port Authority.

Colombian Money Laundering Organization Dismantled. On March 5, the Colombian National Police, Judicial Police Section, the DEA Bogotá Country Office and the DEA New York Division culminated an eighteen-month investigation that dismantled the Andres TRUJILLO-Botero Priority Target money laundering organization. The investigation revealed that since 2002, TRUJILLO-Botero and his associates were responsible for the transfer of approximately \$300,000 per week in heroin distribution proceeds from New York City to Medellin, Colombia. In order to evade law enforcement detection, the organization wired money to over 100 different recipients in Colombia. The organization paid the recipients to transfer the money to Luis Fernando ZAPATA-Ospina, head of the heroin trafficking organization. A total of 16 arrests were made in Colombia and New York, including TRUJILLO-Botero and ZAPATA-Ospina. According to intelligence information, the ZAPATA-Ospina heroin trafficking organization was responsible for the monthly distribution of approximately 33 to 44 pounds of heroin from Colombia to the United States since 2002.

Colombian Terrorist Associated Cocaine Trafficking Organization Dismantled. On March 5, a one-year, multi-national effort culminated in the complete dismantlement of a significant international cocaine trafficking organization headquartered in Colombia. The investigation resulted in the arrest of

Nayibe ROJAS-Valderama, the organization's U.S. distribution cell head and 21 associates in Colombia and Panama. The Jose Benito CABRERA trafficking group, an arm of the Fuerzas Armadas Revolucionarias de Colombia (FARC), was responsible for the monthly distribution of approximately 15 to 20 metric tons of cocaine from Colombia through Panama to the United States since 2002. Colombian President Alvaro Uribe commented that the operation could be the most significant blow inflicted on the FARC in recent times. Outstanding investigative efforts by the DEA Bogotá and Panama City Country Offices, DEA Special Operations Division (SOD) and the Colombian and Panamanian Attorney Generals' Office resulted in the December 2003 combined indictment of the entire Jose Benito CABRERA trafficking organization.

Organized Crime and Drug Enforcement Task Force (OCDETF) Investigation Culminated in 12 Arrests and the Dismantlement of a Cocaine Trafficking Organization. On March 4, a multi-jurisdictional OCDETF investigation of a Priority Target Organization trafficking in cocaine was culminated by the DEA Caribbean Division with the arrests of 12 individuals, including Aureliano GIRAUD-Pineiro. Arrests occurred in Puerto Rico, Maryland and Florida. The investigation revealed that the cocaine trafficking organization of Antonio ROBLES-Ramos was responsible for the distribution of approximately 11 tons of cocaine to the United States since 1996. The cocaine was transported from Colombia to the Virgin Islands or the Dominican Republic to Puerto Rico by "go fast" boats and then shipped to the United States for distribution. ROBLES-Ramos was arrested by the Caribbean Division in 1999. Follow-up investigation revealed that GIRAUD-Pineiro utilized fictitious and legitimate businesses to launder drug proceeds on behalf of the ROBLES-Ramos organization. Other agencies participating in this investigation included the Internal Revenue Service; Bureau of Immigration and Customs Enforcement; the Puerto Rico Police Department and Treasury Department; and the State Bureau of Investigation. To date, this investigation has resulted in 69 arrests, the seizure of over 1,700 pounds of cocaine and approximately \$2 million dollars in assets.

Arrest of Consolidated Priority Organization Target (CPOT) Jose Arismendy ALMONTE-Pena. On February 28, the Dominican Republic National Directorate for Drug Control, Sensitive Investigative Unit, with the assistance of the DEA Santo Domingo Country Office, arrested CPOT Jose Arismendy ALMONTE-Pena. ALMONTE-Pena is the head of a cocaine trafficking organization that since 2000 was responsible for transporting approximately 4,400 pounds of cocaine per month from Colombia and Venezuela through Puerto Rico and the Caribbean for distribution in Miami, Florida, Washington, D.C. and New York City. Shipments of cocaine were primarily transported by "go-fast" boats, capable of reaching "drop" or transfer points without refueling. The arrest stems from a 13-month joint DEA and Federal Bureau of Investigation OCDETF investigation.

Violent Heroin and Cocaine Trafficking Organization Dismantled. On February 21, based on information provided by the DEA New York Division Task Force, the Dutch National Police, with the assistance of the DEA Curacao Country Office, arrested Regional Priority Organization Target Luis Alberto IBARRA at the Curacao, Netherlands Antilles International Airport. With the previous arrest of 17 associates, the arrest of IBARRA, a Venezuelan national, has effectively dismantled a violent heroin and cocaine trafficking organization. The IBARRA organization purchased heroin in Cucuta, Colombia, transported it to Caracas, Venezuela, then couriers would smuggle the heroin into the United States. The heroin was then distributed in Miami, Florida, Houston, Texas and Newark, New Jersey. According to intelligence information, since assuming the leadership of the organization in 2003, IBARRA has been responsible for the distribution of approximately 220 pounds of heroin to the U.S. per month. Intelligence information shows the organization transported several hundred pounds of cocaine from Venezuela to Amsterdam each month. It has been reported that this organization relied on corruption, torture, murder and intimidation to further its objectives.

Discovery of Underground Tunnel Leads to Indictments of Consolidated Priority Organization Target (CPOT) Linked Trafficker and Former Mexican Law Enforcement Official. On February 18, CPOT linked Rigoberto GAXIOLA-Medina and former Regional Director of the Mexican

Agencia Federal de Investigaciones (AFI) Juan Luis GUZMAN-Enriquez, as well as eight additional individuals were indicted in the United States and charged with conspiracy to distribute marijuana. The indictments are connected with the September 2003 discovery of a sophisticated underground tunnel linking Nogales, Arizona to Nogales, Sonora, Mexico. The tunnel was constructed and utilized by GAXIOLA-Medina to smuggle marijuana from Mexico to the United States. Two marijuana seizures made in 2003, totaling 1,237 pounds, have been linked to the tunnel. GAXIOLA-Medina and GUZMAN-Enriquez are currently in Mexican custody, pending extradition to the United States. GAXIOLA-Medina has been associated with fugitive CPOT Joaquin GUZMAN-Loera, a major trafficker of cocaine from Colombia through Mexico to the United States. The success of this bi-lateral investigation can be attributed to the outstanding cooperation between the DEA Nogales and Hermosillo Resident Offices and the Mexican AFI Sensitive Investigations Unit.

Autodefensas Unidas de Colombia (AUC)-Linked Terrorist Extradited to the United States. On February 13, Edgar Fernando BLANCO-Puerta was extradited from San Jose, Costa Rica to the United States, as a result of a three-year joint DEA Houston Division and Federal Bureau of Investigation Houston Field Office OCDETF investigation. BLANCO-Puerta and four associates were actively seeking to purchase Soviet manufactured arms in exchange for a combination of cocaine and cash totaling \$25 million dollars. On February 4, the Colombian National Police arrested BLANCO-Puerta's associate, Fany Cecilia BARRERA, in Medellin, Colombia. During undercover discussions, BARRERA described herself as an agent of the AUC's "purchasing department," as she negotiated the acquisition of military weapons. Subsequent to the extradition of BLANCO-Puerta and the anticipated extradition of BARRERA, all five members of this organization will face charges in the Southern District of Texas for conspiracy to distribute controlled substances and conspiracy to provide material support to a terrorist organization.

Extradition of Two Consolidated Priority Organization Targets (CPOT) from Thailand. On February 9, CPOTs Zalmi IBRAHIMI and Khalid Mohammad AZIZI, as well as three associates, were extradited to the United States from Bangkok, Thailand and were charged with conspiracy to distribute heroin. This Organized Crime Drug Enforcement Task Force (OCDETF) investigation determined that the IBRAHIMI and AZIZI international heroin distribution and money laundering organization, which was based in Peshawar, Pakistan, was responsible for the distribution of 2.25 metric tons of heroin into the United States and Canada on a yearly basis since 2000. The DEA Mid-Atlantic Laboratory determined the purity of heroin distributed by this organization was as high as 95 percent. To date, this investigation has resulted in the arrest of 13 individuals and the seizure of \$3 million in Bangkok, Thailand and \$1 million in the United States. This OCDETF investigation was a cooperative effort between the DEA Washington Division and the Federal Bureau of Investigation's Calverton, Maryland Office.

Bulgarian Amphetamine Trafficking Organization Disrupted. On February 4, the Bulgarian National Service for Combating Organized Crime, with the support of the DEA Athens, Greece Country Office, disrupted an amphetamine trafficking organization in Sofia, Bulgaria. The eight-month investigation resulted in the seizure of approximately 500 pounds of amphetamine tablets and the arrest of three Bulgarian nationals. Also seized were two tableting machines and binder material for making tablets.

Multi-National Investigation Dismantles Major International Cocaine Network. On January 28, a three-year multi-national investigation culminated in the dismantlement of a major international cocaine network based in Italy. The investigation, which targeted a maritime cocaine trafficking organization headed by Santo SCIPIONE, resulted in the arrest of 78 individuals in Italy, 15 in Colombia and one in Spain as well as the seizure of 5,838 pounds of cocaine. Evidence indicated SCIPIONE would provide direction to members of the organization in Colombia, Italy, Spain and Venezuela regarding shipments of cocaine sent from South America to Europe. SCIPIONE has been identified as a member of the N'Drangheta, an Italian organized crime syndicate based in Calabria,

Italy. Italian authorities have stated that the dismantlement of the SCIPIONE organization will significantly impact the ability of the N'Drangheta to organize cocaine shipments and to operate on an international scale. The success of this multi-national investigation can be attributed to the outstanding cooperation between the DEA Cartagena Resident Office, the DEA Rome Country Office, the Special Operations Division, Italian counterparts with the Central Anti-Drug Directorate and the Carabinieri Special Investigative Division, as well as law enforcement counterparts from Colombia, Spain, Australia, Holland and Venezuela.

Disruption of Transportation Organization Linked to Consolidated Priority Organization Target (CPOT). On January 27, the Nassau Country Office, in conjunction with the Bahamian Police Force, Miami Field Division and the Miami Office of the Bureau of Customs and Immigration Enforcement, culminated an investigation that resulted in the arrest of two members of a CPOT-linked transportation organization. The enforcement action was supported by Operation Bahamas, Turks and Caicos Island (OpBAT). The organization, which has been linked to CPOT Elias COBOS-Munoz, is responsible for transporting shipments of cocaine and marijuana from Jamaica through the Bahamas, with an ultimate destination of the United States. It is estimated that CPOT COBOS-Munoz is coordinating combined monthly shipments of approximately 2,200 and 2,640 pounds of cocaine and marijuana to locations within Jamaica, Canada or the United States. The two individuals were arrested in possession of 836 pounds of cocaine and 506 pounds of marijuana, as they attempted to enter the U.S. through Port Everglades in Fort Lauderdale, Florida.

Arrest of a Top Lieutenant in the Ismael ZAMBADA-Garcia CPOT Organization. On January 27, Javier TORRES-Felix was arrested by the Mexican military at a roadblock near Cuilican, Sinaloa, Mexico, based on evidence developed by the DEA Mexico Country Office and the Special Operations Division. TORRES-Felix is a top lieutenant in the Ismael ZAMBADA-Garcia CPOT organization, a major Mexican drug transportation and distribution organization operating in the United States. According to intelligence information, the organization transports 2,200 to 11,000 pounds of cocaine on a monthly basis from Colombia to the United States via Central America and Mexico using a fleet of fishing vessels and various types of airplanes. On January 8, 2003, TORRES-Felix, CPOT ZAMBADA-Garcia and others were named in a multi-count indictment returned by a grand jury in Washington, D.C. The Government of Mexico has agreed to honor the provisional arrest warrants requested by the Department of Justice. The arrest of TORRES-Felix has caused significant disruptions to the ZAMBADA-Garcia organization as TORRES-Felix was responsible for managing important drug transportation routes to Chicago, Los Angeles, New York and New Jersey.

Seizure of One Metric Ton of Heroin and arrest of seven Turkish Nationals in Istanbul, Turkey. On January 26, the Turkish National Police (TNP) Narcotics Division assisted by DEA culminated a two-month investigation of the Abdulmenaf DINC organization with the seizure of one metric ton of heroin and the arrest of seven individuals, including DINC. The heroin was concealed in an underground storage facility of a sugar factory in Istanbul, Turkey. This seizure has been described by the TNP as the largest heroin seizure ever in Turkey. The DEA Istanbul Resident Office and the DEA Ankara Country Office are assisting the TNP to develop and pursue international investigative leads in an attempt to identify the organization responsible for the importation of the heroin.

Discovery of 12 Bodies Leads to Arrest of 13 Mexican Police Officials. During the period of January 24-30, Mexican Agencia Federal de Investigaciones authorities (Mexican equivalent to the FBI) with assistance provided by the DEA Ciudad Juarez Resident Office and the Bureau of Immigration and Customs Enforcement discovered the bodies of 12 victims of a violent Mexican drug trafficking organization buried behind a house in Ciudad Juarez, Mexico. The ensuing investigation resulted in the arrest of 13 Mexican police officers for their participation in the murders. Evidence revealed the house is owned by Heriberto SANTILLAN-Tabares, a lieutenant in the CPOT Vicente CARRILLO-Fuentes cocaine and marijuana trafficking organization. On January 15, SANTILLAN-Tabares was arrested by the Bureau of Immigration and Customs Enforcement after his December

2003 indictment for conspiracy to import and distribute cocaine into the United States. The CARRILLO-Fuentes organization is believed to be responsible for transporting approximately 8,000 pounds of cocaine and 48,000 pounds of marijuana per year from Mexico to the United States. CPOT CARRILLO-Fuentes remains a fugitive on both U.S. and Mexican drug trafficking and money laundering charges.

Colombian Cocaine Initiative results in the disruption of the Pablo Andes ROMERO-Gomez Organization. On January 22, the Colombian National Police Special Investigative Unit, in coordination with the DEA Bogotá, Colombia Country Office, arrested 10 members of the Pablo Andes ROMERO-Gomez Organization operating in Medellín, Bogotá, Pereira, Puerto Nare, and Antioquia, Colombia. Intelligence developed during this 12-month operation indicated that the ROMERO-Gomez organization was responsible for the annual distribution of 24,000 pounds of cocaine to the United States since 2000. The arrested individuals have been charged with drug trafficking and money laundering.

Arrest of DEA Priority and OCDETF Target Arcangel HENAO-Montoya in Panama. On January 10, the Panamanian Judicial Police (PTJ) assisted by the DEA Panama City Country Office (PCCO) and Bogotá Country Office (BCO) along with the Special Operation Division's (SOD) Bilateral Case Group arrested Arcangel HENAO-Montoya, a DEA Priority and OCDETF target, at a farm outside Torti, Panama. A Colombian National and significant leader in the North Valley Cartel, HENAO-Montoya is on the Treasury Department's list of Specially Designated Narcotics Traffickers. The PTJ also arrested Lorena HENAO, sister to HENAO-Montoya who handles financial matters for the HENAO-Montoya family, and Lucio QUIENTERO-Marin, his bodyguard. All three were detained and await further action by Panamanian authorities. It is anticipated that HENAO-Montoya will be expelled from Panama and transported by a DEA aircraft to the United States.

Institution Building/Foreign Liaison

France

U.S. and GOF counternarcotics law enforcement cooperation remains excellent, with an established practice of information sharing. Since October 2001, the DEA's Paris Country Office (CO) and OCRTIS have been working together on an operation that has resulted in the seizure and/or dismantling of 17 operational, or soon-to-be-operational clandestine MDMA (Ecstasy) laboratories, and the arrests of more than 30 individuals worldwide. International Controlled Deliveries have resulted in nine lab seizures in the United States, two each in France, Germany, and Australia, and one each in New Zealand and Spain.

Vietnam

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2004. Specific actions included: sustained efforts of counternarcotics law enforcement authorities to pursue drug traffickers; increased attention to interagency coordination; continued cooperation with the United Nations Office on Drugs and Crime (UNODC); increased attention to both drug treatment and harm reduction; an increased tempo of public awareness activities; and additional bilateral cooperation on HIV/AIDS. Additionally, in March, the U.S.-Vietnam counternarcotics Letter of Agreement (LOA), which was negotiated to permit the United States to provide counternarcotics assistance to Vietnam, entered into force, and the two sides completed the first of the LOA projects. However, real operational cooperation between Vietnamese law enforcement and DEA's Hanoi Country Office (HCO) 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.

All international law enforcement representatives in Vietnam acknowledged that real operational cooperation on counternarcotics cases is minimal or nonexistent due to legal prohibitions against foreign security personnel operating on Vietnamese soil. Without changes in Vietnamese law to permit foreign law enforcement officers to work on drug cases in Vietnam, “cooperation” will remain a function of information exchange and Vietnamese police carrying out law enforcement activities on behalf of foreign agencies on a case-by-case basis. During 2004, GVN law enforcement authorities did not provide meaningful cooperation to DEA’s Hanoi country office. DEA agents have not been permitted to work with GVN counternarcotics investigators officially. Cooperation was limited to receiving information from DEA and holding occasional meetings. Thus far, the counternarcotics police have declined to share information with DEA or cooperate operationally. GVN officials explain that drug information is subject to national security regulations and not releasable to foreigners. To date, there has been nothing concrete to indicate that the GVN has any intention of taking the necessary administrative or legislative steps to permit DEA to expand beyond its current liaison role.

During 2004, 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 ATS project achieved its main goals in 2004 with the signing of an interagency MOU and the establishment of six interagency task forces at key border “hotspots” around the country.

Syria

In meetings with Syrian officials, DEA officials continue 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.

DEA officials based in Nicosia maintain an ongoing dialogue with Syrian authorities in the Counternarcotics Directorate. In February, DEA officials based in Nicosia and Syrian Anti-Narcotics Department coordinated efforts, which led to the seizure of 18.8 kilograms of cocaine at Damascus Airport. Syrian Ministry of Interior officials characterize cooperation with the Nicosia DEA office as excellent.

South Africa

U.S. law enforcement officers from the DEA, FBI, DHS (Customs/Immigration), the Secret Service and the State Department successfully cooperate with their South African counterparts. The U.S. also urges the SAG to strengthen its legislation and its law enforcement system and thus become able to prosecute more sophisticated organized criminal activities, including drug trafficking. The Scorpions, with U.S. training, have targeted organized crime and high-profile crime of all sorts. Some training has also been provided to the national police, the metropolitan police forces of Johannesburg and Tshwane, the Special Investigating Unit, the Department of Home Affairs, the Customs and Revenue Service, and others.

Lithuania

USG and GOL law enforcement cooperation is very good. In 2004, the U.S. continued to support GOL efforts to strengthen its law enforcement bodies and improve border security. To strengthen regional cooperation in the fight against HIV/AIDS in the Baltic States and Russia, the U.S. funded “The

Network of Excellence” project. In June 2004, a U.S. court in Florida acquitted 11 Lithuanian sailors apprehended in June 2003 of drug trafficking charges following the seizure of 3.5 tons of cocaine aboard the merchant vessel Yalta. In December 2003, Lithuania extradited an American citizen wanted for narcotics trafficking. In 2003, the Lithuanian State Security Department discovered a package suspected of containing counterfeit U.S. currency that was being sent to Minneapolis, Minnesota. The package also contained 100 tablets of Ecstasy. A joint investigation by the State Security Department and U.S. Secret Service resulted in arrests in both countries, including that of a major organized crime figure in the city of Kaunas. His trial is ongoing.

Kazakhstan

In 2004 the U.S. Government assisted Kazakhstan’s counternarcotics effort in several ways:

- In August 2004, the State department sponsored two UK Customs agents who provided training on drug profiling as well as pedestrian, rail and vehicular searches to selected MIA and Border Guard units as well as to the academies of both the Ministry and the Border Guards.
- State continued to assist the National Forensics Laboratory in Almaty. One gas chromatograph as well as numerous drug test kits and “Drug ID Bibles” were delivered to the Laboratory in March 2004.
- State also continued to sponsor the Committee on Combating Drugs. As part of a larger project aimed at combating narcotics trafficking in Kazakhstan Approximately one-third of the funds provided by the U.S. were used to acquire equipment needed to search vehicles for contraband, especially illegal narcotics. The remainder of the money is being used to provide specialized training to the unit in a variety of areas including drug identification, the search of vehicles using the equipment provided under the project, and Kazakh legal statutes pertaining to illegal narcotics and the arrest and detention of criminal suspects. The legal training also includes the principles of asset forfeiture (principles of legal seizure, custody, cooperation with prosecutors and judges, and transfer to GOK authorities responsible for the sale of forfeited assets.)
- Training and equipment was provided to the Statistics Committee of the Prosecutor’s Office, which targets drug trafficking organizations operating in Kazakhstan. The project also covered the costs of modernizing the Statistics Division of the Prosecutor’s Office. The first field offices to be modernized under the project were those contiguous to the Kazakh-Kyrgyz border between Kordai and Taraz, the field office in the town of Sarishagan near Lake Balkash, and the field offices contiguous to the Kazakh-Russian border in the towns of Aul and Zheshkent. In total, \$117,000 worth of technical equipment was given to the Prosecutor’s Office of the GOK under this project, including computers, printers, monitors, and copy machines. In November 2004, computer equipment was distributed throughout Kazakhstan to 17 different branches within the Criminal Statistics Unit and the State Department sponsored 25 training courses in 2004, during which a total of 687 GOK officials were trained.

Jordan

In March 2004, DEA Nicosia and DEA’s International Training Section sponsored a regional International Drug Enforcement Seminar in Amman. The DEA also plans to sponsor a one-week Asset Forfeiture and Financial Investigations Seminar in Amman during the month of July 2005. DEA

Country Attaché in Cyprus and Embassy Amman officials maintain a close working relationship with Jordanian authorities on narcotics related matters.

Hungary

The USG focuses its support for GOH counternarcotics efforts on training and cooperation through the ILEA and a small bilateral program developed especially for Hungary by the U.S. Embassy in Budapest. DEA maintains a regional office in Vienna that is accredited to Hungary and works with local and national authorities. The UCSD (University of California, San Diego, US, performed training for 200 drug treatment professionals in Budapest at the end of 2003 in the Ministry of Health, in order to acquainted them with the American experiences in the field of diagnosis and treatment of drug addict offenders in the criminal justice system.

Germany

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 BKA, the AKA, and the state criminal police (LKAs). German agencies routinely work very closely with their U.S. counterparts in joint investigations using the full range of investigative techniques, such as undercover operations. German-U.S. cooperation to stop diversion of chemical precursors for cocaine production also continues to be close (e.g., Operations “Purple” and “Topaz”). 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. BKA and DEA also participate in a tablet exchange program to compare samples of Ecstasy pills.

Croatia

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 graduated from a completely revamped basic police school in July 2004. This class will be the first to proceed from graduation to probationary assignments with specially trained, senior police officers as coaches and mentors. A new police policies and procedures field manual was issued to all police officers in fall 2004. In addition, Croatian police have been regular participants in training programs at the U.S.-funded International Law Enforcement Academy in Budapest as well as follow-on training in Roswell, New Mexico. Under the Export Control and Border Security (EXBS) program, police and customs officers have been trained on risk analysis methodologies and new equipment has been donated to help improve at-the-border detection of smuggled contraband.

Azerbaijan

In 2004 the Export Control and Related Border Security (EXBS) program continued to provide assistance to the Azerbaijan State Border Guards and Customs services. 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 2004, EXBS sponsored numerous courses for the Border Guard Maritime Brigade. These courses included “Advanced International Border Interdiction Training” which introduced the participants to real-time, hands-on inspections and Border Patrol tactics in the field. EXBS also hosted the “US-Azerbaijan Legal Technical Forum III” which provided assistance to the GOAJ in strengthening its legal framework for an export control

system in Azerbaijan that is consistent with international standards. In addition, in 2004, EXBS Conducted a Counter-Narcotics Instructor Course and reorganized the Border Guards conscript and officer training programs.

U.S. and European experts participated in a three-day workshop on “Implementing the norms of international law on extradition and mutual legal assistance related to drug offences into national law and practice.” During this workshop, U.S. and European legal experts provided training to and shared advice and practical experience with relevant Azeri legal professionals (police, prosecutors, judges and parliament) on the implementation of Azerbaijan’s international legal obligations related to drug offences.

Key Azerbaijani law enforcement officials participated in a U.S.-based study tour which provided them with a first hand look at how the U.S. criminal justice system operates in practice, with a particular focus on issues related to reforms currently underway in Azerbaijan. The participants were introduced to various investigative and forensic techniques and the concept of vetted units of police and prosecutors working as a team.

Australia

U.S. counternarcotics activities in Australia feature strong ongoing U.S.-Australian collaboration in investigating, disrupting, and dismantling international illicit drug trafficking organizations. In mid-2002, the U.S. and Australia signed a Memorandum of Understanding to outline these objectives. Cooperation between U.S. and Australian authorities is excellent.

Angola

In 2004, 17 Angolan police officers participated in State Department-sponsored regional training course, which included segments on counternarcotics.

Saudi Arabia

Saudi officials actively seek and participate in U.S.-Sponsored training programs and are receptive to enhanced official contacts with DEA. 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.

Sri Lanka

In 2004, the USG began implementing, primarily with the PNB, a law enforcement development program. Over 200 officers throughout the police force participated in training seminars. Pursuant to bilateral letters of agreement between the USG and the GSL, the Sri Lanka police are fulfilling their obligations. USG-trained Sri Lanka police are replicating the seminars and scheduling training for colleagues of the original police trainees at the training academies and stations throughout the island. Regional U.S. government officials, primarily DEA, conducted narcotics officer training for their local counterparts in seminar, organized by the Colombo Plan.

Mexico

Bilateral counternarcotics cooperation was close and represented one of the most positive aspects of the bilateral relationship. U.S. law enforcement confidently shared sensitive information with Mexican counterparts, resulting in the capture and conviction of drug traffickers, as well as seizures of illicit narcotics.

The Binational Commission (BNC) continued to serve as the main venue where cabinet level officials of both countries meet to discuss an array of bilateral issues, including counternarcotics and related law enforcement topics. The BNC also guided bilateral discussions carried out through its Law Enforcement Working Group. Under the umbrella of the BNC, the Senior Law Enforcement Plenary (SLEP) met twice during the year to evaluate and guide bilateral actions at the operational level. The SLEP comprised several working groups, including those dealing with major drug trafficking organizations, money laundering, demand reduction, arms trafficking, extradition, interdiction, training, and precursor chemicals.

The U.S. Interdiction Coordinator (USIC) led the U.S. delegation at several meetings of the Bilateral Interdiction Working Group (BIWG), complemented by the participation of the Director of Joint Interagency Task Force—South (JIATF—South). The Mexican delegation visited JIATF-South and gained a better understanding of the operational capabilities related to information exchange. Post-seizure analysis and information sharing have increased, but will require more attention. To better target the cross-border activities of drug traffickers, the United States and Mexico regularly prepared joint border threat assessments. These assessments served to develop a stronger mutual understanding of threats on both sides of the border.

As a result of close bilateral cooperation, implementation of major border projects progressed impressively during 2004. The Advanced Passenger Information System (APIS) entered into operation in April 2004, permitting authorities to compare airline passenger manifests against criminal databases. The U.S. Government arranged for the procurement and installation of Portal Vehicle and Cargo Inspection Systems (VACIS) at ports of entry at Colombia (Nuevo Leon), Nuevo Laredo (Tamaulipas), Piedras Negras (Coahuila), Nogales (Sonora), and Mexicali (Baja California). U.S. officials also supported the installation of a railroad VACIS unit at Mexicali and a pallet VACIS at Mexico City's International Airport. Contractors made important progress in preparing design drawings for new or expanded SENTRI (Secure Electronic Network for Traveler's Rapid Inspection) Lanes at Tijuana (Baja California), Mexicali, Nogales, Nuevo Laredo, Matamoros (Tamaulipas), and Ciudad Juarez (Chihuahua). Completion of these new or expanded SENTRI lanes should occur during 2005, which will facilitate the cross-border movement of travelers who have enrolled in the program and undergone background investigations. Tax Administrative Service (SAT) personnel continued to operate three Mobile X-Ray Vans (donated to the GOM in December 2003) at three airports, contributing to the detection and seizure of bulk smuggling of millions of dollars in drug-related currency. Software engineers developed a test version of Border Simulation software and collected data at various ports of entry. This software will help Mexican officials to evaluate needs and plan infrastructure and staffing changes at ports of entry along the United States-Mexico border. While designed primarily to deter terrorist acts and facilitate cross-border movement of bona fide visitors, goods, and services, border security projects also help authorities to identify and arrest drug traffickers, detect and seize drugs, and confiscate other illicit contraband.

Institutional Development was a top priority program that enjoyed the full support of the Fox Administration. The Embassy's Law Enforcement Professionalization and Training Program successfully integrated Embassy Law Enforcement Committee (LEC) training requests with local, state, and federal training and technical assistance programs with positive results in 2004. The Narcotics Affairs Section (NAS) provided 100 training courses to over 4,000 police, investigators, and prosecutors at all levels. In late 2004, NAS initiated a five-week Police Investigations School (EIP) for all new AFI candidates, as well as current investigators. Roughly 175 AFI personnel graduated from the EIP, and the PGR Police Training Academy has taken over full responsibility for operating the EIP. Future U.S. support will be limited to equipment donations, technical consultations and other developmental innovations.

The Embassy worked closely with the PGR Office of Professionalization and Training on all aspects of training to build on successes of the past three years. In 2005, working jointly with PGR officials,

NAS programs will emphasize infrastructure development and enhancing self-sufficiency within the training institutions. Training will continue to play a major role in the transition to infrastructure development by increasing the number of Train-the-Trainer courses and other selective training to enhance the overall efficiency, effectiveness and quality of the curriculum, as well as the training institutions and instructors.

The Embassy anticipates sponsoring as many as 10 separate, five-week, Train-the-Trainer courses during 2005 for PGR, INM, and SFP personnel. It will dedicate seven of the courses to PGR personnel to fully staff the PGR Police Training Academy for the EIP and to assume instructional duties at the PGR Police Academy. Training will benefit not only investigative personnel, but also PGR prosecutors. Courses will include Ethics in Government, Management and Leadership, Anti-Corruption Investigations, as well as investigative courses to enhance prosecutors' overall case handling and presentation ability.

Building on this bilateral cooperation, GOM efforts to professionalize law enforcement institutions continued to produce tangible results. The PGR established a School of Criminal Investigation, entailing course work on basic crime investigation techniques. PGR leaders are planning to create a more universal basic law enforcement curriculum aimed at producing competent law enforcement officers at the state and local levels capable of carrying out professional criminal investigations leading to prosecutions. To strengthen the prosecutorial element, the PGR initiated a prosecutor training program to upgrade prosecutorial skills and permit better understanding of the investigation process.

Bilateral counternarcotics cooperation hit a historic high-water mark in 2004 and represented one of the most positive aspects of the bilateral relationship. Law enforcement personnel of both countries routinely shared sensitive information to capture and prosecute leaders of major drug trafficking organizations and seize important shipments of cocaine, heroin, marijuana, and methamphetamine. President Fox and Attorney General Macedo strove to identify and reduce corruption within federal police entities. Despite only three years in existence, the re-invented and reformed principal federal police, AFI, has developed into a premier police institution. Control of precursor chemicals has improved considerably since October 2002.

There are many new opportunities during these last two years of the Fox Administration to enhance the extremely positive and productive cooperation that both governments enjoy and to institutionalize the resulting close personal and operational relationships. The U.S. Government now enjoys an historic window in which to act. We must support Mexico's efforts in building institutions to reinforce and make permanent this unprecedented cooperation. Even with the remarkable progress made to date, Mexican police and prosecutors still need improved equipment, training, and investigative tools. We must continue to share intelligence and promote teamwork to fight money laundering, stop diversion of precursor chemicals towards drug production, and insure successful prosecutions of criminal.

Philippines

In the largest single raid of a clandestine lab in Philippine history, Philippine authorities in September, acting on intelligence developed from a joint USG-RP-Hong Kong (SAR) investigation, raided a methamphetamine mega-lab located in Cebu. GRP authorities arrested eleven people from the Philippines, Taiwan, the PRC (including Hong Kong)—all of them ethnic Chinese—and seized 498 kilograms of chlorophedrine and 80 gallons of liquid methamphetamine. The raid and arrests highlighted the Philippines' transition into a major methamphetamine producer and the role of transnational criminal group in production.

Russia

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. In 2004, DEA's International Training teams provided State Department-funded instruction to its Russian counterparts in Basic Drug Enforcement, Airport Interdiction, and Vehicle Interdiction. Progress continued on the Southern Border Project, a joint INL/DEA effort that will lead to the establishment of three mobile drug interdiction task forces based in Orenburg, Chelyabinsk, and Omsk along the Russian-Kazakh border. Also, the U.S. and Russia worked together to provide canine training to counternarcotics law enforcement officials from four Central Asian countries. The U.S. also provided technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anticorruption and money laundering.

Turkey

U.S. counternarcotics agencies report excellent cooperation with Turkish officials. Turkish counternarcotics forces have developed technically, becoming increasingly professional, in part based on the training and equipment they received from the U.S. and other international law enforcement agencies.

Switzerland

On March 15, 2004 Switzerland and the U.S. joined forces to curb the rise in illegal sales of prescription drugs over the Internet. The two countries called for international action in a resolution presented at the annual session of the UN Commission on Narcotic Drugs in Vienna. The joint resolution states that every country should introduce and enforce laws against the sale of narcotics and psychotropic drugs over the Internet. Swiss Medic, the Swiss Agency for Therapeutic Products, estimates that 4,000 to 8,000 packages containing medicines with narcotic drugs or psychotropic substances come across the border into Switzerland. The latest annual report by the UN's International Narcotics Control Board (INCB) highlighted that Switzerland had seen a large increase in seizures of narcotic drugs bought over the Internet, many of these originating from Pakistan. Pakistani authorities are said to be working with their Swiss counterparts to resolve the problem.

Ukraine

U.S. objectives are to assist Ukrainian authorities in developing 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. Officers from the Drug Enforcement Administration, the Department of Treasury, and the Department of Justice have conducted a number of training courses and conferences funded by the Department of State in the areas of drug interdiction, forensic science, money laundering and management training.

United Arab Emirates

The USG will continue to support the UAE's efforts to devise and employ bilateral/ multilateral strategies against illicit narcotics trafficking, border/export control and money laundering. The USG and UAE are starting discussions on MLAT and extradition treaties, 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.

Saudi Arabia

Saudi officials actively seek and participate in U.S.-Sponsored training programs and are receptive to enhanced official contacts with DEA.

Iceland

DEA will continue to support Icelandic requests for U.S.-sponsored training. The DEA office in Copenhagen and the Regional Security Office in Reykjavik have 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 until now has facilitated the exchange of intelligence and cooperation on controlled deliveries. The USG will continue efforts to strengthen exchange and training programs in the context of mission effort to strengthen law enforcement, homeland security, and counterterrorism ties with Iceland.

Egypt

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.

In fiscal year 2005, the U.S. Government plans to increase its joint operations with ANGA, moving beyond a previously predominant focus on monitoring the problem. This will involve the DEA country office continuing to work closely with ANGA on joint investigations, as well as improving interdiction and eradication techniques and developing additional sources of information on trafficking and production. The U.S. Government also plans to provide additional training in financial investigations, drug interdiction, anticorruption measures, border control operations, and chemical identification and control.

Turkey

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 2004-05 the U.S. Government anticipates spending approximately \$100,000 in previously-obligated funds on counternarcotics programs.

U.S. counternarcotics agencies report excellent cooperation with Turkish officials. Turkish counternarcotics forces have developed technically, becoming increasingly professional, in part based on the training and equipment they received from the U.S. and other international law enforcement agencies.

Ukraine

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Argentina

Cooperation between the USG and Argentine authorities, both federal and provincial, continued to be excellent in 2004. During 2004, USG assistance supplied a wealth of equipment and training programs for Argentine law enforcement personnel. Examples of USG-funded programs in 2004 include: Two law enforcement tactical training courses provided by DEA; a money laundering course sponsored by the Department of Homeland Security (ICE); an airport narcotics interdiction course sponsored by DEA/INL; and a prevention seminar held in conjunction with SEDRONAR sponsored by PAS (Public Affairs Section) and INL. DEA/INL also sponsored several GOA law enforcement professionals, participation in regional training programs. In addition to providing valuable training opportunities, Post's DEA detachment supports the Northern Border Task Force (NBTF), Group Condor, and starting in 2004, the Mendoza Airport Task Force. The DEA-supported task forces demonstrate the benefits of interagency cooperation, and GOA officials have expressed interest in expanding the program to develop task forces in other narcotics trafficking hot spots.

Ecuador

Ecuadorian Government officials met frequently with their Colombian counterparts concerning border issues. 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.

Chile

During 2004, the U.S. Government pursued numerous initiatives based on the above priorities. These include: 1) a two-part training series on the nationwide drug intelligence computer network for carabineros; 2) the first Intellectual Property Rights week including a workshop for law enforcement and prosecutors, public awareness campaign and youth concert; 3) the first presentation on drug abuse prevention programs by students from four communities as a result from the launch of PRIDE in 2003; 4) an INL-funded judicial reform intensive training program for prosecutors and defenders, preceded by Digital Video Conferences with the University of the Pacific; 5) an INL-funded seminar for judges on DNA Forensic Technology; 6) a workshop for Chilean authorities on how to investigate Intellectual Property Rights crimes; 7) a DOJ-funded course on cybercrime for prosecutors, law enforcement and government officials from five countries; 8) a public affairs section grant to Fundacion Paz Ciudadana to implement ADAM (Arrestee Drug Abuse Monitoring); 9) five CHIPRED representatives participated in a voluntary visitor program on managing drug abuse prevention programs; 10) one IVP on the Financial Intelligence Unit; 11) two U.S. speakers on drugs in the workplace and drug courts; 12) INL-funded support of the police to provide equipment for counternarcotics operations; 13) two IVPs on drug prevention and drug prosecution; 14) a series of radio programs on drug prevention recorded and distributed to more than 80 radio stations; 15) continued discussions towards updating the 1900 U.S./Chile extradition treaty.

Venezuela

The INL program in Venezuela is grouped into five projects: interdiction, administration of justice, chemical control, money laundering control, and public awareness.

Components of the interdiction project include seaport security, airport security, and border security, with a particular emphasis on shutting down the Tachira-Puerto Cabello cocaine transit corridor. A state-of-the-art cargo inspection facility is under construction at Puerto Cabello and should be fully operational by mid-2005. Two permanent U.S. Customs and Border Protection inspectors were assigned as advisors to the interdiction project in 2004. The expansion of this team's area of

responsibility to include the Cuccuta (Colombia)-San Antonio de Tachira border point of entry on the Pan-American Highway documented the seizure of over half a ton of cocaine in early December 2004.

The interdiction project also focuses on reducing the flow of heroin and cocaine through Maiquetia International Airport to the U.S. and Europe. X-ray equipment provided by post's INL/Narcotics Affairs Section resulted in near-daily drug seizures at Maiquetia, including a record heroin seizure of 66 kilograms in May 2004.

Components of the administration of justice project include extensive support for the Prosecutor's Drug Task Force, training, and the purchase of 160 computers to run the Prosecutor General's new Case Management System at field offices around the country. Extensive work was also done under this project to install two interconnected local area networks of computers at the Venezuelan drug czar's offices in Caracas.

Also in 2004, the embassy's INL/Narcotics Affairs Section undertook a landmark study to document and analyze Venezuela's 2003 cocaine and heroin seizures. A number of deficiencies and limitations in the current law enforcement and judicial system were discovered or better understood, and seizure report errors for 2003 were corrected.

Mozambique

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 (INL) provides support to the attorney general's anticorruption unit and the police sciences academy (ACIPOL) near Maputo. The funds have provided 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. With USAID assistance, the anticorruption unit was able to open fully equipped offices in Beira and Nampula in 2004, expanding operations that were formerly based only out of Maputo.

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. Embassy The Hague continues to make the fight against the Ecstasy threat one of its highest priorities. Although the Dutch and U.S. agree on the goal, we differ over which law enforcement methodology is most effective in achieving it. The Dutch continue to resist criminal undercover "sting"-type operations in their investigations of drug traffickers. Manpower constraints also prevent them from pursuing international and organized crime aspects of each Ecstasy investigation. The third bilateral law enforcement talks, which were held in The Hague in March 2004, resulted in additional points included in the "Agreed Steps" list of actions to enhance law enforcement cooperation in fighting drug trafficking. Since 1999, the Dutch Organization for Health Research and Development (ZonMw) has been working with the U.S. National Institute on Drug Abuse (NIDA) on joint addiction research projects.

Malaysia

U.S. counternarcotics training continued in 2004 via the International Law Enforcement Academy (ILEA) in Bangkok and the "Baker-Mint" program sponsored by the U.S. Department of Defense. Baker-Mint aims to raise the operational skill level of local counternarcotics law enforcement officers.

The Department of State Assistant Secretary, International Narcotics and Law Enforcement, visited Malaysia in May 2004, meeting with senior police officials and community drug treatment leaders.

Macedonia

DEA officers work closely with the Macedonian police, support coordination of regional counternarcotics efforts, and organize specialized training for Macedonian police officers in the United State. Macedonian police and customs officers benefited in 2004 from a two-month specialized law enforcement course, which also covered counternarcotics issues, at the U.S.-funded ILEA regional training facility in Budapest. MOI police, financial police, customs officers, prosecutors, and judges received State Department-financed training in specialized anti-organized crime operations and techniques. U.S. Customs officials continued to provide technical advice and assistance to Macedonian Customs and the MOI's Border Police.

China

Counternarcotics cooperation between China and the United States continues to develop in a positive way. This cooperation is yielding significant operational results. The information shared by China is leading to progress in attacking drug-smuggling rings operating between the two countries. Chinese authorities continue to share drug samples with U.S. colleagues on a case-by-case basis. In August 2004, the DEA, in conjunction with the NNCC, convened two conferences on precursor chemical control in Shanghai and Nanling, Guangxi Province to provide training to law enforcement officers from China police and customs.

Czech Republic

Czech police consider cooperation with the U.S., German, Austria, Israel, Switzerland and the UK as very good. Czech and German police continue to cooperate in Operation Crystal to combat Pervitine trafficking.

Cambodia

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. DEA provided basic narcotics training to Cambodian counternarcotics police in December 2004. During this same month, DOD conducted the first in a series of Joint Interagency Task Force—West (JIATF-West) training missions. The three-week mission trained personnel from the Cambodian police, military, and the Immigration Department. The training was conducted in Koh Kong province and was designed to increase the capacity of Cambodian security forces that are charged with controlling the Thai-Cambodian border. In 2004, the U.S. provided support for a UNODC project to conduct a national survey to collect baseline data on illicit drug use and the associated HIV/AIDS risk. This is the first such study to be conducted in Cambodia and will provide key information needed to develop an effective counternarcotics/HIV Treatment/Prevention strategy for the country.

Belgium

The United States and Belgium frequently share counternarcotics information. Officials in the Federal Police, Federal Prosecutor's Office, and Ministry of Justice who work on counternarcotics in the GOB are fully engaged with their U.S. counterparts.

Austria

Austrian cooperation on U.S.-interest drug cases is excellent. In the past, Austrian interior ministry officials have exchanged lessons-learned with the FBI, DEA and Department of Homeland Security to improve enforcement techniques. Austria and the U.S. operate a joint "contact office" in Vienna that serves as a key facilitator for flexible and speedy anticrime cooperation. The U.S. Embassy regularly sponsors speaking tours of U.S. narcotics experts in Austria.

Israel

DEA officials characterize cooperation between the DEA and the INP as outstanding. All DEA investigations related to Israel are coordinated through the DEA Nicosia Country Office.

Pakistan

Through the State Department-funded Counternarcotics Program and Border Security Projects, the United States provides operational and commodity assistance to ANF, as well as funding for demand reduction activities and training. The State Department also funds alternative crop, small-scale development, and road building projects in Bajaur, Mohmand and Khyber Agencies of the FATA. The roads, which open up inaccessible areas, allow forces to eradicate poppy crops, while facilitating farm-to-market access for legitimate crops. The U.S. also funds Narcotics Coordination Cells in both the Home Department NWFP and the FATA Secretariat to help coordinate counternarcotics efforts in the province and tribal areas. In addition, the USG provided commodity assistance to Frontier Corps NWFP and Balochistan, who perform counternarcotics missions along the border. The State Department-supported MOI Air Wing program will provide significant benefits to counternarcotics efforts as well, while advancing its primary counterterrorism goal.

The DEA provides operational assistance and advice to ANF's SIC. The ANF continues to cooperate effectively with DEA to raise investigative standards. New investigative equipment, vehicles, and surveillance motorcycles were provided this year. The unit continues to perform work throughout Pakistan, and their DEA-supported expansion began, including the equipping of a new facility and ongoing training.

Bulgaria

DEA operations are managed from Embassy Athens. The USG also supports various 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.

Brazil

Bilateral cooperation on counternarcotics between the USG and the GOB has never been better. Brazil and the U.S. are seeking to meet all goals set forth in the bilateral Letter of Agreement (LOA) on counternarcotics. As agreed to by Brazil and the U.S., programs implemented in 2004 included: cooperation with the Regional Intelligence Center of Operation COBRA; expansion of COBRA prototype to other areas of the country, a country-wide conference on money laundering in Brasilia; and a SENAD project that involves a partnership with the Ministry of Education to provide long distance drug prevention training to over 5,000 teachers nation wide via the educational television network.

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 participates in both the Andean and Southern Cone Working Groups.

Operation Seis Fronteras (Six Borders) is part of a highly-successful regional exercise involving Brazil, Bolivia, Colombia, Ecuador, Peru, Venezuela, and the U.S. DEA to concentrate counternarcotics law enforcement efforts in the area of precursor chemicals.

A number of conferences, training programs, and seminars took place during in 2004. Brazilian Federal and State Police were sent for training to the U.S. on various occasions. USG representatives—DEA, DHS, FBI, U.S. Coast Guard and others—and others visited Brazil to train GOB counternarcotics units.

Bolivia

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. USAID represents the largest of all international donors in supporting GOB policy and programs in AD. This support is defined by Letters of Agreement (LOAs) signed annually with the GOB.

Dominican Republic

Cocaine and heroin trafficking, money laundering, institutional corruption, and reform of the judicial system remain the U.S.' 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 2004, the U.S. provided essential equipment and training to expand the counternarcotics canine units, supported the DNCD's vetted special investigation unit, and funded assessments of airport and port security against narcotics trafficking and terrorism. The U.S. Transportation Security Agency (TSA) gave Santo Domingo's Las Americas Airport ninety days to improve deficient aspects of security, and airport authorities succeeded, through considerable effort, in avoiding penalties.

The U.S. delivered one thirty-foot rigid hull inflatable boat and one landing craft to the Dominican Navy to help counternarcotics trafficking and illegal migration. The U.S. also assisted the Dominican Navy with its equipment maintenance and training programs and assessed requirements to outfit the Navy shore detachments.

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 U.S. 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 (Sector San Juan) in San Juan, Puerto Rico. Dominican Navy vessels have participated in a few maritime drug seizures, and Navy shore patrols have disrupted illegal migration voyages, another favorite method for smuggling drugs.

USAID's "Strengthened Rule of Law and Respect for Human Rights" program continues to work with the Dominican court, public defender, and prosecutorial systems to improve the administration of justice, enhance access to justice, and support anticorruption programs. Improvements achieved to date include implementation of a new criminal procedures code which better protects the rights of the accused and requires a stricter adherence to the due process of law, and speedier, more transparent judicial processes managed by better trained, technically competent, and ethical judges. The USAID program provides training to prosecutors and public defenders in applicable basic criminal justice legal advocacy skills and has offered training in complex criminal case investigations and prosecutions.

The U.S. Department of Justice and Department of State provided advanced management training to senior police officers, including two from DNCD, at the International Law Enforcement Academy (ILEA) in Roswell, NM. DEA offered a basic drug intelligence course for the DNCD in December. Five DNCD officers attended FBI training focused on high risk arrest tactics.

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. In 2004, five Dominican companies met the strict criteria for BASC certification.

The DNCD, with U.S. and Dutch support, made plans to establish a canine unit for narcotics detection at Puerto Plata International Airport, bringing that facility, allegedly a smugglers' favorite, into line with units at Santo Domingo, Santiago, Punta Cana, and La Romana airports.

The U.S. is planning to deploy a U.S. mobile training team for the DNCD's border units and provide increased support for Dominican naval patrols of the Mona Passage.

With U.S. Department of Homeland Security leadership and DEA support, the Dominican Port Authority and the DNCD maintained good security at the formerly chaotic Santo Domingo terminal of the ferry to Puerto Rico. A 2003-04 project has improved passenger processing and established controls to detect and prevent smuggling of drugs and other contraband. U.S. agents also provided advice on the prevention of smuggling to the owners of the new Caucedo container terminal, which commenced full operation in 2004.

The Drug Enforcement Administration (DEA)-funded Caribbean Center for Drug Information at DNCD headquarters 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.

Bahamas

During 2004, 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. In February 2004, NAS and the GCOB agreed to discontinue the Bahamian Customs Department's canine unit at the Freeport Container Port due to its high maintenance cost and its failure to produce expected results. NAS has been working closely with Customs officials to identify other cost efficient programs to protect the Container Port from drug traffickers. 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 (AUTEK,) Andros Island. NAS also provided funding to The National Drug Council and the Drug Action Service to extend their demand reduction education campaign to the Family Islands.

Jamaica

The U.S. and Jamaica cooperate in a variety of areas, including maritime interdiction, the apprehension of fugitives, and initiative relating to 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 2004, Jamaica participated in two 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 2004. In July, the U.S. and Jamaica negotiated, but have not yet signed, a protocol to the bilateral agreement that would add provisions for operations from third party platforms, enhancement of safety for civil aircraft in flight, contiguous zone jurisdiction, and technical assistance. On October 15, the GOJ signed the Caribbean Regional Maritime Agreement.

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. One of the three 44-foot fast patrol boats donated in 2003 is now operational, giving JDF more operational flexibility. Three JDFCG crew members, assigned to the U.S. Coast Guard Caribbean Support Tender in 2002, 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, will be on board until August 2005. As part of this program, on December 15th, the USCG delivered a refurbished Eduardono, a 38-foot high-speed pursuit boat, to the JDF/CG along with other spare parts necessary to maintain an operational status for most of the current JDF/CG fleet.

In 2004, 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. continues to fund an advisor to the National Intelligence Bureau and a Law Enforcement Development Advisor to assist the JCF's strategic planning and reform efforts. Members of the highly effective Jamaica Fugitive Apprehension Team (JFAT), with guidance from U.S. Marshals, received specialized training, equipment and operational support. The JFAT is actively working on over 195 cases, the majority of

which involve drug or homicide charges. Since January 2004, 15 fugitives were extradited to the U.S. Jamaican authorities are receptive to and cooperative with U.S. requests for extradition, and continue to work with U.S. authorities to accelerate the extradition process. Nonetheless, contested extradition requests can take two to five years to litigate fully.

The U.S.-funded International Office of Migration (IOM) Border Control Project, designed to strengthen the GOJ's ability to monitor the flow of persons into and through Jamaica, was officially launched on November 1, 2004. This pilot project, which has modernized the computer infrastructure at the ports of entry, is now functional. USAID is continuing with a program of assistance to the JCF in community-police relations that will focus on strategies to reduce crime and violence.

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 2005 is fully aligned with the National Drug Control Strategy (NDCS), the National Interdiction Command and Control Plan (NICCP), national security and other directives complementing 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 2005:

- 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 2005 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 also is 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. Maintenance and training support through exportable training and the Caribbean Support Tender make for more effective Counternarcotics partners. 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 2004 in coordination and/or cooperation with military and law enforcement forces from: the French West Indies, United Kingdom and its Overseas Territories, Netherlands and Netherlands Antilles, and Jamaica. Recently a combined U.S. and Colombian surge operation featured for the first time ever a Coast Guard HU-25 Guardian jet flying directly in support of Colombian forces, providing over-the-horizon targeting of drug laden go-fast vessels.

International Agreements

Increasing the number of bilateral agreements to 30 between the U.S. and our Central, South American and Caribbean partner nations is moving toward our goal of eliminating safe havens for drug smugglers. In June 2004, the United States and The Bahamas signed the Comprehensive Maritime Agreement (CMA) addressing cooperation in maritime law enforcement across a spectrum of missions. The CMA is a more flexible and sustainable approach to law enforcement operations, replacing a patchwork of dated agreements.

International Cooperative Efforts

In 2004, the Coast Guard prosecuted 104 narcotics smuggling events, which resulted in the seizure of 71 vessels, the arrest of 326 suspected smugglers, and the seizure of 241,713 pounds of cocaine and 25,915 pounds of marijuana. Many of the 104 events involved some type of foreign support or cooperation, either through direct unit participation, exercise of bilateral agreements, granting permission to board, or logistics support.

U.S. Customs and Border Protection

The Department of Homeland Security, Customs & Border Protection (CBP) processes goods, merchandise, and people entering and exiting the United States. CBP 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 now incorporates the additional border control functions of passport control and agriculture inspections to provide seamless border control processing termed, "One Face at the Border." CBP has jurisdiction between ports of entry under the authority of the Border Patrol. CBP responds to the nation's terrorism priorities by developing strategic programs to increase port security. CBP is an integrated border control agency that operates at 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 4 tons of narcotics, arrests 2600 fugitives or violators, while facilitating commercial trade and collecting \$52 million in duty. 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 promoting international law enforcement.

International Training and Assistance

CBP provided technical training and assistance in support of the International Law Enforcement Academy (ILEA) programs currently operating in Bangkok, Budapest and Gaborone in 2004. 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; Intellectual Property Rights conducted with the FBI; and a Customs Forensics Lab Course. CBP provided assistance for 14 ILEA programs.

In 2004 CBP officials conducted textile production verification teams (TPVT) in South Africa, Lesotho, Madagascar and Swaziland. The team in South Africa was following up on close to \$4 million in seizures for counterfeit certificates of origin for apparel in which South African origin claims were made. No African Growth and Opportunity Act (AGOA) claims were made for these shipments. Over 40 factories were found to be fictitious and a number of legitimate factories had their names used on commercial invoices for goods that were falsely claiming South Africa origin. CBP also participated in free trade negotiations with the South African Customs Union (SACU) in Namibia and provided some instructions on the rules of origin proposed under the U.S./SACU free trade agreement to the participants there (South Africa, Namibia, Botswana, Lesotho and Swaziland).

Industry Partnership Programs

Currently, CBP manages the Customs-Trade Partnership Against Terrorism (C-TPAT) designed to deter and prevent the entry of contraband and WMD into the United States via commercial cargo and conveyances. CBP enlists the support of the trade community in supply chain security-related activities, both domestic and abroad.

C-TPAT developed from previous industry partnership programs such as the Carrier Initiative Program, the Business Anti-Smuggling Coalition, and the Americas Counter Smuggling Initiative. C-TPAT builds on the success of these programs in securing the cooperation of the trade to be alert to anomalies in commercial transactions.

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 antiterrorism 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.

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) and Plan Colombia.

The Container Security Initiative (CSI) addresses the threat to border security and global trade posed by the potential for terrorist use of a maritime container. The Initiative proposes a security regime to ensure all containers that pose a potential risk for terrorism are identified and inspected at foreign ports before they are placed on vessels destined for the United States. DHS's U.S. Customs and Border Protection (CBP) is now stationing multidisciplinary teams of U.S. officers from both CBP and the Bureau of Immigration and Customs Enforcement (BICE) to work together with their host government counterparts. Their mission is to target and pre-screen containers and to develop additional investigative leads related to the terrorist threat to cargo destined to the United States.

Through CSI, CBP officers work with host customs administrations to establish security criteria for identifying high-risk containers. Those administrations use non-intrusive technology to quickly inspect the high-risk containers before they are shipped to U.S. ports. Additional steps are taken to enhance the physical integrity of inspected containers while en route to the U.S. Worldwide, 33 ports were CSI operational at the end of 2004 with plans to increase that number in 2005.

Under Plan Colombia, CBP 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. Since its inception, Plan Colombia has provided about \$1.3 million in basic tools, vehicles, high-tech equipment, and training to the Colombian National Police and Colombia Customs.

Customs Mutual Assistance Agreements

The United States has CMAAs with most of our major trading partners and with many other strategically important governments. CMAAs provide for mutual assistance in the enforcement of custom-related laws, and U.S. Customs and Border Protection utilizes these agreements to assist in

evidence collection for criminal cases. 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 1305 participants for 225 programs to benefit 150 countries during 2004.

Canine Training (U.S.-Based). Designed to assist countries in the use of detector dogs the training center provides a variety of training, including handlers, trainers, and supervisors. The training center also provides support to countries in the development evaluation and enhancement of detector dog programs. In 2004 4 students, 2 each from Trinidad and Guam trained at the canine academy in the U.S. In the same period, 3 technical trainers traveled to Guam, Curacao, and St. Maarter to provide technical assistance with detector dog programs in those jurisdictions. In addition, training and operational development were provided to Bolivia, Ecuador and Venezuela.

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. The curriculum was recently updated to include an overview on the topic of antiterrorism. In 2004, training was delivered to 240 participants in 10 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 FY2004, approximately 25 short term advisors were fielded to various countries in Latin America and the Caribbean.

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 200 participants in 8 countries in 2004.

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 2005 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 focus efforts to design training specifically designed for the needs identified for the countries, 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 extraction of pseudoephedrine from over-the-counter pharmaceutical preparations for use as a precursor chemical in the manufacture of methamphetamine became an even greater concern in 2004. These preparations can be purchased at retail with little difficulty in sufficient quantities to manufacture drugs in small “mom and pop” laboratories. Since they fall under an exemption under international counternarcotics conventions, the preparations can also be traded in large quantities, in excess of legitimate requirements, and diverted to use in large-scale laboratories. The National Synthetic Drug Action Plan issued in October 2004 identified and made recommendations to address this major problem.

The explosive growth in Afghan opium poppy cultivation has emphasized the importance of denying Afghan traffickers the precursor chemicals they require to convert opium to heroin. Current conditions in Afghanistan, porous borders, and a tradition of smuggling make this a difficult task, but concerned governments are working together to identify the sources and methods traffickers use to obtain chemicals in order to stop the supplies.

Traffickers continue 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, re-emphasizing the importance of expanding participation in the operations

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.

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.

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 legitimate end-uses for 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 large majority 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.

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. The Convention contains provisions for adding and deleting chemicals from the tables. 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 chemical control regulations binding on all Member States. The European Council approved new updated regulations on November 25, 2004. The new regulations attack new drugs, establish an early warning system to identify new drugs and precursors, and control additional precursors. The EU regulations meet the chemical control provisions of the 1988 UN Drug Convention. EU Member States implement the regulations through national laws and regulations.

The 1988 UN Drug Convention and 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 25-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 arrangements targeting specific chemicals or classes of chemicals are proving invaluable in facilitating control of the chemicals included in the 1988 UN Convention. They allow countries to exchange information rapidly in support of chemical control operations. By focusing on “choke point” chemicals, these arrangements 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 drug manufacture. The three major current operations are Operation Purple tracking trade in potassium permanganate, a key cocaine precursor chemical, Operation Topaz tracking trade in acetic anhydride, a key heroin precursor chemical, and Project Prism, concentrating on stricter tracking of trade in the chemicals and equipment required to manufacture synthetic drugs. The International Narcotics Control Board plays a central coordinating role in the operations

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. The exploitation of non-prescription drugs containing easily extractable pseudoephedrine is becoming a major source of that key chemical used in the illicit manufacture of methamphetamine. 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 to investigate legitimate end-use adequately before issuing import permits, and the acceptance by exporting countries of import permits as sufficient proof of legitimate end-use without any effort at independent verification, make this possible.
- Chemicals are manufactured in or imported by 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 or re-packaged and sold as non-controlled chemicals. In this case, 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 pseudoephedrine, from pharmaceutical preparations. The 1988 UN Convention does not control pharmaceutical preparations, allowing them to be traded internationally without regard to legitimate requirements unless exporting and importing countries impose such 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.

2004 Chemical Diversion Control Trends and Initiatives

The surge in Afghan opium cultivation and the problem of synthetic drug abuse were the major factors impacting chemical control in 2004, while on-going programs to prevent the diversion of cocaine and heroin chemicals continued unabated.

Preventing the diversion of precursor chemicals used to process Afghan opium into heroin is complicated by the lack of an administrative structure in the country to regulate chemicals, and porous borders in the region that facilitate smuggling. Since there are no legitimate requirements for a key heroin chemical, acetic anhydride, in Afghanistan, international attention has focused on preventing this chemical from reaching the country. The feasibility of backtracking acetic anhydride seized in Afghanistan heroin laboratories to its manufacturer is being explored. And the UN Office of Drugs

and Crime is conducting USG-supported chemical training programs in the Central Asian states to better prevent the diversion of chemicals in those countries that can be smuggled into Afghanistan. On a broader level, Operation Topaz, the multilateral acetic anhydride tracking initiative, is being used to stem the diversion of the chemical from legitimate international commerce.

Synthetic drug chemicals present a different challenge. Cocaine and heroin are dependent on coca and opium as their basic raw materials. Both are grown in relatively restricted areas, coca primarily in Colombia and other Andean Region countries, and opium poppy in Afghanistan and Burma. Their manufacture usually takes place near the source of the coca or opium.

Synthetic drug 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 kg of amphetamine, or approximately 30,000 street doses). One of the most serious emerging problems is the extraction of sufficient ephedrine and pseudoephedrine from non-prescription medications to manufacture significant quantities of amphetamine and methamphetamine. This is done in large-scale laboratories, primarily on the U.S. West Coast and in Northern Mexico, and in small-scale laboratories that are spreading throughout the U.S.

The major source countries for potassium permanganate and acetic anhydride participate in Operations Purple and Topaz. 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's largest opium producer, with about 75 percent of the global production.

The Road Ahead

Multilateral procedures for controlling the most important precursor and essential chemicals have been developed. The objective now is to make them 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 synthetic drug chemicals.

Information exchange is the key to effective chemical control. To improve information exchange, the misconception that sharing commercial information in regulatory and law enforcement channels can compromise it and cause commercial disadvantage needs to be dispelled. Expanded participation in Operations Purple and Topaz and Project Prism, is the best way to achieve this. It also closes a gap in the system whereby traffickers obtain their chemicals from non-participating countries. Information on proposed transactions needs to be more widely shared, beyond the bilateral exchanges between exporter and importer to expand the intelligence available to identify suspect transactions, and to prevent traffickers from shopping among potential suppliers.

The two-way nature of information exchange needs to be emphasized. 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 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. One option selectively employed by the U.S. and some other countries is to agree that the exporting country will

not allow shipment of chemicals until the importing country issues either a “letter of no objection” to the proposed shipment or an import permit.

Stopping diversion of precursor chemicals is an important element of the National Synthetic Drugs Action Plan, issued in October 2004. The extraction of precursor chemicals from pharmaceutical preparations is a specific target. Sales of many of these 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. More importantly, major exporting countries for these pharmaceutical products must be urged to use some rule of reason in authorizing exports to regions where illicit methamphetamine production is surging, and where the population density could not realistically justify the quantities being shipped.

These issues will continue to be major themes in our policy dialogue with international partners in chemical control. The problem of misuse of pharmaceutical preparations will be stressed at the March 2005 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 for 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 an advanced chemical industry that manufactures almost all the chemicals necessary for cocaine and heroin manufacture. Many of these are liable to smuggling into neighboring Bolivia. Cocaine manufacture has also increased in Argentina using smuggled cocaine base, indicating domestic precursor chemical diversion. 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 2004, SEDRONAR implemented its own computer database that allows cross checking of registrants, and hired additional personnel to analyze the data. More on-site inspections of chemical operators were conducted during 2004 than ever before, resulting in a record number of civil sanctions against rouge chemical operators.

From November 2003 until October 2004, the DEA-funded Northern Border Investigations seized 54,910 kilograms of precursor chemicals. While down considerably from the previous period, the seizures indicate that chemical diversion remains a serious problem.

Argentina needs to enhance its legal provisions to provide a real deterrent to chemical diverters. The current Argentine 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. SEDRONAR has submitted legislation that will give it the power to issue severe civil penalties to firms that violate chemical control

regulations. The legislation has been reviewed by the Chamber of Representatives and is awaiting approval by the Senate

Argentina is a participant in Operation Topaz and Operation Seis Fronteras. Argentine authorities willingly share chemical control information with U.S. authorities. The Government of Argentina has requested that the USG designate a Diversion Investigator to assist in improving chemical controls and conducting operations.

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. In August 2003, the Justice Ministry issued a regulation to prevent the manufacture of illegal drugs that requires the control of approximately 150 chemicals. Any person or company 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 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.

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. Securing these borders is a major challenge to Brazilian authorities.

Brazil continues to support and participate in international initiatives targeting chemical diversion, such as Operations Purple and Topaz, and 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. The USG supports Operation Seis Fronteras and a chemical control task force in the port of Santos.

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.

For two years ending December 2004, Brazil chaired the OAS-CICAD experts working group on precursor chemicals. Brazil hosted two meetings of that group in Brasilia.

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 included in Table 1 of the 1988 UN Drug Convention. Other precursor chemicals available in Canada used in synthetic drugs manufacture include ephedrine, sassafras oil, piperonal and gamma butyrolactone. Canada is a party to the 1988 UN Drug Convention.

New Canadian regulations strengthening the chemical control provisions of the Controlled Drug and Substances Act came into force on January 9, 2003. 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, DEA sent a Diversion Investigator and a Program Analyst in early 2003 to advise on U.S. experience in implementing chemical controls. Since the new regulations went into effect, the amount of Canadian-sourced pseudoephedrine discovered in clandestine U.S. methamphetamine laboratories has decreased significantly.

Cooperation between U.S. and Canadian law enforcement agencies is excellent. Canadian law enforcement agencies share available information on chemical transactions with U.S. law enforcement. In 2004, DEA and the RCMP led a joint investigation, Operation Brain Drain, targeting Canadian bulk ephedrine distributors and their U.S. associates, as well as U.S.-based Mexican methamphetamine manufacturers and distributors. The operation resulted in 90 arrests, including five major traffickers, and the seizure of 2,735 pounds of ephedrine and nearly 1.7 million ephedrine pills.

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.

Chemical diversion, however, does occur. In September, Colombia reported the seizure of 18,000 kilograms of the cocaine chemical potassium permanganate that originated in Mexico. In June, Mexican authorities reported the theft of approximately 3,500 kilograms of pseudoephedrine powder from Mexico City International Airport.

Mexico is a good example of the problem created by traffickers using non-prescription pharmaceuticals containing easily extractable pseudoephedrine as a source of this precursor for the manufacture of methamphetamine. In 2004, Mexico took steps combat this situation, including limiting the importation of pseudoephedrine and ephedrine to 3 tons per transaction, limiting distribution of pseudoephedrine and ephedrine combination pharmaceuticals exclusively to pharmacies, and establishing a moratorium in the approval of new products containing more than 240 milligrams of pseudoephedrine.

Another significant step taken by Mexico in 2004 was the designation and training of several prosecutors by the Attorney General's Office to handle diversion cases. These prosecutors have been instrumental in leading investigations referred to it. They work well with the Commission Federal Para la Prevencion de Riesgos Sanitarios (COFEPRIS), the agency responsible for regulating chemicals, and with U.S. counterparts.

U.S. and Mexican authorities cooperate in law enforcement. A formal mechanism for cooperation is the U.S-Mexico Bilateral Chemical Control Working Group, but day-to-day contact is handled by the DEA Country Office, notably by two Diversion Investigators posted to Mexico City. In 2004, Mexican authorities conducted, in coordination with DEA, several controlled deliveries that resulted in the seizure of three shipments originating in Hong Kong totaling approximately 16.5 million 60 mg tablets of pseudoephedrine. Mexico participates in the multilateral chemical control initiatives, Operations Purple and Topaz and Project Prism.

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. 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. 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.

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

China has a large and developed chemical industry and 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. In 2004, Zhejiang Province, one of the largest chemical producing areas in China, announced strict controls over precursor chemicals, requiring special approval from two offices with dual oversight to ship these products.

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.

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 and in the course of normal counternarcotics cooperation. China is also a participant in Operation Icebreaker, an effort to combat diversion of precursor chemicals for the production of crystal methamphetamine. DEA has Diversion Investigator positions in its Beijing and Hong Kong offices.

India

India's large chemical industry manufactures a wide range of chemicals, including the precursor chemicals acetic anhydride, ephedrine, pseudoephedrine, which can be diverted for illicit drug 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. The GOI controls acetic anhydride, N-acetylanthranilic acid, anthranilic acid, ephedrine, pseudoephedrine, potassium permanganate, ergotamine, 3,4-methylenedioxyphenyl-2-propanone, 1-phenyl-2propanone, piperonal, and methyl ethyl ketone, all chemicals listed in the convention. Indian law allows the government to place other chemicals under control. Violation of any order regulating controlled substance precursors is an offense under the Narcotics Drugs and Psychotropic Substances Act, the key law controlling trafficking and is punishable with imprisonment of up to ten years. Intentional diversion of any substance, whether controlled or not, to illicit drug manufacture is also punishable under the act.

The Indian Government in partnership with the Indian Chemical Manufacturing Association imposes controls on acetic anhydride, a key heroin chemical. Chemical manufacturers visit customers to verify the legitimacy of their requirements, and shipments are secured with specially fabricated sealing systems to prevent diversion. Domestic and export sales of acetic anhydride require a letter of no objection from the government.

Indian authorities cooperate with U.S. authorities 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. This includes the ten new Member States, expanding these regulations into Eastern Europe. The European Council approved new regulations on November 25, 2004. The new regulations attack new drugs, establish an early warning system to identify new drugs and precursors, and control additional precursors. The EU regulations meet the chemical control provisions of the 1988 UN Drug Convention, including provisions for record keeping on transactions in controlled chemicals, a system of permits or declarations for exports and imports of regulated chemicals, and authority for

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.

A Joint Unit on Precursors has been established, located at and supported by Europol in The Hague, the Netherlands. This has improved cooperation and the exchange of chemical control information between the Netherlands, Belgium, France, Germany, Austria, and the United Kingdom.

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 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. 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.

Precursor control as a preventative measure is a major focus in combating drug crime in Germany. The country has an effective and well-respected chemical control program that monitors the chemical industry, as well as chemical imports and exports. Cooperation between chemical control officials and the chemical industry is a key element in Germany's chemical control strategy. The Federal Criminal Police and German Customs Police have a very active Joint Precursor Chemical Unit, based in Wiesbaden, devoted exclusively to chemical diversion investigations. A total of 34 cases involving precursor chemicals were investigated in 2003. Authorities prevented the export of eighteen tons of precursors chemicals.

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 implementation. It strongly supports Project Prism. In January 2005, the Federal Criminal Police hosted a multilateral meeting in Wiesbaden to develop strategies to prevent the diversion of the key heroin chemical acetic anhydride to Afghanistan.

German chemical control officials and DEA counterparts maintain a close working relationship. A senior DEA Diversion Investigator in DEA's Frankfurt Resident Office spends at least one day a week with the Joint Precursor Chemical unit, working on chemical issues of

concern to both countries. This arrangement allows for the real-time exchange of information. German and U.S. delegations regularly support joint positions on chemical control in multilateral meetings such as the Commission on Narcotic Drugs. Information exchange during special operations has also been excellent.

The Netherlands

The Netherlands is a major chemical 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 those of the EU regulations. Trade in precursors is governed by the 1995 Act to Prevent Abuse of Controlled Substances. The law seeks to prevent the diversion of chemicals to illicit drug manufacture. Violations of the law can lead to prison sentences (maximum of six years), and fines (up to 50,000 Euros), or asset seizures. The Fiscal Information and Investigative Service and the Economic Control Service oversee implementation of the law.

The Netherlands supports and participates in multilateral chemical control initiatives such as Operations Purple and Topaz. It is taking an active role in Project Prism, and it hosted an important organizational meeting for the project in December 2002. The Netherlands and the U.S. (DEA) have co-chaired Project Prism's Chemicals Working Group since its inception in 2002.

Large quantities of Ecstasy are manufactured in the Netherlands. The government has taken a pro-active stance in meeting this threat. It concluded that many of the important precursor chemicals used in local Ecstasy manufacture came from China. The joint participation of the Netherlands and China in Project Prism resulted in their signing a memorandum of understanding on October 22, 2004 governing the sharing of information regarding shipments of precursor chemicals to prevent their diversion from licit trade.

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

Afghanistan is the world's largest opium grower. There are labs in Afghanistan capable of processing the opium to 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 are believed to be Europe, the Central Asian States and India, but the traffickers skillfully hide the sources of their chemicals by re-packaging and false labeling. There are no legitimate requirements in Afghanistan for most of the chemicals used in heroin manufacture, and the bulk 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 is a primary source of amphetamine-type-stimulants (ATS) in Asia, producing hundreds of millions of tablets annually, and is the world's second largest illicit opium producer, though opium poppy cultivation is decreasing. Burma does not have a significant chemical industry and does not manufacture ephedrine, pseudoephedrine, acetic anhydride, or any of the other chemicals required for ATS or heroin production. Most of the chemicals required for illicit drug manufacture are smuggled into Burma from neighboring countries.

Burma is a party to the 1988 UN Drug Convention, but it does not have laws and regulations to meet all its chemical control provisions. In 1998, Burma established a Precursor Chemical Control Committee responsible for monitoring, supervising and coordinating the sale, use, manufacture, and transportation of imported chemicals. In 2002, the Committee identified 25 substances as precursor chemicals, including two not in the 1988 UN Convention (caffeine and thionyl chloride) and prohibited their import, sale or use in Burma.

In January 2003, Burma held its first trilateral conference with India and China on precursor chemicals. In 2004, the conference expanded to include Laos and Thailand. As a result, India and China have taken steps to divert precursor chemicals away from Burma's border areas and India has added ephedrine to the 100-mile wide exclusion zone for acetic anhydride along its border with Burma. In addition, Burma is one of six countries (Burma, Cambodia, China, Laos, Thailand, and Vietnam) that are parties to the UN Office of Drugs and Crimes sub-regional action plan for controlling precursor chemicals and reducing illicit narcotics production and trafficking in the highlands of Southeast Asia.

Burmese seizures of precursor chemicals declined substantially during the first ten months of 2004. Over this period, authorities seized 183 kilograms of ephedrine, 7 gallons of acetic anhydride, and 17, 286 liters of other precursor chemicals.

Latin America

Bolivia

Bolivia does not have a large chemical industry and virtually all the chemicals required for illicit drug manufacture 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 the country.

Bolivia has a professional 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. A UN Office of Drugs and Crime-supported project provided a computerized registration database for both the DGSC and GISUQ. With Embassy and DEA assistance, GISUQ will obtain real-time access to the system by mid 2005. GISUQ also has sought revisions to DGSC regulations that would provide GISUQ with clearer authority to support prosecution of offenders. These draft revisions have been reviewed by the private sector, and DGSC is expected to continue consultations and finalize changes in the first quarter of 2005.

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 average purity of Bolivian cocaine base has remained consistent over recent years: the purity of samples taken in the fourth quarter of 2003 and 2004 showed an average purity level of 73.9 percent and 73.3 percent respectively; in 2001 and 2002 the average purity level was 74 percent. GISUQ's strategy now focuses more aggressively on sulfuric acid and sodium bicarbonate, which are difficult to substitute in Bolivia.

During 2004, GISUQ continued to improve its performance. Seizures of solid precursors increased 210.8 percent, and liquid precursors rose 24.3 percent over the same period in 2003.

Bolivia is a party to the 1988 UN Drug Convention, and has the legal framework for implementing its chemical control provisions. Bolivia participates in chemical control initiatives such as Operation PH-7 (national) and Operation Seis Fronteras (multilateral), and cooperates closely with U.S. officials. DEA has a Diversion Investigator assigned to its La Paz office.

Colombia

Colombia does not have the domestic capacity to produce all the chemicals required for the illicit manufacture of cocaine and heroin in the country. These chemicals are either imported into the country with valid import licenses and subsequently diverted or smuggled in from neighboring countries, Brazil, Ecuador and Venezuela. There have been reports of large quantities of chemicals reaching Colombia that originated in China and transited Mexico. Chemical traffickers and clandestine laboratories are also using non-controlled chemicals to replace controlled chemicals that are difficult to obtain. Some chemicals are recycled.

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 Colombian National Police Chemical Special Investigative Unit (SIU) focuses on investigative work as opposed to regulatory inspections. The goal of the SIU is to dismantle large-scale precursor trafficking organizations.

Colombia is a party to the 1988 UN Drug Convention and has chemical control laws meeting or exceeding its requirements. Colombia participates in Operations Purple and Topaz, and Operation Seis Fronteras. DEA has a Diversion Investigator assigned to its Bogota office.

Peru

Chemicals required for illicit drug manufacture are either diverted from domestic production and legal imports, or smuggled in from neighboring countries. The Peruvian National Police

(PNP) proactively cooperate with neighboring countries and the U.S. to conduct regional chemical control operations that resulted in record seizures of over 1,200 metric tons of precursor chemicals in 2004.

The Peruvian Congress in 2004 passed a new law to better control cocaine precursor chemicals. The law will go into effect in early 2005. In February 2004, Peru, Colombia and Brazil signed a border cooperation agreement that targets illegal border activity, including trafficking in drugs and precursor 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. Peru is a strong supporter of Operation Seis Fronteras and participates in Operation Purple.

SOUTH AMERICA

[*This text has been revised since its original posting to the website; see version as [released to Congress.](#)]

Argentina

I. Summary

Argentina is not a major drug producing country, but it is a transit country for cocaine flowing from neighboring Bolivia, Peru and Colombia primarily destined for Europe. Argentina is also a transit route for Colombian heroin en route to the U.S East Coast (primarily New York). Due to its advanced chemical production facilities, Argentina continues to be a source for precursor chemicals. According to Argentine Government (GOA) statistics, there was more cocaine seized in the first three quarters of 2004 than in the entire 2003 calendar year. In addition to Argentine traffickers, there is evidence that Colombian drug traffickers have greatly increased their presence in all aspects of the Argentine drug trade. In 2004 there was an increase in domestic cocaine production using coca base imported from Bolivia. In November 2004 the Federal Police in Buenos Aires seized 32.5 kilograms of cocaine from a Colombian-run cocaine laboratory in the Buenos Aires area. This may signal a new chapter in the global war on drugs, as Colombian narcotics traffickers search out alternative bases of operations and transit routes in response to the increased pressure of Plan Colombia. Also of concern is that according to GOA statistics, domestic drug use continues on the upswing. The dangerous trends of increased domestic drug consumption and production coupled with the increased activity of Colombian drug traffickers are indications that the situation in Argentina is at a crucial point.

The GOA recognizes the increase in narcotics trafficking and consumption, and during 2004 has taken concrete steps toward combating these growing problems. In September, following ten years of negotiations, the GOA signed an INL Letter of Agreement (LOA) with the U.S., both demonstrating its increased willingness to work with the U.S. on narcotics related issues, and enabling the U.S. to begin providing assistance to the GOA. In December, the Ministry of the Interior started developing a National Security Plan targeting specifically the area of drug trafficking along its border area with Bolivia and Paraguay, and has requested DEA assistance in both the planning and execution phases of this vital process. Also in December, the GOA cabinet office in charge of prevention issues (SEDRONAR) announced plans to create the first ever national drug prevention plan emphasizing youth education and public awareness. SEDRONAR has asked Post's INL representative to be involved in the project and to assist in obtaining regional expertise from neighboring countries. Narcotics use and trafficking are important issues in Argentina, and the GOA's relationship with the USG in narcotics-related issues is extremely close and positive. Argentina is a party to the 1988 UN Drug Convention.

II. Status of Country

While cocaine production is increasing, Argentina is not a major drug producing country. 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 remains the most commonly smuggled and consumed drug, with cocaine HCl and inhalants ranked second and third. Recently the use of Paco, coca base mixed with toxic chemicals, has increased in Argentina. Paco is a relatively inexpensive and addictive drug similar to crack, and is popular among low-income youth. Bolivia is the primary source of narcotics entering Argentina, but narcotics also enter via Paraguay and Brazil. The trafficking of Colombian heroin through Argentina to the U.S. East Coast has decreased in 2004 due to the capture of a well-organized heroin trafficking ring in December 2003, but heroin trafficking via commercial air carriers remains a concern. Seizures of amphetamines and ecstasy (MDMA), a synthetic stimulant with hallucinogenic properties, are increasing.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The government actively targets the trafficking, sale, and use of illegal narcotics. Internal Security is one of the highest profile issues in Argentina today, and the fight against crime in Argentina is synonymous with the fight against drug traffickers and drug use. In September 2004, President Nestor Kirchner moved the Security Secretariat from the Justice Ministry back to the Ministry of the Interior, a move that is widely seen as significantly raising the profile of security related issues. In December 2004, the Interior Minister announced plans to develop a national security plan to deal with the drug trafficking problem. The Interior Ministry is working with SEDRONAR, the Gendarmeria National (border guards), Aduanas (Customs), the Federal Police and Provincial leadership and law enforcement on this issue.

Accomplishments. From November 2003 to October 2004, the DEA-funded Northern Border Task Force (NBTF) seized in excess of 54,910 kilograms of illicit chemicals, down significantly from 153,569.50 kilograms during the same period in 2003. While the amount of illicit chemicals seized was down in 2004, the amount seized indicates that chemical diversion remains a serious problem. The NBTF and Group Condor seized 691 kilograms of cocaine, including base, and arrested 139 traffickers in FY2004 as compared with 507.88 kilograms of cocaine and 207 traffickers in 2003. A major benefit derived from these operations has been the enhanced cooperation between the agencies in the conduct of joint investigations.

According to statistics provided by SEDRONAR, in the first nine months of 2004, GOA law enforcement seized 12 clandestine cocaine laboratories capable of processing an estimated 565 kilograms of cocaine. Not included in SEDRONAR's statistics is the November 2004 GOA seizure of the largest cocaine lab ever discovered in Argentina, reportedly capable of producing more than half as much cocaine as all the other labs seized in 2004 combined. In comparison, eight labs were seized in 2003, and only 15 small labs were seized between 1999 and 2002.

According to SEDRONAR, 2,155 kilograms of cocaine were seized in the first three quarters of 2004, compared to 1,918 kilograms of cocaine for all of 2003. Also according to SEDRONAR, 43,920 kilograms of marijuana were seized in the first three quarters of 2004, compared to 45,553 kilograms during the same period in 2003. SEDRONAR also reports that 29.8 metric tons of coca leaf was seized during the first three quarters of 2004, down sharply from the 39.5 metric tons seized during the same period in 2003. Seizure totals for the last three years are considerably lower than the 91.3 metric tons seized in 2001.

Law Enforcement Efforts. The Ministry of the Interior, in coordination with SEDRONAR, directs federal counternarcotics policy. The primary federal forces involved are the Federal Police, the Gendarmeria, Aduanas, National Air Police (PAN), and the Prefectura Naval (Coast Guard). Provincial police forces also play an integral part in counternarcotics operations. The GOA has recently signaled an increased dedication to combating both narcotics trafficking and consumption and is actively taking measures to increase coordination between the various law enforcement agencies.

All of Argentina's security forces face continuing severe counternarcotics budget limitations that have hampered investment in training and equipment. Also, weak coordination between law enforcement agencies continues to lessen GOA effectiveness. The GOA recognizes these problems and has taken steps to alleviate them. The Gendarmeria, for example, has been authorized to recruit an additional 2,000 members in 2004 and one of the primary goals of the proposed National Security Plan is to seek methods to greatly increase interagency cooperation.

Corruption. Corruption remains a high profile issue in Argentina and the GOA continues to make efforts to eliminate corruption and prosecute those implicated in corruption investigations. The GOA has created the Anti-Corruption Office within the Executive Branch that is responsible for investigating suspected instances of corruption. Since its inception, the office has initiated more than

1,000 investigations, some of which in recent months have either gone or are heading to trial. In 2004, the former Environment Secretary Maria Julia Alsogaray was convicted on corruption charges and is currently incarcerated. 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 2001-4. In 2004, Argentina continued to urge MERCOSUR (Common Market of South American Nations) 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 its protocols against trafficking in persons and alien smuggling. 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 U.S. and Argentina signed a new extradition treaty, which entered into force on June 15, 2000. 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 of marijuana remains negligible, and no other narcotics are cultivated in Argentina. There was a large increase in both the number and size of clandestine cocaine laboratories seized in 2004 that indicates an increase in domestic narcotic production, but the amount of cocaine produced annually in Argentina is still small when compared to other nations in the region.

Drug Flow/Transit. Most Argentine officials agree that drug trafficking is a growing problem. The bulk of cocaine and marijuana enters Argentina via Bolivia utilizing the remote and often rugged land border between Bolivia and the provinces of Salta and Jujuy. Narcotics smugglers also move cocaine and marijuana across the river border between Paraguay and the provinces of Misiones and Corrientes. Heroin and some cocaine enter Argentina via commercial aircraft. Increasingly, GOA officials are becoming concerned about the use of small private aircraft to carry loads of narcotics into Argentina from Bolivia and Paraguay. GOA officials acknowledge that only a small percentage of Argentine airspace is covered by radar and, in the absence of effective radar information, it is simply impossible to gauge the number of aircraft entering Argentina undetected. The GOA recognizes the lack of radar coverage and is actively pursuing the purchase of several mobile radar units. Based upon intelligence reporting, Post's DEA Attaché believes the highest volume method of narcotics transportation from Argentina is via containers passing through Argentina's maritime port system. As a member of MERCOSUR, Argentina cannot open and inspect sealed containers from another member state that pass through the country without direct intelligence on a specific container. These uninspected containers are considered to be a high trafficking threat. Narcotics also are shipped out of Argentina using commercial aircraft, and in some cases, by cruise ship passengers. Couriers of cocaine from Argentina are primarily destined for Europe. Couriers of heroin are primarily destined for the United States.

Domestic Programs (Demand Reduction). SEDRONAR is charged with coordinating the GOA's demand reduction efforts and in December the newly-appointed head of SEDRONAR directed his staff to develop a comprehensive demand reduction plan focusing on youth education and public awareness. 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 September 2004 signing of the LOA has allowed Post to receive an INL budget for the first time since 1995 and begin providing much needed training and assistance. However, as Argentina remains under Brooke Amendment Sanctions for failure to make payments on a bilateral loan, this may affect Post's ability to provide assistance. As mentioned above, the GOA is embarking on the creation of both a national security plan focusing on narcotics interdiction and a national drug prevention plan. The GOA has asked for Post's input and assistance with both plans.

Bilateral Cooperation. Cooperation between the USG and Argentine authorities, both federal and provincial, continued to be excellent in 2004. During 2004, USG assistance supplied a wealth of equipment and training programs for Argentine law enforcement personnel. Examples of USG-funded programs in 2004 include: Two law enforcement tactical training courses provided by DEA; a money laundering course sponsored by the Department of Homeland Security (ICE); an airport narcotics interdiction course sponsored by DEA/INL; and a prevention seminar held in conjunction with SEDRONAR sponsored by PAS (Public Affairs Section) and INL. DEA/INL also sponsored several GOA law enforcement professionals, participation in regional training programs. In addition to providing valuable training opportunities, Post's DEA detachment supports the Northern Border Task Force (NBTF), Group Condor, and starting in 2004, the Mendoza Airport Task Force. The DEA-supported task forces demonstrate the benefits of interagency cooperation, and GOA officials have expressed interest in expanding the program to develop task forces in other narcotics trafficking hot spots.

The Road Ahead. The GOA is taking concrete steps to combat both narcotics trafficking and drug use, and Post will continue to assist and encourage the GOA in this process. The signing of the LOA has created a window of opportunity for even greater cooperation, and Post will diligently seek out still more opportunities to constructively engage the GOA on narcotics issues. Possible areas of further cooperation include expanding the task force program to include the creation of a Tri-border task force in the province of Misiones and a Port of Buenos Aires task force to control narcotics trafficking between Buenos Aires and Uruguay. Post will also continue encouraging the GOA to work toward improving its radar system in the border area.

Bolivia

I. Summary

In 2004, the Government of President Mesa reaffirmed its commitment to long-standing counternarcotics policies, exceeding its international commitment to eradicate 8,000 hectares of coca cultivation and continuing the steady increase in seizures of drugs and precursor chemicals. However, Bolivian coca cultivation increased 6 percent overall. President Mesa and a strengthened Counternarcotics Control Board (CONALTID) endorsed a new five-year drug strategy for 2004-2008 that shifted the focus from the Chapare (where the previous Plan Dignidad significantly reduced coca levels through forced eradication) to the Yungas (where the present growth in coca cultivation exceeds historic trends and what is allowed by law). Alternative development (AD) programs, which have significantly raised the income levels of AD farmers in the Chapare, shifted to a more integrated approach, with emphasis on sustainability and increased participation by municipalities in developing, implementing and monitoring programs, but had no effect on coca reduction in the Yungas.

Political challenges to democratic governance in Bolivia severely limited the ability of the Government of Bolivia (GOB) to curb increases of coca cultivation in the Yungas. The besieged Mesa Administration, at times, seemed more concerned with containing possible confrontations with coccaleros through negotiation and concessions than with the consistent application of the rule of law. It also failed to give political support to GOB programs advocating drug prevention and to undertake an effective social communication program to explain the dangers that excess coca production, drug production and consumption pose to Bolivian society.

II. Status of Country

For centuries, Bolivia has produced coca leaf for traditional uses, and Bolivian law permits up to 12,000 hectares of legal coca cultivation for this market, mostly in the Yungas. The GOB will soon launch a study to gauge the current licit demand, which many suspect has declined as Bolivian society has urbanized.

By the mid-1990's, the Chapare region was the principal supplier of cocaine to the U.S. market—with the potential to produce 255 metric tons of cocaine. Through forced eradication under Plan Dignidad, the GOB reduced cultivation countrywide to its lowest levels and potential cocaine to 60 metric tons. From 2001 to 2004, however, there has been a steady increase in coca cultivation, due partially to the inability of the GOB to conduct forced eradication in non-traditional zones in the Yungas, where Chapare coca growers have migrated. In 2004, coca cultivation increased 6 percent from 2003 to 24,600 hectares and potential cocaine production to 65 metric tons. Bolivia is also now a significant transit country for Peruvian and Colombian cocaine, since its borders run along the most remote and least controlled territories of its five neighboring countries.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Former President Banzer (1997-2001) moved Bolivian policy from one of inaction to one of serious confrontation of the coca/cocaine circuit. Despite recent social and political crises, the GOB policy of forced eradication in the Chapare and of interdiction of illicit drugs and precursors has continued. However, the GOB has responded to efforts by coca growers (“coccaleros”) to stop eradication with short-term agreements of convenience that appear to undercut the GOB's commitment to its forced eradication policy.

Following violent confrontations that led to two deaths, an October 3 agreement with coccaleros in the Chapare enabled eradication to continue, allowing the GOB to meet its international eradication goal of 8,000 hectares. The agreement allowed 3,200 hectares of illegal coca to remain exempt from eradication for a year until a seminal study by the GOB of the legal demand for coca is completed. There was a 10 percent increase in Chapare cultivation in 2004. Moreover, by year's end, the GOB had not undertaken any major public affairs initiatives against the threats excess coca production, drug trafficking, and drug consumption pose to Bolivian society.

President Mesa assumed personal chairmanship of CONALTID, the ministerial committee that coordinates the GOB's counternarcotics policy, and approved a new five-year drug strategy, 2004-2008. Interdiction statistics remain on an upward trend (factoring out the extraordinary "Luz de Luna" seizure in August 2003 of 5.1 metric tons of cocaine.). A new, integrated Alternative Development approach provides for participation by municipalities in GOB decisions on development, implementation, and monitoring of programs.

The principal challenge facing Bolivia today remains the unconstrained expansion of coca cultivation in the Yungas and surrounding areas. Violent coccalero opposition and an extreme geographic terrain make forced eradication in the Yungas difficult. Consequently, the GOB's strategy is based on alternative development, voluntary coca reduction, and interdiction. Alternative development has spread rapidly through specific areas within the Yungas—but has not resulted in any voluntary eradication. Interdiction efforts have worked to channel the movement of leaf, precursors and illicit drugs through control checkpoints.

Accomplishments. According to recalculated CNC cultivation levels for 2003 and 2002 in the Yungas (see "Cultivation/Production" section) the Bolivian coca cultivation increased by 6 percent, only slightly less than in 2003, but potential cocaine production was reported as increasing to 65 metric tons as coca matured. Interdiction statistics increased significantly.

Law Enforcement Efforts. The GOB and USG continue to work cooperatively to develop the capabilities of the Bolivian Special Counternarcotics Police (FELCN) and its highly specialized units, through training, upgrading of existing physical infrastructure, and construction of new bases at strategic locations. As a direct result, interdiction seizures improve yearly, and statistics for 2004 show an 11.8 percent increase in cocaine seizures compared to the same period in 2003 (leaving aside the anomalous 5.1 metric tons "Luz de Luna" seizure in August 2003). The quality of the investigative work by FELCN units also has improved.

Corruption. There is no evidence that Bolivia's trafficking organizations exercise a major corruptive influence at the higher levels of the GOB. Recent governments have neither condoned, nor encouraged nor facilitated any aspect of narcotics trafficking. In February, President Mesa signed a Supreme Decree ratifying the establishment of the Office of Professional Responsibility (DNRP) within the Bolivian National Police. This establishes clear rules and mechanisms governing investigations of insubordination, civil disobedience and misconduct, including allegations of corruption. Coupled with the establishment of internal investigation units in the FELCN in 2003 to monitor and investigate allegations of police misconduct and human rights violations, the GOB has instituted a greater climate of professional responsibility and reduced the level and frequency of abuses. President Mesa also established a Technical Unit for Combating Corruption to coordinate the efforts of government organs legally mandated to investigate and prosecute corruption and track the results. However, a package of six draft anticorruption measures still languishes in Congress. In 2004, there were no prosecutions of narcotics-related cases involving senior level officials, although four judges have been removed and are under prosecution for misuse of office. In addition, three former BNP high-ranking officers involved in a case of armored car robbery were tried and convicted in December. A former deputy BNP commander is currently appealing his 2003 sentence of two years for forgery, and a former BNP commander is under investigation by the Attorney General's Office for misuse of funds.

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); the 1971 UN Convention on Psychotropic Substances, the 2000 Protocol to Prevent, Suppress and Punish Trafficking in Persons; the Inter-American Convention Against the Illicit Manufacturing of and Trafficking in Firearms, Ammunition, Explosives, and Other Related Materials; and the 1996 Inter-American Convention Against Corruption. Bolivia has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, the Protocol against the Smuggling of Migrants; the UN Convention against Corruption; and the Inter-American Convention Against Terrorism. Bolivia has not signed the Inter-American Convention on Mutual Assistance in Criminal Matters. Implementing legislation for many of these treaties remains pending in the Congress.

Extradition. Bolivia and the U.S. signed a bilateral extradition treaty in 1995, which entered into force in 1996 and mandates the extradition of nationals for most serious offenses, including drug trafficking. There were no extraditions from Bolivia to the U.S. in 2004, nor were any sought. The last drug trafficking related extradition from Bolivia was in August 2001.

Cultivation/Production. The GOB continued forced eradication of coca cultivation principally in the Chapare (including the national parks), but also in areas of new cultivation. Despite eradicating just over 8,000 hectares, coca cultivation in the Chapare increased 10 percent. In 2004 CNC revised its statistical analysis of previous Yungas cultivation figures and included for the first time and estimated 1,000 hectares of cultivation in the province of Caranavi. This revision indicated that there was no statistically significant increase in the Yungas in 2004, following a 15-percent increase in 2003. Overall, coca cultivation in Bolivian increased by 6 percent in 2004. Small but worrisome new coca cultivation was discovered in 2004 well outside the three zones tracked by international imagery estimation. Law 1008 authorizes up to 12,000 hectares of legal coca cultivation to supply the licit market; a study soon to be undertaken by the GOB will measure licit demand for coca. GOB interdiction also documented a dramatic rise in marijuana production throughout the country for internal consumption, possibly indicating drug traffickers' efforts to develop new markets for financing their operations.

Drug Flow/Transit. The GOB continues to focus on intercepting illicit drugs and chemicals, as well as on detecting and disrupting organizations that bring precursors into Bolivia or transfer cocaine out of Bolivia. Although the FELCN did not achieve another multiple-ton seizure to match "Luz de Luna," all their interdiction statistics increased compared to the previous year. In 2004, the GOB seized 395 metric tons of coca leaf, 8.7 metric tons of cocaine and 28.2 metric tons of cannabis, in addition to 678,750 liters of liquid precursor chemicals (acetone, diesel, ether, etc.) and 1,672 metric tons of solid precursor chemicals (sulfuric acid, bicarbonate of soda, etc.). It also destroyed 2,254 cocaine base labs and made 4,138 arrests in 5,836 operations. Cocaine seizures rose 11.8 percent over the same period in 2003 (not counting "Luz de Luna"); marijuana seizures rose 231.4 percent; seizures of liquid and solid precursor chemicals rose 24.3 and 210.8 percent respectively.

A significant amount of Peruvian cocaine, and increasing amounts of Colombian cocaine traverse Bolivia to enter Brazil. An increasing proportion of the cocaine both transiting and produced within Bolivia is destined for Europe, Argentina, Brazil, Chile and Paraguay. Moreover, internal consumption levels appear to be increasing in Bolivia itself.

Alternative Development. In the Chapare, INL-funded, USAID alternative development (AD) assistance complemented coca reduction efforts by strengthening licit livelihoods, community development, legal land tenure, and access to justice. Through FY-04, USAID helped a cumulative total of 28,290 farm families with AD support, and licit cultivation increased from 135,342 in 2003 to 143,887 hectares. The average income of families assisted by AD increased from \$2,275 in 2003 to \$2,390 in 2004 and the number of licit jobs rose to 62,304, up from 53,000 in 2003. New programs in land titling, health, environment and democracy have shown positive results. The National Institute for

Agrarian Reform was working on 15,000 land titles in various stages and had completed the delivery of 641 titles as of the end of FY 2004. To support community health, a total of 29 new infrastructure units (clinics, living quarters, incinerators) have been built. USAID also financed an Integrated Justice Center, which assisted residents in nearly 300 legal cases.

The Yungas Development Initiative's (YDI) Community Alternative Development Fund completed 93 small-grant, community-prioritized projects for water and sanitation, as well as post-harvest and community development. USAID continued to build social capital through scholarships for 55 regional university students in the fields of agronomy, veterinary medicine, nursing and primary education, and its health program has reached over 3,000 patients for treatment of tuberculosis, malaria and leishmaniasis. Related programs have trained over 40,000 Yungas residents in 434 communities in disease prevention and health awareness courses. Road infrastructure saw 168.7 km of roads maintained, 156 km of road improvement, 12.3 km of stone paving, and the construction of 8 bridges. In addition, coffee assistance has so far reached more than 9,000 families and helped increase their incomes by over 40 percent. A rural electrification program in the Yungas has completed two out of four sub-projects intended to provide over 11,000 families with electricity. In 2004, 331 km of distribution lines were completed benefiting 3,700 families in 112 communities in Palos Blancos and Caranavi. However, no voluntary eradication of coca resulted from AD activities in the Yungas.

A USG-supported Organization of American States project to modernize organic cacao and banana cultivation in the Yungas was transferred to GOB control in December. There are now 2,500 families participating in the project, each averaging 2 hectares of cultivation, and enjoying revenues of between \$1,470 and \$1,821 per year, in addition to income from subsistence crops grown for food and market.

Domestic Programs (Demand Reduction). The new five-year drug strategy includes demand reduction and rehabilitation as one of its four pillars, and, in November, CONALTID approved an inter-ministerial committee to coordinate policies and programs. Nevertheless, in 2004 the GOB undertook few significant efforts to combat a perceived increase in drug consumption other than to expand the BNP's DARE program (financed by the USG and now including FELCN officers) and two consumption studies in the school-age population and households. Strategies for implementing demand reduction and rehabilitation have been developed, but neither approved nor implemented.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG works through various programs to promote institutional reform and to strengthen the elements within the GOB dedicated to addressing counternarcotics-related goals in Bolivia. These include: removing Bolivia as a major producer of coca leaf for the production of cocaine; promoting licit economic development to provide viable options to cultivating coca; disrupting the production of cocaine within Bolivia; interdicting and destroying illicit drugs and precursor chemicals moving within and through the country; reducing and combating domestic abuse of cocaine and other illicit drugs; and, institutionalizing a professional law enforcement system.

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. USAID represents the largest of all international donors in supporting GOB policy and programs in AD. This support is defined by Letters of Agreement (LOAs) signed annually with the GOB.

Road Ahead. Bolivia continues to experience significant political instability and economic insolvency. Throughout 2004, President Carlos Mesa led an "apolitical" government, whose ministers served without links to political parties; however, he governed under the perpetual threat of renewed popular protest, and made numerous concessions to cocaleros to keep counternarcotics programs

afloat. Meanwhile, demands for basic changes in Bolivia's political system are currently focused on calls for regional autonomy and for a Constituent Assembly, which is tentatively planned for late-2005 or 2006.

The impact of political instability on the GOB's ability—or even its willingness—to fulfill its obligations over the coming years under the 1988 UN Convention and its LOA with the USG is difficult to predict. To date, the Mesa Administration solidly supports both forced eradication in the Chapare and aggressive interdiction. Yet, it remains unclear whether the Mesa Administration's new five-year coca plan can successfully address its most pressing problem—the rapid growth of illicit cultivation in the Yungas, where coca growing is a centuries-old tradition, where demarcating transitional from traditional coca can be ambiguous, and where cocaleros have forcefully demonstrated their willingness to fight to protect coca crops.

Bolivia Statistics

(1996–2004)

	2004	2003	2002	2001	2000	1999	1998	1997	1996
Coca									
Net Cultivation ¹ (ha)	24,600	23,200	21,600	19,900 ²	14,600	21,800	38,000	45,800	48,100
Eradication (ha)	8,437	10,000	11,839	9,435	7,653	16,999	11,621	7,026	7,512
Leaf: Potential Harvest ³ (mt)		29,083	19,800	20,200	13,400	22,800	52,900	70,100	75,100
HCl: Potential (mt)	65	60	60	60	43	70	150	200	215
Seizures									
Coca Leaf (mt)	395	152	102	65.95	51.85	56.01	93.72	50.60	76.40
Coca Paste (mt)	—	—	—	—	—	—	—	0.008	—
Cocaine Base (mt)	8.2	6.4	4.7	3.95	4.54	5.48	6.20	6.57	6.78
Cocaine HCl (mt)	0.53	6.5	0.4	0.51	0.72	1.43	3.12	3.82	3.17
Combined HCl & Base (mt)	8.7	12.9	5.1	4.46	5.26	6.91	9.32	10.39	9.95
Agua Rica ⁴ (ltrs)	—	—	—	20,240	15,920	30,120	44,560	1,149	2,275
Arrests/Detentions	4,138	—	1,422	1,674	2,017	2,050	1,926	1,766	955
Labs Destroyed	—								
Cocaine HCl	4	2	2	1	2	1	1	1	7
Base	2,254	1,769	1,420	877	620	893	1,205	1,022	2,033

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

Brazil's key counternarcotics development in 2004 was the implementation of a shoot-down law that the Brazilian Congress passed in 1998, but that was only put into effect on October 17 after President Lula signed the implementing decree. Also in 2004, the Government of Brazil (GOB) adopted a new national strategy document to combat money laundering. A principal aim of the strategy is to better coordinate disparate federal and state level anti-money laundering efforts. Operation COBRA, a project on Brazil's border with Colombia, has been functioning now for nearly four years and is showing positive results. Similar operations on the Venezuelan and Peruvian borders are up and running, and another one is also being developed with Bolivia.

Brazil is a major transit country for illicit drugs shipped to Europe and, to a lesser extent, the United States. Brazil continues to cooperate with its South American neighbors in an attempt to control the remote and expansive border areas through which illicit drugs are transported. Brazil is a party to 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 not a significant drug-producing country. It is, however, a conduit for cocaine base and cocaine HCL moving from Andean source countries to Europe and Brazil's urban centers. Crack cocaine is used among urban youths, particularly in Sao Paulo and Rio de Janeiro. Smaller amounts of heroin also move through Brazil to the U.S. and Europe. Organized drug gangs, located principally in Rio de Janeiro and Sao Paulo, are heavily involved in narcotics and drug-related arms trafficking.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Brazil has undertaken various bilateral and multilateral efforts to meet the objectives of the 1988 UN Drug Convention, implemented adequate law enforcement measures, and achieved significant progress in the war against drugs.

After extensive discussions with the USG on the ramifications of a Brazilian shoot-down program and the elements of a Presidential Determination that would address certain liability issues under U.S. law, the GOB implemented its air bridge denial (ABD) ("shoot-down") law to enter into effect on October 17, 2004. Brazil's law and program permits the Brazilian Air Force to use lethal force against civilian aircraft reasonably suspected to be primarily engaged in trafficking of illegal drugs. The U.S. President determined that drug trafficking posed an extraordinary threat to Brazil's national security, and also concluded that Brazil's program had appropriate operational safety procedures in place to justify the U.S. Presidential Determination. This determination is similar to the one in place for Colombia's ABD program, though unlike Colombia, Brazil independently administers its own program. The determination must be renewed annually by the USG. To date, the Brazilian Air Force has not shot down any suspect aircraft.

The GOB forged closer ties with its neighbors in the war against drugs as a result of the "joint commission" (CM) formed in 2003. The Brazilian Foreign Ministry, with representatives from the Federal Police, National Antidrug Secretariat (SENAD), SENASP (National Public Safety Secretariat), ANVISA (National Agency of Health Monitoring), Health Ministry, and ABIN (National

Intelligence Agency) make up the CM. Brazil's creation of an intelligence center in the Tri-Border area with Paraguay and Argentina has also increased regional cooperation.

Brazil's Unified Public Safety System (SUSP), which was created in 2003, is now fully functional and showing results. 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 assists the GOB in ensuring a unified approach to law enforcement and statistical crime and narcotics seizures reporting.

Accomplishments. In 2004, the GOB exercised a regional counternarcotics leadership role. In June, "Operation Six Borders" was carried out to disrupt the illegal flow of precursor chemicals in the region. The GOB continued its support of "Operation Alliance" with Brazilian and Paraguayan counternarcotics interdiction forces in the Paraguayan-Brazilian border area.

Illicit Cultivation/Production. With the exception of some cannabis grown in the interior of the northeast region, which is primarily consumed domestically, there is no significant evidence of illicit drug cultivation in Brazil. Brazil's Federal Police believe that drug trafficking organizations could increase the number of cocaine processing laboratories in Brazil. However, a steady supply from Bolivia and to a lesser extent Colombia, could explain why this has not happened.

Distribution. Federal counternarcotics police and state authorities continue to investigate and disrupt extensive domestic distribution networks in Brazil's major and secondary cities.

Sale, Transport And Financing. The Federal Police took measures to identify significant drug trafficking trends, patterns, and traffickers in 2004. Although one or two monthly deliveries of large amounts of Colombian cocaine may be shipped to Brazil's urban centers of Rio de Janeiro and Sao Paulo, Federal Police analyses indicate that Bolivian cocaine and Paraguayan marijuana generally dominate those markets.

Asset Seizure. The GOB seized many ill-gotten assets in 2004, particularly motor vehicles that the Federal Police immediately made available for law enforcement officials' use. The GOB auctioned other assets and distributed the proceeds, based on court decisions. Federal Police recorded the following seizures in 2004: one airplane, 554 motor vehicles, 39 motorcycles, 4 boats, 253 firearms, and 984 cell phones.

Extradition. No extraditions to the United States were carried out during 2004. At year's end, there were three pending narcotics-related extradition cases of non-Brazilian citizens. There were three extraditions from Brazil to the U.S. in 2003, one of which was narcotics-related.

According to the Brazilian Constitution, no Brazilian citizen shall be extradited, except naturalized citizens for a common crime committed before naturalization, or unless there is sufficient evidence of participation in the illicit trafficking 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.

Training Assistance. In 2003, various USG agencies—including the Department of State, Department of Homeland Security (DHS), Drug Enforcement Administration (DEA), Federal Bureau of Investigation (FBI), and others—provided training in Brazil covering a wide variety of law enforcement issues. These included combating money laundering, cyber-crime, community policing, port security, crisis management, and demand reduction programs. Brazilian Law Enforcement also eagerly accepted opportunities to attend training programs in the U.S. on money laundering, drug courts, and operation of the FBI academy.

Law Enforcement and Transit Cooperation. Brazil's Federal Police, SENAD, and SENASP continued to express their interest in active cooperation, particularly intelligence sharing and coordination, with the U.S. in drug control activities.

Brazil cooperates with authorities in neighboring countries to strengthen regional coordination against illicit drugs, particularly Colombia, Peru, and Bolivia. In June 2004, for instance, 13 law enforcement officers attended a training seminar in Bolivia. A head of the training section of the Brazilian Federal Police academy also attended a high-level planning meeting in Panama City to discuss the proposed establishment of an International Law Enforcement Academy (ILEA). In January 2004, a group of 12 Brazilian police officers (9 Federal, 2 state military, and one civilian) attended the ILEA advanced management course in New Mexico. Also, seven policemen from the state of Minas Gerais participated in a community policing exchange in Austin, Texas. This program also gave the same opportunity for police from Texas to visit Brazil.

Demand Reduction. The DARE (Drug Abuse Resistance and Education) program (known as PROERD in Brazil) is now active in all 26 states of Brazil and the Federal District. Brazil has the largest DARE program outside of the U.S. Through SENASP and SENAD, the USG assisted in financing and logistics, and Embassy personnel visited several training sessions. The DARE program reinforces a positive image of local police forces, while providing a strong message concerning demand reduction. Embassy Brasilia is also collaborating with several NGOs and the U.S. Consulate in Sao Paulo to establish additional demand reduction programs that target urban youth at risk of drug use, crime, and violence. USG funding for SENAD and the Ministry of Education resulted in thousands of teachers receiving training and a counternarcotics curriculum via the educational television network. In addition, a SENAD toll-free number on drug information is currently being upgraded so that it may handle more calls and provide counseling.

Law Enforcement Efforts. The Federal Police estimate that in 2004 they seized 7.7 metric tons of cocaine HCl and 120 kilograms of crack. Marijuana (cannabis) seizures totaled 149.2 metric tons in 2004. Three cocaine drug laboratories were dismantled in 2004. These numbers are incomplete, however, as they only include statistics from the Federal Police, and not those of local police forces. Federal Police sources estimate they record perhaps 75 percent of seizures and detentions.

Corruption. Fighting corruption remains a high priority for Brazilian law enforcement. As a matter of policy, the GOB does not condone, encourage, or facilitate production, shipment, or distribution of illicit drugs or money laundering. The Federal Police have carried out a number of high profile investigations of public officials and State Police involved in money laundering and/or narcotics trafficking.

Agreements and Treaties. Brazil became 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 programs conducted by the UN Office on Drug and Crime (UNODC) and the Organization of American States/Anti-drug Abuse Control Commission (OAS/CICAD).

Drug Flow/Transit. Paraguayan marijuana and Bolivian cocaine are smuggled into Brazil across remote border areas and are destined primarily for domestic consumption. Brazil's Federal Police indicate that cocaine leaving Colombia and entering Brazil by air is destined mostly for Europe, where it arrives in containerized cargo. According to the Federal Police, smaller amounts of cocaine leave Colombia via Brazil's waterway networks in the Amazon region and are mainly destined for the Brazilian domestic market. Smaller quantities of heroin have been detected moving through Brazil from source countries to the U.S. and Europe. While the GOB and Brazilian press assess that Brazil's recently enacted shoot-down law has had a deterrent effect on clandestine flights, it is too soon to tell what real and lasting impact the law will have on illegal aerial drug trafficking.

VI. U.S. Policy Initiatives and Programs

U.S. counternarcotics policy in Brazil focuses on liaison with and assistance to Brazilian authorities in identifying and dismantling international narcotics trafficking organizations and reducing money laundering. U.S. policy also is to increase awareness of the dangers of drug abuse, drug trafficking, and related issues such as organized crime and arms trafficking. Supporting Brazil to develop an effective 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. Bilateral cooperation on counternarcotics between the USG and the GOB has never been better. Brazil and the U.S. are seeking to meet all goals set forth in the bilateral Letter of Agreement (LOA) on counternarcotics. As agreed to by Brazil and the U.S., programs implemented in 2004 included: cooperation with the Regional Intelligence Center of Operation COBRA; expansion of COBRA prototype to other areas of the country, a country-wide conference on money laundering in Brasilia; and a SENAD project that involves a partnership with the Ministry of Education to provide long distance drug prevention training to over 5,000 teachers nation wide via the educational television network.

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 participates in both the Andean and Southern Cone Working Groups.

Operation Seis Fronteiras (Six Borders) is part of a highly-successful regional exercise involving Brazil, Bolivia, Colombia, Ecuador, Peru, Venezuela, and the U.S. DEA to concentrate counternarcotics law enforcement efforts on precursor chemical control.

A number of conferences, training programs, and seminars took place during in 2004. Brazilian Federal and State Police were sent for training to the U.S. on various occasions. USG representatives—DEA, DHS, FBI, U.S. Coast Guard and others—and others visited Brazil to train GOB counternarcotics units.

The Road Ahead. The biggest challenge Brazil faces in the war against narcotics trafficking is to secure its borders by increasing interdiction efforts against criminal organizations that exploit a vast border area to smuggle illegal goods. Fully functional border operations like COBRA (Colombia) and others that are still in their initial start-up phase, such as Vebra (Venezuela), PEBRA (Peru), and BRABO (Bolivia), are key programs for strengthening Brazil's border control. The planned opening of a joint intelligence center in early 2005 in the Tri-Border area will be a step forward in the fight against narcotics trafficking and other illegal activities. The center will include representatives from Argentina and Paraguay, which will strengthen regional cooperation. Brazil's shoot-down law is another crucial development that should reduce the number of illegal flights over the country's expansive borders and increase seizures of illicit goods.

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 also has an internal cocaine and marijuana consumption problem, with Ecstasy continuing to grow in popularity. 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 persistent transit of heroin destined for the U.S. and Europe. Cocaine hydrochloride consumption has increased, although cocaine base abuse is more prevalent. Chilean authorities discovered some cocaine and amphetamine labs two years ago, but Chile is not a major source of refined cocaine. Marijuana also continues to be widely used in Chile, a drug supplied primarily by Paraguay and a handful of production farms in Chile.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Chilean Congress continues to work on a comprehensive revision of Chile's 1995 drug laws, a project pending since 1999. In an effort to combat money laundering, the Financial Intelligence Unit was created in June of 2004. 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 January 2004, five representatives from the Chilean Coalition on Drug Prevention (CHIPRED) participated in a Voluntary Visitor program on managing drug abuse prevention programs. Embassy Santiago, in conjunction with CONACE, organized the launch of CHIPRED, a network of Chilean NGOs working on drug issues, in August 2003. CHIPRED allows better coordination of programs to prevent drug abuse and reduce demand, and is a member of the Drug Prevention Network of the Americas (DPNA).

In June 2004, the Financial Intelligence Unit (FIU) was launched with a mandate to investigate money laundering activity. While current laws do not provide adequate authority for the FIU, amendments are expected to be approved in 2005 to increase the investigative authority of the unit.

The DEA Santiago Country Office, together with the Policia de Investigaciones de Chile ("PICH," roughly equivalent to the FBI) and the Carabineros (national uniformed police), initiated Operation Seis Fronteras VI on March 1, 2004. This operation is a six-country initiative to combat the diversion of legal chemicals in the production of cocaine. As a follow-up, the DEA Santiago Country Office and the Carabineros de Chile hosted Operation Seis Fronteras VI After-Action Conference on June 9-10, 2004. DEA and police representatives from Colombia, Venezuela, Ecuador, Brazil, Peru, Bolivia, Argentina and Chile attended the conference, which focused on analyzing the results of the three-month Seis Fronteras VI operation.

Chile continues to implement its multi-year criminal justice reform project. As of January 2004, 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 should generally result in a faster resolution of cases. The

Santiago metropolitan region, which accounts for almost 40 percent of Chile's population, will present special challenges. The transition in Santiago is scheduled to occur in June 2005.

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 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 2004, Chilean authorities seized 2,697 kilograms of cocaine hydrochloride, 8.8 kilograms of heroin, and over fifty-six million Chilean pesos (approximately USD\$90,000). Law enforcement agencies also arrested 9400 persons for drug-related offenses, an increase from 8343 in 2003. Chilean authorities are also addressing the domestic distribution sources of cocaine, marijuana, and ecstasy.

Corruption. Narcotics-related corruption among police officers and other government officials is not a major problem in Chile. The government actively discourages illicit production and distribution of narcotic and psychotropic drugs and the laundering of proceeds from illegal drug transactions. No current Chilean senior officials have been accused of engaging in such activities. The high-profile scandals related to Pinochet's activities provide an example of the gravity and attention that Chile attaches to corrupt behavior by former or current government officials. Transparency International's Annual Corruption Perception Index ranked Chile 20th in 2004, three positions down from last year.

Agreements and Treaties. The U.S.-Chile Extradition Treaty was signed in 1900. In late 2002, Chile expressed interest in updating the current treaty, and exploratory meetings took place in March 2004. The U.S. and Chile do not have a bilateral mutual legal assistance treaty (MLAT), but both countries are party to the OAS Inter-American MLAT, which Chile ratified in April 2004. Chile is party to the Inter-American Convention Against Corruption. Chile ratified the UN Convention against Transnational Organized Crime in November 2004.

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. Although the GOC and the DEA signed an agreement in 1995 to create a Special Investigative Unit (SIU) within the Carabineros, no SIU currently operates in Chile. Due to the very low level of corruption and the resulting professionalism in the ranks of Chilean law enforcement, there is currently no pressing need for an SIU. 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 the Department of State does not identify Chile as 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 makes it attractive to narcotics traffickers. Maritime and land route trafficking has increased; the most recent trend is to traffic drugs via Chile's road system and out of the country via maritime routes. The Santiago International Airport is also used to transit particularly heroin to the U.S. and Europe. 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 via couriers traveling by air.

Demand Reduction Programs. The Chilean government has expressed concern about domestic drug use. The most recent study, completed in 2002 and released by CONACE in July 2003, demonstrates that the existing treatment infrastructure in Chile is insufficient. According to the survey, 5.7 percent of Chileans had used drugs in 2002, a slight decrease from 6.3 percent recorded in 2000. Prevalence of marijuana dropped from 5.8 percent in 2000 to 5.2 percent in 2002, although current information indicates marijuana use is significantly higher than the numbers suggest. The report also states the 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. Current indications suggest an increase in use of both types of cocaine. The 2002 survey also found that 22.9 percent of respondents had used illegal drugs at least once in their lives. CONACE continues to work with NGOs, community organizations, and schools to develop demand reduction programs. With the launch of CHIPRED last year, 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 2004 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 2004, the U.S. Government pursued numerous initiatives based on the above priorities. These include: 1) a two-part training series on the nationwide drug intelligence computer network for carabineros; 2) the first Intellectual Property Rights week including a workshop for law enforcement and prosecutors, public awareness campaign and youth concert; 3) the first presentation on drug abuse prevention programs by students from four communities as a result from the launch of PRIDE in 2003; 4) an INL-funded judicial reform intensive training program for prosecutors and defenders, preceded by Digital Video Conferences with the University of the Pacific; 5) an INL-funded seminar for judges on DNA Forensic Technology; 6) a workshop for Chilean authorities on how to investigate Intellectual Property Rights crimes; 7) a DOJ-funded course on cybercrime for prosecutors, law enforcement and government officials from five countries; 8) a public affairs section grant to Fundacion Paz Ciudadana to implement ADAM (Arrestee Drug Abuse Monitoring); 9) five CHIPRED representatives participated in a voluntary visitor program on managing drug abuse prevention programs; 10) one IVP on the Financial Intelligence Unit; 11) two U.S. speakers on drugs in the workplace and drug courts; 12) INL-funded support of the police to provide equipment for counternarcotics operations; 13) two IVPs on drug prevention and drug prosecution; 14) a series of radio programs on drug prevention recorded and distributed to more than 80 radio stations; 15) continued discussions towards updating the 1900 U.S./Chile extradition treaty; 16) three USCG resident courses on maritime law enforcement and security.

The Road Ahead. In 2005, the U.S. Government will continue to support Chilean efforts to combat the narcotics-related problems listed above. The U.S. plans to continue to provide capacity-building assistance to the on-going criminal justice system reform. Efforts to enhance the counternarcotics capabilities of both the Carabineros and the Investigations Police pursuant to the Letter of Agreement will also continue.

Colombia

I. Summary

Despite impressive progress against narcotics trafficking during 2004, Colombia remains a major drug producing country. The country's Public Security Forces prevented hundreds of tons of illicit drugs from reaching the world market through interdiction, spraying of coca and poppy crops, and manual eradication. A record 178 metric tons of cocaine were captured through the efforts of Colombia's police and military forces. The U.S.-supported Anti-Narcotics Police Directorate (DIRAN) sprayed a record 136,555 hectares of coca and 3,060 hectares of opium poppy during the year. Manual eradication accounted for the destruction of an additional 10,991 hectares of coca and 1,497 hectares of opium poppy. Colombia's military forces are beginning the second year of "Plan Patriota," a major offensive in the former demilitarized zone ("zona de despeje"), the heart of territory historically controlled by the Revolutionary Armed Forces of Colombia (FARC). The FARC continues to use the drug trade as its major financing source. The paramilitary United Self Defense Forces (AUC), also largely financed by the drug trade, continues to challenge the FARC for control of key coca and poppy cultivation areas throughout the country, in spite of also being involved in an ongoing peace process with the Colombian Government. The AUC reached an agreement with the government to demobilize its fighters (estimated by the AUC itself to be 20,000) by December 2005. Thus far over 4,600 AUC militants have demobilized. Colombia is a party to the 1988 UN Drug Convention.

II. Status of Country

Colombia is the source of over 90 percent of the cocaine and 50 percent of the heroin entering the U.S. It is also a leading user of precursor chemicals and the focus of significant money laundering activity. Developed infrastructure like ports on both the Pacific and the Atlantic and the Pan American Highway, provide the narcotics terrorists with many options. The normal problems associated with the narcotics trafficking are compounded in Colombia by the presence of various illegal armed groups that are fighting with the government and involved in narcotics trafficking. These groups include 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 high concentrations of coca and opium poppy cultivation, and their involvement in narcotics is a major source of violence and terrorism in Colombia. Drug use in Colombia is increasing and Colombia has a very active demand reduction program. The judicial system is transitioning to an oral accusatorial system, in which the roles and responsibilities of the judges, prosecutors, and criminal investigators are changed. A criminal case has a confidential investigatory stage where evidence is collected and then a charging and trial stage by the judge and an oral public trial with witnesses is conducted. To date, as the transition has begun in Bogota and three other municipal regions, the new system has proven to be efficient and effective. A total of 10,727 prosecutors, judges and criminal investigators received intensive training in the new accusatory system by the end of 2004. The system is expected to be nationwide by 2008.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, President Uribe initiated a program to give land expropriated from narcotics traffickers to landless campesinos (peasants). In a September press conference, President Uribe announced that asset seizure and forfeiture would be applied to small farms as well as large ones. Since the announcement, the police and courts have taken preliminary steps to implement the

process as a deterrent to growing illicit crops and as a complement to government eradication programs.

Demand Reduction. The Colombian government lacks a national Demand Reduction Strategy. The Ministry of Social Protection is currently conducting a comprehensive survey of school age drug use, funded by the Organization of American States, the results of which will be announced by the end of March 2005. The OAS will then work with the Government of Colombia (GOC) to develop a national Demand Reduction Strategy. Meanwhile, the USG continues to work with various non-governmental organizations (NGOs) to prevent drug use.

Culture of Lawfulness. The USG continues to support respect for law and civic responsibility. The Culture of Lawfulness (COL) program currently teaches more than 6,000 ninth-grade students the importance of lawfulness in society and is developing a curriculum for integration into various Colombian National Police (CNP) training programs. The U.S. National Strategy Information Center (NSIC) develops curricula and implements the program with funding from a grant from the Narcotics Affairs Section (NAS) of the U.S. Embassy in Bogota. This program receives active support from the highest levels of the GOC, including President Uribe. In 2004, the COL program expanded beyond its initial trial schools in Bogota and Medellin to include other major cities.

Port Security. The USG is party to a three-way agreement with the DIRAN and private seaport operators. DIRAN provides police to work with port officials to prevent narcotics from being exported. The port authorities work to improve their own security and fund the DIRAN units, and the USG provides coordination, technical assistance, and training. During 2004, over 1.26 metric tons of narcotics were captured in the four principal Colombian ports. The USG works separately with DIRAN and Airport Police to prevent Colombia's international airports from being used as export points for drugs. In 2004, U.S. Customs provided scanners that were installed at major airports to check incoming baggage for contraband.

Elements of Colombia's private sector are active participants in a Business Anti-Smuggling Coalition (BASC) program, an initiative of the U.S. Department of Homeland Security. This program seeks to increase the effectiveness of law enforcement offices by enhancing private sector security programs in their efforts to deter narcotics smuggling in commercial cargo shipments and conveyances. Hundreds of Colombian companies, organized into BASC chapters, participate in the program to eliminate the infiltration of drugs into legitimate commercial shipments to U.S. markets.

Environmental Safeguards. Since 2001, the DIRAN has processed approximately 5,500 complaints of crop damage by spray planes. Some 2,725 complaints were processed in 2004 alone. Since the complaints tracking program began in 2001, 12 complaints of accidental spraying of food crops or pastureland have been verified and compensation paid, with four more claims in the process of completion. To date, the program has paid less than U.S. \$20,000 in total compensation for damaged crops.

Regarding claims of health damage, during the past 10 years there has not been a single case verified by the Colombian National Institute of Health of adverse health effects from the aerial spray program. The spray program follows all laws and regulations of the Colombian Environmental Management Plan. The program has also been favorably reviewed by the U.S. Environmental Protection Agency.

Extradition and Mutual Legal Assistance. The number of drug-related extraditions from Colombia to the United States has increased significantly over the years. So far in President Uribe's administration, extraditions have increased dramatically with 173 Colombian nationals and 8 non-nationals extradited (total: 181 extraditions) by the end of 2004.

On December 3, Colombia extradited Gilberto Rodriguez Orejuela to the United States. Rodriguez Orejuela was the head of the Cali Cartel and is one of the most important drug trafficking figures ever extradited from Colombia to the United States. On December 31, 2004, Colombia extradited FARC

leader Juvenal Ovidio Ricardo Palmera Pineda, alias “Simon Trinidad,” to the U.S. on drug trafficking and terrorism charges.

There is no bilateral mutual legal assistance treaty between the U.S. and Colombia, but the two countries rely on mutual legal assistance provisions in multi-lateral agreements and conventions, such as the OAS Convention on Mutual Legal Assistance, to effectuate cooperation. During 2004, 75 mutual legal assistance requests were submitted and over 35 responses have been received.

Demobilization. During President Uribe’s administration, over 4,600 militants belonging to illegal armed groups have demobilized, individually or collectively, including AUC leader Salvatore Mancuso. Mancuso is wanted in the United States on narcotics trafficking charges. The Colombian government presently does not have an established mechanism to prosecute demobilized AUC members accused of drug trafficking or other serious crimes, such as murder or kidnapping. However, legislation has been introduced in the Colombian Congress to rectify this gap.

Public Security. During 2004, the Colombian government finished establishing a police presence in the 158 municipalities that had not had public security at the beginning of the Uribe Administration. There are now police in every one of the 1098 municipalities in the country, helping to close down illegally armed groups’ mobility corridors. Entire FARC fronts have reportedly been forced to live off the land, thereby contributing to their increasing desertion rates—which for the FARC are up by one third. Other security indicators were very positive in 2004: homicides down by 15 percent, massacres down by 48 percent, kidnapping down by 35 percent, overall terrorist attacks down by 42 percent, the number of Internally Displaced Persons down by 41 percent.

Law Enforcement Efforts. The DIRAN broke all interdiction records in 2004, with over 75 metric tons of processed cocaine (HCl) and coca base seized and 150 HCl laboratories destroyed. In addition, combined public forces (Army, Navy, Air Force, and Police) seized a total of 178 metric tons of cocaine HCl/coca base and destroyed 200 HCl laboratories. DIRAN also conducted numerous joint operations with the Colombian military against high-value narcotics terrorist targets.

The CNP’s Carbineros (EMCAR) reported impressive final results for CY2004. Last year, EMCAR Squadrons captured 275 narcotics trafficking and 1,639 guerrillas (815 FARC/ELN & 824 AUC). The squadrons also captured 3,127 common criminals. They seized 1,655 weapons, 8.47 metric tons of coca base, 46,600 gallons of liquid precursors and 142.5 metric tons of solid precursors. Overall, EMCAR Squadrons and the new Municipio CNP units were largely responsible for the significant improvement in public security throughout rural Colombia.

Kingpin or “Cabecillas” Group. In August, the DIRAN established a permanent Task Force to target the “Cabecillas,” or the leadership of the narcotics terrorist organizations. Special police teams have been assigned to gather intelligence against some 300 Cabecillas, and the DIRAN created an intelligence fusion center to analyze intelligence and participate in operational planning. Since the group was formed, four special operations have been conducted, resulting in the capture of nine leadership targets.

Operations “Mapale” I and II. DIRAN worked closely with the Colombian Navy (COLNAV), the Colombian Marines (COLMAR), Colombian Air Force (COLAF), and the U.S. Drug Enforcement Administration (DEA) in two major operations executed in Colombia’s southwest Pacific coast area. Operations Mapale I and Mapale II were conducted against both FARC and AUC narcotics trafficking infrastructure and base camps, in order to disrupt and dismantle cocaine and heroin laboratories associated with these organizations, as well as against the Norte del Valle Cartel (NVC) operating near the Pacific Coast of Colombia.

These operations destroyed 21 HCL/base labs, seized 12 metric tons of coca paste, 27 metric tons of coca leaves, 7 speedboats, and 150 metric tons of precursor chemicals.

High-Value Targets. On January 2, 2004, Juvenal Ovidio Ricardo Palmera, alias “Simon Trinidad,” commander of the FARC Caribbean Front and a member of the FARC senior command, was captured in Ecuador and deported to Colombia. Simon Trinidad, the most senior FARC commander ever captured, was extradited to the United States on December 31st.

On February 10, Omaira Rojas Cabrera alias “Anayibe Rojas Valderrama”, alias “Sonia,” the chief of finances for the FARC Southern Bloc, was captured in a U.S.-supported dawn air assault. The extradition request for “Sonia” is pending before the Colombian Supreme Court.

Corruption. The GOC does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances or related money laundering. The GOC has enacted appropriate legislation to combat money laundering and related illegal financial flows associated with narcotics trafficking, and established a unit made up of officials of the Ministries of Justice and Finance that tracks the illegal flow of money. Allegations of corruption within the Office of the Prosecutor General (Fiscalia) are now being vigorously pursued by a special internal commission (an inspector general-like unit).

Corruption is more a problem in regional departments than at a national level. A specialized Anti-Corruption Task Force Unit has been established to investigate and prosecute public corruption crimes. Corruption clearly plays a major role in the continued diversion of precursor chemicals. Rogue Colombian policemen allegedly collaborate, and on occasion they have been implicated in the illicit importation, transportation, and/or diversion of controlled chemicals (see separate section on Chemical Control). Colombia is party to the Inter-American Convention Against Corruption. Colombia has also signed and is in the process of ratifying the UN Convention Against Corruption.

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 counternarcotics project agreements with the various Colombian implementing agencies.

Colombia and the U.S. are signatories to the OAS Convention on Mutual Legal Assistance. 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 the U.S. Coast Guard.

In August of 2004, Colombia became a party to the UN Convention against Transnational Organized Crime, along with the protocol on trafficking in persons.

Cocaine. Based on the most recent CNC cultivation estimates, along with the DEA coca yield and laboratory efficiency data, Colombia had the potential to produce 460 Metric Tons (MT) of 100 percent pure cocaine base/HCl from locally grown coca plants. This was a 21 percent decrease from the previous year. Based on average purities of bulk seizures in the United States, this equates to approximately 560 metric tons of “export quality” cocaine HCl.

Heroin. According to the latest USG estimates based on new opium yield data, Colombia had the potential to produce 7.8 metric tons of 100 percent pure heroin. Based on average purities of bulk seizures in the United States, this equates to approximately 10 metric tons of “export quality” heroin.

Synthetic Drugs. The availability and consumption of Ecstasy in Colombia are steadily rising. The majority of Ecstasy found in Colombia is brought from Europe in powder form and locally pressed into pills. There has been no evidence of Ecstasy being smuggled from Colombia to the United States, and it is believed that most—if not all—is for local consumption. Actual Colombian production of Ecstasy is believed to be very limited, as only two laboratories have been discovered to date. The

Colombian National Police have active investigations into Ecstasy trafficking organizations, and take part in the multi-national program against synthetic drugs, Operation Aquarius.

Drug Flow/Transit. Cocaine is transported by road, river and small civilian aircraft from the Colombian Source Zone to the Colombian Transit Zone north and west of the Andes Mountains. Primary transportation nodes include the larger airports, clandestine airstrips, and seaports from which small go-fast type vessels can transport cocaine. A smaller, but growing cocaine smuggling method is to use small civilian aircraft from clandestine airstrips in eastern and southeastern Colombia to fly cocaine to Brazil, Suriname, or Guyana. From these countries the cocaine is either consumed locally, as in Brazil, or transferred to maritime vessels for shipment to the United States or Europe.

Colombia's coastal regions are major transshipment points for bulk maritime shipments of cocaine and marijuana. The vast majority of the drugs shipped from the coastal regions originate from production areas in the south central portion of the country as well as other less prolific growing areas in the northern third of Colombia. Most shipments are organized by well-established trafficking organizations, which are based in Cali, Medellin, Bogota, and elsewhere.

Go-fast boats are then regularly used to on/off-load drugs onto fishing vessels or other "mother" ships at sea. Go-fast boats also transport drugs to Central American and Caribbean transshipment countries, using refueling ships to extend their range. Fishing vessels and commercial cargo ships continue to be used to transport large quantities of drugs via both Atlantic and Pacific routes. Fishing vessels usually travel to Mexico or other transshipment countries, while cargo ships can go directly to the United States or Europe. The drugs are hidden in container cargo, bulk cargo, or hidden compartments built into ships.

Cocaine is also transported from Colombia to the United States and other countries via commercial air cargo or concealed aboard commercial aircraft. The use of "mules" (couriers) traveling as passengers on commercial airlines is frequent, though the quantities of cocaine transported in this manner are relatively small.

Heroin is often concealed in the lining of clothing or secreted within the lining of luggage. There is also ingestion by airline passengers, or "swallowers." The CNP/Airport Interdiction Group has experienced great success in identifying and arresting "swallowers" at the international airports in Bogota, Cali, and Medellin. There are also significant quantities of heroin being shipped from Colombia's Pacific Coast, particularly from Buenaventura. There are increasing instances of heroin shipments being combined with cocaine shipments on go-fast boats departing from the Atlantic coast.

Colombian heroin transportation organizations use trafficking routes through Venezuela, Argentina, Ecuador, Panama, and Mexico to move heroin to the United States. In many cases, couriers depart from Colombia through the international airports in Bogota, Medellin, Cali, and to a lesser extent, Barranquilla, and then transit one or more countries before arriving in Mexico. From Mexico, the heroin is typically transported across the border into the United States and transported by courier to its final destination.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. The U.S.-supported aerial eradication spray program had another banner year. Some 136,555 hectares of coca and 3,060 hectares of poppy were sprayed by the DIRAN during 2004, surpassing last year's record numbers. Closer intelligence coordination and more intensive utilization of the Colombian Army's (COLAR) U.S.-supported Counternarcotics Brigade, which provides on-the-ground security for eradication operations has resulted in a dramatic reduction in the number of hostile fire impacts on our spray aircraft. In addition to enhancing security, this measure has helped to sustain the operational tempo of eradication operations by reducing time lost to repair damaged aircraft. During the year only one spray aircraft was lost, with no fatalities.

The USG constructed a satellite imagery laboratory and trained counternarcotics police to operate the equipment and analyze data collected to improve coca field detection and mapping. This facility, in conjunction with the intelligence fusion center, has greatly increased the ability of the counternarcotics police to locate illicit crops.

The Plan Colombia Helicopter Program (PCHP), consisting of UH-1N, UH-1H II, UH-60, and K-MAX helicopters, continued to provide dedicated support to the Counternarcotics Brigade and, when available, provided other support to human rights-certified COLMIL and Public Security Forces. In 2004, PCHP aircraft flew 19,600 hours, carried 30,110 passengers, transported 2,148,389 pounds of cargo and conducted 110 medical evacuation missions for both military and civilian personnel. This year the program lost one UH-1H II and suffered extensive damage to a UH-1N. Operational highlights include participation in four high value target (Cabecilla) missions, including one resulting in the capture of Omaira Rojas Cabrera, alias “Sonia.” In April 2004, the Embassy’s country team developed a nationalization plan. The plan laid out an aggressive timeline for the completion of both pilot and maintenance personnel training. The plan’s objectives were met for 2004, and the majority of resources are in place to meet 2005 objectives.

U.S. Customs and Border Protection provides training and technical assistance to improve the ability of border control agencies in Colombia to combat money laundering, contraband smuggling and commercial fraud. Several Customs disciplines support the national effort in the region through Plan Colombia. To date \$1.3 million in training and technical assistance has been provided through the program.

The USG supports DIRAN’s aviation unit (ARAVI), comprised of 20 fixed-wing and 62 rotary-wing aircraft. In addition to counternarcotics missions, ARAVI has, with Embassy approval, used USG-supported assets for humanitarian missions, targeted intelligence gathering, antiterrorism, antikidnapping, and public order missions. The USG also helped ARAVI reach an agreement with the Colombian Air Force (COLAF) to train ARAVI pilots at the Bogotá-based COLAF simulator, thereby eliminating the need to send ARAVI pilots to the United States for instrument training. The USG has initiated in-country high-altitude training for ARAVI and has worked with ARAVI to explore possibly reintroducing the use of night vision goggles in 2005.

The Air Bridge Denial (ABD) program completed 16 months of operations. ABD operations in 2004 contributed to the destruction of thirteen aircraft, the capture of three aircraft in Colombia and eight others in Central America, and the seizure of almost three metric tons of cocaine.

USG and GOC joint efforts are having a major impact on illicit agriculture. To encourage farmers to abandon the production of drug crops, INL funding apportioned to USAID has supported the cultivation of over 60,000 hectares of legal crops and completed 874 social and productive infrastructure projects. More than 50,000 families in 17 Departments have benefited from these programs.

In addition to combating drug production and trafficking, INL funding apportioned to USAID is assisting Colombians in areas that have been most ravaged by the drug trade. For example, the USG has improved the delivery of public services in 35 municipalities, including the delivery of potable water and sewage treatment. To date, the USG has provided non-emergency support for over two million Colombians internally displaced by narcotics terrorism, including aid for over 2,000 former child soldiers. A total of seven peaceful-coexistence centers have been created in small municipalities to provide onsite administrative and legal assistance, educational opportunities, and a neutral space for community meetings, discussions, and events. Additionally, the GOC’s presence in rural areas was expanded by the creation of 37 Justice Houses, which offer access to justice and peaceful conflict resolution.

The USG has entered into an agreement with the GOC to provide a laboratory for soil and water analysis in support of the aerial spray program. NAS has also entered into a similar agreement with the Colombian National Institute of Health on a laboratory for blood and urine analysis in support of public health monitoring for potential chemical poisoning from agricultural chemicals.

The USG, through the Justice Sector Reform Program and rule of law assistance, is helping in the reform and strengthening the criminal justice system in Colombia. DOJ and USAID have provided training, technical assistance, and equipment to enhance the capacity and capabilities of the Colombian system and to make it more transparent to the public at large.

The Road Ahead. The GOC, with substantial USG support, has had significant successes since its Plan Colombia was instituted in late 1999. If the effort is sustained and assistance bolstered for the next few years, the trend of decreased cultivation and increased interdictions will continue. That, combined with the improving governance and decreasing criminality, and general economic and developmental improvement, should cripple the illicit drug producing industry and reduce the flow of drugs into the U.S. and diminish the power and influence of narcotics trafficking organizations.

Colombia, bravely led by President Alvaro Uribe, has demonstrated the political will to deal with the scourge of narcotics terrorism. Success in Colombia will increasingly hinge on maintaining the political will, combined with USG assistance, to solidify the gains already made and to lock in long-term results. The benefits of our efforts in Colombia are not limited to law enforcement and counternarcotics successes. Democracy, economic stability, respect for the rule of law and human rights, and security have all been enhanced by Colombian and U.S. counternarcotics programs in Colombia.

Colombia Statistics

(1995–2004)

	2004	2003	2002	2001	2000	1999	1998	1997	1996
Coca									
Potential Harvest (ha)	—	113,850	144,450	169,800	136,200	122,500	101,800	79,500	67,200
Eradication (ha)	136,555	132,817	122,695	84,251	47,371	43,246	—	19,000	5,600
Estimated Cultivation (ha)	—	246,667	267,145	254,051	183,571	167,746	—	98,500	72,800
HCl: Potential (mt)		460	571	839	580	520	435	350	300
Opium									
Potential Harvest (ha)	—	—	—	6,500	7,500	7,500	6,100	6,600	6,300
Eradication (ha)	3,060	—	3,371	2,583	9,254	—	—	6,972	6,028
Estimated Cultivation (ha)		—	TBD	9,083	—	—	—	13,572	12,328
Cannabis									
Potential Harvest (ha)	5000	5000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Eradication (ha)	—	—	—	—	—	—	—	—	—
Estimated Cultivation (ha)	5000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Potential Yield (mt)	4,000	4,150	4,150	4,150	4,150	4,150	4,150	4,150	4,150
Seizures									
Heroin (mt)	.687	0.5	0.77	0.78	0.572	0.504	0.317	0.261	0.183
Opium (mt)	.835	—	0.11	0.002	—	0.183	0.100	0.120	0.036
Cannabis (mt)		126.1	76.9	36.6	46	65	69	136	235
Base/Basuco (mt)	30.1	31.1	30	26.70	—	9.00	29.30	10.00	17.50
Cocaine HCl (mt)	148.2	114.0	94	57.30	69.00	22.73	54.70	34.00	23.50
Total HCl/Base (mt)	178.3	145.1	124	80.00	69.00	31.73	84.00	44.00	41.00
Total Arrests	63,791	—	15,868	15,367	8,600	—	1,961	1,546	1,561

Ecuador

I. Summary

Sharing porous borders and a contiguous seacoast with Colombia and Peru, Ecuador is a major transit country for illicit drugs and chemicals. The violent conflict in Colombia complicates drug interdiction on Ecuador's northern border but drug seizures in the northern border area increased in 2004 thanks to improved police and military activity. Most drugs leave Ecuador by sea. Ecuadorian authorities are seeking to improve port cargo inspections. Three of Ecuador's public ports met ISPS standards on time. The use of advanced inspection technology increased in 2004. Cocaine seizures through November 2004 were at levels substantially below those of 2003, while seizures of heroin and precursor chemicals continued at a high level. Uneven implementation of the new criminal procedures code, a faulty judicial system and conflicting laws hamper prosecutions. The USG provides equipment, infrastructure and training to help 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

Weak public institutions, widespread corruption and a poorly regulated financial system make Ecuador vulnerable to organized crime. Border controls of persons and goods are undependable. Much of the population lives in poverty. Scanty government presence in a large portion of the country contributes to lawlessness. The National Police (ENP) and military forces are inadequately equipped and trained.

There is no evidence that significant illicit crops or drugs are produced in Ecuador. However, coca base, cocaine hydrochloride and heroin from Colombia and Peru are distributed internationally through Ecuador's sea and airports in volumes ranging from a few hundred grams to multi-ton loads. Detected shipments of drugs via international mail and messenger services continued to increase in 2004. The USG is helping the Government of Ecuador (GOE) to strengthen the rule of law and to improve civil security.

III. Country Actions Against Drugs in 2004

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 illicit association related to drug trafficking and profiteering.

Policy Initiatives. The Ecuadorian Government published a new national drug strategy and its implementation plan in 2004. The documents call for the strengthening of institutions and laws related to drug trafficking and promise the revitalization (including adequate budget support) of the National Drug Council, CONSEP. According to the implementation plan, a new multi-institutional action committee will be constituted to plan and prepare technical initiatives to carry out the national strategy. The reorganization and re-staffing of CONSEP, begun in 2003, continued through 2004. Some confiscated property was sold by CONSEP in 2004, the first such sales in several years. CONSEP activity against trafficking in controlled precursor chemicals continued at the high level initiated in 2003, though other planned CONSEP improvements lagged because of insufficient

funding. Military and police forces generally cooperated at the local level, conducting some joint operations in 2004 to destroy illicit crops and seize precursor chemicals. The GOE continued to reinforce its security presence in the northern border area.

Accomplishments. The Counternarcotics Directorate (DNA) of the National Police, established in 1999, was increased from 1229 to 1305 members in 2004. 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 698 police and other judicial operators throughout the country.

The USG-built cargo inspection facility in Manta port was opened early in 2004. Other USG-financed infrastructure projects are in construction or design phases in Esmeraldas, Carchi, Sucumbios and El Oro provinces. 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, including digital x-rays that began service in 2004. The GOE's 2005 national budget includes no earmarked administrative funds for the DNA. The National Police allocated seven additional new vehicles to the DNA fleet in 2004.

Total cocaine seizures through November 2004 were 3.44 metric tons. Heroin seizures in this period totaled 262.34 kilograms. Cannabis seizures were 576 kilograms.

The improvement in chemicals control begun in the second half of 2003 continued through 2004 with a high level of seizures but no prosecutions to date.

The new Code of Criminal Procedures promulgated in 2001 is still applied unevenly. An extensive revision of the new code, correcting numerous shortcomings in the original revised law, was pending Congressional debate at the end of 2004.

Law Enforcement Efforts. 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. Cooperation between the USG and GOE in 2004 resulted in several successful drug interdiction operations and the dismantling of some international trafficking organizations.

Arrests and prosecutions. A total of 1632 Ecuadorians and foreigners were arrested for drug trafficking from January through November 2004. While many arrests result in convictions, prosecutions in general are impeded by the dysfunctional judicial system and persistent confusion over proper implementation of the 2001 Code of Criminal Procedures.

Corruption. Ecuadorian law criminalizes 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 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. There were no known allegations of, or prosecutions for drug-related official corruption in 2004. Cesar Fernandez, the former Governor of Manabi Province and prominent politician arrested in October 2003 while personally packaging a large shipment of cocaine for export, was convicted in October 2004 and sentenced to sixteen years in prison. His principal Mexican and Colombian co-defendants received sentences of twenty-five years.

Agreements and Treaties. Ecuador and the United States signed a customs mutual assistance agreement in 2002. Ecuador is a party to the UN Convention against Transnational Organized Crime and its protocols dealing with migrant smuggling and trafficking in persons.

The United States-Ecuador extradition treaty is outdated. There has been informal dialogue about its possible revision, but no 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. However, the negotiation of a new extradition treaty depends on whether Ecuador is ready 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 UNODC has conducted counternarcotics law enforcement projects in Ecuador for several years.

The GOE agreed in 1999 to permit the USG to operate a forward operating location (FOL)—also known as a cooperative security location (CSL)—for counternarcotics surveillance at the Ecuadorian Air Force base in Manta. The FOL is in full operation.

The Government of Ecuador 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 interdiction of illicit drugs and chemicals and to improve Ecuadorian safeguards against terrorism and illegal migration. USAID's Andean Missions (Bogota, Quito, Lima and La Paz) are collaborating on a study of the macro- and micro-economic impacts of narcotics production, processing, transportation, and money laundering within each country and cross-border.

Cultivation/Production. Ecuadorian security forces located and destroyed about 3,300 mature cultivated coca plants and 14,000 seedlings in scattered locations near the northern border in 2004. 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.

Drug Flow/Transit. Law enforcement officials generally believe that the illicit traffic in chemicals in Ecuador is greater than indicated by the relatively small volume of chemicals seized. The U.S. Government, other cooperating governments and the United Nations are working with the Ecuadorian Government to correct deficiencies in the chemical control regime. Ecuador continues to meet 1988 UN Drug Convention objectives regarding chemicals, and has signed a cooperative agreement with the European Union.

Petroleum ether or "white gas," declared a controlled substance by CONSEP in June 2003, continues to be trafficked from Sucumbios Province to neighboring Putumayo Department, Colombia. GOE security forces, primarily the Army, closed down the principal diversion points in 2003 but continue to make substantial seizures of the chemical. CONSEP is investigating possible continuing sources of illicit petroleum ether in more remote oil fields near the Colombian border.

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.

Domestic Programs (Demand Reduction). Prevention of domestic drug abuse has long been an important part of the Ecuadorian government's drug strategy and receives greater emphasis in the revised strategy published in 2004. Coordination of abuse prevention programs is the responsibility of CONSEP, whose new management is seeking to reinvigorate a multi-agency national prevention

campaign. National prevention activities currently are conducted primarily through the schools and supported by the USG. 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 and a judge orders their forfeiture. Judges commonly are tardy in issuing forfeiture orders. Problems arise in relation to the safeguarding of assets pending forfeiture. Real estate, vehicles and other personal property have historically been used by government agencies or officials and depreciated during the interim. The responsible governmental agency, CONSEP, is trying to curb this practice by establishing new inventory controls. CONSEP recently sold a relatively small amount of forfeited property, primarily vehicles.

Alternative Development. UDENOR, the Ecuadorian agency for northern border development 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 USD 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. Broadly stated, the plan seeks to increase citizen satisfaction with the performance of local democratic institutions, increase availability of basic infrastructure (potable water, sanitation, bridges, farm-to-market roads) and to increase licit income and employment for small and medium farmers in Ecuador's northern border provinces.

USAID Directors in Quito and Bogota have initiated exchange of information on alternative development, decentralization and environmental activities in the Provinces along the Ecuador-Colombia border.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. 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 through 2004 seeks to improve the staffing, mobility and communications of military and police forces in the northern border region. Resources are being provided to the Ecuadorian Navy for expanded patrol and interdiction operations on Ecuador's northwestern coast.

In 2002, the USG funded a Judicial Police training program whose purpose was to educate the judicial police on the new penal code. Trainers who successfully completed that first course are now training their colleagues. A revised law correcting some inadequacies of the reform was scheduled for debate in Congress at year's end.

Communications equipment, ground vehicles and the canine program continue to be areas supported through USG assistance and for which recent successful operations can be credited. Digital x-rays and ion scanners provided by the USG are being used for cargo and passenger inspections in many locations.

USG-funded counternarcotics "preventive alternative development" programs are contributing strongly to the Ecuadorian Government's Northern Border plan. To increase citizen satisfaction and demonstrate the legitimacy of democratic institutions, a large social and productive infrastructure program has built dozens of water and sanitation systems, bridges and small irrigation projects. To complement the infrastructure program, a new Northern Border local government development program was initiated in July 2004 to strengthen local governments and citizen participation in 10 priority municipalities.

Licit income and employment activities focus on competitive rural industries within “clusters” (including distributors, wholesalers, processors, post-harvest agents, producers, raw material suppliers, etc), working in unison to identify and overcome constraints to greater productivity, stronger competitiveness and sustainability. The initial priority sub-sectors being supported are cacao, coffee and vegetables.

Elements of Ecuador’s private sector are active participants in the U.S. Customs Service’s Business Anti-Smuggling Coalition (BASC) program, particularly on the coast. 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. Many Ecuadorian 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 DHS’s Americas Counter-Smuggling Initiative (ACSI).

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.

Bilateral Cooperation. Ecuadorian Government officials met frequently with their Colombian counterparts concerning border issues. 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.

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 training and essential infrastructure and equipment. Special emphasis will be given to the detection and prosecution of money laundering, expanded training of police, prosecutors and judges and the interdiction of illicit chemical precursors. USAID will continue to improve communications and coordination between implementing organizations to improve service delivery and increase public awareness about USG and GOE efforts. In addition, it will intensify USG support to civil society efforts in the oversight of judicial performance and independence.

**Ecuador Statistics
(1996–2004)**

	2004	2003	2002	2001	2000	1999	1998	1997	1996
Arrests/Detentions	1,632	2,686	2,711	2,458	2,966	3,834	3,888	3,692	2,279
Labs Destroyed	0	0	0	4	0	2	2	0	1
Seizures									
Cocaine Base (mt)	1.37	.59	.87	1.26	1.60	.93	.690	1.605	.530
Cocaine HCl (mt)	2.95	5.79	10.49	10.83	1.72	9.24	10.770	2.160	9.800
Cocaine Total (mt)	4.320	6.380	11.360	12.090	3.320	10.170	11.460	3.765	10.330
Heroin (mt)	.27	.27	.35	.23	.11	.08	.053	.034	.070
Cannabis (mt)	.58	2.57	1.90	3.07	18.26	2.98	17.730	.022	.200

Paraguay

I. Summary

In 2004, the Government of Paraguay's (GOP) Anti-Drug Secretariat (SENAD) completed the final phase of a restructuring program approved by President Duarte in 2003 to bring the remaining SENAD agents into the semi-vetted unit program. The Major Violators Unit (MVU) carried out successful operations to disrupt cocaine trafficking networks—increasing cocaine seizures over last year, and arresting several Brazilian drug fugitives, including the head of a major international drug trafficking organization with connections to the Revolutionary Armed Forces of Colombia (FARC). The GOP also submitted a new money laundering law for consideration by the Congress. SENAD's new internal affairs section is now operational. It completed further training and developed a new policies and procedures manual. Paraguay is a party to the 1988 UN Drug Convention.

II. Status of Country

Paraguay remains a transit country for between 40 and 60 metric tons of Colombian, Bolivian and Peruvian cocaine destined for Argentina, Brazil, Europe, and Africa. Brazilian nationals, some of whom purchase cocaine from the FARC with currency and weapons, head most trafficking organizations in Paraguay. Paraguay is also a source country for high-quality marijuana that is not trafficked to the U.S.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Under Minister Hugo Ibarra's five-year leadership, SENAD has become more effective in targeting major narcotics traffickers operating in Paraguay. In November, Minister Ibarra announced the final phase of a reorganization to expand the semi-vetted program and remove all Paraguayan National Police from its ranks. Under this initiative, the remaining police officers working for SENAD will return to police ranks and the remaining SENAD agents who were previously not part of the semi-vetted unit will be included, bringing the total number of agents in the semi-vetted unit to approximately 100. Additional personnel will form a container and precursor chemical investigations group and support counternarcotics operations. In 2005, DEA plans to bring SENAD's money-laundering investigations group into the semi-vetted unit program.

In October 2004, SENAD participated, for the first time, in a meeting of the countries that make up the Seis Fronteras ("Six Borders"), which was first formed in 2000 by Colombia, Peru, Bolivia, Venezuela, Ecuador, Argentina, Brazil and Chile to exchange intelligence and coordinate narcotics trafficking operations. The group now includes all South American countries. As a result of information gained from this meeting, SENAD made plans to formally establish a precursor chemical diversion group and began conducting inspections of imports. In November, SENAD agents discovered and seized a tanker filled with 10,000 liters of toluene, a precursor chemical used to make cocaine.

Accomplishments. The capture of Brazilian fugitive and accused arms/drug trafficker Ivan Carlos Mendes-Mesquita was a significant accomplishment in 2004. Mesquita, a Brazilian national with FARC connections, headed the Mesquita Drug Trafficking Organization operating in Paraguay and Brazil. SENAD MVU officers and Paraguayan Military Special Forces, with the support of the Brazilian Federal Police, and DEA conducted a successful operation at Mesquita's ranch, in the Chaco, in western Paraguay, which resulted in the arrest of Mesquita and seven members of his drug trafficking organization. Over 262 kilograms of cocaine were seized during this operation. The United

States has initiated an extradition request for Mesquita, and the GOP has indicated its willingness to expedite the process. Additionally, Paraguay has been successful in either expelling or securing extradition orders for five more Brazilian drug traffickers: Sandro Mendonca do Nascimento, Silvio Barri, Odacir Antonio Dametto, Mauro Alberto Parra, and Rogerio Learti Antonello of the Beira Mar organization, who had been living as fugitives in Paraguay for a number of years. This is a further indication of increased cooperation between Brazil and Paraguay.

Joint Paraguayan-Brazilian counternarcotics “Alliance” exercises continued in 2004 with an operation in December in which approximately 40 SENAD Special Forces officers participated and destroyed approximately 237 hectares of marijuana.

In 2004 SENAD seized 453 kilograms of cocaine, 27,084 kilograms of marijuana, 16 weapons, 16 vehicles and five planes. According to SENAD figures, the total financial loss to narcotics traffickers this year from these seizures was over \$22.8 million.

Law Enforcement Efforts. Paraguay continues to strengthen SENAD’s counternarcotics and investigative operational units and inaugurated its first forensic laboratory in 2004. According to SENAD, 189 persons, including drug producers and distributors, were arrested in 2004. The Attorney General’s office designated one prosecutor for narcotics cases and the Supreme Court reaffirmed the assignment of two magistrates as special narcotics judges. SENAD’s canine program continued successful operations in 2004, discovering 92.4 kilograms of cocaine and 176 kilograms of marijuana during airport and bus terminal searches, resulting in 30 arrests. INL plans to expand the program in 2005 by purchasing four additional canines to be placed in SENAD’s regional offices, for a total of 14.

Asset Forfeiture. In 2004, the GOP received approximately \$14,500 in proceeds as the result of the auction of an aircraft seized in 2002. SENAD will use this money on much-needed resources, including computers, printers, and software. Another \$100,000 is expected from the planned auction of a seized twin-engine aircraft. SENAD plans to allocate \$35,000 for weapons purchases.

Corruption. While there is no evidence that the government or any senior official facilitates the distribution or production of narcotics or other controlled substances, SENAD operations continue to be negatively affected by corruption within the Paraguayan National Police (PNP) and corruption and inefficiency within the Attorney General’s office and the judiciary. There is strong evidence that high-ranking PNP officials have compromised planned counternarcotics operations and provided protection to narcotics traffickers.

SENAD has developed an internal policies and procedures manual, with the help of the Department of Justice Inspector General’s Office, to be used in guiding its recently established internal affairs unit formed to handle cases of corruption within the agency. Polygraph tests have continued to play a major role in the integrity of SENAD—all SENAD agents passed the most recent administration of polygraph tests in October.

Agreements and Treaties. 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 U.S.-Paraguay Extradition Treaty entered into force on March 9, 2001, and permits the extradition of nationals. The 1987 bilateral letter of agreement, under which the U.S. provides counternarcotics assistance to Paraguay, was extended in 2004.

Cultivation/Production. Marijuana is the only illicit crop cultivated in Paraguay, and it is harvested throughout the year. Driven by a weak 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 destroyed 753 hectares of marijuana plants in 2004 (enough to produce 2,259,000 kilograms of marijuana) out of an estimated 5,500 hectares under cultivation. Also, in 2004, SENAD discovered that traffickers had developed a new hybrid of marijuana that can grow during the dry winter months. This has resulted in a more stable production of marijuana crops year-round, versus the decline in production that used to occur during the winter months.

Drug Flow/Transit. U.S. law enforcement officials estimate that 40-60 metric tons of Colombian, Bolivian, and Peruvian cocaine continue to transit Paraguay annually enroute to Brazil, Argentina, Europe and Africa. There is anecdotal evidence that the Brazil Air bridge Denial program is causing more traffickers to use Paraguay as a staging area for smaller shipments of cocaine via land into Brazil.

None of the marijuana produced in Paraguay is trafficked to the U.S.—SENAD estimates that nearly 85 percent is destined for the Brazilian market, 10-15 percent for other Southern Cone countries and between 2-3 percent consumed domestically.

Demand Reduction Program. According to a national study on drug consumption carried out by SENAD in partnership with OAS/CICAD and published in August, marijuana continues to be the most commonly abused drug by adults (alcohol excepted) in part due to ease of access. Abuse of cocaine remains minimal with only 0.7 percent of the population surveyed having tried it once in their lifetime. Among children 6-14 years old, glue continues to be the most abused drug and its use is increasing. The SENAD's Office of Demand Reduction does a significant amount of outreach work, primarily in schools. 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. In 2004, over 20,000 people received SENAD's counternarcotics message through formal training, informal discussions, and informational materials.

A feasibility study was conducted in 2004 to examine the potential for growing stevia (a herb native to Paraguay that can be used as a sugar substitute) as a crop replacement for marijuana. The study found that there was potential to produce stevia in the marijuana-growing regions of Paraguay, however, it is not yet known the extent to which this will serve as a successful replacement of marijuana due to insufficient market demand.

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 continue to support professional development and institutionalization of SENAD to promote more effective counternarcotics and organized crime investigative and operational capability through training, technical assistance, equipment, and other support. The recent reorganization of SENAD will also facilitate greater focus on shipping containers and the prevention of pre-cursor chemical diversion. Once the new anti-money laundering legislation is passed, the USG will work closely with judicial and law enforcement agencies on its implementation to make progress against trafficking networks.

In October, INL sponsored two SENAD agents' attendance of a four-week training course for police narcotics supervisors and investigators in Guatemala. Topics covered included profiling of drug traffickers, asset seizures, processing of information and intelligence, and chain of custody. INL plans to make the information gained from this course a standard part of SENAD's training curriculum.

The Road Ahead. SENAD now has the legislative and operational tools to track and bring down drug trafficking organizations and prosecute them. The GOP now needs to take measures to enable effective investigations leading to the arrest and prosecution of major drug traffickers and corrupt officials and

their associates. Combating official corruption remains a considerable challenge for the GOP. The next phase of the counternarcotics program involves improving the technical abilities of the agents to support operations. INL will support the development of a centralized database for storing and sharing intelligence data that will greatly enhance SENAD's ability to conduct investigations. DEA continues to work with SENAD, providing guidance on operations and investigations.

Peru

I. Summary

Drug traffickers continue to move coca products out of Peru by land, air, and sea, as well as opium latex and morphine across northern land borders, to U.S., South American and European markets. Maritime smuggling of larger cocaine shipments is the primary method of transporting multi-ton loads of cocaine base and cocaine hydrochloride (HCl). In 2004, record-breaking cocaine seizures included four tons of cocaine base intercepted at sea and almost two tons of cocaine HCl packed in frozen squid from Peruvian seaports. Mexican trafficking organizations are implicated in using Peru as a primary source of cocaine base and HCl. Dense coca cultivation is increasing in new areas outside the traditional source zones of Monzon and Apurimac/Ene Valleys. With United States Government support, Peru eradicated almost 10,000 hectares of coca in CY 2004: almost 7,500 through conventional eradication, and 2,500 through alternative development (ADP)/voluntary eradication. ADP supported legal productive activities on almost 20,000 hectares. Increased opium latex seizures are one indication of an upward trend in poppy cultivation along Peru's Andean ridge, although the Government of Peru (GOP) has not been able to determine the exact location or amount of land used for opium poppy fields. Peruvian National Police (PNP) eradicated almost 100 hectares of opium poppy in 2004. In a positive move, Congress passed a new law to control precursor chemicals used in cocaine processing, which will go into effect in early 2005. Less positive is the increased support by members of Congress for cocalero demands for more permissive coca laws. In July, the U.S. Government designated Fernando Zevallos as a drug kingpin and froze his assets in the United States, including those of his airline Aerocontinente, which has since gone out of business.

II. Status of Country

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, Chile and other transshipment points. 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. Maritime smuggling of larger cocaine shipments has become the primary method of transporting multi-ton loads of cocaine base and cocaine hydrochloride (HCl).

Historically, Peruvian and Colombian traffickers sent multi-ton quantities of cocaine base from Peru to Colombia for conversion to cocaine HCl. Colombian traffickers' demand for Peruvian coca has diminished in recent years as they relied more on coca cultivation and base production in Colombia. Mexican traffickers, however, have begun to utilize Peru as a primary source of cocaine base and HCl. Several significant cocaine seizures in Peru in 2004 were linked to Mexican trafficking organizations.

Beyond changes in trafficking patterns, there are indications that the coca cultivation landscape in Peru is also changing. Coca growers have established new areas of dense coca cultivation outside of the traditional source zones of the Upper Huallaga/Monzon and Apurimac/Ene Valleys. Areas of new growth include the regions of Puno, Pasco, La Libertad, Cajamarca and Amazonas. Satellite imagery and overflights of Peru's Putumayo region indicate only scattered concentrations of coca plants. Coca in these new areas is young, dense, and surrounded by seedbeds for more expansion.

Apart from expanding coca cultivation and the threat of increased cocaine production, anecdotal evidence and latex seizures indicate an upward trend in opium poppy cultivation in Peru. This illicit activity, originally introduced by Colombian traffickers, has resulted in widely dispersed cultivation of opium poppy in northern Peru. This year, the Peruvian National Police (PNP) has eradicated almost 100 hectares of opium poppy and have seized several shipments of low quality opium latex and some

morphine base. Intelligence indicates that opium latex is being shipped overland to Ecuador and Colombia for morphine base and ultimate heroin production.

In 2004, separate national and high school student drug-use surveys revealed that Peruvians view drugs as the second most serious problem for Peru after the state of the economy. The national survey found that over 91 percent link coca cultivation and narcotics trafficking, yet a majority view coca growers as victims rather than as accomplices of narcotics traffickers. The national survey reports that four percent of the population between the ages of 12-64 has used cocaine at least once in their lives, up from two percent in 2002. Consumption of cocaine base and marijuana nearly doubled as well. Among students marijuana is the most commonly used drug (6.7 percent), followed by inhalants (gasoline and glue) (4.7 percent), cocaine (3.9 percent), and cocaine base (3.6 percent). The first reported use of cocaine or cocaine base starts at 13 years of age. Eighty percent of the students say they have received counternarcotics messages in school but only half of those students have participated in formal drug prevention classes, events, or activities.

III. Country Actions Against Drugs in 2004

Law Enforcement Efforts. In 2004, the GOP made significant strides in the investigation and dismantlement of major drug trafficking organizations and attacking drug-processing sites in key growing valleys of the Upper Huallaga/Monzon and Apurimac/Ene. The Peruvian National Police Narcotics Directorate (DIRANDRO) mounted several successful operations in the Monzon and Apurimac Valleys destroying almost 800 rustic cocaine labs and 845 metric tons of coca leaf. To further complement these and other chemical enforcement successes, DIRANDRO has re-initiated road interdiction operations in support of broader interdiction operations in the coca growing regions of Peru.

The U.S. Embassy helped DIRANDRO successfully identify and disrupt major international cocaine trafficking organizations responsible for maritime and air shipment of metric tons of cocaine to U.S., South American, and European markets. In 2004, approximately 5.7 metric tons of cocaine base and 7.11 metric tons of cocaine HCl were seized. The USG and GOP have cooperated to improve port security and to address increased maritime smuggling at key Peruvian port locations (see Section IV).

Eradication of Illicit Coca Cultivation. Peru eradicated 10,500 hectares of coca in CY 2004. Almost 8,000 hectares were conventionally eradicated, while 2,500 hectares were voluntarily eradicated, for a total of 10,500. Voluntary eradication programs were directed at consolidating the work of the previous year but were unable to expand into the more hard core growing areas. Conventional eradication targeted areas of coca expansion, eradicating 3,586 hectares in the jungle near Pucallpa, 1,806 near Ciudad Constitution on the border between Huanaco and Pasco, and 1,300 in Puno, adjacent to Bolivia. Along with the dense, young coca, the GOP eradication agency (CORAH) eradicated 34,042 square meters of seedlings, enough to plant 2,270 hectares. CORAH plans to return to Puno in 2005 to finish eradicating another 2,000 hectares of illegal coca.

Licit Use Study. In 2004, the National Commission for Development and a Life Without Drugs (DEVIDA) and the National Statistics and Information Institute (INEI) published a rigorous scientific study of traditional use of coca: chewing, ceremonial, and divination. The study established important parameters that have framed the domestic policy debate over coca that would serve as a basis for an effective coca law. They are that licit demand for coca leaf in Peru is 8,800 tons, and 84 percent of coca leaf harvested in Peru goes to production of illicit drugs. Moreover, Empresa Nacional de La Coca (ENACO), the GOP agency that registers, buys, and sells legal coca leaf, purchases only 33 percent of the leaf destined for legal consumption in Peru. The rest is sold via informal markets. One result of this study was closer GOP scrutiny of ENACO in 2004. Internal auditors uncovered corruption and other problems in ENACO that the GOP is working to resolve. Cocalers (coca growers) also lobbied to dismantle ENACO for not buying enough coca leaf. While the GOP is

working to develop a more modern database of those who sell to ENACO and clarify existing commercialization mechanisms, ENACO has failed in its mandate to establish strict controls of the licit coca leaf market and, thereby, to effectively deter illegal coca production.

Congress and Legislation. Congress unanimously passed a new law to tighten controls over precursor chemicals used to process coca into cocaine. The law will go into effect in early 2005. However, an increasing number of members of Congress have expressed sympathy for coca grower aims. While most Peruvian voters do not appear to sympathize with coca growers or traffickers, cocaleros have been a vocal and strident political voice; Congress established a Multi-Party Commission in mid-2004 to study the coca issue after a series of cocalero demonstrations in the first five months of 2004; many of the Commission members were supportive of cocaleros. Much of the public discourse, including that of many political leaders, is for a new coca law that would diminish controls and enlarge the rolls of “licit” coca growers. Several Peruvian Congressmen introduced differing versions of a new coca law that would be inimical to efforts to reduce coca cultivation. The GOP is developing its own draft law that seeks to limit coca production to the 9,000 metric tons needed to supply the legitimate domestic demand for coca leaf.

Peru, Brazil, and Colombia signed a border cooperation agreement in February that targets, among other types of illegal border activity, trafficking in drugs and precursor chemicals.

Extradition. A new U.S.-Peru extradition treaty went into effect in August 2003. In 2004, Peruvian authorities approved requests to extradite two narcotics traffickers from Peru to the United States. One is serving a sentence in a Peruvian prison and will be extradited upon completion of his sentence. The other is a fugitive. Department of Justice teams visited Peru in 2004 to assist Peruvian extradition experts in preparing effective documentation, with the result that processing time is decreasing.

Agreements and Treaties. Peru 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 its 1972 Protocol. Peru also is a party to the UN Convention against Transnational Crime and its three protocols. Peru also is a party to the Inter-American MLAT Convention and the Inter-American Corruption Convention. An extradition treaty is in force between the United States and Peru.

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. The U.S. Department of the Treasury in July designated Fernando Zevallos—founder of the Peruvian airline AeroContinente—as a narcotics kingpin. Alleged connections between Zevallos and GOP officials are under investigation.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continues to encourage the GOP to focus its counternarcotics operations in the major drug source zones in the Upper Huallaga/Monzon Valley and Apurimac/Ene Valley. The Peruvian National Police receive USG assistance to increase police presence and their operational activity in these areas by fortifying existing police bases and establishing two police training academies.

Peru has held joint border counternarcotics operations with its neighboring countries including Chile, Bolivia, and Brazil. The 2004 International Drug Enforcement Conference held in Peru brought together law enforcement representatives from 65 countries to work on money laundering, regional chemical initiatives, and the use of the Internet to carry out drug trafficking.

With U.S. Embassy support, DIRANDRO commanders and field elements have participated in extensive mid-level operations-management training. In August 2003, two basic training academies were established at the Mazamari and Santa Lucia police bases in the source zones. Candidates for these schools are recruited from local communities. Each school will train classes of approximately 200 cadets a year. The first class will graduate in March 2005. Graduates will be assigned to DIRANDRO units in the source zones. These schools have already increased police presence in the Upper Huallaga/Monzon and Apurimac/Ene Valleys.

Riverine/Port Security Programs. Law enforcement efforts in 2004 focused on maritime and port investigations/interdictions that produced record-breaking cocaine seizures, including a fishing vessel with approximately four (4) tons of cocaine base intercepted at sea in March and 700 kilograms of cocaine HCl packed in frozen squid in a cargo container destined for Mexico in November. Additional information identified other cargo containers previously shipped out in the same manner to Mexico, with a linked seizure in December of 900 kilograms of cocaine in squid shipped from another Peruvian port. The USG is continuing to work with the GOP to enhance its capability to identify and inspect suspect cargo shipments.

The fledgling National Port Authority (APN) made very significant advances in promoting the timely attainment of International Ship and Port Security (ISPS) requirements. The GOP will need to extend this effort into 2005 in order to complete port security audits and re-certifications and pursue the U.S. Customs and Border Protection (USCBP) container security initiative (CSI). The GOP is working closely with the USG to develop a Customs Mutual Assistance Agreement (CMAA) and a viable and sustainable port and cargo security program in the Port of Callao and other seaports.

U.S. support for the Riverine Program is currently limited to maintenance support for existing infrastructure. The lack of effective cooperation among the Peruvian National Police (PNP) and the Peruvian Coast Guard (PCG) and prosecutors undercut the program.

USAID Alternative Development Efforts. The Alternative Development portfolio (ADP) is a multi-sector approach to making coca reduction sustainable through improving local governance, strengthening rule of law, and increasing the economic competitiveness of coca-growing areas. Since October 2002, over 27,000 families have voluntarily eradicated 7,271 hectares of coca including almost 2,500 hectares of coca in 2004.

This past year, the ADP supported legal productive activities on almost 20,000 hectares, increased local sales by over \$3.4 million, built or rehabilitated 134 schools, health posts and water systems, 205 kilometers of road, 12 bridges and irrigation projects, and brought electrification to six communities and is continuing work on over 100 other projects. In addition, the more than \$30 million rehabilitation and maintenance of 170 km of the Fernando Belaunde Highway has already reduced transportation time for legitimate agricultural products by 8 hours between the Huallaga Valley and national markets. Over 2005, the ADP will continue to employ voluntary eradication to expand contiguous coca-free geographic areas via voluntary eradication agreements. More than ever, these efforts will be closely coordinated with law enforcement efforts in order to ensure that program expansion is achieved within the context of the broad counternarcotics strategy. Concurrently, the ADP will initiate activities to facilitate the transition of recently coca-free areas to sustainable legal development based on private sector activity and local/central GOP commitment to establish and maintain an appropriate level of state presence and investment in the areas.

Peru Statistics

(1995–2004)

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Coca										
Net Cultivation (ha)		31,150	36,000	34,000	34,100	38,700	51,000	68,800	94,400	115,300
Eradication (ha)	10,339	11,313	7,000	3,900	6,200	13,800	7,825	3,462	1,259	0
Cultivation (ha)		42,463	42,000	37,900	40,200	52,500	58,825	72,262	95,659	115,300
Leaf (Potential Harvest) (ha)		—	52,700	52,600	60,975	69,200	95,600	130,600	174,700	183,600
HCl (Potential) (mt)		—	140	140	154	175	240	325	435	460
Seizures										
Coca Leaf (mt)	845	132.9		13.8	55.0	164.3	132.9	146.8	99.1	33.4
Coca Paste (mt)		—	—	—	—	—	—	—	—	—
Cocaine HCl (mt)	7.11	3.25	3.7	2.77	2.70	3.59	1.70	2.30	1.01	7.65
Cocaine Base (mt)	5.70	3.76	8.7	5.71	9.01	6.65	19.70	8.80	18.68	15.00
Total Cocaine (mt)	12.81	7.01	12.4	8.48	11.70	10.24	21.40	11.10	19.69	22.65
Heroin (mt)	0.912	.004	—	.004	.002	—	—	—	—	—
Aircraft (items)	0	0	0	1	2	—	—	11	7	22

Uruguay

I. Summary

Uruguay is not a major narcotics producing or transit country, but increased poverty due to an economic recession which ended in mid-2003, and its strategic location, make it vulnerable to increased trafficking. Drug seizures went up geometrically from 2003 to 2004. Efforts to fight trafficking and domestic consumption are relatively effective, although law enforcement agencies and drug programs have limited resources. Current areas of concern include increased marijuana, heroin, and cocaine seizures, and consumption of highly addictive, cheap cocaine paste from Bolivia. Although port security and customs services are being slowly upgraded, limited inspection of containers at maritime ports, and the possible use of free trade zones for the movement of drugs, precursors, and other contraband remain vulnerabilities. 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 increasing poverty is making it prone to infiltration by foreign drug traffickers. Colombian, Argentine, and Brazilian traffickers are increasingly using the international airport to smuggle heroin, while European traffickers are using the local mail to smuggle small quantities of cocaine. Cruise ship passengers and merchant marine sailors are also suspected of smuggling small quantities of narcotics. Some Uruguayans have integrated into Paraguayan drug gangs involved in trafficking marijuana and cocaine paste, and Uruguayans are increasingly being used as couriers. 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, possibly including chemical precursors, to Paraguay and elsewhere. Although chemical precursor controls exist, they are difficult to enforce.

Domestic drug consumption consists mainly of marijuana that arrives in small planes or overland from Paraguay. However, Bolivian cocaine paste, smuggled through Argentina and Brazil, is increasingly in evidence, and some is being transformed to cocaine in small local laboratories.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Government of Uruguay (GOU) continues to make counternarcotics policy a priority. President Batlle, whose term ended February 28, 2005, has increased military involvement in anticontraband and trafficking actions, and personally worked to get new anti-money laundering legislation approved in 2004. Uruguay is an active member of the Southern Cone Working Group of the International Conference for Drug Control, and other international organizations fighting narcotics, corruption and crime. In August 2004 Uruguay held the first meeting of the Mixed Counternarcotics Commission agreed on in a broad counternarcotics cooperation agreement signed with Brazil in 1991. The countries vowed to continue police cooperation, analyzed their legislation, and agreed to exchange information on chemical precursors. Uruguay continues to cooperate with the “Gran Chaco” and “Seis Fronteras” initiatives to limit traffic in precursors, and is starting to enter data in the National Data System (NDS) to track chemical precursor trade.

Accomplishments. In 2004, Uruguayan authorities made significant heroin seizures at the international airport, dismantled three cocaine paste laboratories in Montevideo, and broke up a cocaine and cocaine paste distribution network between Uruguay and Paraguay. In addition, Uruguay

arrested Brazilian drug lord Arcanjo, who was attempting to set up residence in Montevideo. His extradition to Brazil is pending. In September 2004, the Uruguayan Congress passed new, more effective money laundering legislation.

Law Enforcement Efforts. The expertise of the different groups responsible for narcotics-related law enforcement has improved, and they are generally effective. They include Customs, the Police, the Directorate General for the Repression of Illicit Drug Trafficking (DGRTID), the National Directorate for Intelligence and Information (DNII), the Prefectura Naval (Coast Guard), the Military Intelligence Agency (DGID), and the National Drug Secretariat. Coordination remains difficult, however, since most law enforcements agencies report to different ministries. 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. In early 2005, the GOU will award a contract for container scanners at the main port, which will help interdiction efforts. In addition, the consortium that won the contract to operate the main airport plans to build new passenger and cargo terminals that meet international security and safety standards.

Corruption. Transparency International rates Uruguay as the least corrupt country in Latin America, and there are no indications that senior GOU officials have engaged in drug production, trafficking, or money laundering. The Transparency Law of 1998 criminalizes various abuses of power by government office holders and requires high-ranking officials to comply with financial disclosure regulations. 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 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 imprisoned under similar charges.

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 Inter-American Drug Abuse Control Commission (CICAD). The United States and Uruguay are parties to an extradition treaty (1984) and a mutual legal assistance treaty (1994), and have signed 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 Accion Financiera de Sudamerica (GAFISUD), of which it held the presidency in 2003.

Cultivation and Transit of Drugs. There is no known large-scale cultivation or production of drugs in Uruguay. However, several small marijuana plots were discovered in 2004, as well as small laboratories processing cocaine paste into cocaine. Uruguay is being increasingly used as a drug-transit country. Limited law enforcement presence along the Brazilian border and increased U.S. pressure on traffickers in Colombia, Bolivia and Peru is shifting some smuggling routes south—by private vehicle, bus, and small airplanes. Drug seizures are increasing, but would be even greater if the GOU had more funding for law enforcement equipment.

Domestic Programs (Demand Reduction). The GOU remains committed to education and prevention. In 2004, to improve its tracking of drug consumption, the GOU funded studies on the social costs of drug use, drug use in prisons, and the link of drug use to emergency room visits. It also started a register for tracking drug offenses in the prison population. Uruguay’s demand reduction efforts focus on developing prevention programs, rehabilitation and treatment. They are based on a strategy developed cooperatively in 2001 between the National Drug Secretariat, public education authorities, and the Ministries of Interior and Public Health, and include INJU (The National Institute of Youth), the Ministry of Sports and Youth Affairs, INAME (The National Institute of Minors),

municipalities and NGOs. Specific projects are: 1) the “Adventure of Life” program aimed at teaching values and healthy habits to elementary school children, which reached 90 schools in 2004; 2) the “Espacio de Encuentro”—a 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, adolescents and young adults. The authorities have designated one of the public hospitals as the National Drug Rehabilitation Center, and in 2004 held two training seminars for health professionals on working with drug users. The National Drug Secretariat has sponsored teacher training, public outreach, and programs in community centers and clubs, and in 2004 published a brochure on preventive measures in schools.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. U.S. strategy is to prevent Uruguay from becoming a major narcotics transit and consumption country. In addition, given Uruguay’s pre-recession success as a regional financial center, the U.S. provides assistance to combat money laundering. U.S. support complements GOU counternarcotics efforts. In 2003 and 2004, State Department INL Bureau funds were used for training in money laundering, corruption, and counternarcotics enforcement, and drug education, and for upgrading immigration controls. In previous 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. has also funded training on canine handling, and community policing.

The Road Ahead. The incoming Broad Front (Frente Amplio) government, set to take office on March 1, 2005, is not expected to significantly alter Uruguay’s drug control strategy. Post will establish a rapport with the new authorities handling counternarcotics issues and highlight to them cooperation efforts to date. We are confident that they will seek USG assistance and continue the productive cooperation of their predecessors. Our emphasis in 2005 will be to continue to tighten Uruguay’s sea, air, and land border controls, educate the public about drugs, and providing counternarcotics enforcement training. For this, INL resources at least at previous year levels will be necessary.

Venezuela

I. Summary

Cocaine seizures during the first six months of 2004 equaled the amount seized in Venezuela during all of 2003, thanks in large part to two multi-ton seizures made by Venezuelan task forces that worked closely with USG law enforcement. The GOV also carried out some 400 cocaine and heroin seizures during the first half of the year. Several important cocaine and heroin trafficking organizations were effectively attacked during 2004, and several important extraditions were made.

The essential Organized Crime Bill, for a second straight year, failed to see any progress whatsoever, notwithstanding promises from the National Assembly to complete its second reading and forward the bill to the president of Venezuela by mid-2004. Corruption in law enforcement facilitated some narcotics trafficking; at the judicial level, it sometimes impeded investigations and prosecutions.

Venezuela is a party to the 1988 UN Drug Convention.

II. Status of Country

A remote and poorly secured 2,200-kilometer border is all that separates Venezuela from Colombia—the world’s primary source of cocaine and South America’s top producer of heroin. Colombian cartels and other smugglers routinely exploit a variety of routes and methods to move hundreds of tons of illegal drugs into Venezuela every year. These routes include the Pan-American Highway, the Orinoco River, the Guajira Peninsula, and hundreds of clandestine airstrips.

On the outbound side, cocaine is smuggled from Venezuela to the U.S. and Europe in multi-hundred kilo to multi-ton lots via maritime cargo containers, fishing vessels, and “go-fast” boats. Multi-kilo loads of cocaine and heroin are routinely smuggled through Venezuela’s commercial airports and mailed through express delivery services to the United States. Colombian guerrilla organizations, such as the FARC, ELN, and AUC, move through parts of Venezuela without significant disruption by the Venezuelan security forces.

III. Country Actions Against Drugs in 2004

Policy Initiatives. A majority of the Mini-Dublin Group ambassadors met with the GOV Vice President, Minister of Interior and Justice, and National Assembly members in January 2005 to discuss the status of the pending Organized Crime bill, which has been frozen in the second reading since November 2002. National Assembly Deputies committed to completing the second reading and forwarding the bill to the president for signature before the end of the first half of 2004. By year’s end, however, the National Assembly had failed to approve any of the bill’s pending 53 articles (the first 97 of the bill’s 150 articles were approved during 2002). In December 2004, the National Assembly declined to accept an invitation to attend, participate in, or to address a regional conference on transnational organized crime in Caracas attended by representatives from six neighboring countries. The Organized Crime Law, which was first proposed in 1999, would resolve the lack of legislation on money laundering, terrorist financing, judicial corruption, and conspiracy, to name a few.

The GOV last year introduced three antiterrorism bills, but much of their content is highly politicized (e.g., defining labor stoppages, pot-and-pan banging by political protesters, and other forms of non-violent political protest to be a form of terrorism). None of these bills will fulfill the requirements of either the UN International Convention for the Suppression of the Financing of Terrorism (1999) or the UN Convention Against Transnational Organized Crime (the Palermo Convention—2000).

The 1999 Penal Procedures Code (COPP) changed the legal system from inquisitorial to adversarial. However, with little support from the GOV or within the judicial system and with a public perception that the COPP favored the rights of the accused over those of the victim, the COPP was reformed in 2001. The reformed COPP eliminated some jury trials, facilitated pre-trial confinement, and lessened the “in fraganti” (reasons for arrest) requirements.

Accomplishments. **Illicit Cultivation.** In October 2004, the Venezuelan National Guard flew CONACUID (la Comision Nacional Contra el Uso Ilicito de las Drogas) and UNODC (United Nations Office on Drugs and Crime) observers over the Serrania de Perija mountain range on Venezuela’s northwestern border with Colombia. The group detected several small fields of coca and what appeared to be a cocaine base lab, based on similarities to structures and layouts typically observed at Colombian base labs. No eradication operations were conducted in 2004; the last significant eradication operation was conducted in May 2001. Based on historic cultivation patterns and current illicit cultivation on the Colombian side of the Perija, Venezuelan coca and poppy fields probably do not exceed a few hundred hectares each.

Production. Over the past few years, a handful of cocaine base processing labs have been detected near Venezuela’s border with Colombia, including one such possible lab in 2004. However, no operations were mounted in 2004 to seize or destroy such labs.

Transport. The Government of Venezuela has a strong record on interdicting the transport of cocaine, heroin, and other drugs. Building on consecutive record seizures of cocaine in 2002 and 2003, cocaine seizures for the just first half of 2004 (over 19 metric tons) equaled those for all of 2003.

Extradition. Although the Venezuelan constitution precludes the extradition of its citizens to stand trial abroad, the Venezuelan Prosecutor’s Drug Task Force (PDTF) participated in investigations, which led to the indictment, arrest, and extradition from Curacao of Venezuelan heroin trafficker Luis Alberto Ibarra. Ibarra is accused of masterminding the smuggling of over 700 kilograms of heroin from Venezuela to the United States since 2001 and was formally extradited from Curacao and arraigned in the New York in November 2004. In what has become one of the largest joint heroin prosecutions ever, 17 members of Ibarra’s organization, including his chief manager Liddy Moya, have pleaded guilty and are awaiting sentencing in the United States.

On December 7, 2004, the Venezuelan Supreme Court approved the extradition to the United States of two Colombians arrested in Caracas on charges of drug smuggling. One of the criminals, José Maria Corredor Ibaguë, aka “El Chepe Boyaco,” is one of the most-wanted Andean Ridge drug traffickers. Extraditions are awaiting resolution of sentence assurances.

Mutual Legal Assistance. Venezuela has signed a mutual legal assistance treaty with the United States, but it has not yet entered into force.

Law Enforcement and Drug Transit Cooperation. With the assistance of DEA advisors and INL/NAS logistical support, the Venezuelan Prosecutor’s Drug Task Force (PDTF) conducted successful investigations and operations throughout 2004.

Developing information first obtained in February 2004, the PDTF conducted a successful operation against the Hasbun narcotics trafficking organization, responsible for multi-ton shipments of cocaine from Colombia to the United States, via Venezuela and Mexico. After four months, the PDTF launched a series of raids in June 2004, seizing a total of over 5.9 metric tons of cocaine from six farms in the state of Guarico, Venezuela. Six traffickers were arrested and 5.5 metric tons of cocaine were seized in the first of three raids on June 9-10. On June 16, an additional 300 kilograms of cocaine were seized from other Hasbun-associated ranches. A third raid on two additional ranches was conducted on June 20, during which PDTF members came under fire from 25 heavily armed traffickers. Seven traffickers were killed in the exchange, 18 captured, and 85 kilograms of cocaine and an assortment of weapons were seized.

In a separate investigation of the Ibarra heroin trafficking organization, the PDTF coordinated the collection of evidence, obtained controlled delivery orders, conducted surveillance, arrested a number of organizational members who gave testimony against Ibarra, and tracked the movements of Ibarra. During the investigation, nine of Ibarra's couriers were arrested at various U.S. destination airports as they transported a total of more than 30 kilograms of heroin.

A similar counternarcotics task force conducted investigations and raids which led to the seizure of 7.6 metric tons of cocaine in February 2004 from a farm in the southern state of Bolivar.

Precursor Chemical Control. The GOV participated in Operation Seis Fronteras VI (Operation Six Borders VI) in 2004 and, with assistance from DEA, audited 82 companies for possible diversion of precursor chemicals. Five interdiction checkpoints were also manned. In all, 15 seizures were made, totaling approximately 410 metric tons of chemicals. Seventeen cases were forwarded to the prosecutor general for action.

Demand Reduction. The GOV recognizes that drug consumption is high in Venezuela and is working hard to reduce it. There are dozens of private, state, and NGO demand reduction and treatment groups in Venezuela. These are organized into larger associations that meet and cooperate on a regular basis. By law, all private companies employing more than 200 workers must donate one percent of their profit to public awareness and demand reduction programs. There is no shortage of resources in Venezuela for demand reduction.

Law Enforcement Efforts. DEA works closely with vetted GOV counternarcotics units. These units continue to be very successful, not only in seizing multi-ton loads of cocaine, but also in breaking apart the organizations that traffic drugs in and through Venezuela. The GOV affords complete operational latitude to these vetted units.

Numerous shortcomings of the judicial system have been identified. At the police investigator level, police are not generally competent to control a crime scene or carry out investigations. At the prosecutor level, many cases cannot be won in the courts because neither the police nor the prosecutors are capable of completing or supervising an investigation. There is a resulting breakdown in public faith in prosecutors due to ineffective criminal prosecutions and corruption. Prosecutors sometimes shrink from taking new cases, wary that political motives or connections may be involved. At the judicial level, prisoners miss their hearings if unable to pay guards to escort them. Missed hearings typically delay cases by months. Incompetence is common among judges in the criminal courts. Judges may delay or request removal from cases with political interest. The closed nature of the legal system encourages judicial corruption, since there is no effective watchdog. The Supreme Court has taken no steps during 2004 to ensure judicial independence or to reduce the number of "provisional" judges.

Corruption. Public corruption continued to plague Venezuela in 2004. Two aspects of this problem are particularly damaging to the GOV's narcotics control efforts. First is the complicity of mid-level military officers in the smuggling of drugs through Maiquetia International Airport and possibly other ports of embarkation. Notwithstanding an impressive record of heroin and cocaine seizures, GOV security personnel at Maiqueta are well known for taking bribes in exchange for facilitating drug shipments. Seizures are most likely to occur when pay-offs have not been made.

In one case of particular notoriety in August 2004, three innocent travelers, including a U.S. citizen, were framed and imprisoned for over a month when a surprise inspection detected 189 kilograms of cocaine in unchecked luggage that had been escorted into the plane's cargo hold by Venezuelan National Guardsmen assigned to the Anti-Drug Command. In order to divert suspicion from themselves, they switched the airline baggage tags with those of the suitcases of three innocent travelers. The courts ordered the release of the passengers after more than a month in jail. Several of

the National Guard officials implicated in this case were arrested less than a month later while loading half a ton of cocaine onto a private plane at Maiqueta International Airport.

Some judges dismiss apparently valid cases against narcotics traffickers for seemingly frivolous reasons. The GOV's practice of assigning temporary stand-in judges to narcotics trafficking cases at key points of the trial has resulted in the dismissal of cases and release of numerous narcotics traffickers under suspicious, if not farcical, circumstances.

Agreements and Treaties. Venezuela is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, the 1972 Protocol amending the Single Convention, and the 1971 UN Convention on Psychotropic Substances. Venezuela is a party to the UN Convention against Transnational Organized Crime, the Protocol to Prevent, Suppress and Punish Trafficking in Persons, and its protocol on migrant smuggling. The GOV has also signed a number of important bilateral agreements with the U.S., including a ship-boarding agreement from 1991 (updated with a new protocol in 1997), a Memorandum of Understanding concerning cooperation in narcotics, and a customs mutual assistance agreement. Venezuela's 1999 "Bolivarian" constitution expressly prohibits the extradition of Venezuelan citizens. Previously, Venezuela had only a statutory bar to the extradition of nationals. Given the current political environment, this is 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 DHS's Americas Counter-Smuggling Initiative (ACSI).

Cultivation/Production. CONACUID has requested and received help from the United Nations Office of Drugs and Crime (UNODC) to locate and measure the extent of opium poppy and coca crops along Venezuela's Colombian border. An aerial reconnaissance mission in October 2004 detected a **small amount of coca cultivation and what appeared to be a cocaine base lab.**

Drug Flow/Transit. Venezuelan authorities reported that cocaine seizures rose: from 14 metric tons in 2001, to 17 metric tons in 2002, and to more than 19 metric tons in 2003. During the first six months of 2004, 353 individual seizures (two per day on average) totaled more than 19 metric tons of cocaine. Heroin seizures have also been strong over the past four years: from 196 kilograms in 2000, to 228 kilograms in 2001, to 563 kilograms in 2002, to 443 kilograms in 2003. During the first six months of 2004, 50 individual seizures totaled 276 kilograms of heroin.

Domestic Programs (Demand Reduction). The Venezuelan private sector's extensive participation in demand reduction activities is laudable. The country's largest advertising agencies create, without charge, drug education and prevention messages. The time and space to transmit these messages has been donated by Venezuela's most important media firms. Some 160 messages and US\$90,000,000 of airtime have been provided free of charge by the private sector since 1996.

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. The INL program in Venezuela is grouped into five projects: interdiction, administration of justice, chemical control, money laundering control, and public awareness.

Components of the interdiction project include seaport security, airport security, and border security, with a particular emphasis on shutting down the Tachira-Puerto Cabello cocaine transit corridor. A state-of-the-art cargo inspection facility is under construction at Puerto Cabello and should be fully operational by mid-2005. Two permanent U.S. Customs and Border Protection inspectors were assigned as advisors to the interdiction project in 2004. The expansion of this team's area of responsibility to include the Cucuta (Colombia)-San Antonio de Tachira border point of entry on the Pan-American Highway documented the seizure of over half a ton of cocaine in early December 2004.

The interdiction project also focuses on reducing the flow of heroin and cocaine through Maiquetia International Airport to the U.S. and Europe. X-ray equipment provided by post's INL/Narcotics Affairs Section resulted in near-daily drug seizures at Maiquetia, including a record heroin seizure of 66 kilograms in May 2004.

Components of the administration of justice project include extensive support for the Prosecutor's Drug Task Force, training, and the purchase of 160 computers to run the Prosecutor General's new Case Management System at field offices around the country. Extensive work was also done under this project to install two interconnected local area networks of computers at the Venezuelan drug czar's offices in Caracas.

Also in 2004, the embassy's INL/Narcotics Affairs Section undertook a landmark study to document and analyze Venezuela's 2003 cocaine and heroin seizures. A number of deficiencies and limitations in the current law enforcement and judicial system were discovered or better understood, and seizure report errors for 2003 were corrected.

The Road Ahead. In 2005, the USG plans to expand its support into several new areas, including the development of a drug intelligence fusion and analysis center, the initiation of riverine interdiction operations on the Orinoco, and the construction of a centralized storage and incineration facility for the safeguarding and destruction of seized drugs.

In order to demonstrate success in adhering to its international counternarcotics agreements, Venezuela needs to make substantial efforts to improve in five critical areas:

- **Pass the Organized Crime Law.** This is fully in the hands of the National Assembly, which has not progressed in the second reading of the bill beyond article 97 out of 150 since November 2002. When passed, the Ley Organica Contra la Delincuencia Organizada (LOCDO) will define and criminalize such activities as money laundering, conspiracy, official corruption, illicit enrichment, trafficking in persons and terrorist financing, as well as authorize such law enforcement tactics as undercover operations and controlled deliveries.
- **Effectively Attack Corruption.** Eliminate the culture of corruption at Maiqueta Airport. Procedural improvements need to be made to guard against officials seeking

profit from drug trafficking and alien smuggling, but the real solution lies in Venezuelan leadership and political will. A vetted airport unit with U.S. advisors would help. Areas of particular concern to the USG involve drug trafficking, document falsification, migrant trafficking, framing of innocent American citizens and other nationalities, and the potential for smuggling terrorist munitions aboard aircraft departing Maiquetia Airport for the U.S. and other destinations. Reduce the potential for judicial corruption by abolishing the practice of bringing in temporary stand-in judges to narcotics trafficking cases at critical junctures of the trial. Temporary judges (known as “jueces accidentales”) should not have authority to dismiss cases or release defendants in drug trafficking cases.

- **Crack Down on Document Fraud.** Venezuela needs to create a law enforcement branch within its immigration service (DIEX) to investigate document fraud and trafficking in persons. Venezuela also needs to automate the process of passport applications and issuance with a system that provides audit trails and which is cross-linked with the citizen identification card database, installed on a wide area network (WAN) to permit queries from around the country.
- **Enforce Court-Ordered Wiretaps.** The GOV currently has legal authority to order wiretaps, but has consistently failed to enforce its court orders with reluctant cellular phone companies.
- **Eradication.** Conduct opium poppy and coca eradication operations at least annually

**Venezuela Statistics
(1996–2004)**

	2004*	2003	2002	2001	2000	1999	1998	1997	1996
Arrests/Detentions	-	2,187	2,711	3,069	2,616	6,630	7,531	5,379	-
Seizures									
Cocaine Total (mt)	19.07*	19.46**	17.79	14.18	15.17	13.10	8.60	16.18	7.20
Heroin (mt)	.276*	.364***	.56	.28	.13	.04	.04	.11	.07
Cannabis (mt)	5.115*	6.125	20.92	14.43	12.43	19.69	4.50	5.52	5.30

*Numbers valid through 30 June 2004 only; no second semester figures are available at this time.

**The 2003 reported amount of 27.70 metric tons of cocaine has been downward revised to 19.46 MT, based on an independent verification of seizures on a case-by-case basis. Most of the discrepancy can be explained by the misreporting of a seizure of 9,573 kilograms of cocaine, reportedly made by the Venezuelan Coast Guard. In reality, the seizure was made in international waters by the Spanish Navy, with cooperation from the Venezuelan Coast Guard.

***The 2003 reported amount of 443 kilograms of heroin has been downward revised to 364 kilograms, based on an independent verification of seizures on a case-by-case basis.

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. 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 is a serious matter, but provides little financial assistance to support police units tasked with narcotics investigations. The GOB continues to work closely with the United States on international crime issues and has been extremely helpful in the extradition of U.S. fugitives over the last year. The Belize Police Department (BPD) was recently praised by the Assistant Secretary of State for Diplomatic Security at the International Chief of Police Conference in Los Angeles for being one of the countries with the highest rates of return for U.S. fugitives. Although the Police Department continues to process classes of new recruits into the Belize Police Department (BPD), the force has not grown; because of internal corruption and reprimands, the number of officers remains steady (slightly less than 1000, nationwide). The BPD, the Belize Defence Force (BDF), and the International Airport Security Division continue to provide counternarcotics efforts. The Police Department successfully seized a plane packed with 700 kilograms of cocaine and a variety of automatic weapons in 2004. The BPD has participated in two gun battles involving transshipment of cocaine this past year as well. The recent U.S. Southern Command deployment of a Counter Narcotics Electronic Intelligence Surveillance (CNEIS) System to Belize has provided data necessary to track and interdict suspicious airplanes within Belize's airspace. Belize participated in a regional collaborative effort to track and interdict a suspicious airplane, ending in successful seizure across the Guatemalan border. Since 1996, Belize has been a party to the 1988 UN Drug Convention.

II. Status of Country

Belize is a potentially significant transshipment point for illicit drugs between Colombia and Mexico. It continues to cultivate a small amount of marijuana, primarily for local consumption. The BDF and the BPD 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 cayes (islands), and numerous navigable inland waterways, combined with the country's rudimentary infrastructure, add to its appeal for drug trafficking. Officials continue to find a number of abandoned suspect boats and airplanes in Belizean waters and in clandestine areas.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Anti-Drug Unit (ADU), part of the BPD, has decreased in size over the past year and currently consists of 33 officers designated to do counternarcotics work both on land and at sea. Presently, 12 officers are stationed in the ADU office in Belmopan and 21 are stationed in the Belize City Office.

The new civilian Crime Scene Unit was successfully established. Thirty-three Crime Scene Technicians participated in a two-month internship, in cooperation with the Panamanian Police, focusing on latent fingerprinting and evidence collection. All 33 technicians successfully completed the course at the end of October 2004. Arlington County (Virginia) Police Department will be providing a specialized two-week training course covering evidence collection skills and chain of

custody issues in early 2005. The FBI is planning an advanced fingerprint course to follow up the Panamanian internship program.

Accomplishments. The Ministry of Home Affairs was tasked in 2004 with the establishment of a Belize National Coast Guard. The Coast Guard Legislation passed both the House and the Senate in December 2004, and the Ministry expects to begin staffing the Coast Guard in April of 2005. Thirty-four individuals will be assigned to the new Coast Guard Unit. Candidates will be recruited from the Belize Defence Force (BDF) Maritime Wing, and vacancy announcements will be published for outside recruits. The current BDF Commandant has been named the Commandant for the Coast Guard. The U.S. Coast Guard will conduct a site survey in January of 2005 and a full evaluation in February to assist the fledgling Belize Coast Guard Unit, which will be tasked with all law enforcement efforts at sea.

The Belize Police Department has successfully begun a Wide Area Network project, which will include computerization of all records including police reports, fingerprints, and drivers' licenses.

The GOB fully cooperated in one joint GOB/USG counternarcotics operation in July 2004 utilizing Joint Task Force Bravo assets.

Illicit Cultivation/Production. The GOB successfully carried out many independent marijuana eradication missions in 2004. By October 2004, 53,203 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 keeping with the goals and objectives of the 1988 UN Drug Convention, has an existing precursor chemical program. The Medical Department at Karl Heusner Hospital keeps track of all statistics on precursor chemicals. Legislation for precursor chemical control was written, but is still in draft form 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.

Domestic Programs/Demand Reduction. GOB demand reduction efforts are coordinated by the National Drug Abuse Control Council (NDACC), which provides drug abuse education, information, counseling, rehabilitation and outreach. NDACC also operates a public commercial campaign, complete with radio advertisements and billboards, designed to dissuade youths from using drugs.

Law Enforcement Efforts. Authorities seized 734.5 kilograms of cocaine in 2004. Authorities also seized 198 kilograms of cannabis, 9 kilograms of cannabis seed, 183 grams of crack cocaine, and 500,000 synthetic drug tablets. The Anti-Drug Unit has been solely dedicated to handling narcotics cases and counternarcotics operations throughout the year. To this end, 525 arrests were made on drug-related charges stemming from possession of or trafficking in marijuana, cocaine, crack cocaine, and heroin. Additionally, 15 go-fast boats originating from Colombia and six aircraft were seized. Finally, the Belize police arrested two local high-level narcotics traffickers, one of whom has been successfully prosecuted in the U.S. and is awaiting sentencing.

The GOB's most serious internal drug problem in Belize is rooted in drug-associated criminality. Obtaining convictions remains difficult, since the Office of the Public Prosecutor remains under-trained and under-paid. The GOB has refurbished its fingerprinting program with the assistance of the Panamanian government and the FBI. The program is expected to be the key factor in obtaining convictions in the future. The Government also exceeded expectations by funding 33 civilian Crime Scene Technicians rather than the 14 originally planned.

Corruption. There is no evidence of specifically narcotics-related corruption within the GOB. However, there are allegations of general corruption within some government agencies. There were a number of police officers dismissed for wrongdoing in 2004 by the Internal Affairs Division. Police officers were banned from the Free Trade Zone in the Corozal District because of corruption-related issues. There is increasing evidence and information suggesting that the GOB suffers from serious corruption problems at all levels. Belize is a party to the Inter-American Convention on Corruption.

Agreements and Treaties. Belize has been a party to the 1988 UN Drug Convention since 1996. Belize completed a stolen vehicles treaty with the U.S. that entered into force in September of 2004. Although many vehicles have been identified as stolen, no vehicles were returned under this treaty in 2004. 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 requested more joint operations under the Sea Rider Agreement in June 2003, one of which is finally being planned for 2005. The U.S. and Belize have an extradition treaty and an MLAT in force. One kidnapped child was returned, and 20 U.S. fugitives were detained and sent back to the U.S. by extradition or deportation. Belize is a party to the UN Convention Against Transnational Organized Crime and its protocol on trafficking in persons.

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 its territorial waters for onward shipment to the U.S. Armed Mexicans and Colombians protect shipments of cocaine and are considered extremely dangerous. These circumstances, coupled with the lack of visibility at night and the dense vegetation in 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, 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.

Six deserted airplanes suspected of hauling large drug shipments were found over the past year. One twin engine King Air was seized after a lengthy gunfight in a village near Orange Walk. Police seized 700 kilograms of cocaine and confiscated several automatic weapons. These incidents signal that air trafficking has continued to increase in Belizean airspace. Although there is little evidence, officials suspect that river “wet drops” also have increased over the past year.

Intelligence suggests that the Colombian drug cartels have established partnerships with Mexican drug cartels, leading to increased Mexican drug trafficking in Belize. These Mexican cartels have been masterminding clandestine aircraft and sea vessel drug operations within Belize. The local Belizean drug trafficker merely provides resources and assists in the transit of drugs through 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 in developing a sustainable infrastructure to combat its drug problems effectively. In 2004, USG support included counternarcotics and law enforcement assistance, providing the host nation with equipment and training for the Belize Defense Force as well as the Belize Police Department's Anti-Drug Unit, canine branch, and other branches. Additional training was provided for the Department of Immigration, the Customs and Excise Department, the Magistrate Courts, the Supreme Court, and the Director of Public Prosecution's Office. The USG also funded all training initiatives for the new Civilian Crime Scene Unit. The U.S. Southern Command, including Joint Interagency Task Force South, among others, has 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 a point for ever-increasing transshipment of cocaine. Local marijuana cultivation necessitates continual monitoring and periodic eradication. After six years in power, the People's United Party continues to advocate combating drug trafficking and associated crime as a top priority, but has avoided providing resources to the appropriate units. U.S. Mission support should continue to focus on assisting police counternarcotics units and all units involved with crime scene investigation, and on improving Belize's Rule of Law infrastructure. Projects should include developing basic communication and technology infrastructure and providing training for all law enforcement branches. 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 had an active and productive year in counternarcotics in 2004. The national “Canadian Addiction Survey” that was made public in November indicated that substance abuse among Canadians has significantly increased over the past decade, especially among youth. While alcohol and cannabis remained the most commonly abused substances, there were worrisome trends in abuse of other illicit substances. The Royal Canadian Mounted Police (RCMP) estimates that the overall drug trade in Canada generates criminal proceeds in excess of \$3 billion at the wholesale level and \$13.5 billion at the street level. Marijuana production is a thriving industry in Canada with production estimated by the RCMP at somewhere between 960 and 2400 metric tons. This is a particular concern of the USG because of increased seizures in the U.S. of Canadian-sourced marijuana, much of which appears to be in the higher-potency/higher-profit “bud” form. Canadian law enforcement has responded with a nation-wide marijuana task force to target large-scale grow operations run by organized crime.

Bilateral counternarcotics cooperation with the United States continued to be excellent. At the October U.S./Canada Cross-Border Crime Forum, the two governments announced the establishment of four new intelligence exchange sites to support the International Border Enforcement Team (IBET) program. They also released an updated “Border Drug Threat Assessment” which was produced to enhance our understanding of the two-way flow of illicit drugs and precursor chemicals (http://www.psepc.gc.ca/publications/policing/drug_threat_e.asp). The study highlighted the emerging problem of MDMA (“Ecstasy”) production in Canada. In 2004, through an intensive bi-national investigation—dubbed “Candy Box” in the U.S. and “Okapi/Codi” in Canada—the two governments dismantled a major MDMA (“Ecstasy”) ring producing MDMA in Canada and marketing it in both countries. This will continue to be a major law enforcement focus in 2005.

Canadian efforts over the past two years to curb the diversion of precursor chemicals such as pseudoephedrine (used to manufacture methamphetamine) appear to have had an impact as the U.S. noted a marked decrease in seizures of such chemicals linked to Canada. Both governments will continue to watch this closely though, to ensure that traffickers are not shifting to substitute chemicals or different methods.

Multilaterally, Canada held the chairmanship of the Inter-American Drug Abuse Control Commission (CICAD), the counternarcotics arm of the Organization of American States (www.oas.cicad.org).

II. Status of Country

Canada is a significant narcotics-consuming country. In November 2004, Health Canada, the Canadian Executive Council on Addictions and the Canadian Center on Substance Abuse published highlights from the Canadian Addiction Survey, the first major survey on the use of substance abuse among Canadians in a decade. This survey suggests that reported use of alcohol, cannabis and other drugs has increased in Canada over the past decade, nearly doubling in some cases (see Domestic Programs).

The RCMP estimates that the drug trade in Canada generates criminal proceeds in excess of \$3 billion at the wholesale level, and \$13.5 billion at the street level. Drug-related crime is an increasingly serious concern to Canadian authorities. British Columbia has had the highest provincial drug-related crime rate for the past 20 years. It was the only province to show an increase (by 6 percent) in reported drug charges in 2003, including a 3 percent hike in prosecutions of cannabis possession. The Correctional Service of Canada suggests that almost 70 percent of offenders entering federal

institutions have problems with alcohol and/or other drugs and that more than half of all offenders were under the influence of alcohol or drugs when they committed their offense.

Canada remains a significant producer and transit country for precursor chemicals and over-the-counter pharmaceuticals used to produce illicit synthetic drugs. U.S. and Canadian authorities have focused in particular on bulk shipments of pseudoephedrine (PSE), a common cold remedy used to manufacture methamphetamine. It is legally imported into Canada from China, India, and Germany. Until 2003, the diversion of large quantities of PSE from Canada to methamphetamine “Super Labs” in the United States was a serious problem. PSE seizures in the U.S. linked to Canada have dropped significantly in 2004, indicating Canadian regulation efforts, combined with bilateral enforcement efforts, were deterring the movement. Nevertheless, authorities are watching carefully the flow of ephedrine, another methamphetamine precursor, because there has been an increase in Canadian imports from China and India and an increase in U.S. seizures at the border. (See Chemical Chapter)

Law enforcement reports indicate that some limited smuggling of methamphetamine occurs in both directions across the U.S.-Canada border. According to the RCMP the bulk of methamphetamine available in the Canadian illicit market derives from domestic supply. The RCMP also reported that clandestine methamphetamine laboratories seized in Canada were 24 in 2000, 13 in 2001, 25 in 2002, and 37 in 2003. In 2004, 46 pounds of methamphetamine were seized entering the U.S. from Canada by U.S. law enforcement officials.

The RCMP estimates that annual Canadian marijuana production ranges between 960 and 2400 metric tons. While viewed as a nationwide problem, marijuana is heavily cultivated in British Columbia, Ontario and Quebec. (See Production and Cultivation) In 2004, 40,064 pounds of marijuana were seized entering the U.S. from Canada. U.S. experts estimate that Canada is the third largest foreign supplier of marijuana consumed in the United States. Although Canadian-produced marijuana accounts for a very small amount of overall U.S. marijuana seizures at its borders, the two governments are very concerned about an upward trend in seizures, which have increased 259 percent since 2001. Some U.S. experts have estimated the value of Canadian-grown marijuana entering the United States at \$5 billion or more. In addition to extensive domestic production in Canada, there is considerable smuggling of foreign-produced marijuana into Canada. Canadian authorities seized 7.8 metric tons of marijuana at ports of entry between 2000-2003 arriving from the United States, Mexico, Colombia, the Caribbean, the Middle East, and, to a lesser degree, Thailand and Morocco. The RCMP estimates that approximately 11 metric tons of hashish a year and 6-8 metric tons of liquid hashish are smuggled into Canada. In 2004, 22 pounds of hashish were seized entering the U.S. from Canada by U.S. law enforcement officials.

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. According to the RCMP, Colombian drug trafficking organizations and Italian organized crime groups are the most influential smugglers of cocaine into eastern Canada. Over the past few years, the importation of hundred kilogram quantities of cocaine into Canada is increasingly being carried out via sailing or fishing boats. This trend departs from earlier trends when the preferred smuggling method involved the use of marine containers. The RCMP estimates that 15 to 24 tons of cocaine enters Canada annually; from 2000 to 2003, Canadian authorities seized 4.7 metric tons of cocaine at Canadian ports of entry. Approximately 25 percent of the cocaine shipments seized en route to Canada transited or was intended to transit the United States. Law enforcement reporting indicates that very little cocaine is smuggled from Canada into the United States.

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 50,000 heroin users. Canadian authorities seized a total of 305 kilograms of heroin at Canadian ports of entry in 2003.

Also in 2003, Canadian authorities reported seizing 5.64 million ecstasy (MDMA) tablets at ports of entry, representing a 213 percent increase over 2002. Members of Asian, Eastern European and Israeli organized crime groups, as well as organized motorcycle gangs (OMGs), particularly the Hells Angels Motorcycle Club, are involved in cross-border MDMA trafficking. Asian crime groups based in Canada are known to be extensively involved in the production and importation of MDMA for the North American market. According to the RCMP and Health Canada, the demand for MDMA in Canada is increasing, and the drug appears to be preferred among adolescents and young adults.

In addition, law enforcement intelligence indicates that the abuse of methamphetamine has increased, particularly in western Canada. According to the RCMP, the domestic production and trafficking of methamphetamine has dramatically increased while its distribution and use have reportedly skyrocketed in some regions in Canada. As in the United States, methamphetamine use has reached alarming proportions in western regions. The number of methamphetamine labs dismantled by Canadian law enforcement has varied each year since 2000 with 24 labs seized in 2000, 13 in 2001, 25 in 2002 and 39 in 2003. Between 2000 and 2003, Canadian authorities seized a total of 6,510 pills and 14.1 kilograms of methamphetamine at Canadian ports of entry.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Health Canada has responsibility for overall coordination of the nation's drug strategy although other departments, as well as municipal and provincial/territorial governments, are equally involved in addressing the domestic use of illicit drugs.

In May 2003, the Government of Canada (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. (Note: All monetary figures in this report are in U.S. dollars.) 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.

On November 1, 2004, the GOC re-introduced cannabis reform legislation that proposes changes to the penalties associated with marijuana-related offenses. The draft bill proposes a graduated sentencing criteria for the cultivation of cannabis, based on the number of plants seized (a fine for cultivating 1-3 plants; a maximum five years imprisonment for cultivating 4-25 plants; a maximum ten years for cultivating 26-50 plants; and a maximum of 14 years for cultivating 51 or more plants). It would also punish possession of small amounts of marijuana for personal use with fines rather than criminal penalties. Should it pass in its current form, an adult caught with 15 grams or less of marijuana could receive a fine of \$115; youth caught with 15 grams or less of marijuana could receive a fine of \$75. A companion bill, also introduced on November 1, would give Canadian police authorities the powers to arrest and charge individuals found driving under the influence of drugs. It could also make resources available to law enforcement officers for training in the detection of automobile drivers operating their vehicles while under the influence of narcotic substances and marijuana. Neither current law, nor the proposed cannabis legislation, requires Canadian judges to impose mandatory minimum sentences on major drug producers or traffickers. Canadian law currently provides for the legal use of marijuana for medical purposes and Health Canada makes marijuana available to some 700 Canadians with medical authorization.

In September 2003, the first supervised drug injection site in North America opened in Vancouver. This site costs approximately \$1.5 million a year to operate, is located in the downtown Eastside of Vancouver, and services an estimated 4,000 injection drug users. The provincial government of British Columbia is financing the project; however, Health Canada commits about \$1.15 million for research as to the site's viability and public good.

Accomplishments. Under the renewed Comprehensive Drug Strategy, the GOC developed a plan to address the organized crime element behind the proliferation of marijuana grow operations in Canada. In January, the RCMP established dedicated investigative teams to target and dismantle marijuana grow operations as well as clandestine laboratories that produce synthetic drugs such as methamphetamine. These teams are currently active in British Columbia, Alberta, and Quebec, provinces where organized crime operations are most prevalent. A National Coordinator was selected to oversee their efforts. Further, in late 2004, the RCMP organized a conference with private sector representatives in the real estate, insurance, and hydropower industries to both facilitate the identification of existing marijuana grow operations and to deter the establishment of new ones.

In November, health-care workers, police and social service providers from western Canada met in Vancouver to discuss the prevalence of methamphetamine and develop approaches to counter its use and availability. In early 2005, the GOC is expected to designate Colombian drug traffickers and money launderers in Canada as law enforcement intelligence targets.

Law Enforcement Efforts.

- In January 2004, Canadian law enforcement uncovered a large indoor grow operation inside a former brewery in Barrie, Ontario and seized 20,100 marijuana plants.
- In March 2004, as a result of Operation “Candy Box”/ Project Okapi / Project Codi, Canadian and U.S. law enforcement jointly dismantled a large criminal network producing MDMA and marijuana in Canada and distributing it throughout the United States. Over 130 individuals in 19 cities were arrested, and more than 877,000 MDMA pills, 120 kilograms of MDMA powder, over \$6 million in currency, and more than 1,000 marijuana plants were seized by U.S. and Canadian law enforcement.
- Also in March 2004, Toronto police seized over 800 marijuana plants being grown on the 18th floor of a high-rise apartment building. Several apartments reportedly contained some \$40,000 in specialized growing equipment.
- In June, DEA announced the arrest of 50 drug traffickers in Colombia, Panama, Jamaica, the Bahamas, the U.S. and Canada believed responsible for the U.S. distribution of three metric tons of cocaine every month.
- Also in June, Canadian police made a series of arrests in the Toronto and Windsor area resulting in 157 charges with 49 counts under the Controlled Drugs and Substances Act and the Criminal Code of Canada against 24 individuals.
- In July, the York Regional Police seized two MDMA labs in Markham, Ontario approximately 100 kilograms of ecstasy, 2 pill presses, and Canadian currency.
- In August, U.S. Coast Guard officials seized a Canadian flag vessel in the Caribbean and interdicted 350 kilograms of cocaine.
- In September, RCMP and DEA enforcement officials conducted Operation Brain Drain and executed 53 search warrants in western Canada and the U.S. and the RCMP obtained arrest warrants for 25 individuals in Canada. Resulting illegal substance seizures in Canada included approximately 1.5 million tablets of ephedrine, 600 kilograms of bulk ephedrine and between \$1.5 and \$2.5 million in currency. Additionally, a third MDMA facility was seized in Markham, Ontario with over 200 kilograms of MDMA and precursor chemicals that could have produced an additional 300 kilograms.

- From October 15 through November 7, a Canadian police task force seized 15,000 marijuana plants, with a street value of some \$15 million, in Southern Alberta. During this operation, 42 search warrants were issued (41 residences and one warehouse). Canadian law enforcement believed that most of the seized drugs were heading to the U.S.
- In November local police authorities seized 116 pounds of MDMA from three Toronto residences.

Corruption. Canada holds its officials and law enforcement personnel to a very high standard of conduct and has strong anticorruption controls in place. The GOC 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. In 2004, the RCMP estimated that annual Canadian marijuana production ranges between 960 and 2400 metric tons. While viewed as a nationwide problem, marijuana is heavily cultivated in British Columbia, although significant production levels are now reported in Ontario and Quebec. According to RCMP seizure data, 1,102,198 marijuana plants were seized in 2000, 1,367,321 in 2001, 1,275,738 in 2002, and 1,400,026 in 2003.

In January 2004, Canadian law enforcement uncovered a record-sized indoor grow operation to date inside a former brewery in Barrie, Ontario, and seized 20,100 marijuana plants. Though 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. The RCMP reports that Vietnamese organizations may have mastered technologically-advanced organic grow methods and that hydroponic hothouse operations in Canada are now producing marijuana with elevated THC levels. Canadian law enforcement officials have also seized a few aeroponic installations, where roots are suspended in mid-air and sprayed regularly with a fine mist of nutrient-enriched water.

Domestic Programs (Demand Reduction). Canada is clearly a significant narcotics-consuming country, but the scope of this problem was not well understood until recently. In November 2004, Health Canada, the Canadian Executive Council on Addictions, and the Canadian Center on Substance Abuse published the highlights from the Canadian Addiction Survey, the first major survey on the use of substance abuse among Canadians in a decade. This survey found that use of alcohol, cannabis and other drugs has increased significantly in Canada. While alcohol and cannabis remained the most commonly-abused substances, the report suggests that 14 percent of all Canadians have used cannabis in the past year, nearly double the rate reported in 1989. Among youth, the cannabis consumption rate was nearly 30 percent for 15 to 17 year olds and over 47 percent for 18 to 19 year olds. Almost 70 percent of Canadians aged 18 to 24 have used cannabis in their lifetime.

The Statistics Canada study also revealed increases in the number of Canadians taking other illegal drugs: cocaine or crack cocaine, Ecstasy (MDMA), LSD and other hallucinogens, amphetamines (“speed”) and heroin. It found that 2.4 per cent of the survey’s almost 37,000 respondents, all aged 15 or older, reported using at least one of these other drugs in the previous year, up from 1.6 percent in 1994. And 1.3 percent—an estimated 321,000 Canadians—had used cocaine or crack. The results of a provincial-level survey in Ontario indicated that 4.8percent of secondary school students (up from 3.4percent in 1999) and 3percent of young adults (up from 2percent) had used cocaine in the past year; the rate rose to 4percent among young adults in Toronto (up from 1percent in a 2003 survey). An Ontario Student Drug Use Survey, published in 2003, indicated that adolescent MDMA use increased from 0.6 percent in 1993 to 6 percent in 2001.

Health Canada is the focal point for the nation's drug control policy and emphasized 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 results of these campaigns are not yet clear. Recent Canadian qualitative studies have revealed a significant amount of confusion among Canadian youth regarding the effects, harms and even legal status of marijuana. 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 nonviolent drug possession offenses.

Agreements and Treaties. Canada is 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 also 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 is a party to the UN Convention against Transitional Organized Crime and its protocols on migrant smuggling and trafficking in persons. Canada has ratified all 12 United Nations Security Council Resolutions pertaining to terrorist financing. Canada actively cooperates with international partners; for example, the GOC has signed 30 bilateral mutual legal assistance treaties and 87 extradition treaties with other nations. Judicial assistance and extradition matters between the U.S. and Canada are made through an MLAT and an extradition treaty and protocols. The U.S. and Canada have shared forfeited assets through a bilateral asset sharing agreement.

Canada actively participates in numerous international activities aimed at reducing illicit drug use. From November 2003 until November 2004, Canada held the Chairmanship of the Organization of American States' Inter-American Drug Abuse Control Commission (CICAD). During Canada's chairmanship, CICAD expanded its work promoting active cross-border cooperation and combating transnational organized crime. The GOC likewise increased funding to CICAD for support of the Multilateral Evaluation Mechanism (MEM) and projects such as developing partnerships between health and law enforcement agencies to confront drug-related problems in a more comprehensive manner. The GOC also participates actively in the Dublin Group of international program donors and the Commission on Narcotic Drugs (CND) of the UN Office on Drugs and Crime (UNODC).

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Canada and the United States enjoy a close and dynamic law enforcement relationship. The two countries cooperate closely at the federal, state/provincial, and local levels, and this collaboration also extends into the multilateral arena. The annual U.S./Canada Cross-Border Crime Forum engages policy-makers and senior operational directors in a joint effort to guide the relationship strategically, to develop a common agenda, and to enhance operational coordination. The Forum's technical working groups continue to identify priorities and areas for increased cooperation, such as intelligence sharing. For instance, at the October 2004 Forum, the U.S. Department of Justice and the Department of Public Safety and Emergency Preparedness Canada (PSEPC) released a joint interagency-produced threat assessment on the cross-border illegal drug trade. In addition, Project North Star is an ongoing mechanism for law enforcement operational coordination at the state and local level. North Star oversees, for example, the highly-successful joint International Border/Maritime Enforcement Teams (IBETs) that have helped to ensure that criminals cannot to exploit the international border to evade justice.

Because of the high level of mutual confidence, 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 National Drug Intelligence Center (NDIC). However, some aspects of Canada's criminal justice system, such as Canada's strict privacy laws, limit timely information exchange in some areas.

The two governments also have a 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 the USG's principal extradition partner.

The Road Ahead. In early 2005, the Government of Canada is expected to designate Colombian drug traffickers and money launderers in Canada as law enforcement intelligence targets. In late 2004, the GOC reintroduced legislation (now Bill C-10) to change the penalties associated with cannabis-related crimes, including provisions that would impose fines rather than criminal penalties on possession of small amounts of marijuana for personal use.

The emerging threat of MDMA production in Canada, and the potential for Canada to become a major U.S. supplier of this dangerous drug, will make this a priority area for U.S.-Canada bilateral cooperation in 2005. The USG will also continue to follow with interest Canada's ongoing efforts to strengthen its chemical control regulations and enforcement efforts to stem the diversion of precursor chemicals into illicit drug production in Canada, the United States or other countries. Given the already significant amount of Canadian-produced marijuana entering the U.S., the USG welcomed the GOC's establishment of the special investigative units targeting criminal organizations involved in cannabis cultivation, processing and distribution. Finally, the U.S. has expressed its concern that some aspects of Canada's proposed cannabis reform legislation could fuel not only drug consumption in Canada, but smuggling into the U.S. Effective bilateral efforts to combat transborder drug smuggling, as well as domestic production and consumption of illicit drugs in both countries, are essential to our parallel efforts to keep our shared border open to legitimate goods, services, and travelers.

To further improve cooperation with Canada, the USG plans to:

- expand two-way intelligence sharing to include the timeliness and relevance of the 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 production and trafficking as well as other organized criminal activity;
- maintain joint cross-border investigations and operations, and expanding these to include joint operations on the Great lakes and Saint Lawrence Seaway; and
- provide technical support, based on U.S. experience, to support Canadian efforts to implement its chemical control legislation and strengthen its regulatory practices, consistent with international standards and practices; and
- actively promote awareness of the short and long-term health consequences of drug consumption, 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 volume of illicit narcotics seized in Costa Rica increased dramatically in 2004, after almost doubling in 2003. In Costa Rica's Eastern Pacific waters alone, 4,700 kilograms of cocaine were seized in 2004. Heroin seizures, which had doubled every year since 1999, were substantially lower with 68 kilograms seized in 2004 compared to 146 in 2003. The Government of Costa Rica (GOCR) continued to implement a 2002 narcotics control law that criminalized money laundering. The Counternarcotics Institute, created in 2003, enhanced its coordination 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 eleven times the size of Costa Rica's land mass. These territorial waters are used for the transshipment of illegal drugs in small go-fast boats refueled by larger vessels posing as fishing vessels. 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. For the first time, and as a result of joint maritime operations, the Costa Rican Coast Guard (SNGC) interdicted three go-fast vessels in 2004 and seized a total of 625 kilograms of cocaine. The GOCR runs an effective airport interdiction program aimed at passengers. 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.

Authorities seized 1,622 ecstasy pills in 2004, up slightly from the 1,321 seized during 2003. These seizures suggest increasing consumption in Costa Rica and the potential use of Costa Rica as a transshipment point for "club drugs." Two indoor hydroponics cannabis facilities were seized in 2004, but the small size of these operations indicates domestic consumption only, despite potential for export due to high THC content. 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 2004

Policy Initiatives. The 1999 bilateral Maritime Counterdrug Cooperation Agreement and the Coast Guard Professionalization Law passed in 2000 have continued to provide impetus for the professional development of the Costa Rican Coast Guard and have been instrumental in improving the overall maritime security of Costa Rica. The Costa Rican Coast Guard Academy, established in 2002, has thus far graduated 125 officials. Costa Rica is the depository for the multilateral “Agreement Concerning Cooperation in Suppressing Illicit Maritime and Aeronautical Trafficking in Narcotics Drugs and Psychotropic Substances in the Caribbean Area” signed in 2003 in San Jose. Throughout 2004, the Pacheco Administration pressed for domestic ratification and spearheaded an active international lobbying effort, including sponsorship of a high-level multilateral seminar in San Jose, to help bring the agreement into force. Other regional cooperation initiatives include co-hosting with the DEA of two International Drug Enforcement Conferences (IDEC’s). The Costa Rican Counternarcotics Institute develops 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. Costa Rican counternarcotics officials confiscated over \$1.2 million in currency and 38 vehicles in 2004. In addition, they destroyed over 3,000 kilos of seized cocaine in close cooperation with U.S. law enforcement officials. U.S. DEA Agents and Coast Guard Officers have worked closely with GOCR counterparts and prosecutors in developing cases against narcotics traffickers, all of whom have been sentenced or remain in pre-trial detention. Since the inauguration in 2004 of the Mobile Enforcement Team (MET)—an interagency team consisting of canine units, drug control police, customs police, and specialized vehicles—the MET participated in coordinated cross-border operations with Nicaragua and Panama and increased its internal patrols.

Law Enforcement Efforts. The primary counternarcotics agencies in Costa Rica are the Judicial Investigative Police (OIJ), 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 counternarcotics statutes.

Agents of the Drug Control Police, through the effective use of canines and contraband detectors/density meters at both northern and southern borders, have increased seizures of cocaine hidden within tractor-trailers. Inauguration in April 2004 of the USG-funded Penas Blancas Border Control Checkpoint, located at a natural chokepoint on the border with Nicaragua, was an important milestone in efforts to battle the growing threat from overland narcotics transportation. The frequency of seizures at the Penas Blancas inspection facility is already twice that of the Paso Canoas station on the border with Panama, although the quantity seized at the southern border was slightly higher.

Corruption. During 2004, unprecedented corruption scandals provoked the worst political crisis of the last 50 years in Costa Rica. The scandals, involving apparent kickbacks to officials at the highest levels of the government, severely tested Costa Rica’s legal system. Although the implications are still unfolding, with two ex-presidents currently in jail awaiting trial, Costa Rica’s commitment to combat public corruption appears to have been strengthened by the recent challenges. In October 2004, the

Legislative Assembly passed a strict new anticorruption law that punishes “illicit enrichment” on the part of public officials.

Costa Rica signed the Inter-American Convention Against Corruption in March 1996 and ratified it in May 1997. In March 2004, the Attorney General for Public Ethics (Procuraduría de la Ética Pública) was established, and in May that office was designated the central authority for channeling resources and technical assistance related to the Convention. U.S. law enforcement agencies continue to consider the public security forces and judicial officials to be full partners in counternarcotics investigations and operations. To the best of these agencies’ 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.

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 was responsible for the interdiction of 25,369 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 2004 include five maritime counternarcotics interdictions, 25 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 is a signatory to 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 is a party to the UN Convention against Transnational Organized Crime and its three protocols.

Cultivation/Production. Marijuana cultivation is relatively small-scale and generally occurs in remote mountainous areas near the Panamanian border, in the Caribbean region near Limón and Talamanca, and the Valle del General on the southern Pacific Coast. Such cultivation is sometimes intermixed with legitimate crops. Joint U.S.-Costa Rican eradication operations are periodically carried out under the auspices of “Operation Central Skies,” utilizing U.S. Army air assets. Over six and a half million marijuana plants have been destroyed to date during these operations. Costa Rican authorities continued to conduct eradication operations independent of USG assistance, seizing 553,000 plants in 2004. The quantity of plants eradicated suggests that marijuana is not being exported from Costa Rica. Costa Rica does not produce other illicit drug crops. We have no indications to date of any synthetic drug manufacturing in Costa Rica.

Drug Flow/Transit. 2004 witnessed a continuation of the trend detected late last year toward frequent, smaller (50-500 kilograms) 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 José, typically from departing passengers. The recent trend of increased trafficking of narcotics by maritime routes has also continued, with indications that maritime traffickers use Costa Rican-flagged fishing vessels to serve as logistical support vessels for northbound go-fast boats in the Costa Rican exclusive economic zone. During 2004, several vessels, allegedly carrying far too much fuel for their purported needs, caught fire.

Domestic Programs (Demand Reduction). Costa Ricans have become increasingly concerned over local consumption, especially of crack cocaine and Ecstasy. Abuse appears to be 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. All but 30 of the 1,622 Ecstasy tablets seized in 2004 were confiscated in San Jose. The Prevention Unit of the Costa Rican 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 2004, the Institute continued its country-wide campaign against Ecstasy use with billboards posted in high schools, universities, and pharmacies. 2004 also saw a large-scale print, television and radio demand reduction campaign aimed at heads of households entitled "Impose Limits."

The Institute and the Ministry of Education distribute demand reduction materials to all public school children. The MET often visits local schools in the wake of a deployment. The team's canines and specialized vehicles are effectively used to deliver demand reduction messages. 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 and graduated its millionth alumnus in 2004.

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 encouraging stricter controls and strengthening enforcement; 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.

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 2004, USG assistance included numerous U.S. Coast Guard training programs, overhaul and spare parts for the three U.S.-donated 82-foot patrol boats, furniture and computer equipment for the new Coast Guard Station in Quepos and for the, furniture and computer equipment for the Penas Blancas inspection facility, and two vehicles for the OIJ. The U.S. also provided increased information 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 inter-agency approach to provide a training series on law enforcement techniques related to border control and cargo inspection. In addition, the USG acquired computer equipment, software and other equipment for the Ministry of Public Security's Drug Control Police and Migration Section, the Judicial

Investigative Police Narcotics Section, the Public Prosecutor's Economic Crimes Section and Sex Crimes Section, the Costa Rica Counternarcotics Institute's Financial Intelligence Unit, and the inter-agency MET unit. Additional training and equipment 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 environmental protection, and search and rescue operations within its littoral waters in support of the bilateral Maritime Counterdrug Cooperation Agreement. The United States seeks to build upon the on-going successful maritime experience by turning more attention and resources to land interdiction strategies, including expanded coverage of airports and seaport facilities. The United States will continue to cooperate closely 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 2004, the National Police seized 2,703 kilograms (Kg) of cocaine (a 20-percent increase over 2003 levels) and 3.84 kilograms of heroin. The Forward Operating Location facilities contributed to the seizure of 2.2 metric tons (MT) of illicit narcotics in Salvadoran territory and disrupted the delivery of 71 metric tons narcotics to the rest of the region. Salvadoran law enforcement agencies cooperated with U.S. authorities on cases that led to the U.S. indictments of 12 major drug traffickers. Although El Salvador is not a major financial center, assets forfeited and seized as the result of drug-related crimes amounted to \$554,113 dollars. Salvadoran authorities complied with resolutions regarding terrorist assets and did not find assets from individuals or entities on the terrorism lists. El Salvador is a party to the 1998 Drug Convention.

II. Status of Country

Located in the isthmus between the United States and the major drug producing nations, El Salvador is a transit point for illicit narcotics 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 2004

Policy Initiatives. According to the Salvadoran Anti-Drug Commission, progress in achieving the 2002-2008 counternarcotics master plan of the Salvadoran Government (GOES) was made in the categories of: 1) the sale and transport of narcotics within El Salvador; 2) bilateral law enforcement and drug-transit cooperation; and 3) prevention, treatment, rehabilitation, and social reintegration. The GOES implemented Plan Super Heavy Hand (“Super Mano Dura”) and Plan Friendly Hand (“Mano Amiga”) to address issues related to street gangs, including narcotics trafficking, substance abuse, and social reinsertion.

Accomplishments. Several significant developments during the year demonstrated the GOES commitment to achieving compliance with the objectives of the 1988 UN Drug Convention. Armed with a new counternarcotics law that came into effect in November 2003, the National Civilian Police (PNC) interdicted 20 percent more cocaine over the preceding year. Using the same comparison, the PNC arrested 49 percent more individuals for drug trafficking offenses. The GOES seized US\$554,113 in assets linked to narcotics trafficking, representing an exponential increase over the US\$33,749 seized in 2003. Once convictions are realized, seized assets are used to fund law enforcement, drug treatment, and drug prevention efforts.

The Embassy-supported Containerized Freight Tracking System (CFTS) at the Amatillo border crossing with Honduras began operations in July 2004. The purpose of the facility is to permit the GOES to inspect commercial and passenger vehicles arriving from Honduras. In the last half of 2004, PNC personnel at the CFTS seized 4.1 kilograms of marijuana, 2.1 kilograms of cocaine, and 2.2 kilograms of heroin.

Aircraft deployed to the Forward Operation Location (FOL) at the Salvadoran Air Force base in Comalapa track aircraft and sea vessels moving north towards the United States. FOL aircraft report their findings to U.S. law enforcement agencies, which then notify regional governments. In 2004, cooperation between the FOL, the Embassy, the Salvadoran Air Force, and the PNC resulted in the seizure of 2,968 kilograms, and the arrest of nine narcotics traffickers by Salvadoran officials. The

presence of the FOL in El Salvador contributed to an additional total seizure of 2.2 metric tons of cocaine by U.S. law enforcement agencies and other regional governments.

In July 2004, the GOES implemented Plan Super Heavy Hand in response to rising street gang violence. Although the plan addresses all gang related activity (to include kidnapping, rape, extortion, murder, fraud, aggravated theft, human trafficking), it also aims to disrupt narcotics trafficking and distribution controlled by gangs. During the year, the PNC arrested 332 and convicted 35 gang members for drug trafficking and distribution offenses.

The GOES actively cooperated with the United Nations Drug Control Program. The obstacles that prevented El Salvador from fully achieving all of the objectives of the 1988 UN Drug Convention included legal impediments and limited resources, as discussed below.

Law Enforcement Efforts. Salvadoran law enforcement efforts are still hindered by constitutional prohibitions against using some 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.

Nonetheless, law enforcement efforts in 2004 were adequate, given resource constraints and legal impediments. These efforts were primarily focused on priority targets of mutual interest to both the United States and the GOES. Salvadoran police investigators and prosecutors traveled to the United States on numerous occasions throughout the year to share intelligence and coordinate operations. Joint cooperation led to the U.S. indictments of 12 major drug traffickers in El Salvador. Apart from joint operations, the PNC seized 402 kilograms of marijuana, 2,703 kilograms of cocaine, and 3.84 kilograms of heroin. PNC officers arrested 1,561 individuals for drug related offenses, 1,015 of which resulted in convictions.

Corruption. Under Salvadoran law, 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. This includes accepting or receiving money or other benefits in exchange for an act or omission in relation to one's official duties. The PNC's Internal Affairs Unit and the Attorney General's Office (FGR) investigate and prosecute GOES officials for corruption and abuse of authority.

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

In 2004, the INL-supported and U.S.-based National Strategic Information Center, in cooperation with the Salvadoran Ministry of Education, began implementing the Culture of Lawfulness program in Salvadoran schools. The program focuses upon the advantages that accrue to the individual and to society if everyone follows the rule of law. Special emphasis is placed on the social costs of corruption and bribery. Thus far, 10 teachers have been trained in the mechanics of presenting the program. The program will begin being taught in public schools in 2005.

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. El Salvador is a party to the following international agreements: the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances; and the 1961 UN Single Convention as amended by the 1972 Protocol; the Central American convention for the Prevention of Money Laundering Related to Drug-Trafficking and Similar Crimes; and the UN Convention against Transnational Organized Crime and its three protocols.

An extradition treaty is in force between the United States and El Salvador. Narcotics offenses are covered as extraditable crimes by virtue of the 1988 UN Drug Convention, to which El Salvador is a party.

Mutual legal assistance in narcotics cases is available to the United States and El Salvador under Article 7 of the 1988 UN Drug Convention. The Inter-American Convention on Mutual Assistance in Criminal Matters, to which El Salvador is a party, provides further tools to facilitate legal cooperation between the United States and the GOES.

Cultivation/Production. The climate and soil conditions of El Salvador 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, which is consumed domestically, is of poor quality. 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 due 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, with 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). The GOES manages its demand reduction program through several government agencies. The Ministry of Education presents lifestyle and drug prevention courses in the public schools, as well as providing after school activities. The PNC operates a D.A.R.E. program modeled on the U.S. program of the same name. The Ministries of Governance and Transportation have antidoping units that advocate drug-free lifestyles. The Public Security Council (Consejo Nacional de Seguridad Publica) is actively involved in demobilization and substance abuse prevention within Salvador's gang communities.

The Salvadoran NGO FundaSalva works with the GOES to provide substance abuse awareness, counseling, rehabilitation, and reinsertion services (job training) to the public. In 2004, FundaSalva provided demand reduction services to over 3,000 individuals. Other less comprehensive rehabilitation programs exist, usually faith-based and run by recovering addicts.

In addition, as part of Plan Friendly Hand, FundaSalva operates a USG-donated laser tattoo removal machine. Former gang members who meet the stringent requirements of gang demobilization (leaving the gang life behind) and successful substance abuse treatment are eligible to have their gang tattoos removed for free. Removing tattoos decreases the possibility of gang recidivism while increasing the

prospect of finding gainful employment, both of which reduce the likelihood of future drug consumption. In 2004, FundaSalva provided tattoo removal services for 251 individuals.

A national survey conducted last year by FundaSalva reveals that substance abuse in El Salvador is significant and growing. According to the survey results, seven percent of the population (ages 12 to 45) used illicit narcotics in the past year, with four percent using drugs within the past month. Fourteen percent of those surveyed admitted to ingesting pharmaceutical stimulants and depressants in the past year. First use of alcohol or drugs occurs between the ages of twelve and fourteen years old. Fifty percent of all minors surveyed indicated that they had used drugs or alcohol on at least one occasion. Relative to the size of the at-risk and addicted populations, demand reduction programs are inadequate.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. assistance focuses upon developing El Salvador's law enforcement agencies, increasing the GOES ability to combat money laundering and public corruption, and ensuring a transparent criminal justice system.

Bilateral Cooperation. The United States provided funding for operational support of Grupo Cuscatlan and the high-profile crimes unit (GEAN) within the Anti-Narcotics Police. The United States also funded training and travel related to airport security, money laundering, maritime boarding operations, and antigang measures. Officers from the Drug Enforcement Agency and State's Bureau of International Narcotics and Law Enforcement work closely with the PNC counternarcotics unit, the PNC financial crimes unit, the Financial Investigations Unit of the federal prosecutors office, and the federal banking regulators on issues relating to drug trafficking and money laundering.

Road Ahead. The United States 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 completion of construction modifications at the CFTS in Amatillo, the new headquarters for the PNC Joint Intelligence Coordination Center, and the new kennels for the PNC's narcotics detection canine unit.

Guatemala

I. Summary

Guatemala remains a major drug-transit country for cocaine, heroin and illicit narcotics in route to the United States and Europe. In spite of substantial counternarcotics efforts by the Government of Guatemala (GOG) in 2004, large shipments of cocaine continue to move through Guatemala by air, road, and sea.

Acute lack of resources, weak leadership at the middle management level of the GOG, widespread corruption and frequent personnel turnover continue to affect the GOG's ability to deal with narcotics trafficking and organized crime. However, there are substantial accomplishments. Most notably, the GOG has pursued numerous public corruption cases against former public officials, army officers and police. The attorney general commenced corruption cases against 383 individuals during 2004, including the former vice president and finance minister, who are both awaiting trial; the former president fled to Mexico when it became evident he was about to be arrested. Similarly, 2088 cases have been opened against police officers accused of offenses ranging from homicide to extortion and robbery (including 23 command level officers), and half the officers (325) of the criminal investigation division have been fired.

The GOG has seized every opportunity to cooperate with the USG in CN operations. The first major legislative action of the Berger government was to renew the legislative authority for joint U.S./Guatemalan military and law enforcement operations to take place in Guatemala. Since that time, six successful Mayan Jaguar operations have taken place under the Central Skies operational framework. The GOG also enthusiastically implemented the CN bilateral maritime agreement. During 2004, the GOG authorized boarding of a Guatemalan-flagged vessel in international waters and 3.2 metric tons of cocaine were seized. The GOG also agreed to three transfers of third country alien prisoners through Guatemalan territory under the terms of the maritime agreement. A total of 44 drug traffickers arrested by the USCG in international waters were thus transferred to the U.S. for prosecution, allowing USCG assets to remain on station to pursue drug interdiction/homeland security missions.

The Anti-Narcotics Analysis and Information Services (SAIA, the Guatemalan counternarcotics police) seized 4481 kilograms of cocaine in 2004, less than last year, largely due to the grounding of their A-37 fleet and most of their helicopters. This has severely limited GOG capability to pursue suspected narcotics trafficker air tracks, or to transport police to air-track termination points in time to disrupt drug off-loading. As a result, the GOG has not been able to make sizable drug seizures in the extreme northern part of Guatemala where traffickers prefer to operate. The GOG was more successful in domestic eradication in 2004, eradicating over 5.4 million poppy plants, or 181 hectares. These eradications were accomplished in the remote and mountainous west of the country without helicopter support, and with support costs paid entirely by the GOG. Guatemala is a party to the 1988 UN Drug Convention and the OAS Inter-American Corruption Convention.

II. Status of Country

Guatemala is a preferred transit 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 4.5 metric tons of cocaine in 2004, down significantly from the previous year's 8.8 metric tons. With their A-37 fleet and most of their helicopters grounded, Guatemala has limited capability to project force into the extreme northern area of the country where

the traffickers operate, and where the bulk of the previous year's seizures were made. Narcotics traffickers continue to pay for transportation services with drugs, which enter into local markets leading to increased domestic consumption and crime.

Guatemala has a strong anti-money laundering law, which provides for sentences of up to 20 years, with augmentation of up to one-third the sentence if the accused is a public official. This law has served as one basis for many of the numerous public corruption cases that were brought by the GOG in 2004. Guatemala was also removed from the Financial Action Task Force (FATF) list of non-cooperating countries and territories (NCCT) in 2004, after undertaking a long list of financial sector reforms.

Cultivation of opium poppy is a problem that has returned to Guatemala. In 2004, 181 hectares of opium plants were eradicated in Guatemala, up from only one hectare in 2003. It is suspected that much of this opium is being processed into heroin in Guatemala, for smuggling north through Mexico to the U.S. Marijuana is also grown, but only for local consumption. It is unknown if any quantities of club drugs are processed in Guatemala. Diversion of precursor chemicals is, at present, an unquantified problem in Guatemala; the registration and control of these substances has just begun. Precursor chemical control legislation was enacted in 1999, and implementing regulations were approved in 2003, but have resulted in no meaningful law enforcement effort, largely due to lack of resources.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, Guatemala signed four Letters of Agreement (LOAs) with the USG on control of organized crime and narcotics trafficking, law enforcement institution building and demand reduction.

The GOG continues to use a multi agency-working group to focus their counternarcotics efforts. This mechanism allowed Guatemala to make good progress on each of the 13 benchmarks for 2004.

In January, the first major legislative action of the Berger government was to reauthorize the law permitting joint U.S./Guatemalan military and law enforcement operations to take place in Guatemala. Since then, seven such operations (known as "Mayan Jaguar") were held under the Central Skies operational framework (an operation involving Central American countries and Joint Interagency Task Force South), including three operations to implement the bilateral maritime agreement.

Illicit Cultivation, Production and Distribution. There is growing opium poppy cultivation. During the spring 2004 poppy cultivation season, Guatemala eradicated more than 5.4 million poppy plants, or about 181 hectares (using a conversion factor of 30,000 plants to one hectare); it should be noted that lack of air assets for reconnaissance and transportation of personnel make manual eradication very difficult in a country with mountainous terrain and limited infrastructure. To address the need for reliable reconnaissance, the GOG allowed U.S.-funded Regional Aerial Reconnaissance and Eradication (RARE) deployments in December and July. The December mission observed extensive poppy cultivation, estimated at 12 hectares. Target packages developed from the December RARE mission will be incorporated into the next major GOG manual poppy eradication operation.

Guatemala has significant cannabis cultivation, all of which is consumed locally, and continues a robust eradication program, with an increase of better than 64 percent over 2003 (102 hectares vs. 62). Most of the marijuana plants were eradicated in the remote northern area of the country.

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. Seizures of heroin at the points on the Guatemala/Mexico border near to Guatemala's western highlands suggest that

opium poppy being cultivated there is being processed into heroin within Guatemala for smuggling north through Mexico to the U.S.

Sale, Transport, and Financing. Cocaine seizures in Guatemala 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 away from aircraft towards more use of go-fast boats and commercial fishing vessels, particularly during the second half of the year.

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. Other than one major seizure in April of 979 kilos at Puerto Santo Tomas, this is an area that has had little 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. However, the new Director General of the National Civilian Police (PNC) wants to see improvement, and is using the electronic manifest system to supervise, through his office, the issuance of container inspection orders. He has also ordered SAIA to inspect all non-manifested containers. Thus far, these new procedures have yielded no drug seizures.

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 where 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 its airspace and territorial waters in connection with counternarcotics missions, and in granting requests for prisoner transfers under the bilateral maritime agreement. The GOG granted all three requests made by the USCG in 2004, allowing U.S. Department of Justice aircraft to transport 44 third-country nationals arrested in international waters for drug trafficking.

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 hosting an International Drug Prevention Conference. Experts from twelve countries discussed program strategies based on the results of the first-ever nationwide drug consumption survey results conducted in 2002. In Guatemala, the study found that between 1998 and 2002, alcohol use among youths 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 6,285 instructors this year, an increase of about 450 percent compared to last year's 1,138, 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 1,661 parents, who trained 34,784 other parents, as agents of preventive education. More than 70,000 Guatemalan students received drug awareness from SECCATID and trained teachers. SECCATID also provided training to more than 4,651 NGO reps, private company reps, soldiers, prison guards, nurses, doctors and other adults. The DARE program provided training to 5,569 students and teachers. In 2004, SECCATID developed and

distributed counternarcotics educational materials, including 400,000 pamphlets, 6,860 t-shirts and caps, 25,000 school agendas and over 130,000 notebooks with drug preventive messages. The month-long public awareness media campaign during the 2004 International Drug Prevention Day approximately reached half a million listeners and viewers.

Law Enforcement Efforts. Cocaine seizures were down in 2004, largely due to the grounding of Guatemala's A-37 fleet and most of their helicopters. There is close cooperation between the USG and the Guatemalan Air Force (GAF), particularly during Mayan Jaguar exercises. When it can, the GAF provides air assets for interdiction missions and airlift for police and prosecutors conducting drug interdiction and eradication operations. Ageing aircraft and lack of money for fuel continue to be constraints.

The SAIA has the potential to become an honest and 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.

The Public Ministry's narcotics prosecutors receive USG training and assistance, and continue to try cases and achieve convictions, but success in prosecuting major organized crime figures, including narcotics traffickers, has been limited. 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.

High turnover of law enforcement personnel and poor leadership also frustrate GOG law enforcement efforts.

Corruption. Corruption remains a large obstacle to overall efficiency of all USG sponsored programs in Guatemala. No one is immune from the corruption, and there are frequent allegations of police, prosecutors, and judges being corrupt. High levels of impunity and intimidation only exacerbate the problem.

However, the GOG is making substantial 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 prosecutor's offices and includes the periodic re-testing of all active members of the SAIA.

More importantly, the GOG has moved aggressively against all forms of public corruption. This year, the anticorruption prosecutor (a NAS-supported program) has brought cases against 383 individuals, including many high-ranking former public officials, army officers and police. These cases include the former vice president and finance minister. The former president fled to Mexico when it became evident he was about to be arrested.

The Director General of the police has established a "zero tolerance" policy on corruption. During 2004, there have been 2,088 cases opened against police officers, including 23 command-level officers. Half (325) of the criminal investigation division has been fired. The charges cover a range of serious crimes, including murder, kidnapping, extortion, bank robbery, tractor-trailer theft, robbery, home invasions and attempted theft of drugs from evidence storage. The 11 police arrested last year for attempting to steal 10 kilograms of cocaine from the drug warehouse are still in jail awaiting trial.

Finally, a counternarcotics prosecutor who solicited a bribe from a drug defendant was sentenced to 13 years imprisonment.

Guatemala is a party to the Inter-American Corruption Convention and is a signatory to the UN Corruption Convention.

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 is a party to the UN Convention Against Transnational Organized Crime and its three protocols.

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 usually expelled to U.S. custody on the basis of violations of Guatemalan immigration laws, a much shorter process. During 2004, the GOG agreed to consolidate all U.S. requests for extradition in drug and organized crime cases in specialized courts located in Guatemala City. The new procedures are expected to expedite processing of extradition requests. In 2003, 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

Policy Initiatives and the Road Ahead. In spite of the difficulties, the U.S. strategy in Guatemala continues to focus on strengthening the GOG law enforcement and judicial sector through training, technical assistance, and the provision of equipment and infrastructure, especially for the units directly involved in combating narcotics trafficking and other international organized criminal activity that directly affects the U.S.

Special emphasis has been directed toward management skills, leadership, human rights, investigative techniques, and case management issues.

The U.S. strategy also is aimed at reducing the level of corruption in Guatemala by implementing training, education, and public awareness programs.

Future efforts will focus on investigations, interdiction, corruption, money laundering, task force development, and successfully implementing the maritime agreement. A successful interdiction and maritime strategy will necessarily involve close cooperation with units of the Guatemalan military that have a clean human rights record, within the limits of existing U.S. law and policy.

The USG will also continue to assist the GOG in improving the successful Regional Counternarcotics Training Center.

Bilateral Cooperation. The USG supports a wide range of law enforcement assistance and counternarcotics programs in Guatemala. We work 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.

We also support 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 we had student participation from Bolivia, Colombia, Venezuela, Uruguay and all of Central America.

The International Criminal Investigation Training Assistance Program (ICITAP) (now a part of the Narcotics Affairs Section) in Guatemala continued 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.

Honduras

I. Summary

The transshipment of cocaine through Honduras by air, land, and maritime routes continued in 2004. While seizures were slightly down in 2004 compared to last year's record levels, Honduran authorities did successfully disrupt one of the most active trafficking organizations in the country, dealing a significant setback to organized crime in the region. Corruption within the police, Public Ministry (PM), and the judiciary, however, continues to hamper law enforcement efforts.

Limited resources remain the largest obstacle to Honduras' ability to implement its national counternarcotics policy, yet the Government of Honduras (GOH) remains committed to stemming the flow of illegal narcotics transiting its territory. Both the police and military take an active part in Honduras' counternarcotics strategy, with the Honduran Navy responding particularly well given its limited resources. While many arrests are made, the PM has had little success in prosecuting these individuals. Drug abuse in Honduras appears to be on the rise, with availability and usage up in 2004. Honduras is a party to the 1988 UN Drug Convention.

II. Status of Country

Honduras's geographic location and the GOH's limited interdiction resources contribute to the continued transshipment of drugs, primarily cocaine, through Honduras at an alarming rate. Transshipment is facilitated by direct air and maritime links to U.S. cities and the Pan-American Highway, which crosses southern Honduras. While the police and military lack sufficient assets to comprehensively attack drug trafficking in Honduras, there were nonetheless significant drug seizures this year. Honduras is not a significant producer of drugs or precursor chemicals.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The GOH continued a joint police and military counternarcotics initiative launched in April 2003 to discourage traffickers from using Honduras as a transit point. This initiative includes the use of the Honduran Air Force to interdict illicit flights entering Honduran airspace. A Honduran Frontier Police presence at Honduras' Pan-American Highway checkpoint also provides a deterrent to the flow of narcotics into Honduras from its southern border with Nicaragua.

A new draft counternarcotics law under review in the National Congress would significantly expand the authority of law enforcement agencies to initiate undercover operations. Current law prohibits law enforcement agencies from using these types of operations to conduct investigations mandating the arrest of anyone participating in the purchase and/or sale of narcotics, including police conducting sting operations.

Honduras is also in the process of considering revisions to its Criminal Procedures Code that took effect on February 20, 2002. Proposed revisions include increased penalties for crimes related to drug trafficking and/or possession.

Accomplishments. As of December 1, 2004, Honduran authorities have seized 3,866 kilograms of cocaine, 1,611 pounds of marijuana, one kilogram of heroin, and destroyed approximately 71,152 marijuana plants during the year. The GOH seized \$2,058,803 in cash (setting a new national record) plus numerous other assets, including property, aircraft, go-fast boats, and vehicles worth well over \$2,000,000. Honduran authorities also made 751 narcotics-related arrests.

The Honduran Frontier Police have been largely responsible for these successes, drawing on intensive counternarcotics training, and U.S. technical assistance and equipment. In 2004, cooperation among all elements of the police, military, and other special investigative units increased. The Honduran Navy participated in a number of regional counternarcotics efforts that led to large seizures in international waters.

On July 14, Pedro Garcia Montes was killed in Cartagena, Colombia. Montes, a Honduran citizen, was considered to be the head of a major trafficking organization in Honduras. Upon Montes' death, police raided numerous properties belonging to him, resulting in seizures of weapons, cash, and other contraband. They also arrested Ethalson Mejia Hoy, a key Montes associate. Montes' death effectively decapitated his organization and was a significant blow to organized crime in the country.

Law Enforcement Efforts. Counternarcotics law enforcement is a priority for the Maduro Government, although limited resources, corruption, and inexperienced personnel hinder GOH efforts to stop traffickers using Honduras as a transit country. Police, constrained by lack of adequate transportation, rarely patrol some areas of the country, particularly in the isolated northeast. Despite these constraints, Honduran law enforcement agencies made many drug-related arrests. The Honduran judicial system, however, has a poor track record of turning these arrests into convictions.

Corruption. Endemic corruption continues to impede effective counternarcotics law enforcement in Honduras. Corruption within the judicial system particularly has been problematic (a judge released Ethalson Mejia on bail after police had arrested him on a valid INTERPOL notice). In 2004, Honduras amended its constitution to strip high-level government officials' immunity from prosecution. To date, the National Congress has not passed implementing legislation that many GOH officials believe is necessary, and there have been no prosecutions of formerly immune individuals. Honduras is a party to the Inter-American Convention Against Corruption, but has fallen short of fully implementing the Convention's recommendations. Honduras also is a signatory to the UN Corruption Convention.

Agreements and Treaties. Honduras has counternarcotics agreements with the United States, Belize, Colombia, Jamaica, Mexico, Venezuela, and Spain. Honduras 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 its 1972 Protocol. Honduras recently certified its major public maritime ports in compliance with International Ship and Port Facility Security codes and is an active member of the Inter-American Drug Abuse Control Commission (CICAD). Honduras is a party to the UN Convention Against Corruption, but it has yet to be approved by the National Congress. A U.S.-Honduras maritime counternarcotics agreement entered into force in 2001 and 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 is the only illegal drug known to be cultivated in Honduras. The GOH does not permit the use of aerial eradication; however upon detection, marijuana plants are cut down and destroyed.

Drug Flow/Transit. In 2004, there was a noticeable increase in the number of detected suspect maritime vessels transiting through Honduran territorial waters en route to southern Mexico and the United States. Suspect air-tracks, however, decreased. Cocaine and heroin are smuggled overland by commercial and private vehicles. Approximately 90 percent of all drugs transiting Honduras are destined for the United States. There is evidence of the existence of an illicit trade in "arms for drugs," with arms from these deals presumably destined for use by terrorist groups in Colombia.

Domestic Programs/Demand Reduction. Drug abuse in Honduras appears to be on the rise and illegal drugs are becoming increasingly available, particularly along the Caribbean coast. The Maduro Administration launched a pilot program directed at Honduran youth to fight drug abuse and the National Anti-Narcotics Council is making demand reduction a major part of Honduran

counternarcotics efforts. This effort 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.

IV. U.S. Policy Initiatives and Programs

U.S. counternarcotics assistance to Honduras is intended to augment GOH efforts to strengthen the rule of law, increase police, judicial, and investigative efficiency, reduce corruption, and build strong counternarcotics institutions. In 2004, assistance was primarily directed to the Frontier Police, Ministry of Public Security, and the Public Ministry, although the U.S. also provided limited funds to assist Honduras in demand reduction efforts. The GOH has made a firm commitment to combat drug trafficking and the U.S. will continue to assist Honduras in its fight to reduce narcotics trafficking in the region and associated corruption.

Mexico

I. Summary

As a result of the serious threat that drug trafficking poses to its national security and public safety, the Mexican Government (GOM) has sustained an intensive counternarcotics and law enforcement effort throughout 2004. The administration of Mexican President Vicente Fox continued its unprecedented cooperation with the United States in fighting drug trafficking and other serious trans-border crimes menacing the citizens of both countries. Despite its intense law enforcement efforts, Mexico is the leading transit country for cocaine and a major producer of heroin, methamphetamine, and marijuana destined for U.S. markets.

During the year, Mexican authorities arrested numerous drug kingpins and principal lieutenants in a continuing attack aimed at dismantling major international crime organizations operating in the U.S. and Mexico. Through November, the GOM had seized over 25 metric tons of cocaine, nearly 300 kilograms of heroin, and over 2,000 metric tons of marijuana. The leadership of the Secretariat of National Defense (SEDENA) and the Attorney General's Office (PGR) continued to act forcefully against personnel who engaged in corrupt practices. These two federal entities carried out robust eradication programs against marijuana and opium poppy crops, with the army deploying up to 35,000 troops for manual eradication missions and the PGR using helicopters for aerial spray eradication of illicit drug cultivation. Several entities of the PGR, including the Federal Investigative Agency (AFI), the National Center for Analysis, Planning, and Intelligence Against Organized Crime (CENAPI), and the Forensics Laboratory, continued initiatives to develop first-rate cadres of professional investigators, analysts, and technicians.

The Fox administration's counternarcotics policies derive from the acceptance that illicit drug trafficking and related crimes pose serious direct threats to the national security and public health of the country. President Fox and his cabinet pressed forward with reforms aimed at professionalizing law enforcement agencies and promoting greater transparency and accountability. The administration proposed ambitious justice sector reforms to re-organize federal law enforcement agencies, introduce oral testimony at criminal trials, and create a more professional public defender system. These reforms have not been enacted. Extraditions reached an all-time high, with the GOM extraditing 34 fugitives to the U.S., compared to 31 in 2003; nevertheless, no active drug kingpin has been extradited. Numerous extradition requests were denied based on the prohibition against life sentences and on a failure by the U.S. to satisfy newly-imposed technical requirements. There remain many opportunities during the final year of the Fox administration to institutionalize this historic cooperation, enhance ongoing drug interdiction, and continue improving the capacities and capabilities of Mexican federal law enforcement institutions.

II. Status of Country

As much as 90 percent of the cocaine sold in the U.S. is smuggled through Mexican territory from South America. Mexico is also one of the largest producers of marijuana and heroin consumed in the U.S. Most cocaine smuggled through Mexico arrives by maritime means, including commercial shipping, with ocean vessels moving large quantities along the eastern Pacific and through the Gulf of California, and fishing vessels and go-fast boats operating in the Pacific between the northern coast of South America and the southern coast of Mexico. While the Pacific coast of Mexico remained the preferred smuggling route for Andean cocaine, there is increased trafficking through the western Caribbean—possibly a response to the success of Mexican and regional interdiction operations. In

addition, traffickers used air cargo, couriers, and mail parcels through Mexico and Central America as alternate smuggling routes.

Mexico's proximity to the U.S. has made it the second principal supplier of heroin, despite the country's relatively small percentage (less than five percent) of global production. Mexico was the largest foreign source of marijuana sold in the U.S. Marijuana and opium poppy growers used small, widely dispersed plots in remote, inaccessible regions of Mexico, including in the Sierra Madre mountains, to avoid having their crops detected and eradicated. Favorable climate and terrain make it possible to have up to three poppy and two marijuana harvests a year in primary growing regions.

Mexico is a major producer and transit point for methamphetamines, its precursors, and other synthetic drugs, principally concentrated in Mexican border areas with Texas, Arizona, and California. Criminal organizations have established several methamphetamine laboratories in northwestern Mexico to supply U.S. markets. As a result of the huge traffic in drugs, Mexican criminal organizations dominate operations, controlling most of the thirteen primary drug distribution centers in the U.S. The violence of warring Mexican cartels has spilled over the border from Mexico to U.S. sites on the other side. U.S. and Mexican law enforcement authorities worked closely to attack these operations on both sides of the border. Mexican domestic drug consumption continued to increase in 2004. Consequently, drug traffickers continued in 2004 to expand their operations into major cities, the northern border, and tourist zones.

III. Country Actions Against Drugs in 2004

Policy Initiatives. To promote a more transparent, professional, and accountable law enforcement and judicial system, President Fox submitted a judicial reform proposal to the Mexican Congress that would substitute written proceedings with public trials, including oral testimony, and incorporate the concept of presumption of innocence. The bill is designed to enhance the professionalism of law enforcement entities, placing greater reliance on forensic evidence and credible investigations than on confessions. Other elements of the proposed reform include re-organization of public security institutions to create a unified police force with strong investigative powers. The proposal would also create a more autonomous federal prosecutor's office and enhance the public defender system. However, the reforms do not appear to allow for a confidential investigative stage, an important provision in effective organized crime legislation.

President Fox and Attorney General Rafael Macedo de la Concha continued to reform law enforcement offices and promote the creation of professional investigative entities to fight drug trafficking, terrorism, and other organized crimes. In the process, Mexico invested considerable human and material resources in counternarcotics and law enforcement efforts. During 2004, AFI agents and investigators figured prominently in the investigation and arrests of drug traffickers, violent kidnapers, and corrupt officials. Only three years since its inception, AFI has become the centerpiece of GOM efforts to promote more honest, professional, and effective law enforcement institutions. AFI leaders established a rational and institutionalized career path for all agents—characterized by upward mobility, job stability, periodic salary increases, and promotions based on performance and seniority. However, the PGR prosecutors still do not have a career or civil service system.

Accomplishments. In an initiative to disrupt organized crime by attacking its operational chain of command and leadership, AFI personnel continued to arrest or detain impressive numbers of drug kingpins, lieutenants, "hit men," operators, and money launderers. Major drug traffickers arrested included Guatemalan trafficker Otto Roberto Herrera Garcia, Gilberto Higuera Guerra, Jaime Herrera Herrera, Gulf Cartel lieutenant Ramiro Hernandez Garcia, and Arellano Felix Organization (AFO) enforcer Carlos Ignacio Acosta Ibarra. Cumulatively, AFI detentions of traffickers accounted for half of the arrests of over 36,000 drug traffickers during the first four years of the Fox Administration.

Despite occasional setbacks, Mexico pushed forward its ambitious program to make federal law enforcement institutions more professional. Building on earlier initiatives, such as the development of a law enforcement career path, PGR leaders established the groundwork for sound, harmonized basic police training, including a self-sustaining system employing the train-the-trainer approach.

Law Enforcement Efforts. Mexican counternarcotics enforcement actions included arrests of major drug traffickers, increasingly sophisticated organized crime investigations, aggressive marijuana and poppy eradication, and bilateral cooperation on air, land, and maritime drug interdiction. The PGR, other police agencies, and the military services continued to target successfully major drug-trafficking organizations in Mexico.

Mexican authorities seized over 25 metric tons of cocaine hydrochloride through November 2004. Marijuana interdiction continued at an impressive pace, with authorities confiscating nearly 2,000 metric tons. In addition, authorities confiscated 300 kilograms of heroin, 435 kilograms of opium gum, and 590 kilograms of methamphetamine. They seized 1,885 vehicles, 39 maritime vessels, and 28 aircraft.

Authorities arrested 10,252 persons on drug-related charges, including 10,106 Mexicans and 146 foreigners, according to statistics from CENAPI. Cumulatively, Mexican officials arrested over 36,946 drug traffickers during the first four years of the Fox Administration, including 2004. The most prominent detentions of the past year included:

- In January, SEDENA troops, in an effort to halt a wave of violence in Sinaloa at the start of 2004, detained Javier “El J.T.” Torres Felix in Culiacan following a shoot-out. Torres is accused of being the area’s senior operator for kingpin Ismael Zambada. Torres, who remained in custody at the end of 2004, had been arrested twice before, but saw little jail time.
- In January, AFI, working closely with Colombian authorities, dismantled a major cocaine trafficking ring led by Juan Pablo “El Halcon” Rojas Lopez. Police suspected Rojas of moving an estimated two metric tons of cocaine monthly through Mexico to the U.S. and supplying retail drug dealers in Mexico City. Authorities arrested Rojas along with 14 associates and seized two metric tons of cocaine in Mexico City ready for shipment to the United States.
- In June, AFI captured two senior lieutenants of the Arellano Felix Organization, (AFO), Jorge “El Macumba” Aureliano Felix and Efrain “El Efra” Perez Arciniega. Authorities suspected that Aureliano had handled security operations for the drug group, while Perez oversaw counterintelligence and “enforcement” activities. The U.S. State and Justice Departments narcotics award program played a principal role in bringing these two to justice.
- In the summer, authorities jailed several AFO gunmen, including veteran enforcers Mario “El Cris” Rivera Lopez and Carlos “El Big Boy” Acosta Ibarra, together suspected of dozens of murders.
- In August, a PGR-SEDENA operation outside Mexico City resulted in the arrest of Ramiro “El Mati” Hernandez Garcia, “El Mati,” who had allegedly served as the Gulf Cartel’s liaison with Colombian suppliers, along with 13 of his associates. This operation resulted in the discovery and destruction of a cocaine-processing laboratory in an upper-class neighborhood in Mexico City and the seizure of 154 kilograms of cocaine, along with several weapons, vehicles, and properties.
- In August, AFI arrested Gilberto “El Gilillo” Higuera Guerrero—a top-tier operator long affiliated with the AFO—outside of Mexicali, Baja California. State and Justice

Departments had offered a reward of up to two million dollars for information leading to the capture of this trafficker.

- In October, SEDENA soldiers captured Carlos “El Tisico” Rosales Mendoza, a senior lieutenant in the Osiel Cardenas organization (the Gulf Cartel). Authorities believed that Rosales, detained in Morelia, Michoacan, oversaw the drug group’s operations and was planning an operation to free Cardenas from jail.

Sensitive Investigative Units (SIUs—specialized investigative teams that undergo a full vetting process) continued to serve 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 on both sides of the border.

A Mexican court sentenced drug kingpins Jose de Jesus Amezcua and his brother Adan Amezcua, whose extradition to the U.S. had previously been denied, to long jail terms in September. Jose de Jesus, known as the “amphetamine king,” received 53 years in prison and Adan received 22 years in prison and a US\$6,500 fine for money laundering and criminal association. The sentences represented two of the stiffest meted out in recent memory to drug traffickers. In November, a federal court sentenced Jorge Solis Hernandez to ten years in prison for laundering money for the Juarez Cartel.

Corruption. The Fox Administration placed high priority on combating police and judicial corruption during 2004. Mexican leaders made significant efforts to investigate and punish instances of corruption among federal law enforcement officials and military personnel. President Fox, Attorney General Macedo, and other Cabinet members repeatedly warned that they would punish public servants engaged in corruption. The Organizational Law for the Attorney General’s Office, which became effective in August 2003, outlines requirements for employment within the organization, standards of conduct, and procedures for dismissal from service of corrupt officials. Provision of better pay and benefits and dismissal and prosecution of corrupt officials have served as deterrents to corrupt behavior.

The Secretariat of Public Service (SFP) and the PGR led day-to-day efforts, coordinating anticorruption initiatives and implementing policy for the entire government. The PGR conducted more than 1,300 investigations into possible malfeasance of 2,200 PGR officers from the outset of the Fox Administration through May 2004. These investigations resulted in 418 legal cases against 711 officers (including 267 prosecutors and 335 AFI agents, many of whom represented holdovers from the now-disbanded Federal Judicial Police) for offenses ranging from abuse of authority to criminal collusion to kidnapping. Highlights include the following:

- Drug-corruption scandals forced the resignation of senior law enforcement officers in several states during 2004, including in the states of Sonora, Veracruz, and Chihuahua. As the year drew to a close, the PGR conducted an investigation into alleged drug trafficking links by PGR and AFI officers in the state of Quintana Roo as well as possible complicity in the executions of three AFI agents.
- Authorities also continued to seek an AFI officer suspected of accepting large bribes from Juarez cartel figures.
- The killing of drug figure Rodolfo Carrillo Fuentes in Culiacan, Sinaloa, in September revealed possible police protection. These charges were directed against the then commander of the Sinaloa State Police (now a fugitive) and a former police commander who served as Carrillo’s bodyguard while under state salary.
- In March, federal authorities brought a two-year alien smuggling investigation to a close with the arrests of 42 serving and former officials of the National Migration Institute (INM) and the municipal police force of Ciudad Jimenez, Chihuahua.

- Authorities implicated the State Police Commander in Ciudad Juarez, Chihuahua, and a dozen underlings in a string of murders. Their criminal ties and activities came to light with the grisly discovery of more than ten graves in a residential neighborhood. Nearly all men remained fugitives by year's end.

Extradition and Mutual Legal Assistance. Mexico extradited 34 fugitives to the United States in 2004 (up from the record numbers of 25 in 2002 and 31 in 2003). These included 19 Mexican citizens (a record) and 17 narcotics defendants (down from 19 in 2003). There was also an important decision that allowed the re-submission of an extradition request, allowing for the extradition of a fugitive, even if the initial extradition is denied. This decision also confirmed the 2001 decision precluding extradition if a life sentence might be imposed upon conviction.

There were four extradition denials of major narcotics cases in 2004, fewer than in 2003 and 2002. However, these losses included the extradition requests for Miguel Caro Quintero and Jesus Hector Palma Salazar, significant traffickers who have operated with impunity for many years. The request for Palma Salazar's extradition has been resubmitted; the request for Caro Quintero's extradition will be resubmitted by both the Districts of Arizona and Colorado. The fact remains that no major Mexican drug trafficker has ever been extradited to the United States.

In addition to the extraditions, the National Migration Institute (INM), the International Police Organization (INTERPOL), the United States Marshal's Service and the Embassy Legal Attaché have coordinated closely to deport or expel more than 135 fugitives to the United States (almost double the number in 2003). The Marshals Service, DEA, FBI and Mexican PGR also worked effectively together to develop a specialized unit in the AFI to locate and apprehend fugitives. A workshop will be held in 2005 in Mexico to assist Mexico's prosecutors and law enforcement officers in ascertaining the most efficient methods of locating their fugitives in the United States and in adequately and properly identifying the fugitives. This workshop should benefit both the United States and Mexico when accused felons are returned to Mexico to face justice.

On April 13, 2004, the Mexican Supreme Court reaffirmed its October 2001 decision, finding life imprisonment unconstitutional under Mexican law. This makes extradition impossible for crimes with potential life imprisonment without parole sentences unless the United States provides adequate assurances that this sentence will not be imposed. (The United States succeeded in its request for extradition in 2004 in most state cases in which the possible sentence is life imprisonment with a possibility of parole.) However, there is no parole in federal cases and cases from several U.S. states, U.S. conviction in cases involving more than five kilograms of cocaine, one kilogram of heroin, or fifty grams of methamphetamine carries a penalty of a minimum of 10 years and a maximum of life. To provide the required assurances to Mexico, the U.S. prosecutor must agree, in spite of the facts of the case, to charge an amount less than the above-specified amounts or submit a jury finding that does not expressly exceed the specified amounts. Because the maximum sentence for lesser amounts is 40 years and sentences may be stacked, such assurances have been provided in major narcotics cases presented in 2004 (Arellano Felix, Palma Salazar).

On October 8, 2004 a panel of the Supreme Court held that Article 10 of the Mexican International Law of Extradition sets "procedural norms" for extraditions—and therefore must be followed under Article 13 of the Mexico-U.S. Extradition Treaty. This decision put at risk all pending cases, at whatever stage of the extradition proceedings, and led to major triage work in the last three months of the year. The United States has devised a standard diplomatic note that addresses the Court's holding that the United States must provide assurances that: there must be reciprocity in extraditions; the fugitive cannot be prosecuted for crimes other than for those for which extradition was granted; the fugitive must be tried by a court of competent jurisdiction; the fugitive has the right to present a defense and have legal counsel; the fugitive cannot be sentenced to a penalty of death; the fugitive

cannot be extradited to a third country except in specific circumstances; and the U.S. must provide a copy of the judgment of acquittal or conviction at the conclusion of the case.

Cultivation and Production. Mexico is the leading foreign source of marijuana consumed in the United States. It continues to be a principal cultivator of drug crops, despite continuing government efforts to control production through eradication. Farmers planted large amounts of opium poppy and marijuana in small, widely dispersed plots in remote, inaccessible zones of the western Sierra Madre Mountains in an effort to thwart GOM eradication programs. They also hung cables across fields and shot at spray aircraft. Mexico's favorable climate and terrain produces two to three harvests yearly in the primary growing regions of each drug crop.

Military and PGR personnel maintained vigorous eradication efforts. SEDENA officials deployed up to 35,000 troops in the field to eradicate drug crops manually, and the PGR employed helicopters to spray herbicides. The army accounted for some 80 percent of the eradication results with the PGR Air Services Section accounting for the other 20 percent.

Drug Flow and Transit. Cocaine flow to the United States became more concentrated through Mexico in 2004. Approximately ninety percent of South American cocaine sold in U.S. markets passed through Mexico territory. Mexico was also a major producer and transit zone for marijuana, heroin, and methamphetamine destined for the U.S. Methamphetamine traffic was concentrated in Mexican/U.S. border area and drug groups established methamphetamine laboratories in northwestern Mexico, with production for exported to the U.S. Mexican criminal organizations dominated drug trafficking operations in the U.S., controlling most of the primary distribution centers. U.S. and Mexican authorities have cooperated closely to dismantle these operations on both sides of the border.

With the sharp increase in Mexican domestic drug abuse, traffickers expanded operations into major Mexican cities, along Mexico's northern border, and in major tourist zones to complement smuggling to the United States and diversify their markets.

Domestic Programs. The National Council Against Addictions (CONADIC) of the Secretariat of Health reported in October that some 1.3 million Mexicans suffered from addiction to some form of illicit drug. Mexican leaders are increasingly concerned over the ever-younger age at which drug experimentation begins, with evidence that ten-year-old children are beginning to use drugs. Mexico also confronted increased abuse of synthetic drugs by young women, particularly along the U.S. border and in large metropolitan areas, with use rates reaching twice the national average. CONADIC reported that 15 of every 100 inhabitants of Mexico City aged 12 to 65 had at one time tried illegal drugs.

In 2004, President Fox named Dr. Cristobal Ruiz Gaitan as Technical Secretary of CONADIC. Observers applauded the appointment of a medical professional to lead CONADIC, a move that may help regain some of the organization's earlier stature and influence within the government. CONADIC coordinates prevention, treatment, and rehabilitation programs through the use of state organizations and federal entities, such as the Social Service and Child Welfare Agency and private foundations. The U.S. collaborates to complement CONADIC's programs through support to non-governmental organizations (NGOs) and youth councils involved in counternarcotics abuse and rehabilitation programs.

Agreements and Treaties. Mexico is Party to the 1988 UN Drug Convention, the 1961 UN Single Convention Drugs as amended by the 1972 Protocol and to the 1971 UN Convention on Psychotropic Substances. Mexico also subscribes to regional counternarcotics commitments, including the 1996 Anti-Drug Strategy in the Hemisphere and 1990 Declaration of Ixtapa, which committed signatories to take strong actions against drug trafficking, including controlling money laundering and preventing diversion of precursor chemicals. Mexico also is a party to the UN Convention against Transnational Organized Crime and its three protocols, and to the UN Convention against Corruption.

Mexico is Party to the Inter-American Convention Against Corruption, and, in July 2004, ratified its membership to the United Nations Convention Against Corruption. President Fox hosted the signing of the United Nations Convention Against Corruption in Merida in December 2003.

The United States-Mexico Extradition Treaty entered into force in 1980. A Protocol to the Extradition Treaty requested by Mexico, 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. Neither country has made a request under the Protocol. The United States and Mexico have continued to improve implementation of the Mutual Legal Assistance Treaty.

In October 2004, Mexico and Guatemala signed a Protocol for the Establishment of Bilateral Coordination on Early Warning and Response. The pact is intended to bolster earlier bilateral efforts to improve border security and calls for joint planning of operations against the drug trade, organized crime, and possible terrorist threats. Mexican officials continued in 2004 to participate actively in the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Bilateral counternarcotics cooperation was close and represented one of the most positive aspects of the bilateral relationship. U.S. law enforcement confidently shared sensitive information with Mexican counterparts, resulting in the capture and conviction of drug traffickers, as well as seizures of illicit narcotics.

The Binational Commission (BNC) continued to serve as the venue where cabinet level officials of both countries meet to discuss an array of bilateral issues, including counternarcotics and related law enforcement topics. The BNC also guided bilateral discussions carried out through its Law Enforcement Working Group. Under the umbrella of the BNC, the Senior Law Enforcement Plenary (SLEP) met twice during the year to evaluate, guide, and work to overcome obstacles to bilateral progress at the 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. Most of our bilateral progress is attributable to these working groups and to working-level, one-on-one cooperation.

The U.S. Interdiction Coordinator (USIC) led the U.S. delegation at several meetings of the Bilateral Interdiction Working Group (BIWG), complemented by the participation of the Director of Joint Interagency Task Force—South (JIATF—South). The Mexican delegation visited JIATF-South and gained a better understanding of the operational capabilities related to information exchange. Post-seizure analysis and information sharing have increased, but will require more attention. To better target the cross-border activities of drug traffickers, the United States and Mexico regularly prepared joint border threat assessments. These assessments served to develop a stronger mutual understanding of threats on both sides of the border.

As a result of close bilateral cooperation, implementation of major border projects progressed well during 2004. The Advanced Passenger Information System (APIS) entered into operation in April 2004, permitting authorities to compare airline passenger manifests against criminal databases. The U.S. Government arranged for the procurement and installation of Portal Vehicle and Cargo Inspection Systems (VACIS) at ports of entry at Colombia (Nuevo Leon), Nuevo Laredo (Tamaulipas), Piedras Negras (Coahuila), Nogales (Sonora), and Mexicali (Baja California). U.S. officials also supported the installation of a railroad VACIS unit at Mexicali and a pallet VACIS at Mexico City's International Airport. Contractors made important progress in preparing design drawings for new or expanded SENTRI (Secure Electronic Network for Traveler's Rapid Inspection) Lanes at Tijuana (Baja California), Mexicali, Nogales, Nuevo Laredo, Matamoros (Tamaulipas), and Ciudad Juarez (Chihuahua). Completion of these new or expanded SENTRI lanes should occur during

2005, which will facilitate the cross-border movement of travelers who have enrolled in the program and undergone background investigations. Tax Administrative Service (SAT) personnel continued to operate three Mobile X-Ray Vans (donated to the GOM in December 2003) at three airports, contributing to the detection and seizure of bulk smuggling of millions of dollars in drug-related currency. Software engineers developed a test version of Border Simulation software and collected data at various ports of entry. This software will help Mexican officials to evaluate needs and plan infrastructure and staffing changes at ports of entry along the United States-Mexico border. While designed primarily to deter terrorist acts and facilitate cross-border movement of bona fide visitors, goods, and services, border security projects also help authorities to identify and arrest drug traffickers, detect and seize drugs, and confiscate other illicit contraband.

Institutional Development. Institutional Development was a top priority program that enjoyed the full support of the Fox Administration. The Embassy's Law Enforcement Professionalization and Training Program successfully integrated Embassy Law Enforcement Committee (LEC) training requests with local, state, and federal training and technical assistance programs with positive results in 2004. The Narcotics Affairs Section (NAS) provided 100 training courses to over 4,000 police, investigators, and prosecutors at all levels. In late 2004, NAS initiated a five-week Police Investigations School (EIP) for all new AFI candidates, as well as current investigators. Roughly 175 AFI personnel graduated from the EIP, and the PGR Police Training Academy has taken over full responsibility for operating the EIP. Future U.S. support will be limited to equipment donations, technical consultations and other developmental innovations.

The Embassy worked closely with the PGR Office of Professionalization and Training on all aspects of training to build on successes of the past three years. In 2005, working jointly with PGR officials, NAS programs will emphasize infrastructure development and enhancing self-sufficiency within the training institutions. Training will continue to play a major role in the transition to infrastructure development by increasing the number of Train-the-Trainer courses and other selective training to enhance the overall efficiency, effectiveness and quality of the curriculum, as well as the training institutions and instructors.

The Embassy anticipates sponsoring as many as 10 separate, five-week, Train-the-Trainer courses during 2005 for PGR, INM, and SFP personnel. It will dedicate seven of the courses to PGR personnel to fully staff the PGR Police Training Academy for the EIP and to assume instructional duties at the PGR Police Academy. Training will benefit not only investigative personnel, but also PGR prosecutors. Courses will include Ethics in Government, Management and Leadership, Anti-Corruption Investigations, as well as investigative courses to enhance prosecutors' overall case handling and presentation ability.

Building on this bilateral cooperation, GOM efforts to professionalize law enforcement institutions continued to produce tangible results. The PGR established a School of Criminal Investigation, entailing course work on basic crime investigation techniques. PGR leaders are planning to create a more universal basic law enforcement curriculum aimed at producing competent law enforcement officers at the state and local levels capable of carrying out professional criminal investigations leading to prosecutions. To strengthen the prosecutorial element, the PGR initiated a prosecutor training program to upgrade prosecutorial skills and permit better understanding of the investigation process.

The Road Ahead. In many respects, bilateral counternarcotics cooperation hit a historic high-water mark in 2004 and represented one of the most positive aspects of the bilateral relationship. Law enforcement personnel of both countries routinely shared sensitive information to capture and prosecute leaders of major drug trafficking organizations and seize important shipments of cocaine, heroin, marijuana, and methamphetamine. President Fox and Attorney General Macedo strove to identify and reduce corruption within federal police entities. Despite only three years in existence, the

re-invented and reformed principal federal police, AFI, has developed into an excellent police institution. Control of precursor chemicals has improved considerably since October 2002.

On the negative side, the extradition relationship has been frayed by Mexican court rulings, including the April 2004 Mexican Supreme Court decision. The production and flow of drugs with its huge illicit profits continues to flourish, directed by captured kingpins from within maximum security prison.

There are many new opportunities during these last two years of the Fox Administration to enhance the extremely positive and productive cooperation that both governments enjoy and to institutionalize the resulting close personal and operational relationships. The U.S. Government plans to continue to support Mexico's efforts in building institutions to reinforce and make permanent this unprecedented cooperation. Even with the remarkable progress made to date, Mexican police and prosecutors still need improved equipment, training, and investigative tools. The U.S. intends to promote increasing and improving of intelligence sharing; enhance bilateral teamwork to fight money laundering; encourage the increase of opium poppy and marijuana eradication programs; support GOM and bilateral efforts to attack criminal organization and disrupt their activities; improve interdiction efforts on both sides of the border; decrease the diversion of precursor chemicals towards drug production; and improve the successful prosecutions of criminal.

*Mexico Statistics**(1995–2004)*

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
Opium										
Potential Harvest (ha)	—	—	2,700	4,400	1,900	3,600	5,500	4,000	5,100	5,050
USG Estimated Impact (ha)	—	—		7,400	7,600	7,900	9,500	8,000	7,900	8,450
Eradication (ha)	14,575	—	19,157	19,115	15,300	15,469	17,449	17,732	14,671	15,389
Cultivation (ha)	—	—		11,800	9,500	11,500	15,000	12,000	13,000	13,500
Potential Yield (mt)	—	—	47	71	25	43	60	46	54	53
Cannabis										
Potential Harvest (ha)	—	—	7,900	4,100	3,900	3,700	4,600	4,800	6,500	6,900
USG Estimated Impact (ha)	—	—	7,900	7,400	13,000	19,400	9,500	10,500	12,200	11,750
Eradication (ha)	29,606	—	30,775	28,699	33,000	33,583	23,928	23,576	22,961	21,573
Cultivation (ha)	—	—	7,900	4,100	16,900	23,100	14,100	15,300	18,700	18,650
Potential Yield (mt)	—	—	7,900	7,400	7,000	6,700	8,300	8,600	11,700	12,400
Seizures										
Opium (kg)	435	189	310	516	270	800	150	340	220	220
Heroin (kg)	270	165	282	269	268	258	120	115	363	203
Cocaine (mt)	25	20	12.6	30.0	18.3	33.5	22.6	34.9	23.6	22.2
Cannabis (mt)	1,838	2,019	1,633	1,839	1,619	1,459	1,062	1,038	1,015	780
Methamphetamine (kg)	590	652	457	400	555	358	96	39	172	496
Arrests										
Nationals	10,106	7,653	6,930	9,784		10,261	10,034	10,572	11,038	9,728
Foreigners	146	139	125	189		203	255	170	207	173
<i>Total Arrests</i>	10,262	7,792	7,055	9,973		10,464	10,289	10,742	11,245	9,901
Labs Destroyed	—	—	13	28			7	8	19	19

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 and drugs pass through the country on the Pan American Highway. The isolation of the country's Atlantic Coast (where drug trafficking and consumption are highest), its vulnerable banking system, its endemic poverty, and the fact that many in the population remain well-armed from the 1980s civil war—all make Nicaragua a rich target for drug traffickers. The GON is making a determined effort to fight both the domestic use of illegal drugs and the international narcotics trade, but the Nicaraguan National Police (NNP) and the Nicaraguan Armed Forces require USG help to make significant gains against the well-financed and well-armed drug traffickers.

In 2001, Nicaragua approved a six-part bilateral maritime counternarcotics agreement with the United States. On the basis of this agreement, Nicaraguan and U.S. law enforcement authorities engaged in several joint maritime counternarcotics operations in 2004, including several seizures of thousands of kilograms of cocaine. In previous years, a number of high seas prisoner transfers took place under the accord, but the USCG did not request any such transfers in CY2004. The U.S. also continued to assist the NNP's counternarcotics efforts during the year. Working with the DEA office in Managua, the NNP seized significant amounts of cocaine and heroin. The Nicaraguan National Assembly still has not passed new legislation on money laundering that would set up an operational, technically capable Commission of Financial Analysis to help the banking sector identify and track suspicious deposits over \$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. DEA and the NNP have noted continued movements of illegal drugs by air, which the GON is powerless to intercept. Advances in maritime interdiction by the governments of Panama and Costa Rica have pushed drug traffickers northward in their search for refueling areas and Colombian drug boats now enter Nicaraguan waters via the Colombian islands of Providencia and San Andres. Nicaragua is also in danger of becoming a target for money laundering due to a vulnerable banking sector.

The NNP is a relatively capable law enforcement organization. From December 2003 through November 2004, the DEA office in Managua and the NNP conducted joint investigations that resulted in the capture of 63 kilograms of heroin and 6,250 kilograms of cocaine, a slight decrease in heroin seizures but nearly a 600 percent increase in cocaine seizures over last year. Despite these achievements, resource constraints and an inefficient and corrupt legal system continue to limit the effectiveness of 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, of which the Navy is a part, is increasingly playing an important support role in counternarcotics efforts on the Atlantic coast.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The GON continues efforts to revamp the country's legal system. In December 2002, the new Criminal Procedures Code went into effect. The Code requires oral testimony and presentation of evidence through witnesses, a change that should allow more impartial and transparent processing of cases. The GON prosecutors, with USAID and INL/RLA (Resident Legal Advisor)

training, are learning how to use this new system effectively. The National Assembly is currently stalled on passing reforms to the major statute that covers illegal drugs. The draft reforms include important provisions related to money laundering. There is also a proposal to make money laundering an autonomous crime, as opposed to only being a component of drug trafficking cases. Unfortunately, this proposal is tied to the political fortunes of former president Aleman, who was convicted--and is appealing--under the original money-laundering statute.

Accomplishments. Nicaraguan authorities continued to destroy domestically-grown marijuana plants in 2004. They also carried out major seizures of transshipped cocaine and heroin. During the year, several joint maritime operations were carried out between the Nicaraguan military, the NNP, 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 NNP has conducted operations against local drug distribution centers and large shipments transiting the country, gathering intelligence on their locations and making arrests.

Law Enforcement Efforts. From December 1, 2003 through November 30, 2004, the NNP arrested 78 international traffickers (including at least 24 foreigners), and several hundred small-time street drug dealers. During the same period, DEA statistics show that Nicaraguan authorities (NNP and Navy) seized 6,250 kilograms of cocaine, 63 kilograms of heroin, 41,427 marijuana plants and 850 pounds of cleaned marijuana, plus 11,626 crack "rocks." In 2002, 19,860 tablets of Ecstasy were seized; in contrast, in 2004, the NNP did not make a single Ecstasy seizure. The GON also seized \$1,040,240 in drug-related currency. Within the totals listed above, the Nicaraguan Navy seized 4,266 kilograms of cocaine and one kilogram of heroin, compared to 121 kilograms of cocaine and one kilogram of heroin in 2003. (Note: In a fourth USCG/Nicaraguan Navy pursuit, another 1,900 kilograms of jettisoned cocaine was recovered from a fleeing--and later captured--drug boat. Since the drugs were then turned over to the USCG, this amount is not reflected in the DEA statistics. Therefore, Nicaraguan naval forces were actually instrumental in capturing 6,166 kilograms of cocaine in 2004. End Note). One noteworthy arrest involved the seizure of a boat carrying USD 210,940 in drug money being repatriated to Colombia. The Nicaraguans also seized 17 fast boats, some of which had already jettisoned or delivered their cargo. The Navy also broke up affiliated alien smuggling and arms smuggling rings. Despite this record, resource limits continue to plague both the NNP and the Navy. The Narcotics Unit has only 116 officers, including administrative support, to cover all of Nicaragua. The 850-man Nicaraguan Navy, with INL help, is only now developing a long range patrol capability that will enable it to maintain a presence at sea for days at a time.

Corruption. The NNP 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 two top ranking officials in the NNP, a measure that maintains the integrity of confidential information. However, low salaries make it difficult to eliminate corruption. A new Nicaraguan police officer earns about USD 120 a month. Judges' official salaries run about USD 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. In a recent "drugs for guns" case, the judge released the suspects for "lack of evidence," in spite of the seizure of over 100 kilograms of cocaine, many automatic weapons and tens of thousands of rounds of ammunition.

From 2000-2003, 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 terminated at the end of 2003, but INL plans, as part of the new Resident Legal Advisor program, to maintain support for the GON under a new multi-

agency anticorruption initiative for the police anticorruption unit, the Attorney General's office, and the Superintendent of Banks.

Agreements and Treaties. Nicaragua is a party to the 1961 UN Single Convention, as amended by the 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. A U.S.-Nicaragua extradition treaty has been in effect since 1907. 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 is a party to the UN Convention against Transnational Organized Crime and its protocol on trafficking in persons, and 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 Inter-American 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 is 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 "narcotics culture" is emerging. In a recent case, people in the port town of Puerto Cabezas rioted in an attempt to recover a ton of cocaine that had just been captured by the Navy. 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 and at least one aircraft has utilized an unmarked airfield to make a delivery. On occasion, drug shipments have been "dropped" on the Atlantic coast for further surface transshipment. The GON has no capability to intercept narcotics trafficking flights. At this time, the GON has little capability to monitor or prevent the diversion of precursor chemicals that are utilized in drug manufacturing in neighboring countries.

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. 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. The drug packages then wash ashore in communities where residents divide and sell them. 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. Since its inception, approximately 150 NNP officers have received training as D.A.R.E. instructors. In 2004, the USG sponsored the retraining of these instructors in the newest D.A.R.E. pedagogical techniques. During 2001-2003, over 14,125 Nicaraguan schoolchildren were awarded certificates of participation in the D.A.R.E. program. During 2004, nearly 6,000 additional 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 organizations has been ongoing and effective. During 2004, the U.S. continued to provide significant counternarcotics and law enforcement assistance to the NNP through the DEA, State/INL, and the U.S. Department of Justice. A new bilateral anticorruption initiative will bring additional USG resources to bear in improving the judicial system, the postal 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 also cooperating with the U.S. in efforts 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 NNP are committed to the counternarcotics effort. But Nicaragua does not possess the resources to wage this war alone and will require continued assistance. If the country is to become a successful partner with the U.S. in fighting the narcotics trade, it also needs urgent internal reforms, particularly the professionalization of the judiciary and the passage and application of stronger statutes to combat crimes like corruption and money laundering.

Panama

I. Summary

By virtue of its geographic position and well-developed transportation infrastructure, Panama is a major transshipment point for narcotics from the Andean Region to the United States and Europe. Cooperation between United States and Panamanian law enforcement agencies to stem the flow of narcotics, illegal firearms, and money is excellent. Since taking office September 1, 2004, the Torrijos Administration has built upon its predecessor's policies of close cooperation with the United States on security and law enforcement issues. At the same time, Panama's critical fiscal situation has placed increased pressure on the budgets of law enforcement agencies, hampering their ability to fulfill their respective missions. As a result, assistance provided by the United States remains crucial to ensuring effective Panamanian law enforcement. Panama is a party to the 1988 United Nations drug convention.

II. Status of Country

Panama's geographic proximity to the Andean cocaine- and heroin-producing regions makes it an important transshipment point for narcotics destined for the United States. Although security in the Darien region bordering Colombia has improved in recent years, smuggling of weapons and drugs across the border continues. Panama is also a major drug-transit hub due to its containerized seaports, the Pan-American Highway, an international hub airport, numerous uncontrolled airfields, and vast unguarded coastlines on both the Atlantic and Pacific oceans. The steady flow of cheap illicit drugs has taken a toll on Panamanian society by increasing domestic drug abuse, particularly among young people. The lucrative drug trade has also contributed to pervasive public corruption, thereby undermining the GOP's criminal justice system. Panama is not a significant producer of drugs or precursor chemicals. Cannabis is cultivated for local consumption, primarily within the Pearl Islands in the Gulf of Panama.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, the GOP continued to implement 81 projects the Panamanian National Commission for the Study and Prevention of Drug-Related Crimes (CONAPRED) outlined in a 2002 report. The GOP also established an inter-agency task force to coordinate narcotics enforcement at Tocumen International Airport. Since taking office in September 2004, the Torrijos Administration has adopted a broad policy of enhanced inter-agency coordination related to narcotics interdiction activities.

Accomplishments. During the year, Panama launched an interagency narcotics information-sharing network under the coordination of the Drug Prosecutor's Office. During 2004, Panama and the United States co-hosted a Key Leaders Conference, attended by law enforcement officials from the hemisphere as part of the effort to create a Latin America International Law Enforcement Academy (ILEA).

Law Enforcement Efforts. USG law enforcement entities enjoy a healthy and cooperative relationship with GOP counterpart agencies in every aspect of narcotics-related criminal matters. In January 2004, Colombian kingpin Jesus Henao Montoya was apprehended in Panama and deported to the U.S. for prosecution. DEA-monitored statistics through November 2004 indicate seizures of 7,068 kilograms of cocaine, 91.4 kilograms of heroin, 2,751 kilograms of cannabis, 0 kilograms of MDMA, 3,006,430 tablets of Pseudoephedrine, 0 tablets of Amphetamines, \$1,946,645.00 in currency seizures,

and 224 arrests for international drug-related offenses. Cocaine, heroin, MDMA, Pseudoephedrine, Amphetamines, currency seizures, and international drug-related arrests have declined slightly since last year, while seizures of cannabis have risen. Some of the decrease in seizures can be attributed to a temporary hiatus in operations during the transition between governments in September 2004. As in recent years, many narcotics operations are intelligence-driven movements and are usually cooperative ventures between the GOP and the USG.

The Public Ministry's Drug Prosecutor's Office (DPO) remains a respected entity for combating narcotics-related crimes and a principal coordinator of Panama's Public Forces' counternarcotics investigative resources. DPO cooperation with U.S. law enforcement agencies is excellent and extensive. The PNP's Directorate of Information and Intelligence (DIIP) and its Anti-Drug Sub-Directorate (DAD) are effective drug investigative units.

The NAS-funded and DEA-supported Public Ministry/PTJ sensitive investigative unit, with authority to conduct investigations relative to major drug and money laundering organizations, continues to grow and regularly carries out operations. The PNP Mobile Inspection Unit and Paso Canoas Interdiction Enhancements, the International Airport Drug Task Force, and the Canine Unit continue to operate with USG support and have fielded major arrests and seizures.

The National Maritime Service (SMN) is a professional and capable agency that enjoys good relationships with USG counterparts. The SMN responds to USG requests for boarding and interdictions, assisting the U.S. Coast Guard (USCG) with verifying ship registry data, and transferring prisoners and evidence to Panama for air transport to the United States. The USCG and JIATF-S hosted two joint exercises (CONJUNTOS) with the SMN in 2004 and hope to host a follow-on exercise in early 2005. Despite the SMN's successes and cooperation, operations are threatened by a lack of resources, particularly fuel. There is concern that without USG assistance the SMN operational status may erode significantly. The SMN and National Air Service (SAN) have positive relations and annually team together to eradicate cannabis fields in the Pearl Islands.

The National Air Service is continually plagued by limited air assets, but provides excellent support for counternarcotics operations when their resources are available. The SAN, like other Panama Police Forces (PPF), had its budget cut for 2005, which may threaten future operations. The SAN continues to respond 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-SMN relationship continues to grow in a positive direction. Both forces were involved in operations to burn cannabis fields on the Pearl Islands.

Cultivation and Production. Joint DEA-SAN aerial reconnaissance efforts indicate small-scale coca cultivation increased in July 2004. Reports of cocaine laboratories in the Darien are unconfirmed and have not been confirmed since 1993-94. GOP resource constraints, triple-canopy jungle, and the presence of heavily armed Colombian insurgents in the region have prevented crop eradication. Limited cannabis cultivation, principally for domestic consumption, exists in Panama, particularly in the Pearl 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. However, it is believed that a significant volume of chemicals transits the Colon Free Zone for other countries. Legislation to strengthen Panama's chemical control regime has been drafted with U.S. assistance and presented to the National Assembly for approval. Seizures of pseudoephedrine by November 2004 totaled 3 million tablets. Until new legislation is signed into law, Panamanian chemical regulatory and enforcement infrastructure will remain inadequate and will continue to threaten USG success against regional narcotics production.

Drug Flow/Transit. Panama remains an integral territory for the transit and distribution of South American cocaine, heroin, and Ecstasy. These drugs are moved in a variety of modes: traffickers primarily use fishing vessels, cargo ships, small aircraft, and go-fast boats. These vehicles often refuel or exchange goods in or near Panama. Goods exchanged from sea borne mediums to land are loaded onto trucks for a northbound journey via the Pan-American Highway or placed in sea-freight containers near the Panama Canal for transport on cargo vessels. Illegal airplanes utilize hundreds of abandoned or unmonitored legal airstrips for refueling, pickups, and deliveries. Couriers transiting Panama by commercial air flights continued to move cocaine, as well as heroin, to the United States and Europe during 2004.

Domestic Programs (Demand Reduction). CONAPRED's five-year counternarcotics strategy identifies 29 demand reduction, drug education, and drug treatment projects to be funded between 2002 and 2007 at a cost of U.S. \$6.5 million. During 2004, five projects were funded under this strategy, with a total cost of \$790,000. The Ministry of Education and CONAPRED—supported by U.S. funding—promoted demand reduction through training for teachers and information programs. NAS is assisting with the implementation of an August 2003 law 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). The PNP Juvenile Police, with NAS funding, implemented the DARE Program in Panama City public schools.

Corruption. Corruption emerged as one of the primary issues in the 2004 Presidential campaign. As a result of the public's opinion on corruption, current President Martin Torrijos ran a campaign based on purging corruption from the government. The new administration made several strides towards accomplishing this goal since taking office in September 2004, including auditing government accounts and launching investigations into major public corruption cases. The GOP has also revoked the Moscoso Administration's implementing decree that limited public requests for government information. Panama has created a national anticorruption commission in the Ministry of the Presidency that is charged with coordinating the government's anticorruption activities.

Agreements and Treaties. Panama is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotics Drugs, as amended by the 1982 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. Panama is a party to the UN Convention Against Transnational Organized Crime and its three protocols, and is a signatory to the UN Convention Against Corruption. Panama is a member of the Organization of American States and is a party to the Inter-American Convention on Mutual Assistance in Criminal Matters and the Inter-American Convention Against Corruption.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The United States provided crucial equipment, training, and information to enhance the performance of GOP counternarcotics, public force, and law enforcement institutions in 2004. 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.

NAS is implementing a law enforcement modernization project that has the goal of professionalizing the Panamanian National Police. The key pillars of the project involve implementing community policing in Panama, expanding existing crime analysis technology and promoting managerial change to allow greater autonomy and accountability to develop best practices among local police commanders.

Years of support to the SMN, including donations of equipment and regular USCG training, contributed to the 2004 SMN successes. The SMN accounted for 17 percent of Panama's total cocaine seizures last year. Aside from equipment for the 180-foot SMN ship, NAS also continued refurbishing "go fast" boats for the SMN.

The United States has provided Panamanian Customs with training, operational tools, and a canine program that has become a linchpin of the Tocumen International Airport Drug Interdiction Law Enforcement Team. A U.S.-funded X-Ray machine also became operational at the airport during 2004.

In 2004 the USG, through the NAS, assisted the GOP in upgrading the Public Ministry's Anti-Corruption Unit. NAS supplied computers, office equipment, and other necessary gear. NAS also purchased several vehicles for the PTJ Vetted Unit.

NAS continued to support the Ministry of Education's teacher training programs in demand reduction.

Bilateral Cooperation. The Torrijos Administration continues to maintain close cooperation with the U.S. by sustaining joint counternarcotics efforts with the DEA and by strengthening national law enforcement institutions. The maritime interdiction agreement has facilitated enhanced cooperation in maritime interdiction efforts, with Panama playing a vital role in facilitating the transfer of prisoners and evidence to the United States.

The Road Ahead. The GOP continues to demonstrate its commitment to build strong law enforcement institutions and deter the flow of narcotics northward. The U.S. will continue to encourage Panama to devote sufficient resources to enable its forces to patrol fully the land borders, the Panamanian coastline, and the adjacent sea-lanes, rendering them inhospitable to illicit arms and narcotics traffic. The U.S. is encouraging the development of a multi-agency Panamanian Port Security Boarding Unit, which is scheduled to start operations in 2005.

In 2004, multinational maritime border operations yielded a 2.6MT cocaine seizure and turned around or chased 4 other go-fast boats. Continuing this operation should be a priority for 2005. The USG will continue to work with the GOP to help strengthen Panama's ability to deter trafficking in drugs by providing 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 CARIBBEAN

The Bahamas

I. Summary

Because of its geographic location, The Bahamas continues to be utilized as a major transit country for cocaine and marijuana bound for the U.S. from South America and the Caribbean. The Government of the Commonwealth of The Bahamas (GCOB) cooperates closely 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.

An important bilateral milestone was achieved in June 2004 with the signing of a Comprehensive Maritime Agreement to provide law enforcement officers a legal framework for their operations. This agreement replaced a patchwork of practice, old jurisprudence, and antiquated treaties. Also in June, the Bahamian Government published its first National Anti-Drug Plan. This plan would provide the basis for ongoing action by the government for the next five years. There has been no legislation introduced 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 320,665 inhabitants and 700 islands and cays distributed over an area similar in size to that 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, Jamaican marijuana and other illegal drugs. It is currently estimated that a minimum of 20 metric tons 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 Bahama, 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 as a partner in "Operation Bahamas and Turks and Caicos" (OPBAT), a multi agency international drug interdiction cooperative effort established in 1982. OPBAT is the largest and oldest 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 Department of Homeland Security, 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 2004 (up to November), OPBAT seized 1.973 metric tons of cocaine and 6.173 metric tons of marijuana.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In June 2004, the GCOB published a comprehensive National Anti Drug Plan. The Plan will provide for ongoing action by the Government in addressing the drug problem at the National, Regional and International level over the next five years. During the first half of 2005, the GCOB intends to establish a National Drug Secretariat, which will be headquartered in the Ministry of National Security. Work on a National Anti-Drug Plan (NADP) began in 2001 with the assistance of the OAS/CICAD. In 2004, 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 2004. In June, the DEU participated in the takedown of the Maycock/Smith trafficking organization as part

of DEA's Caribbean-wide "Operation Busted Manatee." This is the third major drug ring the DEU has dismantled since 2001. DEU's enhanced investigative and interdicting capabilities resulted in 1,596 drug-related arrests. Several indictments have been issued and more than 24 requests for extradition on drug-related charges are pending action from the Bahamian courts.

In October 2001, a magistrate committed Samuel Knowles, one of the Caribbean's most prolific drug traffickers, and several co-conspirators, including Frank Cartwright, Jr., for extradition to the United States to stand trial on drug charges. Knowles and Cartwright successfully applied to the Supreme Court for a writ of habeas corpus. In January 2003, the Court of Appeal reversed the Supreme Court's order, and Knowles and Cartwright were again committed for extradition. Knowles and Cartwright subsequently appealed to the Privy Counsel in London and in February 2004 the Privy Counsel affirmed the Court of Appeal's decision. As a result, in April 2004 Cartwright was extradited to the U.S. Knowles, however, successfully applied for another writ of habeas corpus on the ground that his designation as a "drug kingpin" would deprive him of a fair trial. The Attorney General's office has appealed that decision.

Law Enforcement Efforts. The RBPF continued to participate actively in OPBAT. Alerted by U.S. Department of Homeland Security surveillance aircraft, and on some occasions by members of the Cuban Border Guard, U.S. Army and Coast Guard helicopters intercepted maritime drug smugglers and seized airdrops of drugs into Bahamian territory. Law enforcement officers have taken note of a developing trend involving Haitian sloops. Commingling drug trafficking networks with illegal migrant smuggling organizations, the Haitian traffickers have been using methods of concealing their shipment in hidden compartments.

OPBAT assets are located in three bases strategically located 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 jurisdictions.

The DEU is an elite vetted group of 97 officers that works closely with the USG on drug investigations and interdictions. The DEU staff includes a 19-member strike force which participates in OPBAT missions, a 10-member marine unit which crews and services the Police Harbor Patrol, 8-member tracing and forfeiture unit, 22-member general investigation unit, 14-member intelligence and surveillance unit, with a 9-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 2004, the DEU seized 741 kilos of cocaine and 1.8 metric tons of marijuana. (Note: DEU seizures are included in OPBAT's total). The DEU arrested 1,606 persons on drug related offenses and seized drug-related assets valued at \$590,764 in addition to aircrafts and boats. Cocaine and marijuana seizures decreased compared to 2003 levels. In addition to the unusual weather patterns in the region during the 2004 hurricane season, this decrease is the direct result of the continued vigilance and precise targeting actions by law enforcement agencies. In particular, the infiltration of major drug organizations in the last years is paying off, as well as the arrest and incarceration of major key traffickers. To enhance the results of drug interdiction missions, the USG in collaboration with the GCOB established the Bahamas Rapid Response Team. The Bahamas Rapid Response Team gathers selected members of the Royal Bahamas Defense Force (RBDF), as well as the Customs Department and Immigration, to assist the Police Force in conducting contraband searches on a short notice basis. The USG is assisting the team members with training and equipment to facilitate the groups' deployments. Unfortunately, RBDF's participation in drug interdiction events is hampered since their vessels are typically 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 GCOB does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, nor the laundering of proceeds from illegal drug transactions. 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 reduction in the number of corruption allegations brought against police officers last year. There were only seven corruption related matters reported in 2004 compared to 20 in 2003. The RBPF continued using an internal committee to investigate allegations of corruption against police officers.

The GCOB completed a long-promised investigation into the suspicious disappearance of confiscated drugs in the custody of the RBDF. In August 2004, the Commission of Inquiry presented its findings of the 1992 incident in which 50 packages of cocaine disappeared from the vessel “The Lorequin” while in the custody of the RBDF. In their Report, the Commissioners concluded that “the most reasonable explanation” for the missing cocaine was that some or all of the RBDF members who were detailed to bring the vessel The Lorequin to RBDF headquarters were responsible for the disappearance of the drugs. However, while persuaded of certain individuals’ complicity in the theft, the Commission concluded that the evidence that emerged from the investigation was insufficient to support a criminal prosecution. The Commission also specifically criticized the conduct and performance of several Police and Defense Force personnel and made a series of policy and their operational recommendations. The Government has expressed its commitment to implement the Commission’s recommendations.

Agreements and Treaties. The Bahamas is a party to the 1961 UN Single Convention 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 U.S.-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.

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. However, in the Bahamian justice system, defendants can appeal a magistrate’s decision, first domestically and ultimately to the Privy Council in London. This process often adds years to an extradition procedure. In June 2004, the GCOB and the USG signed the Comprehensive Maritime Agreement that replaced a patchwork of law enforcement agreements and arrangements, including the shiprider and overflight agreements, dating back to 1964. The CMA is already being used in migrant and drug interdiction operations.

Drug Flow/Transit. Although the documented cocaine flow to the United States from South America through the Jamaica-Cuba-Bahamas vector declined during the year, it is estimated a minimum of 20 metric tons of cocaine transited this route. Most of the cocaine flow from Colombia and arrives in The Bahamas via “go-fast” boats or small aircraft from Jamaica and Haiti. 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 2004, law enforcement officials identified on average, a suspicious “go-fast” type boat on Bahamian waters every 5 days. In addition, there were 90 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 2004 Bahamian law enforcement officials identified shipments of drugs in Haitian sloops, fishing boats, small aircraft 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. Schools and youth organizations are the primary target of prevention/education program. Anecdotal data from a survey that the Council recently conducted in the Family Islands seems to confirm that marijuana use is increasing among Bahamian youth. The results of the survey will be presented early in 2005. Other drug prevention programs and presentations have been organized by RBPF’s Community Relations Section in schools and churches in Nassau.

IV. U.S. Policy Initiatives and Programs

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 June 2004, Bahamian law enforcement in unison with USG law enforcement participated in the largest takedown operation in the Caribbean, “Caribbean Initiative,” resulting in the dismantling of three important drug trafficking organization and hundreds of arrests. In the Bahamas, fifteen individuals were arrested under this initiative.

Bilateral Cooperation. During 2004, 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. In February 2004, NAS and the GCOB agreed to discontinue the Bahamian Customs Department’s canine unit at the Freeport Container Port due to its high maintenance cost and its failure to produce expected results. NAS has been working closely with Customs officials to identify other cost efficient programs to protect the Container Port from drug traffickers. 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 (AUTECC,) Andros Island. NAS also provided funding to The National Drug Council and the Drug Action Service to extend their demand reduction education campaign to the Family Islands.

Road Ahead. The Bahamas' location and the expanse of its territorial area, guarantees that it will continue to be a preferred route for drug trans-shipment and other criminal activity. The Bahamian Government is expected to continue its strong commitment to the U.S. in joint counternarcotics efforts. The U.S. looks forward to the establishment of the National Drug Secretariat, the signing and ratification of the Caribbean Regional Maritime Agreement, and the introduction to Parliament of precursor chemical control legislation. 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 in the Caribbean, NAS will continue to support RBPF efforts 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.

Cuba

I. Summary

The priority attention of the Cuban regime is on political control of the Cuban people. The primary focus of the regime's aggressive posture with respect to all activities deemed "illegal," including narcotics trafficking, has been the repression of political and economic activities permissible in most normal societies. Cuba's waters and airspace remain an attractive route for narcotics trafficking in the Caribbean. Cuba's refusal to implement an effective use of force policy continues to provide a corridor inside Cuban territorial waters and airspace for smugglers transiting northbound from South America and the Caribbean. Cuba's interdiction efforts also continue to be hampered by decaying infrastructure and limited operations budgets. Cuban government (GOC) authorities continue to choose to fund other security forces, in particular Cuba's political police, rather than adequately funding the decaying fleet of Border Guard patrol boats and detection and monitoring aircraft for counternarcotics interdiction operations. That narcotics trafficking through Cuban territory decreased measurably in 2004 is primarily due to an increased U.S. law enforcement presence in the Windward Passage.

The GOC maintains an aggressive internal enforcement, investigation and prevention program for its incipient drug market. The GOC continued Operation Hatchet III, a multi-agency counternarcotics interdiction operation, and Operation Popular Shield, a multi-agency counternarcotics investigative effort combined with a nationwide counternarcotics public awareness campaign, both of which started in 2003 and are part of the wider repressive campaign. The GOC claims to have seized or recovered 3,064 kilograms of illicit narcotics, 90 percent of which was marijuana, from January to November in 2004, down from 5,673 kilograms of illicit narcotics seized in 2003.

Limited, case-by-case coordination between the GOC and the USG on international drug trafficking issues has taken place during the past year. Cuban law enforcement authorities reported to U.S. authorities sightings of 28 suspect targets (14 aircraft and 14 go-fast) in 2004 transiting their airspace or territorial waters, a decrease from the 69 sightings (22 aircraft and 47 go-fast) in 2003. The U.S. Coast Guard seized three go-fast vessels that departed Cuban territorial waters with a combined total of 2,936 kilograms of illicit narcotics, as a result of detection information passed by the Cuban Border Guard. Cuba is a party to the 1988 UN Drug Convention.

II. Status of Country

The priority attention of the Cuban regime is on political control of the Cuban people. Regime security officials have taken a much more aggressive posture with respect to all activities deemed "illegal," including narcotics trafficking, since 2003. However, the primary focus of this stepped-up activity has been the repression of political activities, including the continuing arrest and detention of civil society activists, permissible in democratic societies. The regime also continues to take advantage of its broad crackdown on drug trafficking to repress illegal economic activities permissible in most normal societies.

Cuba's strategic location between Colombia, Jamaica, Bahamas and the U.S. make it a natural transshipment location for drug shipments of cocaine and marijuana. 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. Cuba's territorial waters and airspace continue to serve as an attractive corridor for smugglers transiting northbound from South America and the Caribbean. The GOC has chosen not to adopt an effective use of force policy or to provide adequate resources to counternarcotics authorities to give them more than a limited ability to interdict go-fast vessels or aircraft. As a result of decisions to direct state resources to

other security areas—the GOC provides substantial budgets to other police authorities, especially the General Directorate of State Security, Cuba’s political police—the current inventory of decaying patrol boats and aircraft do not constitute a credible interdiction force. Given the scarce resources the GOC devotes to counternarcotics activities, Cuba’s drug interdiction efforts are largely limited to recovering jettisoned narcotics and providing information to the U.S. Coast Guard on suspect vessels and aircraft transiting their airspace and territorial waters. Cuba has not signed the Caribbean Maritime Counterdrug Agreement, despite participating in the negotiations.

Cuba does not appear to be a significant producer of drugs or precursor chemicals, although small plots of “criolla” marijuana plants continue to be detected around Havana and eastern Cuba according to Cuban officials. The GOC claims 75 tons of illicit narcotics have been seized inside Cuban territory since 1994, of which 48 tons, mostly marijuana, washed ashore.

According to the Cuban Government, 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 2004

Policy Initiatives. The Government of Cuba continued the enforcement of Decree 232 “On the Confiscation for Deeds Related with Drugs, Acts of Corruption and Other Illicit Behavior” which entered into effect in January 2003. The GOC continued its nation-wide crack down in order 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.” Led by the Ministry of Interior, they continue to investigate suspected narcotics traffickers, and maintain a nation-wide public awareness campaign to reduce drug trafficking and its associated crimes. However, the GOC continued to take advantage of its broad crackdown on drug trafficking to also repress economic and political activities considered permissible in most normal societies.

Law Enforcement Efforts. The GOC has continued Operation Hatchet III since its March 2003 inception. The ongoing counternarcotics interdiction operation focuses on disrupting maritime and air trafficking routes, recovering jettisoned narcotics, and promoting a nation-wide public affairs campaign to encourage citizens to report any drug trafficking or drug wash-ups to Cuban law enforcement authorities. Operation Hatchet III includes vessel, aircraft and radar surveillance from the Ministry of the Revolutionary Armed Forces (Navy and Air Force), coastal patrol vessel and radar surveillance from the Ministry of Interior Border Guard, and participants from the DNA, National Police, and the National Park Rangers. In addition, Cuban Customs and DNA maintain an active counternarcotics inspection program at the island’s national maritime ports and airports. Cuba INTERPOL re-established its office in Havana and commenced operations in June 2004 with five Cuban officials. Neither the extent nor the effectiveness of these programs can be verified.

Drug Seizures/Arrests. The GOC reported the seizure of 3,065 kilograms of illicit narcotics in 2004, which included 2,755 kilograms of marijuana, 295 kilograms of cocaine, 13 kilograms of hash oil, 2

kilograms of crack and other synthetic drugs, 1,676 plants of marijuana and 26,567 marijuana seeds. The GOC reported 962 kilograms of illicit drugs seized in Cuba in 2004 were from wash-ups, a significant decrease from the 4,448 kilograms of narcotics reported to have washed up on the Cuban shoreline in 2003. Cuban authorities reported Operation Popular Shield has resulted in the seizure of 53 kilograms of narcotics: 49 kilograms of marijuana; 3 kilograms of cocaine; and 1.6 kilograms of hash and crack. In addition, the GOC reported the detention of approximately 3,000 people, of whom 65 percent were sentenced to six or more years of imprisonment for trafficking drugs in the internal market since Operation Popular Shield began in January 2003. The Cuban Border Guard recovered 589 kilograms of marijuana following a failed air-drop off the north coast of Ciego de Avila province, the first air-drop narcotics recovery by GOC authorities since 2001. The Cuban Border Guard intercepted two go-fasts trafficking narcotics inside their territorial waters in 2004. The July event resulted in the seizure of 828 kilograms of marijuana and the arrest of one Bahamian and four Jamaican citizens. The November event resulted in the seizure of 610 kilograms of marijuana and the arrest of three Jamaican citizens.

The GOC reported 10 foreigners were arrested for narcotics trafficking in nine separate airport cases with a total seizure of 10 kilograms of cocaine and 195 stamps of LSD. Eight of the cases were at Jose Marti International Airport in Havana and one was at Juan Gualberto Gomez Airport in Matanzas. The GOC also reported a total of 181 foreign tourists and eight Cuban foreign residents were detected with narcotics for personal consumption at Cuban international airports in 2004. In all cases, the GOC reported the narcotics were confiscated and destroyed and the tourists were allowed to continue their visit. The GOC reported the detention of Luis Hernando Gomez Bustamante, a major figure within the Colombian North Valle Cartel, for entering Cuba on a falsified passport in June 2004. Mr. Gomez Bustamante is under indictment by the U.S. Attorney's Office in New York on narcotics trafficking and money laundering charges. The Government of Colombia has requested his extradition to Colombia, but the GOC has not publicly responded to its request.

Corruption. The U.S. 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 or narcotics-related corruption was made in the media in 2004; the media in Cuba is completely controlled by the state, which permits only laudatory press coverage on itself. 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 33 countries and less formal agreements with 16 others. The GOC signed a counternarcotics agreement with Jamaica in 2004. Counternarcotics coordination between the U.S. and Cuba occurs only on a case-by-case basis. The Cuban government has not signed the Agreement Concerning Co-operation in Suppressing Illicit Maritime and Air Trafficking in Narcotic Drugs and Psychotropic Substances in the Caribbean Area (Caribbean Regional Maritime Agreement) despite its participation in the agreement negotiations. Cuba has signed, but not ratified, 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 "criolla" marijuana are grown around Havana and Eastern Cuba for domestic use.

Drug Flow/Transit. As a result of increased U.S. law enforcement presence in the Windward Passage, narcotics trafficking through Cuban territory decreased measurably in 2004. Narcotics trafficking from Jamaica to the Bahamas, Haiti and to the U.S. normally occurs through Cuban territorial seas and airspace, with a majority of the narcotics being trafficked via maritime routes

around the eastern and western tips and via air routes over the eastern side of the island. Cuban law enforcement authorities reported sightings of 28 suspect vessels in 2004 (14 aircraft and 14 go-fast vessels) transiting their airspace or territorial waters, a decrease from the 69 sightings (22 aircraft and 47 go-fasts) in 2003. Small quantities of narcotics were trafficked via Cuba's international airports, in which drug couriers or "mules" carried narcotics to and from Europe. In the nine reported cases, the departure countries were Colombia, Venezuela, Panama, and Costa Rica and the destination countries were Denmark and Spain. There were five reported cases of individuals attempting to smuggle narcotics to Cuba from Costa Rica, Italy and Mexico for distribution inside Cuba.

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 2004.

Domestic Programs. The National Commission on Drugs (CND), created in 1989, has taken the lead on drug prevention programs. The majority of municipalities on the island have counternarcotics organizations. 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. The aim of the action plan is to implement their long-term prevention strategy that is included as part of the educational curriculum at all grade levels. The GOC reports that there are 195 mental health community centers in Cuba consisting of family doctors, psychiatrists, psychologists, occupational therapists, and social health workers dedicated to teaching drug prevention and offering rehabilitation programs.

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 U.S. Coast Guard Drug Interdiction Specialist (DIS) assigned to the U.S. Interests Section in Havana ebbs and flows according to the GOC's political priorities. The Cuban DNA and Border Guard have provided limited exposure to Cuban counternarcotics efforts, including a visit to the Port of Havana to observe their Customs container inspection program, attendance to observe a vessel boarding and inspection procedures at Marina Hemingway, a visit to the Cuban national canine training center in Havana, a meeting with the Chief of the newly opened INTERPOL office in Havana, and a visit to Holguin to meet with local narcotics investigators following the seizure of a go-fast vessel with 610 kilograms of marijuana. In addition, the Cuban DNA provided investigative case information on narcotics trafficking and the Border Guard provided information on suspect vessels and aircraft to the U.S. Coast Guard on 28 narcotics-related events.

The Road Ahead. Cuba's strategic geographic position and the regime's refusal to implement an effective use of force policy consistent with its detection and intelligence capabilities continue to provide a 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 continues to make Cuban territorial waters and airspace an attractive smuggling route. Cuba has indicated that it had no interest in signing the Caribbean Regional Agreement thereby abdicating its responsibility to take action to deny drug traffickers access to Cuban waters and airspace. A reduction of U.S. maritime law enforcement presence in the Windward Passage is likely to lead to increased narcotics smuggling through eastern Cuban territorial waters and airspace.

Dominican Republic

I. Summary

The Dominican Republic (DR) is a major transit country for South American drugs, mostly cocaine and heroin, moving to the U.S. and Europe. The Government of the Dominican Republic (GODR) continued to cooperate closely with the U.S. in counternarcotics matters. Last year (2004) saw an increase in heroin seizures, an increase in cocaine interceptions, and a decrease in seizures of MDMA (ecstasy); negligible cooperation between the GODR and the Haitian police; continued good results of the extradition process; and little progress in application of a strong anti-money laundering law to a major bank fraud case. Although the GODR strengthened its efforts to combat corruption in 2004, corruption and weak governmental institutions remained an impediment to controlling the flow of illegal narcotics through the DR. It is estimated that a minimum of 8 metric tons of cocaine from South America transited the DR on its way to U.S. markets. 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 2004 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 low level of drug smuggling via the ferries operating between Puerto Rico and the DR, probably due to the continued activity of the counternarcotics canine unit at the Santo Domingo ferry terminal.

Dominican nationals play a major role in the actual transshipment of drugs. Many "go-fast" crews in the Caribbean include Dominican nationals, mostly fishermen recruited from the local docks. The crews speak Spanish, the language of the source country smugglers; move easily throughout the Caribbean; and are recruited for very small amounts of money.

The DR is not a producer of precursor chemicals, but there is continued concern about their importation.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The DR-initiated bilateral intelligence-sharing and interdiction efforts with Haiti, begun after Operation Hurricane in 2001, were discontinued in 2002. 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 three large Dominican banks in 2003, the Dominican Government struggled to implement anti-money laundering legislation passed in 2002. (See the Money Laundering section of this report.)

With U.S. and other international support, the DR implemented the revised criminal procedures code in 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. At year's end, key procedures relating to extraditions and other bilateral processes were being defined: the new system will be subject to legal challenges until its provisions are more thoroughly applied.

Law Enforcement Efforts. The DNCD, in cooperation with DEA authorities, broke up two large international smuggling rings during 2004. In March 2004 the DR deported to the U.S. a smuggler who was a key target of U.S. enforcement. Quirino Ernesto Paulino Castillo, a former Army Captain and owner of extensive land holdings along the Haitian border, was arrested December 18 in connection with the seizure of 1,300 kilograms of cocaine near Santo Domingo.

The DNCD canine program unit commanders received new training, in cooperation with the U.S. and Dutch Governments, and supported the formation of a new explosives detection canine unit for the airport police. The DNCD upgraded its equipment, trained technicians, and developed new software in furtherance of 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.

The DR Navy participated in a combined operation (Op CONGRI) with USCG and ICE from 13-20 January 2004 to combat the regional threat of narcotics trafficking in the approaches to Puerto Rico. The operation was conducted pursuant to existing U.S./DR bilateral agreements.

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. It is estimated that a minimum of 8 metric tons of cocaine transited the DR in 2004. The DNCD increased its seizure rate, interdicting body-carried heroin and cocaine in the DR's international airports and larger quantities from vehicles and buildings. Through December 2004, with cooperation and assistance of the U.S. Drug Enforcement Administration (DEA), the DNCD seized 2,232 kilograms of cocaine, 68 kilograms of heroin, 20,546 units of MDMA, and 1,152 pounds of marijuana. 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 air drops 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, and three international rings were broken up as a result.

In 2004, drugs were easily accessible for local consumption in most metropolitan areas. The DR attracted a growing number of tourists from Europe, the U.S., and Canada who provided a customer base for local drug sales, especially at the beachfront vacation resorts. Traffickers often used drugs to pay low-level couriers and distributors. Gang violence and settling of drug-related scores, especially in northern cities, were subjects of frequent headlines in the DR press.

The DNCD made 3,305 drug-related arrests in 2004; of these, 3,150 were Dominican nationals and 155 were foreigners. There were 624 fewer drug-related arrests in 2004 than in 2003, and 82 fewer foreigners were among those arrested on drug charges. Approximately 12 percent of the total cocaine and 85 percent of the total heroin seized in the Dominican Republic was seized in the airports.

Most of the significant seizures were made on land, in the big cities. There were some seizures made at the Haitian border in 2004, but quantities seized were limited. While the number of seizures made in Dominican airports was high, the actual amount of drugs seized was small. Maritime seizures remain a challenge for the DR, especially drugs hidden in commercial vessels for shipment to the U.S. and/or Europe and drugs arriving by "go-fast" boats from South America.

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 2003, the U.S. Marshals Service assigned a marshal permanently to the DR. During 2004, the marshals continued to receive 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.

Both the Mejia and Fernandez administrations maintained their records of cooperation in 2004. In 2004 the GODR extradited 26 Dominicans (subjects of U.S. extradition requests made in prior years) to the U.S. and arrested 18 fugitives in response to U.S. extradition requests made that same year. The National Police, working with the FBI, arrested and extradited five drug-related subjects and deported two.

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 and beneficiaries of new information.

The Dominican Navy used its new patrol craft in early 2004 to patrol the Mona Channel and prevent illegal migration, principally by Dominicans, to Puerto Rico and hence to the U.S. mainland. Examination of captured smuggling vessels indicated a strong link between illegal migration and drug smuggling. On a typical voyage, several passengers carry backpacks containing one or two kilos of cocaine.

Corruption. The GODR does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotics, psychotropic drugs, and other controlled substances, nor does it contribute to drug-related money laundering.

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.

The last Attorney General of the Mejia administration was strongly suspected of accepting payments and other favors to release persons who had been accused of drug-related crimes and requested for extradition to the U.S. He is currently under investigation by Dominican authorities.

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 on the Internet at <http://www.suprema.gov.do/jueces/dj.htm>. Nonetheless, an effective system to verify these statements has not yet been implemented and there are no sanctions for false statements.

The GODR is a party to the Inter-American Convention Against Corruption and in 2001 signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention.

Precursor Chemical Control. The Secretariat of Health is responsible for the control of chemicals entering and departing the DR. The CND has prohibited the re-exportation of certain chemicals.

Demand Reduction. The DNCD conducted 108 youth events in various cities and neighborhoods, from basketball tournaments to chess matches, reaching over 134,000 young people, to encourage

competitive and recreational activities as better choices than drug abuse. A non-governmental organization, Foundation for Life (FUNVIDA), published, with U.S. Government assistance, a book entitled “Schools Without Drugs” and distributed it gratis at neighborhood meetings in cities outside the capital area.

Agreements and Treaties. In 1984, the U.S. and the GODR entered into an agreement on international narcotics control cooperation. In May 2003 the Dominican Republic entered into three comprehensive bilateral agreements with the U.S. 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 conclude 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 GODR signed, but has not yet ratified, the Caribbean Regional Maritime 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 (ICC) and has since ratified it. 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 2004 no vehicles were repatriated under this treaty.

The GODR 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

Bilateral Cooperation. Cocaine and heroin trafficking, money laundering, institutional corruption, and reform of the judicial system remain the U.S.’ 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 2004, the U.S. provided essential equipment and training to expand the counternarcotics canine units, supported the DNCD’s vetted special investigation unit, and funded assessments of airport and port security against narcotics trafficking and terrorism. The U.S. Transportation Security Agency (TSA) gave Santo Domingo’s Las Americas Airport ninety days to improve deficient aspects of security, and airport authorities succeeded, through considerable effort, in avoiding penalties.

The U.S. delivered one thirty-foot rigid hull inflatable boat and one landing craft to the Dominican Navy to help counternarcotics trafficking and illegal migration. The U.S. also assisted the Dominican Navy with its equipment maintenance and training programs and assessed requirements to outfit the Navy shore detachments.

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 U.S. 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 in San Juan, Puerto Rico. Dominican Navy vessels have

participated in a few maritime drug seizures, and Navy shore patrols have disrupted illegal migration voyages, another favorite method for smuggling drugs.

USAID's "Strengthened Rule of Law and Respect for Human Rights" program continues to work with the Dominican court, public defender, and prosecutorial systems to improve the administration of justice, enhance access to justice, and support anticorruption programs. Improvements achieved to date include implementation of a new criminal procedures code which better protects the rights of the accused and requires a stricter adherence to the due process of law, and speedier, more transparent judicial processes managed by better trained, technically competent, and ethical judges. The USAID program provides training to prosecutors and public defenders in applicable basic criminal justice legal advocacy skills and has offered training in complex criminal case investigations and prosecutions.

The U.S. Department of Justice and Department of State provided advanced management training to senior police officers, including two from DNCD, at the International Law Enforcement Academy (ILEA) in Roswell, NM. DEA offered a basic drug intelligence course for the DNCD in December. Five DNCD officers attended FBI training focused on high-risk arrest tactics.

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. In 2004, five Dominican companies met the strict criteria for BASC certification.

The DNCD, with U.S. and Dutch support, made plans to establish a canine unit for narcotics detection at Puerto Plata International Airport, bringing that facility, allegedly a smugglers' favorite, into line with units at Santo Domingo, Santiago, Punta Cana, and La Romana airports.

The U.S. is planning to deploy a U.S. mobile training team for the DNCD's border units and provide increased support for Dominican naval patrols of the Mona Passage.

With U.S. Department of Homeland Security leadership and DEA support, the Dominican Port Authority and the DNCD maintained good security at the formerly chaotic Santo Domingo terminal of the ferry to Puerto Rico. A 2003-04 project has improved passenger processing and established controls to detect and prevent smuggling of drugs and other contraband. U.S. agents also provided advice on the prevention of smuggling to the owners of the new Caucedo container terminal, which commenced full operation in 2004.

The Drug Enforcement Administration (DEA)-funded Caribbean Center for Drug Information at DNCD headquarters 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.

The Road Ahead. The immediate U.S. goal remains helping to institutionalize judicial reform and good governance. The GODR 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 U.S. will continue providing 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 recertification 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 U.S. Department of Justice's Office of Overseas Prosecutorial Development, Assistance and Training (OPDAT) will provide further training to prosecutors and investigators, increasing their professionalism and ensuring that they are prepared to continue to implement the new Criminal Procedures Code. U.S. support for civil society's and the Fernandez administration's efforts to prevent and prosecute corrupt activities will continue, through U.S.-funded programs to strengthen the Attorney General's Department for Prevention of Corruption and the Controller General's Office, and through monitoring and reporting GODR compliance with the Inter-American Convention Against Corruption.

Dutch Caribbean

I. Summary

Aruba, the Netherlands Antilles, and the Netherlands together form the Kingdom of the Netherlands. The two Caribbean parts of the Kingdom have autonomy over their internal affairs, with the right to exercise independent decision making in a number of counternarcotics areas. The Government of the Netherlands (GON) is responsible for the defense and foreign affairs of all three parts of the Kingdom and assists the Government of Aruba (GOA) and the Government of the Netherlands Antilles (GONA) in their efforts to combat narcotics trafficking. The Kingdom of the Netherlands is a party to the 1988 UN Drug Convention, and all three parts are subject to the Convention. Both Aruba and the Netherlands Antilles are active members of the Financial Action Task Force (FATF) and Caribbean Financial Action Task Force (CFATF).

II. Status

Netherlands Antilles. The islands of the Netherlands Antilles (NA) (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 to a much lesser extent, Suriname. These shipments typically are transported to U.S. territory in the Caribbean by “go-fast” boats although use of fishing boats, freighters, and cruise ships is becoming more common. Direct transport to Europe, and at times to the U.S., is by “mules” (drug couriers) using commercial flights. Evidence in 2004 did not support a finding that drugs now entering the United States from the Netherlands Antilles are in an amount sufficient to have a significant effect on the United States, but the entire eastern and southern Caribbean is an area of U.S. concern. The DEA and local law enforcement saw continued go-fast boat 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 vessels and larger vessels that were used to clandestinely move multi-hundred kilogram shipments of cocaine under the guise of recreational maritime traffic.

The crackdown at Curacao’s Hato International Airport on “mules”—who either ingest or conceal on their bodies illegal drugs—which began in 2002 continued during 2004. Most of the courier traffic (current estimate is 95 percent) is destined for Europe. Since the inception of the “Hato Team” concept of interagency cooperation in April 2002, at least 13,000 persons have been denied boarding based on suspicion of drug trafficking under the GONA’s legal authority to prevent disruption on air carriers. Suspected traffickers may request an X-ray in order to clear themselves of suspicion and receive permission to board the plane, but only about 10 percent do so. Of those, about three percent are found to have ingested drugs. The previous year saw the intensification of regional law enforcement against this endemic problem. Dutch officials in The Netherlands initiated a “100 percent Check” on all passengers arriving at Amsterdam’s Schiphol Airport from the Antilles. The Antilles joined in the effort by initiating a program during July 2004 wherein Antilleans identified attempting to carry drugs to Europe automatically lost their passports for a period of two years. These changes were accompanied by an aggressive law enforcement stance to rid the airport of corruption within both civilian and law enforcement ranks; another example of the Antilles, with their Dutch partners, taking the responsibility to deal with their own internal matters. With the increased regional attention and local enforcement efforts, violence directed at law enforcement operating at the airport dissipated during 2004; a welcomed change from the 2003 reporting which indicated at least seven assaults by gunfire on the airport “Hato Team.” Consistent with the continued smuggling ventures, arrests were

frequent in 2004. Curacao's prison remains at capacity and management problems there persist. Aware of this problem, the GONA has taken measures to reduce the prison population by pre-trial diversion of non-violent offenders and by developing a new strategy for law enforcement wherein leaders of the responsible trafficking organizations are targeted in lieu of imprisoning the near endless flow of couriers.

As Hato airport maintained tightened control during the year, traffickers shifted their attention to other Antillean airports, challenging law enforcement control at those locations as well. Law enforcement reporting also noted a marked increase in alternate routes to Europe from neighboring countries like the Dominican Republic, Haiti, and French St Martin. Dutch Sint Maarten continued to detect increasing numbers of "mules" and moved forward with plans to improve its drug detection technology with Dutch assistance. In addition to go-fast boat activity and smuggling via commercial airlines, large quantities of narcotics moved through in containers, as indicated by seizures from containers in 2004. In October 2004, Antillean authorities seized approximately 150 kilograms of cocaine from a container after it arrived in Dutch St Maarten from French St Martin. This was the third time an event like this transpired during the year. Statistics on significant seizures in 2004 indicate that Dutch Sint Maarten continues to pose a serious threat as a staging ground for moving cocaine and heroin into the U.S. market. Officials at St. Maarten have taken this threat seriously by initiating joint U.S. cooperative investigations as well as adopting new law enforcement strategies to combat the problems.

The crime and homelessness stemming from drug abuse remained important concerns for the GONA. After Curacao experienced a stunning increase in drug-related homicides in 2002 with an additional moderate increase in 2003, reporting during 2004 saw a reduction of 45 percent to 13 total drug related homicides. This was attributed to successful regional enforcement operations, one of which was followed by a period of five weeks with no homicides. Because most of the victims were Colombians, beginning early in 2003, the GONA required visas of Colombians wishing to enter its territory. During 2004, the GONA further strengthen their visa requirements by adding several other countries to the visa requirement list. Peru, the Dominican Republic, Cuba, and other European markets topped the noteworthy list. These changes were paralleled by the GONA's re-prioritization of the "Zero Tolerance" teams whose primary mission is to identify illegal immigrants to the islands and deport them. This was accompanied by the Minister of Justice's arrangement with the Netherlands to support new law enforcement missions via loans to cover police overtime, prison reforms, and to station additional Dutch police in the Antilles. He continues to push initiatives such as improving intelligence networks, developing direct Antillean to other foreign country liaison, and acquiring tools like container scanning devices and ground based radar for the region.

Elected officials and all elements of the law enforcement and judicial community recognize that the NA, chiefly due to geography, faces a serious threat from drug trafficking. The police, who are understaffed and need additional training, have received some additional resources, including support from the National Guard. On March 12, 2004, the local parliament declared a state of emergency as it related to internal crime. This declaration allowed significantly more input and participation of Antillean and Dutch military units in the crime reduction effort. The rigorous legal standards that must be met to prosecute cases constrain the effectiveness of the police; nevertheless, local police made significant progress in 2004 in initiating complex, sensitive cases targeting upper-echelon traffickers. After law enforcement made the largest seizure ever of 2345 kilograms of cocaine and 28 kilograms of heroin, the court system (for the first time) approved the dismissal of a local prosecution in lieu of a U.S. extradition and prosecution of seven prominent targets involved in the regional organization. Additional noteworthy developments during 2004 also included the "first" extradition of targets from the Netherlands to the Antilles to face charges. These efforts demonstrated the effectiveness of cooperation with other law enforcement entities in the region.

The far-reaching restructuring of the police, started in 2000, continues to show limited results. During 2000, the police chief made the improvement of the Criminal Investigative Service (CID) his top priority. His second priority was, and continues to be improving the expertise of the financial investigation team. During 2004, the regional community took notice of the first successful joint Antillean/Dutch investigation that was conducted by the Hit and Run Money Laundering Team (HARM). This investigation was the culmination of a multi-jurisdictional money laundering investigation of a drug trafficking organization. For the first time in recent history, businesses operating with near impunity in the Curacao Free Trade zone were held accountable for their involvement in money laundering schemes. Thirteen individuals were arrested in Curacao and The Netherlands and two operating free zone businesses were seized.

As a result of a protocol signed in 2002 between the Justice Ministers of the Antilles and the Netherlands, the NA is now connected to the Police Information net to exchange information, particularly about international crime. The specialized Dutch police units (RSTs) that support law enforcement in the NA continued to be effective in 2004 and continued, as originally intended, to include local officers in the development of investigative strategies to ensure exchange of expertise and information. During the year, the RST took their place in the regional scheme of enforcement as a viable international partner for law enforcement matters.

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 the Curacao Hato International Airport. Under a ten-year use agreement signed in March 2000 and ratified in October 2001 by the Dutch Parliament, U.S. military aircraft conduct counternarcotics detection and monitoring flights over both the source and transit zones from commercial ramp space provided free of charge. A major expansion project at the airport that began in January 2002 and completed during September 2003 significantly increased the FOL's capacity.

The Netherlands Antilles and Aruba Coast Guard (CGNAA) scored a number of impressive successes in 2004. The CGNAA was responsible for several seizures of cocaine, heroin, and marijuana. As an example of their continued success, on October 11, 2004, the CGNAA helicopter identified an inbound go fast, conduct discreet aerial surveillance until the load was passed to a car, and then vectored local police into the location. A total of 336 kilograms of cocaine, 10 kilograms of heroin, and weapons were seized. 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. They continue efforts to obtain new 'super' RHIBs for increased patrol patterns.

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. Under the continued leadership of the Attorney General, the GONA continued to strengthen its cooperation with U.S. law enforcement authorities throughout 2004. 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 increasing quantities of heroin, and to a lesser extent cocaine, 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 is of growing concern, evidence in 2004 did not support a finding that drugs entering the U.S. from Aruba were in an amount sufficient to have a significant effect on the U.S., but the eastern and southern Caribbean is an area of concern to the U.S. The island attracts drug traffickers with its good infrastructure, excellent flight connections, and relatively light sentences for drug-related crimes

served in prisons with relatively good living conditions. This problem is further promulgated by the Netherlands Antilles' law enforcement successes in Curacao during 2004, which necessitated a change in route on the part of the traffickers in the region.

While Aruba enjoys a low crime rate, reporting during 2004 indicates that prominent drug traffickers are establishing themselves sporadically on the island. Additionally, Arubans worry about the easy availability of inexpensive drugs. The most visible evidence of a drug abuse problem may be the homeless addicts, called "chollars" who number about 300 and whose photographs routinely appear in publications to increase public awareness to drug abuse and to stem an increase in crime.

Drug abuse in Aruba remains a cause for concern. Personal use quantities of the various types of drugs are easily found within walking distance of Oranjestad's cruise pier and are frequently peddled to cruise ship tourists. Over the last year, cruise lines that visit Aruba have instituted strict boarding/search policies for employees in order to thwart efforts of the traffickers to establish regular courier routes back to the United States. The expanding use of MDMA in clubs by young people attracts increasing attention. Private foundations on the island work on drug education and prevention and the Aruban government's top counternarcotics official actively reaches out to U.S. sources for materials to use in his office's prevention programs. The police also work in demand reduction programs for the schools and visit them regularly. The government has established an interagency commission to develop plans and programs to discourage youth from trafficking between the Netherlands and the U.S. The Government has been very clear that it intends to pursue a dynamic counternarcotics strategy in close cooperation with its regional and international partners.

In 2004, Aruban law enforcement officials continued to investigate and prosecute mid-level drug traffickers who supply drugs to the endless parade of "mules." During 2004, there were several instances where Aruban authorities cooperated with U.S. authorities to realize U.S. prosecutions of American citizens arrested in Aruba while attempting to return to the United States with drugs in multi-kilogram quantities. Aruba also devotes substantial time and effort to the identification of the person's responsible for the importation of drugs to Aruba. During 2004, Aruba realized a successful investigation with Jamaican Police and U.S. authorities that targeted a substantial heroin trafficking organization.

The police were reorganized in 2002, establishing four instead of three districts, each autonomous with its own detectives' division and led by a District Commissioner. Officers rotate periodically through the police functions. The aim 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 initiatives. The Attorney General, who was appointed in 2002, remains committed to international cooperation.

The GOA took additional steps in 2004 to demonstrate its commitment to the international effort to combat drug trafficking. After accommodating the placement of U.S. Customs aircraft at a Forward Operating Location (FOL) at Reina Beatrix International Airport in 1999, the GOA continued to make valuable commercial ramp space available to both U.S. military and U.S. Customs aircraft conducting aerial counternarcotics detection and monitoring missions. Further development of the FOL facilities on Aruba is underway.

The GOA hosts the Department of Homeland Security's (DHS) Bureau of Customs and Border Protection pre-inspection and pre-clearance personnel at Reina Beatrix airport. These officers occupy facilities financed and built by the GOA. DHS seizures of cocaine, heroin, and ecstasy were frequent in 2004. Drug smugglers arrested are either prosecuted in Aruba or returned to the U.S. for prosecution, if appropriate. Aruban jails remain critically overcrowded. The GOA established special cells in which to detain those suspected of ingesting drugs. Aruban officials regularly explore ways to

capitalize on the presence of the FOL and pre-clearance personnel, seeking to use resident U.S. law enforcement expertise to improve local law enforcement capabilities.

Aruba also continued to participate in the Coast Guard of the Netherlands Antilles and Aruba, which, for most of the year, continued to be plagued by labor disputes with the union related to employment benefits in a long-term confrontation with the GOA.

III. Actions Against Drugs in 2004

Agreements and Treaties. The Netherlands extended the 1988 UN Drug Convention to the NA and Aruba in March 1999, with the reservation that its obligations under certain provisions would only be applicable in so far as they were in accordance with NA and Aruban criminal legislation and policy on criminal matters. The NA and Aruba subsequently enacted revised, uniform legislation to resolve a lack of uniformity between the asset forfeiture laws of the NA and Aruba. The obligations of the Netherlands as a party to the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, apply to the NA and Aruba. The obligations of the Netherlands under the 1971 UN Convention on Psychotropic Substances have applied to the NA since March 10, 1999. The Netherlands's Mutual Legal Assistance Treaty (MLAT) with the United States applies to the NA and Aruba. Both Aruba and the NA routinely honor requests made under the MLAT and cooperate extensively with the United States on law enforcement matters at less formal levels. In April, the NA signed a Tax Information Exchange Agreement with the U.S. Aruba followed suit shortly thereafter. Aruba has limited legislation dating from May 1996 regulating the import and export of certain precursor and essential chemicals, consistent with the 1988 UN Drug Convention. In the Antilles, it is not clear if the pending legislation 2381 at Parliament relating to precursors is final, but the NA does cooperate in efforts to identify and destroy chemicals.

Cultivation/Production. Cultivation and production of illicit drugs are not issues.

Seizures. Available drug seizure statistics for calendar year 2004 are as follows:

Aruba seized 226.122 kilograms of cocaine, 16.901 kilograms of heroin, 91.838 kilograms of marijuana, 115 grams of hashish, and 1070 tablets of MDMA ("Ecstasy"), and 636 marijuana plants. Arrests: 222.

The NA seized 9,076.786 kilograms of cocaine, 25.340 kilograms of heroin, 237.926 kilograms of marijuana, and 50,143 tablets of MDMA ("Ecstasy"). Arrests: 1409.

Corruption. The effect of official corruption on the production, transportation, and processing of illegal drugs is not an issue for Aruba. During 2004, the NA continued an aggressive and notably successful program to identify certain links from prominent traffickers in the region to law enforcement officials, which prompted additional investigation in the region. The NA has been quick to address these issues through criminal investigations, internal investigations, new hiring practices, and continued monitoring of law enforcement officials that hold sensitive positions. To prevent such public corruption, there is a judiciary that enjoys a well-deserved reputation for integrity. It has close ties with the Dutch legal system including extensive seconding of Dutch prosecutors and judges to fill positions for which there are no qualified candidates among the small Antillean and Aruban populations.

Domestic Programs (Demand Reduction). Both the NA and Aruba have ongoing demand reduction programs, but need additional resources. Aruba, having identified and acquired a site, plans to open a comprehensive drug rehabilitation and shelter facility as early as March 2005. The Korps Politie of Curacao completed final training during February 2004 of its well-trained Demand Reduction staff to do presentations at local schools. St Maarten has followed suit with plans to complete a formal program during the coming months.

IV. U.S. Policy Initiatives and Programs

The United States encourages Aruban and NA law enforcement officials to participate in INL-funded regional training courses provided by U.S. agencies at the GOA and GONA's expense. Chiefly through the DEA and DHS/Immigration and Customs Enforcement, the United States is able to provide assistance to enhance technical capabilities as well as some targeted training. During 2004, the DEA directly sponsored law enforcement initiatives worth more than \$1 million in the NA and Aruba. The U.S. continues to search for ways in which locally assigned U.S. law enforcement personnel can share their expertise with host country counterparts.

Appreciation of the importance of intelligence to effective law enforcement has grown in the Dutch Caribbean. The USG is expanding intelligence sharing with GOA and GONA officials as they realize the mutual benefits that result from such sharing. Because U.S.-provided intelligence must meet the strict requirements of local law, sharing of intelligence and law enforcement information requires ongoing, extensive liaison work to bridge the difference between U.S. and Dutch-based law.

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 else they 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. An OAS study on maritime trafficking in the Western Hemisphere indicated that cocaine trafficked to Europe is transported primarily 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.

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 some 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. According to U.S. law enforcement officials, the infrastructure built by DTO's operating in the region and other vulnerabilities that exist in the region make it ripe for exploitation by terrorist organizations.

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. All of the Eastern Caribbean countries are parties to the 1971 UN Convention on Psychotropic Substances. Six states are parties to the UN Convention Against Transnational Organized Crime. Two of the states have signed and two more have acceded to that Convention's protocols on trafficking in persons and migrant smuggling; one has signed and two have acceded to the firearms protocol. Six of the seven states are parties to the Inter-American Convention against Corruption; one has signed but not ratified. Two have ratified the Inter-American Convention on Extradition. One state has signed and six states are parties to the Inter-American Firearms Convention. Three states are parties to 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 bilateral mutual legal assistance and extradition treaties in force 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 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 U.S. Coast Guard 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.

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 states also participated in joint operations with French, Dutch, Belgian assets. 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 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 UK investment in maritime training, intelligence support, and joint operations command and control training, are beginning to reap increasing interdiction dividends. In 2004, all of the Eastern Caribbean countries were operating rigid-hull inflatable boats received from the U.S. as their principal maritime counternarcotics interceptor.

Eastern Caribbean coast guards endorsed standard operating procedures for the boats. All but one Eastern Caribbean state have functioning interagency operations centers, called National Joint Coordination Centers (NJCC's). The NJCC's also have access to the Regional Clearance System, administered by the Caribbean Customs Law Enforcement Council in St. Lucia, which registers small craft and crew movements in the Caribbean. 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 end-game interdiction prosecutions, the traffickers' ability to outrun and outmaneuver Eastern Caribbean maritime assets is diminishing.

Interdiction challenges remain, however. Eastern Caribbean maritime assets normally remain within their territorial sea and only venture beyond when favorable interdiction conditions exist. In the past, interdiction of ocean-going drug loads generally has been left to any UK, French, Dutch or U.S. assets that may have been in the region at the time. The U.S. and its European allies in the Caribbean are planning an Eastern Caribbean drug interdiction strategy that will incorporate where possible the capabilities of Eastern Caribbean jurisdictions.

Eastern Caribbean maritime establishments are chronically under-resourced and several have lost their U.S. security assistance funding as a result of not concluding with the U.S. bilateral International Criminal Court non-surrender agreements. Routine drug law enforcement patrolling, particularly at

night, is intermittent and the establishments as a whole do not have a reputation for consistent drug law enforcement 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 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.) With respect to effectiveness, coordination between air and maritime units during operations, a new requirement in the region since the advent of the airborne program, has improved. On a number of occasions, though, the C-26 aircraft have been able to guide maritime and land force units to successful interdictions. Barbados' standard operating procedures for joint maritime interdiction operations have resulted in several significant interdictions in 2004. 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 leading obstacles in most of the Eastern Caribbean states are a lack of funding and proper maritime training of personnel and equipment.

Police drug squad effectiveness in the region also suffers from a lack of resources, including in some cases insufficient equipment and vehicles or dispiriting office infrastructure. 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 ionscan 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. Some of the necessary criminal statutes to bring such cases exist in all Eastern Caribbean countries, such as conspiracy, criminal asset forfeiture and money laundering laws, but they are used infrequently. Other laws or practices that would allow law enforcement agencies to effectively penetrate 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, sentences for drug possession or trafficking do not appear to act as a deterrent.

The U.S., UK and organizations such as the Caribbean Office of the UN Office on Drugs and Crime (UNODC), 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. CALP, however, ended its program December 31, 2004. In 2004 the U.S. sponsored a judicial exchange between a U.S. District Judge and the Eastern Caribbean 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 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.

Progress has been limited. 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; others may believe the judiciary is ill prepared to handle such cases. Without a serious, broad-based prosecution and law enforcement modernization effort, and a greater percentage of national resources given to narcotics law enforcement and prosecution, it is unlikely that the region will develop significant defenses against DTO's, as well as terrorist organizations, money launderers and other international and regional criminals and criminal groups.

In 2004, the seven Eastern Caribbean countries continued to support the treaty-based RSS. Barbados pays 40 percent 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 is fully funded by the USG and operates under the aegis of the RSS. The seven Eastern Caribbean islands that comprise the RSS should make an effort to start contributions before all USG funding is exhausted for the C-26 program.

With the amount 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. This phenomenon is addressed in detail in the money laundering section of this report.

Dominica and St. Kitts and Nevis have economic citizenship programs that are susceptible to abuse through inadequate due diligence checks. Unscrupulous individuals, including suspected members of criminal organizations, can take advantage of economic citizenship programs to ease travel and to modify and/or create multiple identities. Such individuals have also used these false identities to help create offshore entities used in money laundering, financial fraud, migrant smuggling and other illicit activities, as well as to facilitate the travel of the perpetrators of these crimes. Immigration and passport agencies in the Eastern Caribbean countries also are susceptible to corruption and that, combined with the lack of automated immigration records in the region, can facilitate ease of movement for criminals or terrorists. In 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 2004, 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. and would have the effect of improving drug law enforcement and prosecution efforts, if implemented. Eastern Caribbean countries are working on the recommendations given priority 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 ionscan 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) is a party to the Inter-American Convention against Corruption, the Inter-American Convention on Extradition, the Inter-American Convention on Mutual Assistance in Criminal Matters, 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 has signed 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 over-flight 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, and the remaining extradition was denied; the appellate court upheld the denial.

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, and 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 2004, GOAB forces seized 25 kilograms of cocaine and 7,120 kilograms of marijuana, arrested 171 persons on drug-related charges and eradicated 16,178 marijuana plants. Antigua and Barbuda has both conviction-based and civil forfeiture legislation; it is the only Caribbean country with the latter. 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 conduct a schools D.A.R.E. program.

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-fast boats 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 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 is a party to the Inter-American Firearms Convention. Barbados has not signed the Inter-American Convention on Mutual Assistance in Criminal Matters or the Inter-American Convention on Extradition. 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 but has not yet ratified the UN Convention against Transnational Organized Crime and its three protocols. Barbados has an asset-sharing agreement with Canada.

The GOB and the USG have brought into force three important agreements that facilitate counternarcotics cooperation: a maritime agreement with over-flight authority, an extradition treaty and a mutual legal assistance treaty. GOB agencies reported seizing 37 kilograms of cocaine and 2,278 kilograms of marijuana through early December 2004. The GOB brought drug charges against 201 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, Frederick Chris Hawkesworth, was arrested again in 2003 on marijuana trafficking charges. In 2004, the USG sought extradition of Hawkesworth along with four others for attempting to import and distribute cocaine in the United States in July 2002. During an extradition hearing in September regarding the Hawkesworth case, a Magistrate Judge ruled that the Director of Public Prosecution (DPP) could not act as counsel for the USG. This ruling, which has been appealed to the High Court, contravenes the commitments made by the GOB in the U.S.-Barbados extradition treaty.

The GOB has in place a penal system that provides alternative sentencing options beyond prison and fines. The initiative allows community service orders, curfew orders, and other sentencing alternatives. The law was designed to reduce prison overcrowding and provide options for dealing with youthful offenders and drug-addicted criminals. The GOB plans to develop a drug court that will specialize in providing non-custodial sentences for drug offenders, if appropriate.

The Proceeds of Crime Act of 1990 provides for the confiscation of property shown to have been derived or obtained by a person, directly or indirectly, from the commission of certain offenses, including drug trafficking and money laundering, and enables law enforcement authorities to trace such proceeds, benefits or property. The GOB has shared in assets forfeited in U.S. legal proceedings and has seized property belonging to convicted drug traffickers. In November 2001, the GOB amended its law to shift the burden of proof to the accused to demonstrate that property in his/her possession or control is derived from a legitimate source. Absent such proof, the presumption is that the property was derived from the proceeds of crime. Barbados law also provides for freezing bank accounts and prohibiting transactions from suspected accounts for up to 72 hours. Under Barbados

law, anyone convicted of money laundering by the High Court is subject to a fine of \$1 million or 25 years in prison or both.

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 ionscan equipment at the international airport and opened a forensics center. In 2004, Barbados embarked on an ambitious multi-million 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 USD 35 million judicial center. The Barbados Port Authority stated it met 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 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 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.

Through November 2004, Dominican law enforcement agencies reported seizing 271 grams of cocaine, 246 pieces of crack cocaine, and 1035 kilograms of marijuana. They eradicated 167,553 marijuana plants (trees and seedlings), a portion of which was destroyed by the RSS in March 2004 as part of its basic training course. Dominican police arrested 179 persons 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 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 a party to the Inter-American Convention on Mutual Assistance in Criminal Matters, the Inter-American Firearms Convention and the Inter-American Convention against Corruption. Dominica has not signed 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 over-flight 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. The U.S. and Dominica continue to work through extradition requests, specifically the case of Randy Isidore, who remains on bail pending a decision of the Dominican court.

Grenada. South American cocaine traffickers pass through or stop in Grenada's coastal waters and its often un-policed 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.

In the aftermath of Hurricane Ivan, law enforcement officials of necessity turned their attention to restoring civil order and assisting in disaster relief. As a result, transshipments increased during this time. Previously the Grenada's police drug squad had dismantled a Trinidadian cocaine trafficking operation using Grenada as a transshipment point in 2003. Grenada's successes are now temporarily eclipsed by their lack of infrastructure as a result of Hurricane Ivan.

The police drug squad continues to collaborate 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. Relatively small amounts of marijuana are grown in Grenada. Marijuana is imported 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. Grenada 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. Grenada is a party to the UN Convention on Transnational Organized Crime and its three protocols. The GOG and the USG signed a maritime law enforcement cooperation agreement in 1995 and an over-flight and order-to-land amendment to the maritime agreement in 1996. An extradition treaty and a Mutual Legal Assistance Treaty (MLAT) is in force between the U.S. and Grenada. Grenada's police and its financial intelligence unit have been extremely responsive to MLAT requests, particularly in the aftermath of the September 11 attacks in the U.S.

The Drug Control Secretariat of the National Council on Drug Control is very active and effective. Under a 2002 statutory mandate, and with the participation of many government agencies, including the police service, the National Council on Drug Control, headed by the Attorney General, guides and integrates national interdiction and demand reduction policy. Grenada, with OAS assistance, is working on a new national master plan for drug control to cover the period 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 2004, Grenadian authorities reported seizing approximately 24 kilograms of cocaine, 719 pieces of crack cocaine, and 386 kilograms of marijuana. During that period, they arrested 311 persons on drug-related charges. Grenadian law enforcement authorities seized nearly ECD 31,856 (U.S. \$12,021) in connection with drug-related cases.

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. St. Kitts and Nevis is a party to the Inter-American Convention against Corruption and the Inter-American Firearms Convention, but has not signed the Inter-American Convention on Extradition or the Inter-American Convention on Mutual Assistance in Criminal Matters. St. Kitts and Nevis is a party to the UN Convention against Transnational Organized Crime and its three protocols.

The GOSKN signed a maritime law enforcement cooperation agreement with the U.S. in 1995 and an over-flight amendment to the maritime agreement in 1996. In 2000, the USG and the GOSKN brought into force extradition and mutual legal assistance treaties. The GOSK has been responsive to most 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 Department's Bureau for International Narcotics and Law Enforcement Affairs (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. Insufficient political will and the lack of complete independence for police to operate are contributing factors. The GOSKN Defense Force

augments police counternarcotics efforts, particularly in marijuana eradication operations. The government opened a National Joint Coordination Center in 2000. GOSKN officials reported seizing 7 kilograms of cocaine, 1373 grams of heroin, and approximately 365 kilograms of marijuana through November 2004. They arrested 24 people on drug charges and eradicated approximately 3,435 marijuana plants.

The high degree of drug trafficking activity through and around St. Kitts and Nevis and the presence of known, active traffickers in St. Kitts place this small country at great risk for corruption and money laundering activity.

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 imported 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 GOSL police reported seizing 1142 kilograms of cocaine and 207 kilograms of marijuana through November 2004. They arrested 399 persons on drug charges and eradicated approximately 137,606 marijuana plants. The GOSL seized U.S. \$488,000 in drug related assets. 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 finance-related offenses. The GOSL also 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, and the 1971 UN Convention on Psychotropic Substances. The GOSL signed a maritime agreement with the USG in 1995 and an over-flight amendment to the maritime agreement in 1996. An MLAT and an extradition treaty are in force between St. Lucia and the United States. St. Lucia is a party to the Inter-American Firearms Convention, the Inter-American Convention against Corruption, and the Inter-American Convention on Extradition. St. Lucia has signed but has not yet ratified the UN Convention against Transnational Organized Crime.

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 level 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. 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 2004, Government of St. Vincent and the Grenadines (GOSVG) officials reported seizing 28 kilograms of cocaine and approximately 2027 kilograms of marijuana. They arrested 375 persons on drug-related charges and eradicated approximately 175,025 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 has improved its performance as a result of receiving from INL two new rigid-hull inflatable interceptors.

St. Vincent and the Grenadines is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The GOSVG is a party to the Inter-American Convention against Corruption, and has signed but not ratified the Inter-American Convention against Firearms. The GOSVG has signed but not yet ratified the UN Convention against Transnational Organized Crime and its protocols on trafficking in persons and migrant smuggling.

The GOSVG signed a maritime agreement with the USG in 1995, but it has not yet signed an over-flight 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 2004. St. Vincent police were extremely cooperative in executing search warrants pursuant to a U.S. MLAT that resulted in approximately U.S. \$350,000 worth of confiscated property in 2004.

An advisory council on drug abuse and prevention, mandated by statute, has been largely inactive for several years. A draft national counternarcotics plan remains pending. 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, Martinique, Guadeloupe, the French side of St. Martin, and St. Barthelemy are all part of France and subject to French law, including all international anticrime conventions signed by France. (Not all French international agreements apply outside metropolitan 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 French Judiciary Police, Gendarmerie, and Customs Service play a major role in narcotics law enforcement in France's overseas departments, just as they do in the rest of France. South American cocaine may move through the French Caribbean and from French Guiana to Europe, and, to a lesser extent, to the United States.

As in 2003, evidence in 2004 did not support a finding that drugs entering the United States from the French Caribbean had a significant effect on the United States; however, the United States considers the broad geographical area of the eastern and southern Caribbean, of which the French Caribbean is a part, as an area of concern. A small amount of cannabis is cultivated in French Guiana. However, officials are seeing an increase in cocaine coming directly to France from the French Caribbean, giving impetus to the creation of the Martinique Task Force.

In July, customs officials at Orly airport in Paris seized 92 kilograms of cocaine, valued at 4 million euros, hidden in a jet ski arriving from the French Antilles. The officers arrested seven people and seized cash as well. Later that month, customs officials in French Guiana seized almost 40 kilograms of cocaine from a Paris-bound air passenger; in August, customs officials at Rochambeau Airport in French Guiana seized 21 kilograms of cocaine each from two passengers, for a total of more than 40 kilograms and a street value of 1.7 million euros.

In October, customs officials at Orly seized over 11 kilograms of cocaine from the luggage of two passengers arriving from French Guiana, and later in the month, customs officials at Rochambeau seized another 20 kilograms of cocaine.

Many of the UN Conventions to which France is a party apply to the French Caribbean, including the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention, as amended by the 1972 Protocol, and the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in persons. Several bilateral treaties between the U.S. and France also apply to the French Caribbean, specifically the U.S.-France bilateral narcotics-related agreements, including a 1971 agreement on coordinating action against illegal trafficking, the Customs Mutual Assistance Agreement, a new mutual legal assistance treaty (MLAT) that entered into force in 2001, and a new extradition treaty that entered into force in 2001.

In addition to the above agreements and treaties, counternarcotics cooperation in the Caribbean is enhanced by a multilateral Caribbean customs mutual assistance agreement that provides for information sharing to enforce customs laws, including those relating 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 Government of France 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 Air Trafficking in Narcotic 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.

Since November 2003, the DEA's Paris Country Office has been working with OCRTIS (the French counternarcotics department within the Ministry of the Interior) and the British National Criminal Intelligence Service on an investigation of a predominantly Guyanese cocaine-trafficking organization.

This organization had been sending couriers with kilo quantities of cocaine from the Caribbean through France to England, where the cocaine was distributed as crack. Approximately 30 people linked to this organization have been arrested in France, and over 40 kilos of cocaine have been seized. In Pennsylvania, a violent crack/cocaine organization associated with the Guyanese organization has been dismantled, with approximately 15 people having been arrested.

In early 2004, France established the liaison platform and multinational counternarcotics taskforce in Martinique envisioned in a quadrilateral agreement then-Minister of the Interior Sarkozy signed with Colombia, Spain and the United Kingdom in July 2003. Their cooperation aims to curb the back-haul shipments of cocaine from South America via the French Antilles into Europe. Among a variety of cooperative tools and measures put into place was this liaison platform and drugs task force of the OCRTIS. The task force brings together French National Police, Gendarmerie, and Customs officers alongside colleagues from Spain, the United Kingdom and Colombia. The French have asked the United States to participate in this program. Directors of DEA's Puerto Rico office and DEA's Paris Country Office met with the OCRTIS director in Martinique in late 2003 to arrange for a DEA liaison officer out of the Puerto Rico office to be assigned to the task force; the officer should assume the post early in 2005.

The task force's four main objectives are reinforcing operational capabilities, ensuring real coordination between all parties, enhancing foreign counterparts' understanding of the project, and implementing new law enforcement mandates assumed by the French Navy. The task force presence obviates the need for French police officers to travel from Paris separately for individual matters. In addition, the OCRTIS officer in charge of the Martinique Task Force oversees the OCRTIS liaison officers serving in Central and South America and other Caribbean countries.

In Martinique, the French inter-ministerial Drug Control Training Center (CIFAD) offers training in French, Spanish and English to officials in the Caribbean and in Central and South America, covering such subjects as money laundering, precursor chemicals, mutual legal assistance, 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 EU initiatives to increase counternarcotics assistance to the Caribbean. The EU and its member states, the United States, and other individual and multinational donors are coordinating their assistance programs closely in the region 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, Europe and the Caribbean. In 2004, interdictions and seizures of drugs being sent from Guyana to the U.S., Europe and the Caribbean have increased significantly. The economic, political and social conditions in Guyana make it a prime target for narcotics traffickers to exploit as a transit point. There has been an increase in crime believed to be linked to narcotics trafficking in the past year. The Financial Intelligence Unit, established in 2003, became operational in mid-2004. Guyana's law enforcement officers participated in U.S. funded training. However, joint U.S.-Guyana operations in combating narcotics were undertaken but quickly compromised due to corruption. Guyana is a party to the 1988 UN Drug convention but still 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 an easy transit point for cocaine trafficking from South America to the U.S., Europe and the Caribbean. The volume of traffic passing through Guyana (based on seizures) appears to be significant in local terms and seems to be growing. The amount of drugs coming from Guyana into the U.S. does not yet appear to come in large shipments. However, a recent US\$54.5 million seizure of cocaine in the UK and a US\$20-40 million seizure of 155 kilograms of cocaine in Baltimore highlight the growing capabilities of Guyana's drug traffickers. The country's remote geographic location and limited law enforcement capabilities, as well as high levels of corruption, make the country a prime location for exploitation by drug traffickers.

The GOG's counternarcotics efforts are undermined by the lack of adequate resources for law enforcement, poor coordination among law enforcement agencies, corruption and weak legal and judicial systems. Crimes believed linked to narcotics trafficking are on the rise in Georgetown and the informal economy (believed to be fueled by drug proceeds) is suspected to be between 40-60 percent of the formal sector. DEA interest and involvement in the country has grown over the past year. The appointment of a new police commissioner has been a step forward in the fight against narcotics trafficking. However, a lack of political will and a National Drug Strategy within the government has hampered the implementation of needed reforms to the Guyana Police Force (GPF) and other law enforcement institutions. Guyana is not a producer of cocaine or precursor chemicals.

III. Country Actions Against Drugs in 2004

Drug Flow/Transit. Cocaine flows into and out of Guyana through its porous borders and along its coast. Numerous clandestine airstrips in the mostly inaccessible interior are used to facilitate trafficking from Venezuela and Colombia. Once inside the country, narcotics are carried to Georgetown by road, waterway or air and then sent on to the U.S., Europe and the Caribbean via commercial carriers. It is believed that most flights from Guyana to the U.S. carry illicit narcotics on board. In March, police at JFK International airport conducted an operation involving a major New York-Guyana drug ring that led to 13 arrests. Narcotics are also being sent via cargo ships either directly or through intermediate Caribbean ports to their destinations. In 2004, high profile seizures in the U.S., UK, and other countries involved drugs originating in Guyana. Cocaine was found in shipments of timber, frozen fish, molasses, rice and coconuts upon their arrival in the U.S., UK, Belgium and Guyana. Every commodity that Guyana exports has been used to ship cocaine out of the country.

Corruption. Guyana is party to the Inter-American Convention Against Corruption, but has yet to fully implement its provisions. Allegations of corruption are widespread, and reach to the highest levels of government, but continue to go uninvestigated. In November, a Cheddi Jagan International Airport official, apprehended upon his arrival at JFK International airport, was found to have eight pounds of cocaine. There is also corruption within the GPF and the Customs Anti-Narcotics Unit (CANU). However, the newly appointed Police Commissioner is said to be doing his best to eliminate corruption within the force and DEA is providing vetting for some counternarcotics personnel. There is a correlation between the increase in corruption and the increase in the narcotics trafficking.

Law Enforcement Efforts. GOG counternarcotics efforts are hampered greatly by the lack of adequate resources for law enforcement. The CANU is one of the main agencies responsible for drug-related law enforcement but 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 power over the unit. The scope of the CANU's operation is believed to be largely politically regulated and directed. Many CANU officers are afraid to take independent action for fear of losing their jobs, resulting in minor effective investigation. There is also a great deal of mistrust between CANU officers and the GPF and due to this, there is a lack of information/intelligence sharing. A 2004 DEA effort to work with CANU on a drug interdiction project was compromised before it could be made operational. It is believed that CANU has been penetrated and could be corrupt at every level.

In 2004, 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. The GPF Narcotics Branch and CANU continued to arrest drug couriers at Guyana's international airport en route to the U.S. or Europe. GOG officials believe that GOG counternarcotics agencies interdict only a small percentage of the cocaine and coca paste that transit Guyana. The Guyana Defence Force Coast Guard (GDFCG) continued to conduct patrols with boats acquired from the U.S. There have not yet been any narcotics interdictions at sea.

Policy Initiatives. The GOG continues to express commitment to both domestic and international counternarcotics efforts. In 2003, at the invitation of the GOG, OAS/CICAD personnel visited Guyana to assist in the preparation of a national drug strategy, a project that was sidelined by the Minister of Home Affairs (who is currently on leave due to allegations of involvement in a rogue killing squad). By the end of 2004, the Acting Minister of Home Affairs reported that work on the project was complete and provided the Embassy with a draft copy. A finalized national drug strategy has not been submitted to OAS/CICAD. With material support from the USG, Guyana established a Financial Intelligence Unit (FIU) in late 2003. The FIU was not staffed and operational until July of 2004. Funding for operations is still being sought for the unit. By the end of 2004, the FIU had conducted preliminary investigations on approximately 28 cases and is preparing drafts of legislation related to money laundering.

Cultivation and 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.

Domestic Programs. Some marijuana is consumed domestically. The consumption of cocaine powder, crack cocaine, ecstasy and heroin is increasing. 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. Prevention programs are operated in the prisons and a few urban areas, but lack of resources limits the scope of these efforts. Guyana has no national drug rehabilitation program.

Agreements and Treaties. Guyana is party to the 1971 UN Convention on Psychotropic Substances, the 1988 UN Drug Convention, and the 1961 UN Single Convention, as amended by the 1972

Protocol. Guyana also is a party to the UN Convention Against Transnational Organized Crime and its protocol on trafficking in persons. Guyana is a member of the Organization of American States, and is a party to the Inter-American Convention Against Corruption. The 1931 U.S.-UK extradition treaty is applicable between the U.S. and Guyana. Guyana has an agreement to share narcotics intelligence with the UK. Guyana is also a member of OAS/CICAD. Guyana has a bilateral agreement with the U.S. on maritime counternarcotics cooperation.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. continued to focus its effort on strengthening the GPF through U.S. funded training and the procurement of equipment. In 2004, the USG provided training to the GPF in Intelligence and Organized Crime. The USG also provided counternarcotics training to the Guyana Defense Force (GDF) as well. U.S. officials continued to encourage Guyanese participation in bilateral and multilateral counternarcotics initiatives. With the appointment of the new Police Commissioner in February 2004, DEA efforts in the country have resumed full force. The DEA, DHS, and DOD all provided training courses to both the Guyana Police Force and the Guyana Defense Force in the past year. Some examples include a Maritime Maintenance Subject Matter Expert Exchange and an Organized Crime Intelligence course.

The Road Ahead. Guyana's contentious and inefficient political environment and lack of resources significantly hampers its ability to pursue an effective counternarcotics campaign. The apparent increase in corruption and amount of drugs transiting Guyana will make combating narcotics a very tough challenge. Assistance in strengthening the GPF and GDF's counternarcotics and intelligence capabilities through U.S. funded training and equipment will be critical to GOG efforts. Also important, are U.S. democracy building programs that serve as a foundation for good governance in Guyana. Efforts in this area will need to include strengthening Guyana's weak judicial system, law enforcement infrastructure and reforming legislation to help in combating narcotics. The U.S., along with other international stakeholders, must continue to press for thorough reform. The U.S. will continue to encourage participation in bilateral and multilateral initiatives, as well as implementation of current international conventions and agreements.

Haiti

I. Summary

Haiti's geographical position, weak institutions, and extreme poverty have made it a key conduit for drug traffickers transporting cocaine from South America to the United States and, to a smaller degree, Canada and Europe. The Haitian National Police (HNP) lacks discipline and is riddled with corruption. The judicial system is dysfunctional, its prosecutors and judges susceptible to bribes and intimidation.

Corruption, weak law enforcement capability and lack of Haitian commitment combined to limit Haitian counternarcotics cooperation in general, although Haitian officials have cooperated in some specific cases. The Interim Government of Haiti's (IGOH) major achievement was the arrest and expulsion of Jean Eliobert Jasme and the dissolution of much of his drug organization. In addition, the IGOH has seen the installation of the Joint Information Coordination Center (JICC) and the Maritime Interdiction Task Force (MITF), which though still developing, are already proving useful tools against drug trafficking organizations. However, Haiti's ongoing political and economic crises continued to grip the country in 2004, eclipsing the fight against 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 Director General 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

In early 2004, university students and civil society groups in Port-au-Prince came together peacefully to request the departure of President Aristide. They blamed Aristide's government and his "Lavalas" political party for the persistent corruption and mismanagement existing since the fraudulent legislative elections of 2000. Constant strikes were organized by the "Groupe des 184," a coalition of civic groups and the democratic platform of political parties. As thousands of protesters marched in the streets of Port-au-Prince, they were attacked by pro-Aristide gunmen. The clash between members of the opposition and Aristide followers resulted in the death of innocent students and civilians. On February 29, 2004, Aristide resigned, after four months of strikes and civil disobedience organized by university students, civil society, political parties, and the rebels (ex-soldiers from the army Aristide disbanded ten years previously).

In accordance with the Haitian Constitution, following Aristide's resignation, the President of the Haitian Supreme Court (Cour de Cassation), Boniface Alexandre, was designated to replace Aristide.

U.S. Marines, along with French and Canadian forces, landed on the island to restore order. U.S. and French diplomats worked with the United Nations Representative, the Organization of American States (OAS), and the Haitian Political Parties to set up a transitional government with a "Council of Elders", designated by the International Community, the Lavalas Party, and the Opposition Parties. The role of the Council of Elders was, in the absence of a Parliament, to choose a Prime Minister and a Government that would help to govern the country until the next elections in late 2005. The Prime

Minister was designated on March 12, 2004 and a new Interim Government was functioning on March 17, 2004.

III. Country Actions Against Drugs in 2004

After Aristide's departure, the newly formed IGOH moved to assist the Drug Enforcement Administration (DEA) in fulfilling its commitments made in the Letter of Agreement signed with former President Aristide. Two significant changes following Aristide's departure were the installation of the new Minister of Justice, Bernard Gousse, and the naming of a new Director General of the Haitian National Police, Leon Charles. With the assistance of the U.S. Government, these officials have begun the long process of retraining and re-equipping the HNP. Meanwhile, the HNP and United Nations Troops currently in Haiti have made some strides towards disarming pro-Aristide gangs. OAS support coupled with Narcotics Affairs Section (NAS) funding had bolstered the 'Bureau de la Lutte Contre le Trafic des Stupefiants' (BLTS), the counternarcotics police, to 48 agents by the end of 2004.

Additionally, the IGOH occasionally permitted U.S. air assets to chase drug planes into Haitian territorial waters and assisted in some pursuits in 2004. Between March and December 2004, more than 20 federal drug fugitives were returned to the U.S. by non-extradition means. However, while the IGOH made progress against narcotics traffickers, drug seizures remained low. Several investigations of official drug-related corruption were started, but none resulted in prosecutions by year-end. Pre- and post-Aristide, the DEA facilitated the arrest and expulsion of the following Haitian/Colombian drug cartel members: Chief of Palace Security, Oriel Jean; former BLTS Chief, Evintz Brillant; Haitian Senator Flurel Celestin; Haitian businessman Jean Salim Batrony; and narcotics traffickers Jean Ronald Veilot, Charles Maxime Lafontant, Jean Eliobert Jasme, Carlos Ovalle, Eddie Aurilien and Jacques Ketant.

Corruption. The IGOH has made a major attempt to curb drug-related official corruption. The IGOH reactivated the FIU that had been established during the Aristide regime, appointed new leadership, and provided it the political support necessary to investigate money laundering and corruption. To date, the FIU has launched 183 separate investigations and frozen or seized millions in illegal assets.

Law Enforcement Efforts. There were several joint large-scale U.S.-Haiti law enforcement counternarcotics operations in 2004. In these operations, the DEA seized 2.7 million dollars in Certificates of Deposit and more than one million dollars in U.S. currency. However, Haitian drug trafficking organizations continue to operate with relative impunity. Due to the HNP's lack of human and material resources, the arrival of cocaine from South America is essentially unimpeded. Haiti's roads are very poor, and the HNP has no air assets. The Haitian Coast Guard (HCG) has no presence on the southern coast. The new HCG station at Cap Haitien, on the north coast, was vandalized during periods of civil unrest. Even with substantial assistance from the U.S. Coast Guard, the HCG's ability to patrol is limited by frequent vessel breakdowns, and HCG vessels undergo frequent overhauls at U.S. Government expense. 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 to effectively combat drug trafficking in Haiti.

During the last quarter of 2004, the Airport Narcotics Task Force of the BLTS resumed daily patrols, including inspections of inbound and outbound passengers as well as monitoring all passenger baggage and airfreight. In conjunction with the BLTS, DEA spearheaded the interview and subsequent arrest of five individuals and the seizure of one fixed wing aircraft at the Port-au-Prince International Airport.

In recent years the Joint Information Coordination Center (JICC) has suffered from lack of functioning information systems and communications. Current plans are to revitalize the JICC, with USG assistance. Eventually the JICC will be staffed with nine Haitian analysts. The JICC is responsible for

coordinating and recording information and intelligence developed by ANTF and the Maritime Interdiction Task Force (MITF). In the past, Haiti's JICC has served as useful intelligence collection and coordination service for the DEA. The long-range goal entails equipping the Haitian JICC with the ability to receive and exchange intelligence and information with other JICCs and the El Paso Intelligence Center (EPIC). The DEA Country Office in Port au Prince is also negotiating with DEA headquarters to start a Sensitive Investigative Unit (SIU), which will further assist the Haitian counternarcotics program.

MITF activities are strategically planned and incorporated around Operation Blood Hound canine team activities. Random searches by the Haitian Narcotics Unit are performed daily and aided by the newly installed DEA Tips Hotline. Currently, eight MITF members, all BLTS agents, under the direction of the Haitian National Police, staff the office. Information provided by confidential sources has been helpful in identifying vessels and individuals associated with drug trafficking at the local seaport. MITF maintains crew and cargo lists for all vessels transiting the harbor in Port-au-Prince and forwards this information to the JICC for compilation and dissemination. This team is routinely augmented with members of the Haitian Port Authority, Haitian Customs, and the HCG. High-visibility port sweeps and cargo inspections are routinely conducted to deter trafficking.

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. There were no extraditions pursuant to the treaty in 2004. The GOH has cooperated with specific requests for expulsion of non-Haitians and Haitian drug traffickers. There is no mutual legal assistance treaty with Haiti; in the past, requests for assistance have been made by letters rogatory. No formal requests for assistance were made by this method nor through the mutual legal assistance provision of the 1988 UN Drug Convention. A U.S.-Haiti maritime counternarcotics agreement entered into force in 2002, and the GOH routinely approves USCG requests for overflight of its territorial seas to detect and deter illegal migration. The GOH has signed, but not ratified, the OAS mutual legal assistance treaty, the Inter-American Convention Against Corruption, the Caribbean Regional Maritime Agreement, the UN Convention Against Transnational Organized Crime, and the UN Convention Against Corruption.

Cultivation and 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 and Transit. Haiti remains an important transit country for Colombian drug traffickers due to its geographic location between the U.S., Central and South America. Haiti functions as a command, control and communications center for cocaine transshipment activities destined for the United States. Haiti presents several problems for effective counternarcotics efforts, which include approximately 1,125 miles of unprotected shoreline; numerous uncontrolled seaports; numerous clandestine airstrips; a thriving contraband trade; weak democratic institutions; a fledging civilian police force and a dysfunctional judiciary system. These factors contribute to the use of Haiti by drug traffickers as a strategic transshipment point of distribution.

Drug trafficking by small aircraft increased in 2004. Intelligence indicates the reasons for the increase are the lack of governmental control throughout much of the country, reorganization of the Haitian National Police (HNP) and confusion surrounding efforts to coordinate Haitian activities with the UN troops. The most frequent method of transshipment is still via small coastal freighters departing the northern coast of Haiti to the Bahamas or directly to Southern Florida.

Go-fast boats traveling directly from the northern coast of Colombia to a variety of strategic locations on Haiti's southern coast continue to inundate the southern coast of Haiti with cocaine. These go-fast boats meet Haitian fishing vessels waiting offshore at coastal towns such as Les Cayes, Aquin, Cote de Fer, Jeremie, Port Salut, Belle Anse, Grand Gosier and Jacmel. Cocaine air shipments arriving from Colombia have been on the rise since the change of government.

Intelligence also indicates that multi-hundred kilogram loads are being sent to Haiti via cargo freighters arriving from Colombia, Venezuela, and Panama. Shipments are concealed within legitimate cargo (e.g., bags of cement) or inside the vessel structure itself (such as in ballast tanks, keel caches, and false water/fuel tanks). Sophisticated hidden compartments are also constructed deep within these freighters, and are extremely difficult to detect without inside information.

Shipments arrive at seaports such as Port-au-Prince, Gonaives, Miragoane, Saint Marc, Cap Haitien and Port de Paix. The loads are then often transported to Port-au-Prince, where they are broken down. Smaller loads are concealed on cargo and coastal freighters leaving Cap Haitien, Port de Paix, Miragoane and Gonaives for the United States. Smaller vessels carry loads of cocaine from Haiti's northern coast to the Bahamas for continued transport to Florida via fishing vessels or pleasure boats.

Some traffickers prefer to smuggle cocaine to the U.S. via commercial aircraft. Utilizing the Port-au-Prince International Airport, traffickers smuggle multi-kilogram loads placed in checked luggage with secret compartments. Couriers, strapping cocaine to their bodies, continue to smuggle smaller amounts of cocaine on board commercial flights to New York, Miami, Toronto and Montreal. Quantities of three to six kilograms are often body-carried, while larger amounts are sometimes concealed in artifacts and air cargo luggage carts.

Large quantities of cocaine are also being driven across the border to the Dominican Republic for eventual shipment to Puerto Rico or other destinations. The land border with the Dominican Republic is porous, due to difficult terrain, lack of control, and police corruption on both sides.

Marijuana is usually transported from Jamaica via go-fast boats to waiting fishing vessels and via cargo freighters to Haitian seaports along Haiti's southern coast. The marijuana is then shipped directly to the United States or transshipped through the Bahamas. One significant seizure near the Malpasse border during the fourth quarter captured approximately 76 kilograms.

Heroin usage for personal consumption is non-existent in Haiti. However, intelligence indicates that drug planes arriving in Haiti with cocaine cargo often contain smaller kilogram quantities of heroin on board. This heroin is usually moved to the United States and Europe in small kilogram amounts along with cocaine. No reported seizures of heroin were made during this quarter.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. 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. The slow or nonexistent response by the HNP to DEA intelligence allows suspected air and sea deliveries to be completed without challenge. Slow implementation of Haitian enforcement efforts prevents counternarcotics interdiction and hinders significant achievement in the fight against trafficking.

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 are more effective GOH law enforcement and judicial institutions and stronger GOH ability to fund these institutions by means of an effective system for liquidating assets seized from arrested smugglers. 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 a major transit point for South American cocaine en route to the United States and also the largest Caribbean producer and exporter of cannabis. The Government of Jamaica (GOJ) has a National Drug Control Strategy in place that covers both supply and demand reduction. During 2004, the GOJ maintained existing counternarcotics law enforcement and interdiction programs and took several steps to strengthen its counternarcotics law enforcement capability. The GOJ introduced a new Customs arrival form in August 2003 that includes a currency declaration and a new immigration form in October 2004 that captures information in the border management/migration system that was implemented in November 2004. The Port Authority of Jamaica (PAJ) purchased closed-circuit television systems and non-intrusive inspection equipment to strengthen security at Jamaica's seaports. The Jamaica Constabulary Force (JCF) Narcotics Vetted Unit took significant steps to increase its evidential intelligence gathering capabilities in investigating major narcotics and crimes figures. Cooperation between U.S. and GOJ law enforcement agencies is considered excellent in most areas. The GOJ has taken steps to protect itself against drug trafficking and other organized crime, and has made significant strides towards intensifying and focusing its law enforcement efforts towards more effectively disrupting the trafficking of large amounts of cocaine in Jamaica and throughout Jamaica's territorial waters.

The GOJ cooperated on several major international narcotics law enforcement initiatives, which resulted in the arrest of a number of high profile Jamaican, Colombian, Bahamian, and Panamanian narcotics traffickers responsible for the manufacture, trans-shipment, and distribution of vast amounts of cocaine throughout the Central Caribbean region. However, areas of concern include the prosecution of significant drug traffickers operating in Jamaica, increasing the amount of Jamaican 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 2004 made progress towards meeting the goals and objectives of the Convention.

II. Status of Country

Jamaica's 638 miles of coastline and over 110 unmonitored airstrips make it a major transit country for cocaine destined for the U.S. and European (primarily UK) markets as well as 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 with no effective legislation in place, some money laundering does occur, primarily through the purchase of real assets, such as houses and cars. Cash couriers are also a significant concern. 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. A lack of regulations makes Jamaica vulnerable to the illegal diversion of such chemicals.

III. Country Actions Against Drugs in 2004

Despite Jamaica's scarce resources, the GOJ signed a contract worth more than USD 29,000,000 for the construction of three 42-meter patrol boats and the repair of one 37.5-meter vessel. A number of seized go-fast boats and one fixed wing aircraft have been placed into service with the JDF Coast Guard and JDF Air Wing respectively for counternarcotics operations. The PAJ procured and installed more than USD 21 million in non-intrusive inspection equipment, including mobile gamma imaging machines, x-ray machines for high-density cargo, and pallet machine and closed-circuit television

surveillance systems for the Kingston and Montego Bay ports. Electronic access controls should be in place shortly. PAJ also hired expert technical advisors to operate the equipment and provide oversight. Customs continued to implement its modernization plan, which, among other things, calls for the vetting of Customs officers and expansion of the Contraband Enforcement Team (CET) to a staff of 50 over the next two to four years. CET currently has a staff of 43 personnel. In 2003, the GOJ agreed to the establishment of an International Airport Interdiction Task Force comprised of Jamaican, US, UK, and Canadian law enforcement elements which will focus on narcotics trafficking and illegal migration at the country's two major international airports. However, the GOJ has not provided the infrastructure to support the project at either airport. The GOJ continued to fund the operating expenses for the Caribbean Regional Drug Law Enforcement Training Center. Jamaica continues to work to implement the provisions of its 2002-2007 National Anti-Drug Plan, which addresses both supply and demand reduction.

Policy Initiatives. GOJ officials publicly state the government's commitment to combating illegal drugs and drug-related crimes. Similar to a 2002 initiative, the Minister of National Security unveiled in late 2004 a broad-based operation "Kingfish", designed to attack the center of gravity of drug trafficking and criminal organizations and individuals and to stem the rising crime rate and gang violence in Jamaica. This operation supported by the U.S., UK, and Canada leaves no potential target group untouched. The Ministry of National Security (MNS) also placed a JCF officer in Miami at the Office of the Florida Department of Law Enforcement to enhance cooperation on drug matters. The GOJ has drafted several legislative measures such as the Proceeds of Crime Act, a Plea Bargaining Bill, a Terrorism Prevention Act and a Port Security Bill, all designed to rid the country of drug traffickers, and enhance the capabilities of law enforcement to successfully prosecute criminal organizations. These legislative measures are at various stages of legislative process.

The National Intelligence Bureau, established in 2003 to coordinate intelligence function and serve as a clearing house for intelligence information, is still fledgling, but has cleared a major bureaucratic hurdle, (agreeing to vet all members), towards becoming an integral part of the Jamaican law enforcement establishment.

Accomplishments. Collaborative efforts between local and international law enforcement agencies led to the arrest of several major drug traffickers in Jamaica, USA, Bahamas, Colombia and the dismantling of their organizations. Ten arrests were made in Jamaica, including two major traffickers designated drug kingpins by the U.S. President. Three have been ordered extradited to the United States while the others will have their extradition cases heard in Jamaican courts. Another high level Jamaican trafficker was arrested and sentenced in the UK. Business and personal assets such as motor vehicles, cash and property, were also seized. Other collaborative efforts (i.e. operations with JIATF/South) have resulted in large seizures of cocaine and numerous vessels used to transport illicit substances to the U.S., causing an increase in the price of cocaine and increases in cultivation and export of cannabis to fill the void.

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 interdiction efforts. The JCF Narcotics Division is a competent and respected unit. The Narcotics Division is continuing its multi-year restructuring and expansion program, which will increase its staffing to 250 officers over the medium term and to work closely with DEA in investigating significant narcotics trafficking and money laundering organizations in Jamaica.

During 2004, the GOJ seized 1,736 kilograms of cocaine, 23,292 kilograms of cannabis and 38 kilograms of hashish oil, and more than 133,000 Ecstasy tablets. The appearance of Ecstasy on the local illicit narcotics scene is a new phenomenon, but virtually all of it was acquired in a single seizure. Cocaine seizures were slightly higher than 2003, hash oil seizures significantly less and approximately 30 percent less marijuana was seized in 2004 than in 2003. Intelligence-driven

operations, such as “Kingfish”, coordinated with DEA and the JCF vetted-unit continued to target major drug trafficking organizations. The JDF continued to work with USG’s Joint Inter-Agency Task Force/South throughout the year to successfully disrupt a number of planned go-fast deliveries. The GOJ eradicated 411.64 hectares of cannabis and destroyed more than 5 million cannabis seedlings at 403 nurseries. The JCF arrested 5,852 persons on drug charges, including 287 foreigners, in the first eleven months of 2004. 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 in Jamaica, and is a major barrier to more effective counternarcotics actions. Jamaica is a party to the Inter-American Convention against Corruption and signed the consensus agreement on establishing a mechanism to evaluate compliance with the Convention. The GOJ does not encourage or facilitate the illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. The GOJ has a policy of investigating credible reports of public corruption and prosecutes individuals who are linked by reliable evidence to drug-related activity but has not prosecuted any senior GOJ officials for facilitating the illicit production or distribution of such substances, or the laundering of proceeds from illegal drug transactions. 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. Vetting of special units is conducted but only on a voluntary basis due to strong resistance to mandatory vetting by the police union.

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 Inter-American Convention on Mutual Legal Assistance in Criminal Matters. A U.S.-Jamaica maritime counternarcotics cooperation agreement came into force in 1998; expanded Shiprider provisions were negotiated in July 2003 and has now been fully implemented. In September 2003, Jamaica ratified the UN Convention against Transnational Organized Crime and two of its protocols (migrant smuggling and firearms). Jamaica is a party to the 1961 UN Single Convention, the 1972 Protocol amending the Single Convention, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. On October 15, the GOJ signed, but has not yet ratified, the Caribbean Regional Maritime Agreement.

Cultivation/Production. Jamaica is the largest Caribbean producer and exporter of cannabis. There is no accurate estimate of the amount of cannabis under cultivation or the number of harvests per year. Lack of crop survey data and baseline figures makes it impossible to quantify the effect of GOJ eradication efforts on the total crop. The level of marijuana production has changed from large hectares to smaller plots nested in hilly and rocky terrain that proves to be inaccessible to vehicular traffic. A new strain of marijuana maturing to approximately three feet was recently discovered in Westmoreland. Very sophisticated cultivation methods, including portable irrigation systems, generators, floodlights etc, make the fields difficult to locate from the air. As a matter of policy, Jamaica does not use herbicides to eradicate cannabis nor does it have the capability. Manual cutting is the primary eradication method.

Drug Flow/Transit. The cocaine trade in Jamaica has been significantly affected as a result of two successful multinational coordinated counternarcotics enforcement initiatives conducted since March 2004, which have at least temporarily disrupted cocaine trafficking throughout Jamaica and the central Caribbean. The arrest of major Jamaican, Colombian, and Bahamian narcotics traffickers has further resulted in the current disruption of cocaine trafficking throughout Jamaica and much of the Central Caribbean. The successful counternarcotics operations in Jamaica have further led to an increase in

extortion, kidnappings and violence, as drug traffickers pursue alternative sources of income. Jamaican Police officials have reported an increase in the current price of cocaine, from \$7,500 per kilo in mid-2004, to \$9,000-\$10,000 per kilo in October 2004, due to a decrease in supply. Currently, the duration and geographic extent of this disruption is not yet known. Two of the most significant factors that will determine the long-term results of the recent counternarcotics operations will be the results of continuing extradition hearings in Jamaica and the affect that these operations have on drug transportation organizations operating off the North Coast of Colombia.

Cocaine is still being smuggled/transshipped from Colombia's north coast (but in smaller quantities) by major Colombian and Jamaican trafficking groups into and out of Jamaica primarily via maritime vessels (go-fast vessels) and to a lesser extent via private aircraft. Narcotics trafficking groups continue to utilize private aircraft to transport drugs from Jamaica to the Bahamas and then on to the United States. With one hundred and fourteen (114) identified landing strips/fields in Jamaica, these clandestine activities frequently occur undetected throughout the island. Smugglers also use concealment in commercial shipments, and couriers who board airlines or cruise ships with ingested or concealed drugs.

Domestic Programs (Demand Reduction). Cannabis is the drug most frequently abused in Jamaica. However, the use of both powder cocaine and crack cocaine still continues to increase, even though the availability of both forms of the drug on the island has decreased. Consumption of cocaine, heroin and cannabis is illegal. The possession and use of ecstasy (MDMA) is currently controlled under the Food and Drug Act and is subject to relatively light penalties. There is an effort underway to have ecstasy included under the Dangerous Drug Act. Jamaica has several active demand reduction programs including visible projects of the Ministry of Health/National Council on Drug Abuse and the NGO, Addiction Alert, that receive modest U.S. funding support. The UNODC works directly with the GOJ and NGOs to improve demand reduction efforts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Jamaica cooperate in a variety of areas, including maritime interdiction, the apprehension of fugitives, and initiative relating to 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 2004, Jamaica participated in two 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 2004. In February, the U.S. and Jamaica signed a protocol to the bilateral agreement that added provisions for operations from third party platforms, enhancement of safety for civil aircraft in flight, contiguous zone jurisdiction, and technical assistance.

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. One of the three 44-foot fast patrol boats donated in 2003 is now operational, giving JDG more operational flexibility. Three JDFCG crew members, assigned to the U.S. Coast Guard Caribbean Support Tender in 2002, 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, will be on board until August 2005. As part of this program, on December 15th, the USCG delivered a refurbished Eduardono, a 38-foot high-speed pursuit boat, to the JDF/CG along with other spare parts necessary to maintain an operational status for most of the current JDF/CG fleet.

In 2004, 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. continues to fund an advisor to the National Intelligence Bureau and a Law Enforcement Development Advisor to assist the JCF's strategic planning and reform efforts. Members of the highly effective Jamaica Fugitive Apprehension Team (JFAT), with guidance from U.S. Marshals, received specialized training, equipment and operational support. The JFAT is actively working on over 195 cases, the majority of which involve drug or homicide charges. Since January 2004, 15 fugitives were extradited to the U.S. Jamaican authorities are receptive to and cooperative with U.S. requests for extradition, and continue to work with U.S. authorities to accelerate the extradition process. Nonetheless, contested extradition requests can take two to five years to litigate fully.

The U.S.-funded International Office of Migration (IOM) Border Control Project, designed to strengthen the GOJ's ability to monitor the flow of persons into and through Jamaica, was officially launched on November 1, 2004. This pilot project, which has modernized the computer infrastructure at the ports of entry, is now functional. USAID is continuing with 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 further intensify its law enforcement efforts and enhance international cooperation. The U.S. will continue to provide technical assistance and training to assist the GOJ to improve its drug interdiction, cannabis eradication, and demand reduction efforts. The U.S. will also work closely with the police and public prosecutors to enhance the GOJ's ability to identify, investigate, and successfully prosecute significant drug traffickers. The USG will continue to provide assistance and training to the JDFCG to strengthen Jamaica's maritime interdiction efforts. The USG is committed to on-going support for the JCF Narcotics vetted unit, the JFAT and the CET through the provision of specialized training and equipment.

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 essential 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.

Suriname

I. Summary

Suriname is a transit point for South American cocaine en route to Europe and the United States, and for MDMA (ecstasy) from Europe destined for the U.S. market. Evidence is insufficient, however, to establish that the quantity of drugs transiting Suriname has a significant effect on the U.S. A discovery of a drug laboratory in 2003 supports the belief that MDMA is being produced in Suriname. 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 2004, 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 from Europe to the U.S. However, evidence available in 2004 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 2004

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 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 (NAR) is the national coordinating authority. In 2004 Suriname worked to increase its port security, coming into compliance with International Ship and Port Security (ISPS) port security obligations in October.

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 2004, 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. In one instance, cocaine was found being smuggled inside an automobile air filter. Many who evade detection in Suriname are arrested at the airport in Amsterdam, which in January 2004 began implementing a 100 percent inspection policy on all passengers and baggage arriving on inbound flights from Suriname.

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 2004, however, a special unit within the police force continued cooperation with Dutch law enforcement to investigate drug organizations that actively smuggle drugs between Suriname and Holland. Over the course of few days in February, the KPS seized 379 kilograms of cocaine, 800 liters of airplane fuel believed to be involved in cocaine drops, and 82 kilograms of marijuana in eastern Suriname. The initial discovery of the airplane fuel at a police roadblock led to the unraveling of a more involved narcotics deal. Five Surinamers, two Brazilians, and one Columbian were arrested.

In June, a Surinamese judge sentenced four suspects to 7-10 years in prison for establishing an MDMA-producing lab in Suriname in 2003. The KPS Narcotics Brigade had seized 80 kilograms of MDMA in May 2003 and considerable amounts of precursor chemicals from that lab, which was capable of producing 500,000 tablets per day, which evidence suggested were destined for the U.S.

Through October 2004, the GOS seized 676 kilograms of cocaine, 196 kilograms of cannabis, and 2048 ecstasy pills. They also arrested 300 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. In September KPS forces seized a large weapons cache consisting of dozens of guns, thousands of rounds of ammunition, RPG equipment, TNT, grenades, and one kilogram of cocaine believed to be connected to a FARC arms-for-drugs deal. Thirteen suspects were arrested and are awaiting prosecution, including long-time suspected narcotics trafficker Dino Bouterse, the son of former military dictator and convicted drug dealer Desi Bouterse. Dino was previously arrested in 2003 for his alleged involvement in the theft of weapons from an armory of the Surinamese intelligence agency (CIVD), but was subsequently released when several witnesses either recanted previous testimony implicating him or refused to testify. KPS officials confirm that some of the weapons stolen from the CIVD in 2003 were found with the weapons seized in September.

Corruption. Public corruption 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. According to customs reports, the GOS loses roughly \$45 million dollars annually in uncollected customs revenues due to corruption and false invoicing. Investigations show that false invoicing occurs daily, despite heavy fines. In 2004 the customs department initiated attempts to reduce this corruption, including the hiring of a British consultancy group to reorganize the department and the regulation and restriction of gratuities and gifts allowable to customs personnel.

In 2004, 12 police officers were arrested for misconduct ranging from drug charges to manslaughter, five were dismissed for cause, and 17 were suspended. Former military strongman Desi Bouterse

continued to serve in the National Assembly in 2004 despite his 1999 conviction in the Netherlands for narcotics trafficking. A former Minister of Finance and Natural Resources was convicted of corruption and sentenced to one year in prison in 2003 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. The Minister was granted a presidential amnesty and was released from prison in August after serving six months of his sentence. Suriname ratified the Inter-American Convention Against Corruption in 2002, but a comprehensive national anticorruption plan is still in the development stage. Suriname has not yet signed the UN Convention Against Corruption.

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 full 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. 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. The discovery of an MDMA lab in 2003 indicates that MDMA production may be taking place in Suriname.

Drug Flow/Transit. Much of the cocaine entering Suriname is delivered by small aircraft which land on clandestine airstrips located throughout the dense jungle interior where the lack of resources, infrastructure, law enforcement personnel and equipment makes detection and interdiction difficult. Following drug deliveries 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 October, the Suriname Epidemiology Network on Drug Use (SURENDU) was established by NAR through financial and technical support from the European Union. SURENDU is a multi-agency working group established to study the spread, growth and development of substance abuse in Suriname. Its preliminary assessments show an increased demand for cocaine, especially among people aged 30-50. Cocaine is readily available with a relatively low street price. NAR completed a survey in April of emergency room patients in Suriname's largest hospital to determine the number of drug-related emergencies and drug-use among patients. Results indicated a high amount of alcohol-related accidents but usage data for cocaine, marijuana and other narcotics were inconclusive. The study was a part of a larger Caribbean-wide research study of drug use that was undertaken by OAS/CICAD.

Suriname has a Drug Demand Reduction Strategy, incorporated in the Strategic Master Plan, but has not yet fully implemented 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. In 2004, 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 near 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 2004 under an INL amended Letter of Agreement (LOA). In 2004, the F.B.I. conducted two courses on Organized Crime Task Force Development and Intelligence Analysis in Suriname with nationals from Guyana and Trinidad and Tobago also participating. USG funding also went for the purchase of a vehicle database, radios, vehicles, and computer systems. Suriname also 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 swallows and body carriers. The U.S. will encourage the GOS to sign and ratify the Caribbean Regional Maritime Agreement. The U.S. will also urge the GOS to focus on port security, specifically seaports, which are seen as the primary conduits for large shipments of narcotics exiting Suriname. In 2005, 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 drugs from South America to the U.S. and Europe. The quantity of drugs transiting Trinidad and Tobago does not have a significant effect on the U.S. market, but it does have an impact on the U.S. transportation and law enforcement systems. Cannabis is grown in Trinidad and Tobago, but not in sufficient quantities to warrant the designation of Trinidad and Tobago as a major drug producing country. Trinidad and Tobago's petrochemical industry requires precursor chemicals that could be used for drug production. In addition, Trinidad and Tobago's well-developed economy creates the potential for money laundering. (See the money laundering section of this report for more details.)

The Government of Trinidad and Tobago (GOTT) continued to cooperate with the U.S. on counternarcotics issues and allocated significant resources to the fight against illegal drugs. U.S. bilateral efforts in 2004 focused on the provision of technical assistance, training, and materiel to help the GOTT strengthen all facets of its counternarcotics efforts. Organizations such as the Police Service's Organized Crime and Narcotics Unit (OCNU), the Counter-Drug/Crime Task Force (CDCTF), the Trinidad and Tobago Coast Guard (TTCG) and the Customs Marine Interdiction Unit carried out numerous drug interdiction and cannabis eradication operations during 2004, and these units remained very cooperative with their U.S. counterparts throughout the year.

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 and marijuana but also heroin, from South America destined for U.S. and European markets. While the drugs entering the U.S. from Trinidad and Tobago do not have a significant effect on the U.S. market, their steady entry into the U.S. occupies the resources of the transportation and law enforcement systems.

Trinidad and Tobago does not produce coca or opium poppy. While cannabis is grown in the country, it is primarily for domestic use and is not produced 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 the manufacturing of cocaine hydrochloride. Precursor chemicals originating from Trinidad and Tobago have been found in illegal drug labs in Colombia. However, the GOTT Ministry of Health can now track chemical shipments through the country with the help of U.S.-donated computers.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, the GOTT National Drug Council continued to implement counternarcotics policy initiatives from previous years, including elements of the country's counternarcotics master plan. This plan addresses both supply and demand reduction. In addition, the GOTT continued its support for the new Special Anti-Crime Unit (SAUTT), which has responsibility for both counternarcotics and antiskidnapping operations. The GOTT also amended its extradition act with the USG in April to remove legal loopholes and facilitate greater cooperation in the prosecution and extradition of criminals.

The GOTT also took initiatives at the sub-regional level to stem the flow of illegal drugs, including upgrading its coastal radar assets and providing disaster relief/security assistance to the hurricane-ravaged island of Grenada.

Accomplishments. In 2004, senior GOTT officials continued to support counternarcotics initiatives and allocated substantial resources for both new and ongoing programs, often in cooperation with the U.S. The GOTT continued to fund a three-person U.S. Customs Advisory Team that provides technical assistance to the Customs and Excise Division. This unit focuses on improving the effectiveness of the GOTT's passenger and cargo processing and enforcement capabilities. The GOTT also continued to fund an IRS Tax Assistance and Advisory Team that is working with the Bureau of Inland Revenue (BIR) to detect and prosecute financial crimes. The GOTT provided support for the Caribbean Financial Action Task Force (CFATF), which has its secretariat in Port of Spain, and began to implement several of its recommendations to combat money laundering.

The GOTT also maintained its support for the TTCG Air Wing, which has been conducting drug interdiction operations using two C-26 aircraft donated by the U.S. These aircraft, upgraded with sensor packages in 2002 at USG and GOTT expense, provide the GOTT with a maritime surveillance and drug interdiction capability. To enhance its coastal radar net, the GOTT procured an Israeli radar system in 2004.

Law Enforcement Efforts. Senior government officials have attributed rising crime to increased drug availability in Trinidad and Tobago. In response, the GOTT augmented the Ministry of National Security's budget by TT \$2.3 billion (U.S. \$383 million) in FY2004, purchased helicopters and radar systems to increase its intelligence and surveillance capabilities, and continued to support law enforcement hybrid units such as the SAUTT.

The TTCG, OCNU, CDCTF, SAUTT and other specialized policy/military units continued to effect drug interdiction and eradication operations throughout the year, sometimes in cooperation with DEA and U.S. Customs. In 2004, the GOTT seized 160 kilograms of cocaine, 75.6 kilograms of liquid cocaine, 11.6 kilograms of heroin, and 1,850 kilograms of cannabis. The GOTT also eradicated around one million cannabis plants and seedlings during the year.

While arrests and prosecutions focused on individual drug traffickers, there were no notable arrests in 2004 involving major traffickers or organizations. For instance, in January, members of OCNU arrested a member of the TTDF with 500 kilograms of cannabis. In July, officers of the Firearms Interdiction Unit (FIU) arrested two Trinidadians and three Venezuelans with 11.2 kilograms of cocaine, 600 grams of marijuana and assorted firearms. In November, members of the OCNU arrested a Trinidadian, a Venezuelan and a Colombian with 30 kilograms of pure cocaine.

Corruption. Trinidad and Tobago is a party to the Inter-American Convention Against Corruption and has signed the UN Convention Against Corruption. During 2004, there were no charges of drug-related corruption filed against GOTT senior officials, and neither the GOTT nor any of its senior government officials encourage or facilitate the illicit production or distribution of drugs 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, and an integrity commission is authorized to initiate investigations into allegations of corruption.

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.

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 also 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 also a member of the Organization of American States' Inter-American Drug Abuse Commission (OAS/CICAD).

Cultivation and Production. Trinidad and Tobago is not a producer of cocaine or opium poppy. Cannabis, however, 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, on fishing boats, pleasure craft and commercial aircraft. Sizeable quantities of drugs also transit the country through commodities shipments from South America. Drugs are then smuggled out on yachts, in air cargo, and by couriers. Smuggling through the use of drug swallows ("mules") is also on the rise.

Cocaine has been found on airline flights from Guyana transiting Trinidad and Tobago en route to North America. Drug 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. In addition, DEA believes there has been a slight increase in the amount of heroin transiting the country. 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.

There is little to no manufacturing or distribution of synthetic drugs in Trinidad and Tobago.

Domestic Programs (Demand Reduction). The GOTT does not maintain statistics on domestic consumption or numbers of drug users. Trinidad's demand reduction programs are managed by government agencies such as the Ministry of Community Development and Gender Affairs, the National Drug Council in the Ministry of National Security, the Ministry of Education, and the Office of Social Services Delivery, often with assistance from NGOs. The GOTT also funds the National Alcohol and Drug Abuse Prevention Program, which coordinates the activities of NGOs to promote demand reduction. In addition, the GOTT promotes job skills training programs for high-risk youths, and supports police youth clubs with its community-policing branch. The GOTT also has a D.A.R.E. program.

The U.S. has provided funding to enable the NGO SERVOL to expand its program of early childhood education, and has supported demand reduction efforts in Trinidad and Tobago through the sponsorship of police youth clubs, football leagues and public awareness campaigns.

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 illegal drugs through Trinidad and Tobago to the United States. Joint U.S./GOTT efforts focus on 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 by helping to streamline Trinidad and Tobago's judicial process, reduce court backlogs, and protect witnesses from intimidation and murder.

Bilateral Cooperation. The U.S. has a cooperative relationship with the GOTT and continues to provide the Trinidadian law enforcement organizations with training, technical assistance, equipment and vehicles in support of their counternarcotics/anticrime efforts. The U.S. provided equipment and vehicles to the OCNU, drug detection dogs to the TTPS and is in the process of procuring fast interceptor boats and shallow draft interdiction boats for the TTCG and Customs and Excise Division. The U.S. continues to support the use of two C-26 aircraft for maritime counternarcotics interdiction operations and has cooperated with the British to increase the GOTT's ability to detect drug swallows transiting its airports.

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 drug detection. The team continued to work with the Customs Marine Interdiction Unit and Canine Unit to strengthen their counternarcotics capabilities. The team provided technical assistance, along with U.S.-funded computers and training, to help the GOTT establish a Passenger Analytical Unit (PAU) at Piarco International Airport to target passengers for interview and secondary inspection. The PAU, jointly run by the GOTT Customs & Excise and Immigration Divisions, became operational in the summer of 2004. The Unit will enhance drug interdiction and antiterrorist efforts of both the host government and of the U.S.

An IRS Tax Assistance and Advisory Team is helping the Inland Revenue Division detect and prosecute financial crimes. It assisted the GOTT in developing a Criminal Investigation/Tax Fraud Unit that tracks tax evasion and underreporting, which are usually associated with money laundering. The IRS team is also assisting in modernizing the GOTT's tax processing system to make better use of 3rd party sources of income information.

The GOTT, as a founding subscriber to the International Criminal Court, has not signed an Article 98 agreement with the USG. 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/anticrime capabilities. The U.S. will continue to provide training and operational support to the TTCG 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 TTCG Air Wing will increase as training proceeds through 2005.

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 and the Caribbean Financial Action Task Force in the enactment and implementation of effective asset forfeiture and anti-money laundering laws. The U.S. will urge the GOTT to sign and ratify the Caribbean Regional Maritime Agreement.

SOUTHWEST ASIA

Afghanistan

I. Summary

General political and economic circumstances in Afghanistan have improved since January 2004, but the narcotics situation continues to worsen, despite positive steps taken 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 national government and to international efforts to provide related assistance. As a result of the profound destruction and disruption of normal life brought about by more than 25 years of conflict, the lack of legitimate income streams, and the limited enforcement capacity of the national government, the area devoted to poppy cultivation in 2004 set a new record at 206,700 hectares, more than three-times the area devoted to poppy last year. Opium gum production of 4950 metric tons in Afghanistan dwarfed opium gum production in second-place Burma (292 metric tons) by a factor of almost 17 times. Burma's heroin production potential at 28 metric tons is a small fraction (4.8 percent) of Afghanistan's heroin production potential of 582 metric tons. Afghanistan's illicit opium/heroin production can be viewed, for all practical purposes, as the rough equivalent of world illicit heroin production, and it represents an enormous threat to world stability.

With an estimated 40 to 60 percent of its GDP attributed to narcotics (IMF), Afghanistan is on the verge of becoming a narcotics state. Despite the many obstacles, the Government of Afghanistan (GOA) has undertaken major institutional and policy changes that have directly benefited its counternarcotics objectives and have established a sound structural basis to attack the problem. President Hamid Karzai, following his election victory in October, has repeatedly spoken out against the drug trade and has issued decrees banning drug cultivation and trafficking. International counternarcotics (CN) activities, following the overthrow of the Taliban, remain under a multilateral mandate, with the United Kingdom in the lead on CN measures. The international community is continuing to work with the GOA to determine how best to attack Afghanistan's drug problem in a more aggressive manner, including more widespread eradication and efforts against heroin refiners and traffickers. In light of the growing threat the drug trade poses to Afghanistan and the world, the U.S. adopted an enhanced counternarcotics policy in 2004 and a comprehensive program consisting of public information campaigns, alternative livelihood projects, law enforcement development, including justice reform, and interdiction and eradication.

II. Status of Country

Afghanistan remains a significant location for the cultivation, refining, and transit of all forms of unrefined (opium), refined (heroin) and semi-refined (morphine base) opiates. Drugs have been a major factor in the Afghan economy since the Soviet invasion of 1979. Criminal financiers and narcotics traffickers in and outside of Afghanistan take advantage of the ongoing instability. The process of reconstruction that began in 2002 continues to accelerate and is laying the basis for successful counternarcotics programs in the future. Some Afghan opiates reach the United States, but Colombia and Mexico remain the U.S.' largest source for heroin.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The U.S. and the international community, under the UK as lead nation on CN, and the country office of the UN Office on Drugs and Crime (UNODC), maintained an intense policy dialogue with President Karzai, the Afghanistan National Security Council, and various Afghan Ministries throughout the year on the subject of combating narcotics. Urged on by the international

community and recognizing the need for action on the counternarcotics front, the GOA has made significant structural, policy and institutional changes to combat narcotics cultivation, production, and trafficking in Afghanistan, including the following:

- A new Counternarcotics Ministry created in December 2004, replacing the Counternarcotics Directorate, to coordinate and oversee CN policies and other line ministries involved in aspects of counternarcotics policy. The CN Ministry will raise the profile of GOA CN activities and facilitate communication between CN policy makers and practitioners and the President.
- In November 2004, the position of Deputy Minister for Counternarcotics was created in the Ministry of Interior to oversee and coordinate CN enforcement activities.
- A Central Poppy Eradication Force was established in April 2004 to carry out centrally-directed, forced eradication across the country.
- In October 2004, the National Interdiction Unit, a special interdiction force trained by the U.S. Drug Enforcement Administration, was created under the existing Counternarcotics Police.
- The review and updating of the May 2003 National Drug Control Strategy is underway to better address the growing problem and reflect the higher priority the GOA places on CN activities.

The adoption of a new constitution in January 2004 and the presidential election in October 2004 further strengthened the government's authority. Establishment of a national government, legitimized through democratic elections, has created the necessary prerequisites for the series of difficult actions necessary to reverse the deteriorating situation on the narcotics front. Parliamentary and district elections, currently scheduled for spring 2005, will further legitimize the Afghan Government.

Law Enforcement Efforts. The most immediate concern of the GOA is to establish security and rule of law throughout the country. In the current difficult security environment significant drug enforcement work has not yet been possible, beyond a few limited areas. Efforts have been focused on planning and implementing near-term governmental reforms, which lay the groundwork for serious law enforcement actions against illicit cultivation and trafficking of narcotics in the near-term.

The GOA is reviewing a new basic drug law, the Anti-Narcotics Amendment. This revision of the country's basic narcotics law will bring it into compliance with international norms for counternarcotics laws and remove significant loopholes that constrain aggressive law enforcement and hinder the judicial process.

Over 33,000 Afghan National Police were trained in 2004 under an accelerated training program managed by the German government and supported by the U.S. Over the longer term, additional support to equip, mentor and train the border, highway and regular police force in the field will be required, as well as further institutional development of the Ministry of Interior MOI.

The MOI established a Counternarcotics Police department (CNP-A) in 2003 and has established, with help from the international community, three sections of the CNP-A: investigation, intelligence and interdiction. However, piece-meal training and limited funding have hampered development of these units. A new program to build a National Interdiction Unit (NIU) capable of undertaking low and mid-level targeted interdiction operations across the country, under the tutelage of the U.S. Drug Enforcement Administration, is underway. Eventually, this force will be integrated with the CNP-A's other units to build a unified force with regional headquarters around the country.

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 GOA has a sophisticated understanding of this issue, but action in this regard is dependent upon establishment of the necessary specialized police, and licensing arrangements. There are currently no registries or legal requirements for tracking, storing or owning precursor substances.

The U.S. is also providing support for justice reform and training in judicial and prosecutorial enforcement of counternarcotics laws. Aware that general justice reform is a long-term process, the U.S., UK and other donors established the “Counternarcotics Vertical Prosecution Task Force” in late 2004 to move expeditiously against narcotics criminals. The program, to be carried out under the auspices of the UNODC, includes initial training of a select group of judges, prosecutors, and police in specific counternarcotics issues; refurbishment of a secure prison facility; and establishment of a secure court to hold and try major drug offenders. The U.S. plans to assign experienced Federal prosecutors to the Task Force to assist their Afghani counterparts in building and trying cases.

Corruption. In general, most 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 pervasive. Involvement ranges from direct participation in the criminal enterprise, to benefiting financially from taxation or other revenue streams generated by the drug trade. The national government has officially condemned the illicit drug trade, but does not have sufficient power throughout the national territory to suppress 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 GOA 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 is a party to the UN Convention against Transnational Organized Crime and a signatory to the UN Convention Against Corruption.

Illicit Cultivation/Production. Afghanistan contains the largest area of illicit opium poppy cultivation in the world. Poppy is grown commercially in all of its 34 provinces. In 2004, Afghanistan had an unprecedented 206,700 hectares of land planted to poppy. Opium production was an estimated 4950 metric tons. If all of Afghanistan’s opium production were refined into heroin, an estimated 582 metric tons of heroin could have been produced. None of these figures has any precedent. For example, the largest prior production of opium in Afghanistan was 3108 metric tons of opium in 2000; 2004’s production of opium exceeded this level by almost 60 percent. The largest area ever dedicated to growing opium was 165,800 hectares in Burma in 1993; the land devoted to poppy in Afghanistan last year exceeded Burma’s ‘93 cultivation by almost 25 percent. Only pitiful yields for South Asia of 24 kilograms of opium gum per hectare, caused by disease and drought, saved the world from even larger opium gum production in Afghanistan. If yields in 2004 had matched the yields achieved in 2003, Afghanistan would have produced 9715 metric tons of opium, with a potential yield of heroin in excess of 1000 metric tons.

With limited national enforcement reach, the GOA has not been able to enforce its decree banning opium production. The Central Poppy Eradication Force and provincial forces have undertaken only marginal crop destruction in a few locations. 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 has made it very difficult to implement eradication plans. Even a centrally-trained and directed Afghan force faces significant opposition by local people involved in the trade. The lack of sustainable alternative sources of income compounds the difficulty of reducing the opium poppy crop. Because so much of the rural economy is dependent on the opium trade, a major forced eradication campaign, without the provision of viable alternatives, could destroy the already fragile Afghan economy. Rebuilding the agricultural sector and rural economy is fundamental to reducing opium poppy cultivation in Afghanistan.

Drug Flow/Transit. Drug cultivation in Afghanistan is facilitated by both domestic and foreign individuals who lend money and/or provide agricultural inputs to Afghan farmers. These individuals 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, Asia and the Middle East through Iran, Pakistan, and Central Asia. In the South, Southeast and Northeast border regions, 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., Baloch tribesmen on both sides of Afghanistan’s borders with Iran and Pakistan, and the Tajiks in northern Badakhshan Province). Other organized criminal groups are also believed to be involved in transportation onwards to Turkey, Russia and the rest of Europe.

Demand Reduction/Domestic Programs. The GOA 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 GOA resources are being directed to these programs. The UK, Germany, and the U.S., to a lesser degree, have funded specific demand reduction and rehabilitation programs. The GOA (collectively, the MOI, the President’s executive office, the National Security Council) has established public outreach campaigns to discourage drug abuse.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United Kingdom was designated as international lead country on CN activities in Afghanistan in 2002. In 2004, as the drug problem continued to grow out of control and evidence mounted that drug proceeds were supporting Taliban remnants and terrorist groups, the U.S. expanded its CN programs. CN is now one of the U.S.’s top priorities, as solving the narcotics problem is critical to achieving overall success in Afghanistan. The U.S., in coordination with the GOA and the UK, has crafted a comprehensive and integrated program and will provide substantial resources to achieve the following aims:

- Encourage popular support for the government’s CN programs through a broad public affairs campaign.
- Build sustainable alternative sources of income to poppy in rural areas.
- Build capacity to arrest, prosecute and incarcerate drug offenders.
- Destroy drug labs and stockpiles.
- Dismantle the drug trafficking/refining networks.
- Enforce the poppy ban through eradication.

The Road Ahead. The key elements affecting CN activities in Afghanistan are limited security and stability. Poppy cultivation is likely to continue until responsible governmental authority is established throughout the country and 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, drug education, and eradication programs are expected to reduce the amount of opium produced in Afghanistan over time. 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 the Afghan government succeed.

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 (an injectable opiate with medical application as an anesthesia) point to growing narcotics abuse in Bangladesh. Phensidyl is popular because of its low price and widespread availability. While unconfirmed reports circulate of opium and cannabis cultivation along the border with Burma and cannabis cultivation in the southern delta region, there is no evidence that Bangladesh is a significant producer or exporter of narcotics. The Bangladesh government (BDG) officials charged with controlling and preventing illegal substance trafficking lack training, equipment, continuity of leadership, and other resources to detect and interdict the flow of drugs. Moreover, there is minimal coordination among these agencies. Corruption at all levels of government, and in particular law enforcement, hampers the country's drug interdiction efforts. Bangladesh is a party to the 1988 UN Drug Convention.

II. Status of Country

There are unsubstantiated allegations of opium and cannabis production in the Bandarban District along the Burmese border and cannabis production in the southern silt-island ("char") region. The country's porous borders make Bangladesh an attractive transfer point for drugs transiting the region.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Department of Narcotics Control's (DNC) counternarcotics policy initiatives and program 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). Article 5 of the NCA directs the Board to formulate policies and monitor the production, supply, and use of illegal drugs in Bangladesh. The 19-member NNCB, made of up of 12 ministers, six elected members, and the DNC Director General, is charged to meet quarterly, but no meetings have been held since a single meeting was conducted in 2003. There is no master plan for combating drug trafficking and abuse in Bangladesh.

The BDG and USG signed a Letter of Agreement (LOA) in September 2002 to provide equipment and forensic technical assistance to the DNC and its central chemical laboratory. The LOA also provided for training, via the U.S. DOJ, to law enforcement personnel involved in counternarcotics activities. An amendment to the LOA for an increase in funds for training and equipment was signed in 2004. The forensic training project has begun and is projected to last several years, with the trainer making visits every three to four months. The law enforcement training program is also underway, with an established work plan, budget, and deliverables.

Accomplishments. The Department of Narcotics Control is the BDG agency most responsible for counternarcotics efforts in Bangladesh. It is housed within the Ministry of Home Affairs and is currently under the leadership of its third Director General since 2002, who has been in office for just over a year. The organization is chronically under-funded, understaffed, under-trained, and suffers from frequent personnel turnover. Construction has begun on a BDG funded 250-bed treatment facility in Dhaka. Unlike other, much smaller government facilities that only detoxify addicts without rehabilitating them, this facility will dedicate 100 beds to detoxification and treatment and 150 beds to rehabilitation. Completion is slated for 2006.

Law Enforcement Efforts. Law enforcement units engaged in counternarcotics operations include the police, the DNC, the border defense forces known as the Bangladesh Rifles (BDR), customs, the navy, the coast guard, and local magistrates. 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. Regular police and the BDR are viewed as so corrupt and inept at combating everyday crime that a new “Rapid Action Battalion” (RAB) force was recently set up by the central government. Customs, the navy, the coast guard and the DNC all suffer from underfunding, under-equipping, understaffing, and lack of training. Customs officials also lack arrest authority. At ports of entry where customs officials are not stationed with police units, they have no capacity to detain suspected traffickers. Instead, they can only retain the contraband items found. There is no DNC presence at the country’s second largest airport, in Chittagong, which has direct flights to Burma and Thailand. To date, no random searches of crews, ships, boats, vehicles, or containers are being performed at the country’s largest seaport in Chittagong. These obstacles render the overall BDG counternarcotics system almost totally ineffectual. There is also no evidence that law enforcement efforts have any capacity to focus specifically on major traffickers.

According to the DNC, drugs seized by Bangladesh authorities from January through November 2004 are as follows: 12.3 kilograms of heroin (approximately 15 percent increase over the amount seized during all of 2003); 1,720.2 kilograms of marijuana (approximately a 10 percent decrease over the amount seized during all of 2003); 853 ampules of T.D. Jasick injection (approximately a 77 percent decrease over the amount seized during all of 2003); 248.8 liters of phensidyl (approximately a 34 percent decrease over the amount seized during all of 2003); and 2,094 ampules of pathedine injection (approximately a 57 percent increase over the amount seized during all of 2003). It is important to note that these statistics do not reflect all seizures made by all agencies in Bangladesh. However, the DNC believes them to be reflective of general trends in Bangladesh. When examining these DNC data from 1990 to the present, no overall trend emerges. It appears seizures are simply random.

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.

An Anti-Corruption Commission was officially formed in November 2004 with a mandate to investigate corruption and file cases against government officials. However, serious questions remain about the Commission’s ability and commitment to operate effectively and independently of outside influences. 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 drugs or controlled 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, an extradition treaty with Thailand, and an information-sharing relationship with the Government of Burma.

Cultivation/Production. The DNC strongly denies unsubstantiated reports from several NGO and local government officials that opium production takes place in the Bandarban district along the border with Burma. However, the DNC does acknowledge that a limited amount of cannabis is cultivated in the hill tracts near Chittagong, in the southern silt islands, and in the northeastern region, stating that it is for local consumption. The DNC also reports that as soon as knowledge of a cannabis crop reaches its officers, that crop is destroyed in concert with law enforcement agencies.

Drug Flow/Transit. Bangladesh is situated between the Golden Crescent to the west and the Golden Triangle to the east. Opium based pharmaceuticals and other medicinal drugs are being smuggled from India. White heroin comes in from Burma.

Domestic Programs (Demand Reduction). There is no consensus estimate of the number of drug addicts in Bangladesh. A recent DNC study estimated the addict population at two million and growing. Other BDG estimates put the figure as low as 250,000. The total number of drug cases and accused drug offenders doubled between 1999 and 2001 and continues to rise. Media and anecdotal reports suggest that drug abuse, while previously a problem among the ultra-poor, is becoming a major problem among the wealthy and well-educated young. 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.

The BDG currently runs outpatient and detoxification centers in Dhaka, Chittagong, Khulna, and Rajshahi. These centers only remove the drug from the addict's system; they do not address the underlying causes of individual addiction. Hence, they are not successful in dealing with the addiction problem in Bangladesh. There are other, non-governmental centers with a variety of treatment therapies available. Unfortunately, most of these are quite expensive by Bangladeshi standards and therefore beyond the reach of most drug addicts. However, there is a drug addicts' rehabilitation organization, APON, which operates four long-term residential rehabilitation centers, the only such facilities in Bangladesh. While these four facilities only serve and house men, women's outpatient services are provided at an additional center and a land search has begun for a residential treatment center for female addicts. Anecdotal evidence indicates the number of female addicts is increasing.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG continues to support Bangladesh's counternarcotics efforts through various commodities and training assistance programs. Pursuant to the 2002 U.S. LOA, equipment and law enforcement courses were provided in 2004, primarily to the police, but also to DNC laboratory technicians and 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 and forensic training for BDG officials and work with the BDG to construct a comprehensive strategic plan to develop, professionalize, and institutionalize Bangladesh counternarcotics efforts. This will include working with the BDG to stem drug trafficking before it reaches Bangladesh—primarily by improving maritime security but also by improving land border patrolling.

India

I. Summary

India is the only country authorized by the international community to produce opium gum for pharmaceutical use, rather than concentrate of poppy straw (CPS), the processing method used by the other producers of opiate raw material. India's strategic location, between Southeast and Southwest Asia, the two main sources of illicit opium, make it a heroin transshipment area. The northwestern state of Himachal Pradesh increasingly appears to be a center for cultivation and international trafficking of hashish, although most cannabis and hashish trafficked in India is smuggled from Nepal for export. India produces heroin from diverted licit opium for both the domestic addict market and is a modest, but growing, producer of heroin destined for the international market. In the past two years, Indian law enforcement authorities have dismantled two major laboratories—one set to produce methamphetamines and the other, Ecstasy. The Government of India (GOI) formally released the results of the 2001 National Drug Study (NDS) conducted in partnership with UNODC in 2004. Injecting drug use (IDU) of heroin, morphine base (brown heroin), and opiate pharmaceuticals continues to grow; while major metropolitan areas increasingly report the use of cocaine, Ecstasy, and other chemical drugs among the wealthy elite.

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 and 2003, the GOI and the United States conducted a Joint Licit Opium Poppy Survey (JLOPPS) to develop a methodology to estimate opium gum yield. The survey results confirmed the validity of the survey's yield prediction methodology, but lacked key data to apply the study's conclusions directly to India's 2002/03 licit opium crop. The data revealed that several widely used Indian poppy varieties have a low alkaloid yield.

India's large and fairly advanced chemical industry manufactures a wide range of chemicals, including the precursor chemicals acetic anhydride (AA), ephedrine, and pseudoephedrine and other chemicals which can be diverted for the manufacture of illicit narcotics. The GOI controls potential dual use chemicals, including the precursor chemicals AA and pseudoephedrine. Some chemicals are controlled both for import and export, while others are controlled only for import or for export. Violation of any order regulating controlled substance precursors is an offence under the Narcotics Drugs and Psychotropic Substances Act (NDPSA), the GOI's key law controlling drug trafficking, and punishable with imprisonment of up to 10 years. Intentional diversion of any substance (whether it is notified or not as a controlled substance) for illicit manufacture of narcotic drugs and psychotropic substances is also punishable under the NDPSA.

The GOI, in partnership with the Indian Chemical Manufacturing Association, imposes strict access controls on AA, a chemical used to process opium into heroin. These controls include specially fabricated sealing systems, which make it very difficult to tamper with the tankers' inlets and outlets, end-use certificates from the buyers, and special identity cards for drivers driving tankers containing AA. The GOI reviews its chemical controls annually and updates its list of "controlled substances" as necessary. India is a party to the 1988 UN Drug Convention.

II. Status of Country

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. Opium stocks now exceed minimum

requirements, almost tripling between 1999 and 2003, from a stock of 509 metric tons (MT) in 1999/2000 TO 1,386 metric tons in 2003/04.

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) that specifies the number of kilos of opium to be produced per hectare (HA) per state. The MQY is established yearly 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 they produce 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 2002-2003 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 to compare cultivation in similar geo-climatic zones to estimate potential crop yields, assess storm damage, and determine whether opium was being diverted. The satellite results were then confirmed by on-ground CBN visits that measured each farmer’s plot size.

In 2004, CBN again tightened its controls against diversion, conducting 100 percent measurement of each cultivated area. The measurements were cross-checked by supervisory officers. Any cultivation in excess of five percent of the allotted cultivation area was not only uprooted, but the cultivator was also 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 has also reduced the total procurement period of opium in order to minimize opportunities for diversion and deployed additional teams of officers from the Central Excise Department to monitor harvesting and check diversion.

The newest CBN administrative innovation is a project to issue microprocessor chip-based cards (Smart Identity Cards) to opium poppy cultivators. The card carries the personal details of the cultivator, the licensed area, the measured/test measured field area, and the opium tendered by him to the CBN. The card can also store previous years’ data. The information stored on the card is read with handheld terminal/read-write machines that will be provided to field divisions as part of the project. CBN personnel will enter cultivation data into the cultivators’ cards and the data will be uploaded to be transferred to computers at CBN HQs and regional offices. The cards were delivered to cultivators at the time of licensing. CBN has established a model center to begin implementing the project in Rajasthan before deciding whether to carry it out in all other production areas.

The CBN also 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 per kilo of 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 receive a premium, but premium prices can only act as a modest positive incentive. For the 2004/2005 opium harvest year, CBN has drastically lowered the number of hectares licensed (from 21,141 in 2003/2004 to 8,771 in 2004/2005) and the number of farmers licensed (from 105,697 in 2003/2004 to 87,682 in 2004/2005).

Although there is no reliable estimate of diversion from India's licit opium industry, clearly, some diversion does take place. However, it is not possible to pinpoint the amount accurately and there is no evidence that opium or its derivatives diverted from India's fields reaches the U.S. In 2004, the GOI discovered and shut down six morphine base laboratories in India's opium growing areas; four in Uttar Pradesh and two in Madhya Pradesh.

Poppies harvested using CPS are not lanced, and since the dried poppy heads cannot be readily converted into a usable narcotics substance, diversion opportunities are minimal. However, it is inherently difficult to control diversion of opium gum collection because opium gum is collected by hand-scraping the poppy capsule and the gum is later consolidated before collection. The sheer numbers of Indian farmers, farm workers, and others (over one million yearly) who come into contact with 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 narcotics raw materials using the CPS process. The GOI believes the labor intensive gum process used in India is appropriate to the large numbers of relatively small-scale farmers who grow poppy in India.

Processing opium gum is difficult because a residue remains after the narcotic alkaloids have been extracted, which must be disposed of with appropriate environmental safeguards. Because of this, pharmaceutical opiate processing companies prefer using concentrate of poppy straw (CPS) for ease of extracting the opiate alkaloids.

To meet this challenge, the GOI is exploring the possibility of converting some of its opium crop to the CPS method. In 2003, the Ministry of Finance visited several countries that produce CPS to observe CPS extraction methods. The GOI is also examining ways to expand India's opiate pharmaceutical processing industry and the availability of opiate pharmaceutical drugs to Indian consumers through ventures with the private sector. The GOI has invited major Indian pharmaceutical producers to submit proposals that would essentially privatize opium refining and pharmaceutical opiate production.

However, regardless of the GOI's interest in CPS, the financial and social costs of the transfer and the difficulty of purchasing an 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 for licit opium sales.

Morphine base ("brown heroin" heroin) is India's most popularly abused heroin derivative, either through smoking, ("chasing", i.e., inhaling the fumes) or injecting. Most of India's "brown heroin" comes from diverted licit Indian opium and is locally manufactured. Indian "brown heroin" heroin is also increasingly available in Nepal, Bangladesh, Sri Lanka, and the Maldives. Since January 1999, Indian authorities have seized increasing amounts of domestically refined ("white") heroin, which has constituted as much as 80 percent of India's heroin seizures over the past year. Most seized "white" heroin is destined for West Africa and Europe. Heroin seizures on the India/Pakistan border, which had plummeted during the past few years due to the Indian/Pakistani border tensions, appear to be on the upswing.

III. Country Actions Against Drugs in 2004

Policy Initiatives. India's stringent Narcotic Drugs and Psychotropic Substances Act (NDPSA) of 1985 was amended in October 2001, bringing significant flexibility to the Indian sentencing structure for narcotics offenses. The amendments 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 NDPSA also made it more likely that drug traffickers would be refused bail, particularly those serious offenders who are more likely to flee before trial. Amendment of India's sentencing laws for drugs is expected to increase the conviction rate significantly for future violators. In 2003, 8,790 persons were prosecuted, resulting in 3,330 convictions for a conviction rate of 38 percent. For the first 3 quarters of 2004, 4,346 people were prosecuted for drug-related offences, of which 2,224 were convicted. In certain cases involving repeat offenders, who are dealing in commercial quantities of illegal drugs, the law allows for the death penalty. It should be noted that to date, no person has been given the death penalty for drug trafficking in India.

In April 2003, GOI moved the NCB from 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 has enhanced the NCB's law enforcement capabilities and helped 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, such as increasing NCB'S staff and increasing the technical capacities of the NCB's officers.

Accomplishments. 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.

Law Enforcement Efforts. The GOI's decision to fence the India/Pakistan border, while not specifically designed to control drug trafficking, has effectively done so, leading to a drop in the amount of Afghan heroin trafficked through that border. Through October 2004, Indian law enforcement authorities seized 856 kilograms of heroin in 2,087 cases. The majority of this heroin was seized in South India. Indian law enforcement agencies also seized 1,616 kilograms of opium in 451 cases, 4,012 kilograms of hashish in 883 cases and 49 kilograms of morphine base in 137 cases. While hashish and marijuana seizures have increased from last year's seizures, other drug seizures, with the exception of opium, appear to be below last year's seizures. Cocaine seizures, while small, have doubled (from 1 kilogram to 2 kilograms)—confirming what news reports and law enforcement agencies have said for several years, that cocaine is available in India on the wealthy "party circuit," particularly in Mumbai and New Delhi.

Seizures of controlled substance pharmaceutical drugs are also up sharply. In 2003, law enforcement authorities in the states of Nagaland and Assam seized almost 104,087 tablets of diverted Proxyvan, a licit opiate pharmaceutical widely used in Northeast India. In 2003, Indian law enforcement authorities also seized 10.3 kilograms of diazepam in addition to 74,320 ampoules of diverted buprenorphine—a synthetic opiate widely used by injecting drug users throughout India, particularly in Chennai, New Delhi, and North India. Diverted Indian licit controlled pharmaceuticals have also been seized in the Gulf countries, in Afghanistan and in Bangladesh. The GOI does not maintain comprehensive, nationwide statistics on controlled pharmaceutical substance seizures.

On June 2004 the Indian Directorate of Revenue Intelligence (DRI) arrested five individuals who were involved in a poly-drug trafficking organization. In conjunction with the arrest, 350,000 tablets of MDMA (Ecstasy), 8 kilograms of amphetamine and 1.2 tons of Mandrax (methaqualone) were seized. This was the first significant seizure of MDMA in India. In addition, the investigation revealed that the MDMA was produced by the co-conspirators in India. The DRI believes, and DEA agrees, that the MDMA was intended for markets outside of India. The main target in this investigation was previously arrested by DEA in the United States on a drug trafficking case.

DEA New Delhi, in conjunction with NCB, has initiated a number of internet pharmaceutical cases with a nexus to the United States. The cases center around on-line prescriptions being obtained by U.S.-based customers from India in violation of Indian and U.S. laws. Large amounts of pharmaceuticals have been seized in India that were destined for the United States. The investigation

has revealed that the individuals operating the on-line pharmacy are generating hundreds of thousands, or even millions of dollars, in revenues. DHS and Indian Customs are working in coordination with DEA and NCB to investigate the use of courier mail to ship diverted licit pharmaceuticals from India to the U.S.

Corruption. The Indian media regularly report 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 (MLAT) on October 17, 2001, which was ratified by the U.S. Senate, but is awaiting GOI ratification. The change of government in May caused a delay in GOI consideration of the MLAT, but MEA sources indicate the treaty could be ratified soon. An extradition treaty is in effect between the U.S. and India. India has signed but has not yet ratified the UN Convention against Transnational Organized Crime. The USG and the GOI signed the long-awaited Customs Mutual Assistance Agreement on December 15, 2004.

Illicit Cultivation/Production. 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. For those reasons, the GOI has not conducted any major poppy eradication campaigns in the Northeast in the past two years, although 417 acres of illicit poppy plant was destroyed in 2004. Current very rough estimates by the local drug control officials put opium cultivation in Arunachal Pradesh at 1,500 to 2,000 hectares, but there have not been any official GOI illicit crop surveys for over two years. 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. However, the bulk of heroin seized in the past two years has been of domestic origin (NCB estimates 80 percent), seized in South India and apparently destined to Sri Lanka. Trafficking groups operating in India fall into four categories. Most small seizures at the Mumbai and New Delhi international airports are from West African traffickers. Traffickers who maintain familial and/or tribal ties to Pakistan and Afghanistan are responsible for most of the smuggling of Pakistani or Afghan heroin into India. Ethnic Tamil traffickers, centered primarily in Southern India, are alleged to be involved in trafficking between India and Sri Lanka. Indigenous tribal groups in the northeastern states adjacent to Burma maintain ties to Burmese trafficking

organizations and facilitate the entry into Burma of precursor chemicals and into India of refined “white sugar” heroin through the porous Indo/Burma border.

Indian-produced methaqualone (Mandrax) trafficking to Southern and Eastern Africa continues. Although South Africa has increased methaqualone production, India is still believed to be among the world’s largest known clandestine methaqualone producers. Seizures of methaqualone, which is trafficked in both pill and bulk form have varied significantly, from a high of 11,130 kilograms in 2002 to 1,614 kilograms through September 2004. Cannabis smuggled from Nepal is mainly consumed within India, but some makes its way to western destinations. Interestingly, there was also a very large Mandrax seizure (18 metric tons) in China. The drugs appeared to be destined for the South African market.

India is also increasingly emerging as a manufacturer and supplier of licit opiate/psychotropic pharmaceuticals (LOPPS), both organic and synthetic, to the Middle East, Pakistan and Afghanistan. Some of the LOPPS are licitly manufactured and then diverted, often in bulk. Some of the LOPPS are illicitly manufactured as well. Indian-origin LOPPS and other controlled pharmaceutical substances are increasingly being shipped to the U.S. in multiple small quantities, making detection very difficult.

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 smoking “brown heroin” (morphine base) and cannabis remain India’s principal recreational drugs, intravenous drug use (IDU) of LOPPS is rising in India, replacing, almost completely, “white” heroin. In parts of India where IDUs have been denied access to LOPPS, IDUs have turned to injecting “brown heroin.” Drug users in Mumbai have discovered that injecting “brown heroin” is much cheaper than “chasing”), leading to an explosion of “brown heroin” IDU in Mumbai. Various licitly produced psychotropic drugs and opiate painkillers, cough medicines, and codeine are just some of the substances that have emerged as the new drugs of choice. In 2004, the Ministry of Social Justice and Empowerment (MSJE) formally released what is likely the world’s largest drug abuse study, conducted in partnership with UNODC in 2001. The previous government had embargoed the study. The study found that licit opiate abuse accounted for 43 percent of Indian drug abuse. According to the study, drug users are largely young and predominantly male. Although drug abuse cuts across a wide spectrum of India’s society, more than a quarter of drug abusers 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. A new residential treatment program for women IDUs opened in New Delhi in 2004, so that India now has two residential treatment programs for women IDUs. Widespread needle sharing has led to high rates of HIV/AIDS and overdoses.

The popularity of injecting controlled licit pharmaceuticals can be attributed to four factors. First, they are far less expensive than their illegal counterparts. Refined heroin on the illicit market can cost as much as \$2 a dose, while LOPPS usually cost fewer than 40 cents a dose. 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/psychotropic pharmaceuticals are widely available and easy to obtain, since virtually any drug retail outlet will sell them without a prescription.

Because LOPPS produces 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 and other drug paraphernalia 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's Ministry of Social Justice and Empowerment (MSJE) has a three-pronged strategy for demand reduction: building awareness and educating people about drug abuse; dealing with addicts through programs of motivational counseling, treatment, follow-up, and social reintegration; and training volunteers to work in the field of demand reduction. The MSJE's goal is to promote greater community participation and reach 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. The MSJE spent about \$5 million on NGO support last year.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States has a close and cooperative relationship with the GOI on counternarcotics issues. On December 15, 2004, the long-awaited Customs Mutual Assistance Agreement was signed. In September 2003, the United States and India signed Letter of Agreement (LOA) amendments to provide State Department drug assistance funding worth \$2.184 million for counternarcotics law enforcement. In 2004, another \$40,000 was added to the LOA. A separate grant of \$50,000 directly to NGO Navjyoti of the Delhi Police Foundation 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 Road Ahead. The GOI continues to tighten controls over licit opium cultivation. The NCB's move to the Ministry of Home Affairs has enhanced the U.S. relationship with the Ministry and NCB. DEA gave more courses to more law enforcement officials from a wider variety of state and central government law enforcement agencies in 2004 than ever before. The Intelligence Infrastructure Enhancement Project training on link analysis software will yield results in better targeting of drug traffickers and closer cooperation with DEA. 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

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. Maldivian authorities believe, however, that the drug problem is at the root of most crime in the society. The Maldivian government and the U.S. maintain a good working relationship on counternarcotics issues. The Maldives is not a producer of narcotics or precursor chemicals. Officials believe all narcotics that reach the Maldives come from elsewhere and are destined for the local population and are not for transshipment.

The Maldivian government is very focused on the illicit drug issue and is taking steps to address the problem. The government conducted a Rapid Situation Assessment of drug abuse in Maldives during 2003 and published it in 2004. The study was possible due to changes to the narcotics law in 2002, which enabled officials to speak with drug abusers without being required to report them as drug abusers. In line with government officials' assumptions, the study found that the majority of drug abusers are in the 18-35 year-old category. Officials also found that five to ten percent of the population abuses drugs. The study determined that drug abuse had shifted from cannabis to "brown sugar" heroin in recent years. The late-teen onset of drug abuse coincides with completion of secondary education and the lack of sufficient employment opportunities for the growing population of young adults.

In September 2004, the Police Department split from the National Security Service and is now responsible for narcotics law enforcement. The Department has a Narcotics Control Unit staffed by approximately one dozen officers. Given the relatively small scale of the abuse problem in the Maldives, the police believe that only small quantities of narcotics are generally trafficked. Police estimate that between three to four kilograms of heroin are trafficked into Maldives annually. The task of the police is thus quite challenging, as these small quantities are much harder to detect. The police believe that the large number of foreign workers, mainly South Asians, is one possible source of drug trafficking. As the country has a large amount of commerce and traffic via the sea, officials believe that another possible source of drug smuggling is via small commercial vessels. Police plan to engage vessel operators in interdiction efforts.

In prior years, the U.S. has assisted the Maldives in counternarcotics activities, including via direct training and through the Colombo Plan—a regional development agency headquartered in Colombo, Sri Lanka. In 2004, the Colombo Plan conducted U.S.-funded regional narcotics officer training in the Maldives. Previous direct U.S. government funding through State Department narcotics/law enforcement assistance to the Maldives 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.

The Maldivian government established a Narcotics Control Board under the Executive Office of the President—now renamed the National Narcotics Control Bureau (NNCB)—to oversee rehabilitation of addicts and conduct drug abuse avoidance campaigns throughout the islands. At present, Maldives only has a 150-bed treatment center. To address the chronic shortage of space, the government is building an additional 200-bed treatment center, which will only be available to individuals convicted of a drug offense. Officials expect the center to open early in 2005. The NNCB has also begun employing expatriate healthcare professionals, such as child psychologists, to work with population in the treatment centers.

No senior officials of the Maldives is known or suspected to be involved in narcotics-related corruption. It is the policy of the Government of the Maldives to discourage drug abuse by its citizens and to pursue drug traffickers vigorously under Maldivian laws. In 1994, 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. An increase in the use of Nepalese couriers, apprehended by the police, suggests that the country's citizens are becoming more involved in trafficking. Moreover, Nepal's Narcotics Drug Control Law Enforcement Unit (NDCLEU) reports that more Nepalese citizens are investing in and taking a larger role in running trafficking operations. Customs and border controls remain weak, but international cooperation has resulted in increased narcotics-related indictments in Nepal and abroad. The ongoing Maoist insurgency has an impact on rule-of-law and interdiction efforts in many parts of the country. 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. The ongoing Maoist insurgency has an impact on rule-of-law and interdiction efforts in many parts of the country. Police have reconfirmed that production of cannabis is on the rise in the southern areas of the country, and that most is destined for the Indian market. Police have also intercepted locally produced hashish en route to India in quantities of up to 285 kilograms at a time. Media reports have speculated that Nepal's Maoist guerrillas are involved in drug smuggling to finance their insurgency. NDCLEU reports that Maoists are known to have called upon locals in the Birgunj area to increase cannabis production. The NDCLEU reports that the Maoists levy a 40 percent tax on cannabis production in certain areas. Abuse of locally grown and wild cannabis and locally produced 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 2004

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 third year due to the lack of a parliament. The government has not submitted scheduled amendments to its Customs Act to control precursor chemicals. Legislation on asset seizures was drafted in 1997 with UNODC assistance and is under the review of the Ministry of Law and Justice. Legislation on 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 2003 and data through October 2004 indicate that destruction of cannabis plants declined slightly. During the first 10 months of 2004, the Nepal Police arrested 35 foreigners under drug trafficking charges. In February 2004, the largest single seizure (669 kilograms) of locally produced hashish was seized, and was believed to be Canada-bound. The NDCLEU seized nearly double the amount of hashish in 2004 compared with 2003. NDCLEU reported that it seized 75.2 kilograms of hashish and 1.165 kilograms of heroin at Kathmandu's Tribhuvan International Airport (TIA) in 2004. No opium was seized in 2004. Seizures of heroin decreased, and the absolute quantity (a total of approximately 7 kilograms) remained small. Most seizures of heroin and hashish in 2004 occurred within Kathmandu or at TIA as passengers departed Nepal. Seizures of illicit and licit, but illegally held, pharmaceuticals increased in 2004.

Corruption. Nepal continues to have no laws specifically targeting public narcotics-related corruption by senior government officials, although both the Narcotics (Control) Drug Act of 1976 and Nepal's anticorruption legislation could be employed in this regard. There is no government policy to 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. On the contrary, Nepal does what it can to suppress trafficking. There is also no record that senior government officials have engaged in, encouraged or 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 approximately 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 both as couriers and as traffickers 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 donors 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 help 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; will provide support to various parts of the legal establishment to combat corruption and improve rule of law; and will support improvements in the Nepali customs service. The United States will encourage the GON to enact stalled drug legislation.

Pakistan

I. Summary

There is significant opium poppy cultivation in Pakistan, and Pakistan is also an important transit country for Afghan opiates and hashish. According to DEA, Pakistani financier/traffickers may also play an important role in opium production in Afghanistan. In 2004, the USG estimated through aerial and ground surveys that Pakistan's opium poppy harvested crop remained at the 2003 level of approximately 3,100 hectares, although attempted cultivation (before crop eradication) increased slightly. Counternarcotics cooperation between the Government of Pakistan (GOP) and the United States remains excellent. GOP counternarcotics efforts are led by the Anti-Narcotics Force (ANF) under the Ministry of Narcotics Control (MNC), but also include several law enforcement agencies and the Home Departments of Northwest Frontier Province (NWFP) and Balochistan Province. DEA has not been able to confirm that some small heroin production facilities exist in Pakistan, but there is a strong suspicion that some exist.

GOP authorities continue to remain unable to complete three U.S. extradition requests pending in the High Court for nearly a decade. While the GOP extradited one individual in a non-drug-related case during 2004, in addition to the three narcotics cases, three other U.S. extradition requests remain pending, one of which since 1994. 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. The U.S.-Pakistan Joint Working Group on Law Enforcement (JWG) has provided a useful forum for addressing narcotics and other law enforcement issues; it last met during September 1-2, 2004 in Islamabad.

II. Status of Country

After being declared "poppy free" by the United Nations in 2001, ground and aerial surveys in 2004 demonstrated that opium poppy cultivation in fact increased slightly in Pakistan. However, cultivation was almost completely contained in the "nontraditional" areas of Federally Administered Tribal Areas (FATA), in which significant cultivation occurred in 2003. Some possible factors for the increase in cultivation include continuing high prices for poppy, spillover from Afghanistan, better rains, lack of development programs, farmers' expectations of a diminished effect to contain poppy growth due to the GOP focus on counterterrorism, and inaccessibility to the areas of highest cultivation. Due in part to increased monitoring and aggressive eradication efforts, harvested opium poppy in 2004 remained about the same as in 2003 at 3,100 hectares. The Frontier Corps and tribal khassadar forces, who provide security for opium crop destruction operations, continued to be stretched thin due to counterterrorist operations, and the GOP was reluctant to pursue eradication aggressively in some parts of Khyber Agency for fear of disrupting community acquiescence to counterterrorism operations in the area. Although the crop levels are insignificant compared to neighboring Afghanistan (and to the many thousands of hectares under cultivation in Pakistan in the 1990s), the GOP aims to regain poppy-free status through enforcement of a strict "no tolerance" policy for cultivation.

Pakistan remains a substantial trafficking country for heroin, morphine, and hashish from Afghanistan, and according to DEA, Pakistani financiers/traffickers may 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 becoming increasingly smaller, well guarded, and highly mobile, with high-tech communications capability and the ability to take advantage of difficult terrain and widely

dispersed law enforcement personnel. The GOP has expressed concern that as counternarcotics efforts ramp up in Afghanistan, the drug trade will push east into Pakistan. An ambitious, U.S.-funded Border Security Project begun in 2002, however, has significantly improved GOP capacity on the border, and continuing USG assistance should result in greater advances in 2005 and beyond.

The steady flow of drugs into Pakistan has left 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 probably occurs in Pakistan, it is not believed to be a major precursor source country. DEA has unconfirmed intelligence that there are small heroin labs in Pakistan, producing 2-10 kilograms on a weekly basis; the GOP does not have any information that there are heroin labs in Pakistan.

III. Country Actions Against Drugs in 2004

Policy Initiatives. After the unexpected resurgence of poppy cultivation in 2002-2003, the ANF developed an antipoppy strategy to prevent cultivation, eradicate poppy with force when necessary, and to file criminal cases against growers. In Balochistan, 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. The ANF also reported an aggressive eradication campaign in Balochistan, leading to the destruction of 84 percent of the poppy crop in that region—although this figure could not be confirmed by the U.S. Embassy in Pakistan. In the FATA, the traditional cultivation region, the ANF has very limited jurisdiction, but NAS and GOP officials met regularly during the pre-sowing and early growing season with local political authorities to ensure that the tribal residents understood that they must comply with the ban on cultivation or else the GOP would undertake forced eradication and, if necessary, impose fines, arrest growers, and take other measures provided for under special law applicable to the FATA.

The GOP's USG-supported Border Security Project (begun in 2002) made significant progress in 2004. The project is aimed at strengthening security along Pakistan's western border through training to professionalize border forces; provision of vehicles and surveillance and communications equipment to enhance their ability to patrol the remote border areas; and an aviation program to enable aerial surveillance and interdiction missions along the border (although the 8 Huey II helicopters were in high demand for counterterrorism operations, limiting their availability for counternarcotics). Border security will be further enhanced by construction of approximately 390 kilometers of roads in the remote FATA adjacent to NWFP.

Accomplishments. The GOP extended its 1998-2003 Drug Abuse Control Master Plan (covering both supply and demand) through 2006. The GOP has been actively engaged at the ministerial level in regional and international fora on counternarcotics, such as the Paris Pact. The special narcotics courts established in 2001 continued to produce commendable results despite limited resources. As of November 30, 2004, the ANF had registered 722 narcotics cases in the GOP's court system, 450 of which were decided with a 74 percent conviction rate. The GOP also improved its poppy monitoring, particularly in NWFP and Balochistan. This enhanced monitoring might have led to inclusion in GOP statistics of poppy cultivation overlooked in the past.

In October 2004, the Air Wing and the ANF conducted a joint air assault in Balochistan that netted 100 kilograms of heroin and 8 metric tons of poppy pods. The operation, which involved both INL-provided fixed-wing and rotary aircraft, featured noteworthy interagency cooperation in the areas of intelligence gathering, planning, logistic support, and command and control that bodes well for continued joint missions in the future. The ANF also conducted initial aerial poppy surveys with U.S.-supplied helicopters and is planning a series of such surveys during the 2004-2005 growing season. An ANF surveillance flight in May 2004 also identified large poppy fields in Balochistan. ANF and the Frontier Corps mounted an operation that successfully eradicated the poppy and made 12 arrests.

Law Enforcement Efforts. In 2004, the GOP appointed a Minister of Narcotics Control, whose leadership will be crucial for coordinating federal efforts in counternarcotics. The ANF is Pakistan's leading narcotics law enforcement agency. The ANF is operating at 83 percent of authorized strength, with 1,608 of 1,934 authorized personnel, but it expects to address staffing shortfalls with the addition of 114 army personnel by the end of 2004. The GOP is also considering restructuring plans that would almost double ANF's manpower to 3,100, including the addition of needed inspectors and constables. The U.S. has trained and equipped ANF's Special Investigative Cell (SIC), a vetted unit that was established in 2000 to target major trafficking organizations. The performance of the SIC—which now has 59 members, including 37 investigators—continued to improve. The SIC arrested 150 persons as of December 10, 2004—a 42-percent increase over 2003. The SIC also established an eight person unit in Quetta, the provincial capital of Balochistan, where they made eight seizures of morphine-base totaling over 5 metric tons (MT) in 2004. In the past four years, the SIC has conducted a number of joint operations with other national and international law enforcement agencies.

During 2004, GOP security forces reported seizing 24.7 metric tons of heroin (including morphine-based), 2.5 metric tons of opium, and 136 metric tons of hashish. Compared to 2003, overall hashish seizures increased by 55 percent. Overall 2004 heroin seizures by GOP agencies decreased by 27 percent compared to 2003 and varied in quality, although still represented a 178 percent increase over 2002. Additionally, ANF's heroin seizures increased this year by 72 percent from 4.7MT to 8.1MT. Overall GOP opium seizures decreased 53 percent compared to 2003. GOP interlocutors have attributed the decrease in opium seizures to traffickers changing routes and increased processing of opium in other countries, particularly Afghanistan. Even semi-refining of opium to morphine base decreases its weight by a factor of 10, thus facilitating profitable, detection-free trafficking.

In 2004, GOP authorities reported arresting 49,186 individuals on drug-related charges. Several long-running (some 10 years and more) cases in the Pakistani legal system proceeded against major drug traffickers in 2004. In the Sakhi Dost Jan Notezai case (in which the Balochistan High Court dismissed the convictions on two counts, reduced the sentence in a third, and reduced the fine), the Supreme Court of Pakistan admitted an appeal by ANF, issued warrants to arrest the accused, and directly instructed the Inspector General of Police in Balochistan to present them for further court hearings. In the case of Muhammad Asim Khurd, former Finance Minister of Balochistan, the ANF filed an appeal with the Appellate Shariat Court. The ANF also filed an appeal regarding the cases of Manawar Hussain Manj and expects a hearing soon. The appeal of Rahmat Shah Afridi, the editor of the Peshawar-based independent daily "The Frontier Post," is still pending. After a prolonged period of not having any available judges, the Special Narcotics Courts have resumed operations in Quetta and Karachi. Through November 30, 2004, the amount of drug traffickers' assets frozen stood at \$1.85 million and \$1.28 million in assets was forfeited.

While the narcotics courts have improved the processing of drug cases, only the major cases are tried there, and other prosecutions still languish in the system for years. Corruption in the judiciary is believed to be widespread. The ANF has made commendable efforts to address reversals of convictions by hiring its own special prosecutors, who have had admirable results despite limited resources, and by looking to add attorneys as part of its expansion.

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, narcotics-related corruption cannot be ruled out. The government's National Accountability Bureau (NAB) has taken some important steps to address official corruption. As of November 12, 2004, the NAB had investigated 724 cases of corruption. Of the 454 decided cases, 357 were convictions and 62 acquittals. Through this process, the NAB recovered a total of over \$2.1 billion 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.-UK Extradition Treaty, which continued in force for Pakistan following its independence. In September 2004, an extradition request that had been pending since 2002 finally was concluded when the fugitive waived appeal of the extradition finding and Pakistani authorities extradited an individual wanted for kidnapping, rape, and attempted murder. However, lack of action on three pending extradition requests for drug-related cases and three non-narcotics cases continues to be of concern. Problems include inexperience of GOP public prosecutors, confusing legal provisions, permitting multiple appeals, and corruption in the court system. Pakistan has signed but has not yet ratified the UN Convention on Transnational Organized Crime.

Cultivation/Production. Through ground and aerial surveys, the NAS and GOP estimated that approximately 6,600 to 7,500 hectares of opium poppy were cultivated in Pakistan in 2004 (approximately 3,600 to 4,500 hectares in the NWFP/FATA and, according to ANF, approximately 3,000 hectares in Balochistan, although NAS could not verify the numbers due to security constraints). Taking into account ANF's reportedly high levels of eradication in Balochistan, NAS estimates a total harvested crop nationwide of some 3,100 hectares, about the same level as 2003. Eradication efforts in certain areas were hindered by ongoing counterterrorist operations. The great majority of poppy in NWFP/FATA was cultivated in the traditional growing area of Khyber Agency in the FATA (approximately 2,000 hectares)—although 800 hectares of that crop were damaged by insects, disease and drought in the Bara Valley. Kohistan and Kala Dhaka Districts in NWFP saw the next largest, cultivation figures of about 1,000 hectares and 600 hectares respectively. Some argue that the increase in cultivation in Kohistan and Kala Dhaka was statistical in nature, and due more to substantially improved GOP monitoring in those areas in 2004 than to actual increases in cultivation over previous years. Cultivation was almost completely contained in 2004 in the “nontraditional” areas in which significant cultivation occurred in 2003 (Orakzai, Kurram, and North Waziristan (no estimates for South Waziristan are available due to ongoing counterterrorism operations). In Balochistan, ANF reported that the greatest amounts were grown in Qilla Abdullah, Jhal Magsi, and Khuzdar. Based on the estimate of 3,100 hectares of harvested crop in 2004 and the GOP calculation of about 25 kilograms of opium produced per hectare, potential opium production was approximately 70 metric tons.

Drug Flow/Transit. Afghan-origin hashish and opiates transit through Pakistan. Afghanistan opium poppy cultivation has skyrocketed since 2001, and due in part to the post-Taliban spike in cultivation across the border, Pakistan's importance as a transit country has increased, particularly as a conduit to Turkey, by land, and Iran, by land and sea. Afghan opiates trafficked to Europe and North America enter Pakistan's Balochistan and NWFP provinces and exit either through Iran or Pakistan's Makran coast, or through international airports located in Pakistan's major cities. The ANF reports that drugs are being smuggled in the cargo holds of dhows to Yemen, Oman, and United Arab Emirates via the Arabian Sea. Traffickers also transit land routes from Balochistan to Iran and from the tribal agencies of NWFP to Chitral, where they re-enter Afghanistan at Badakhshan province for transit through Central Asia. Convoys in Balochistan generally comprise two to three vehicles with well-armed guards, and use scouts for early warning. The ANF's SIC also observed in 2004 drugs being trafficked from Balochistan to Karachi through concealment in vehicles, rather than in convoys. According to DEA, 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 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, at most. The ANF also believes that traffickers are frequently changing routes and concealment methods to avoid detection.

Pakistan is a major consumer of Afghan 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. The ANF has observed that West African traffickers are using more Central Asian, European, and Pakistani nationals as carriers in addition to Africans. Couriers intercepted in Pakistan were en route to Africa, Nepal, India, Europe, Thailand, Bangladesh, Sri Lanka, and the Middle East (especially United Arab Emirates). Methods of shipment include via hard-side luggage; strapped to the body and concealed from drug sniffing dogs with special sprays; or inside legal objects (such as cell phone batteries). The ANF reports that the use of the postal service has increased for exporting small quantities of heroin abroad. In 2004, the SIC also observed the trend of heroin being heated and rolled into thin sheets and laminated between layers of corrugated cardboard to be used as packaging material for exported goods.

Domestic Programs (Demand Reduction). The GOP has expressed concern about increasing drug abuse in Pakistan, especially in the FATA, where lack of economic opportunity and physical isolation create the conditions in which addiction thrives. Reliable data are hard to obtain, but based on a 2000 National Assessment Study on Drug Abuse in Pakistan, the GOP estimates that there are some four million users, with approximately 500,000 heroin addicts. 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. In 2004, the ANF began a number of demand reduction programs, including a series of UNODC- and USG-funded demand reduction workshops on raising awareness of district officials in the four provinces and on the role of women in drug abuse. Other programs include financial support of NGOs involved in treatment and rehabilitation of drug addicts; establishment of two model addiction and rehabilitation centers in Islamabad and Quetta; a study on drug addiction in women; training for the staff of sixteen treatment and rehabilitation centers in Pakistan with the help of UNODC; and creation of youth groups to prevent drug abuse through organized alternative activities. Mass awareness activities continue in media and schools. While the GOP has the political will to do more, it lacks the resources.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. counternarcotics policy objectives in 2004 were: to continue to help the GOP strengthen the security of its borders against drug trafficking and terrorism; to urge the GOP to expand regional cooperation; to encourage the GOP to reduce opium poppy cultivation, eliminate remaining opium poppy cultivation, and inhibit 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 enactment of comprehensive money laundering legislation; to press for reform of law enforcement institutions; and to encourage cooperation and coordination among GOP agencies with counternarcotics responsibilities.

Bilateral Cooperation. Through the State Department-funded Counternarcotics Program and Border Security Projects, the United States provides operational and commodity assistance to ANF, as well as funding for demand reduction activities and training. The State Department also funds alternative crop, small-scale development, and road building projects in Bajaur, Mohmand, and Khyber Agencies of the FATA. The roads, which open up inaccessible areas, allow forces to eradicate poppy crops, while facilitating farm-to-market access for legitimate crops. The U.S. also funds Narcotics Control Cells in both the Home Department NWFP and the FATA Secretariat to help coordinate

counternarcotics efforts in the province and tribal areas. In addition, the USG provided commodity assistance to Frontier Corps NWFP and Balochistan, who perform counternarcotics missions along the border. The State Department-supported MOI Air Wing program will provide significant benefits to counternarcotics efforts as well, while advancing its primary counterterrorism goal.

The DEA provides operational assistance and advice to ANF's SIC. The ANF continues to cooperate effectively with DEA to raise investigative standards. New investigative equipment, vehicles, and surveillance motorcycles were provided this year. The unit continues to perform work throughout Pakistan, and their DEA-supported expansion began, including the equipping of a new facility and ongoing training.

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. The GOP will need to work with the U.S. to develop a strategy to utilize new resources wisely, increase the coordination among the 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.

Sri Lanka

I. Summary

Sri Lanka has a relatively small-scale drug problem. The Government of Sri Lanka (GSL) remains committed to targeting drug traffickers and implementing nation-wide demand reduction programs. In 2004, the U.S. government strengthened its relationship with Sri Lanka on counternarcotics issues by offering training and seminars for the Sri Lanka Police. A comparatively relaxed security environment as a result of the 2002 ceasefire agreement between the GSL and the Liberation Tigers of Tamil Eelam (LTTE) has opened a new overland drug trafficking route that officials are taking active measures to police and monitor. Although Sri Lanka has signed the 1988 UN Drug Convention, Parliament had not enacted implementing legislation for the convention as of the end of 2004.

II. Status of Country

Sri Lanka is not a significant producer of narcotics or precursor chemicals. GSL officials continue to raise internal awareness of and vigilance against efforts by drug traffickers attempting to use Sri Lanka as a transit point for illicit drug smuggling. Domestically, officials are addressing a modest drug problem, consisting of heroin, cannabis, and increasingly, Ecstasy.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, Sri Lanka made progress in further implementing its counternarcotics strategy, developed in 1994. The lead agency for counternarcotics efforts, the Police Narcotics Bureau (PNB), is headquartered in the capital city of Colombo. The new government, elected in April 2004, has not initiated, to date, any policy changes with respect to counternarcotics activities. The GSL remains committed to on-going efforts to curb illicit drug use and trafficking.

Accomplishments. The PNB and Excise Department worked closely to target cannabis producers and dealers, resulting in several successful arrests. The PNB warmly welcomed and was an active partner in taking full advantage of U.S.-sponsored training for criminal investigative techniques and management practices.

Sri Lanka continued to work with South Asian Association for Regional Cooperation (SAARC) and the United Nations Office of Drugs and Crime (UNODC) on regional narcotics issues. SAARC countries met in Maldives in early 2004 and agreed to establish an interactive website for the SAARC Drug Offense Monitoring Desk, located in Colombo, for all countries to input, share, and review regional narcotics statistics. GSL officials maintain continuous contact with counterparts in India and Pakistan, origin countries for the majority of drugs in Sri Lanka.

Law Enforcement Efforts. The PNB continued close inter-agency cooperation with the Customs Service, the Department of Excise and the Sri Lankan Police to curtail the illicit drug supply lines and local drug dealers and users. As a result of these efforts, GSL officials arrested nearly 2,674 heroin dealers and drug dealers and more than 2,135 cannabis dealers during the first six months of this year. The largest heroin haul for the year, to date, has been 17 kilograms, valued locally at around \$390,000. Law enforcement agencies throughout 2004 made a number of other small-scale seizures of heroin and other drugs. In addition, in response to the slowly increasing Ecstasy usage in upscale venues in Colombo, the PNB made the first two ever Ecstasy-related drug arrests in 2004.

Apart from its Colombo headquarters, the PNB has one sub-unit at the Bandaranaike International Airport near Colombo, complete with operational personnel and a team of narcotics-detecting dogs.

Greater vigilance by PNB officers assigned to the airport sub-station led to increased arrests and narcotics seizures from alleged drug smugglers. During the year, the PNB began the process of establishing additional sub-stations. The next two substations, at the international port in Colombo and the northwest coastal town of Mannar, will be operational shortly. Future sub-stations will also be located in cannabis-growing regions.

Corruption. A government commission, established to investigate bribery and corruption charges against public officials, temporarily resumed operations in 2004. In May 2004, the Judicial Services Commission suspended a Colombo high court judge for granting bail to alleged drug traffickers. Police arrested a leading alleged drug kingpin in connection with the November 2004 murder of a widely respected judge. At the time of this alleged dealer's arrest and questioning, subsequent information revealed that numerous police officers allegedly helped facilitate this individual's illegal activities. In response, the Inspector General of Police, the most senior ranking police official, ordered a complete investigation into any involvement by police officers. The investigation was on-going at year's end.

Agreements and Treaties. Sri Lanka is a party to the 1988 UN Drug Convention and the 1990 SAARC Convention on Narcotic Drugs and Psychotropic Substances. Implementing legislation for both conventions had not reached Parliament by year's end. The Attorney General's office has reviewed both pieces of legislation and anticipates submitting implementing legislation to Parliament in early 2005. 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, and is a party to the UN Convention Against Corruption. An extradition treaty is in force between the U.S. and Sri Lanka.

Cultivation/Production. Small quantities of cannabis are cultivated and used locally. There is little indication that this illicit drug is exported. The majority of the production occurs in the southeast jungles of Sri Lanka. PNB and Excise Department officials work together to locate and eradicate cannabis crops.

Drug Flow/Transit. Some of the heroin entering Sri Lanka is solely for transshipment purposes. With the opening of the northwestern coastal waters in the advent of the ceasefire between the GSL and the LTTE, narcotics traffickers have taken advantage of the short distance across the Palk Strait to transit drugs from India to Sri Lanka. According to police officials, drugs are mainly transported across the strait and then overland to the south. The PNB is attempting to control the area better with the upcoming opening of a sub-station in this region. With no coast guard, however, Sri Lanka's coast remains highly vulnerable to transshipment of heroin moving from India.

Police officials state that the international airport is the second major entry point for the transshipment of illegal narcotics through Sri Lanka. There is no evidence to date that synthetic drugs are manufactured in Sri Lanka. Police note that the Ecstasy found in Colombo social venues is likely trafficked from Thailand.

Domestic Programs (Demand Reduction). The National Dangerous Drugs Control Board (NDDCB) began establishing task forces in each regional province to focus on the issue of drug awareness and rehabilitation at the community level. Each task force works with the existing municipal structure, bringing together officials from the police, prisons, social services, health, education, and NGO sectors. For the first time in 2004, NDDCB officials visited the war-affected north and east provinces to assess the local situation and investigate the possibility of establishing treatment centers in those regions. The GSL continued its support, including financial, of local NGOs conducting demand reduction and drug awareness campaigns. The Sri Lanka Anti Narcotics Association in collaboration with PNB and the Colombo City Traffic Police organized a "Run Against Drug Abuse" in June 2004. The Colombo Plan Drug Advisory Program, a regional organization, pledged its assistance to the government and non-government agencies in their efforts to combat illicit drugs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG remained committed to helping GSL officials develop increased capacity and cooperation for counternarcotics issues. The USG also continued its support of the regional Colombo Plan Drug Advisory Program, which conducts regional and country-specific training seminars, fostering communication and cooperation throughout Asia.

Bilateral Cooperation. In 2004, the USG began implementing, primarily with the PNB, a law enforcement development program. Over 200 officers throughout the police force participated in training seminars. Pursuant to bilateral letters of agreement between the USG and the GSL, the Sri Lanka police are fulfilling their obligations. USG-trained Sri Lanka police are replicating the seminars and scheduling training for colleagues of the original police trainees at the training academies and stations throughout the island. Regional U.S. government officials, primarily DEA, conducted narcotics officer training for their local counterparts in seminar, organized by the Colombo Plan.

Road Ahead. The U.S. government intends to maintain its commitment to aiding the Sri Lanka police to transition from a paramilitary force to a community-focused one. This will be accomplished with additional assistance for training and continued dialogue between U.S. counternarcotics related agencies and their Sri Lankan counterparts. The U.S. also expects to continue its support of the Colombo Plan. The major tsunami, which hit Sri Lanka so tragically hard at the end of 2004, will command a good deal of government attention as initial relief efforts move into longer-term reconstruction.

SOUTHEAST ASIA

[*This text has been revised since its original posting to the website; see version as [released to Congress](#).]

Australia

I. Summary

Australia is a committed partner in international efforts to combat illicit drugs, according 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 and supply reduction, and circumscribed harm reduction initiatives. Australia is party to the 1988 UN Drug Convention.

II. Status of Country

Australia is a consumer nation for illicit drugs. There is no evidence indicating that narcotics destined for the U.S. are transiting Australia. U.S. and Australian law enforcement agencies have excellent cooperation on narcotics matters. While domestically produced marijuana is the most abused drug in Australia, the use of MDMA (Ecstasy) and methamphetamine has risen drastically in the past few years. The UN 2004 World Drugs Report indicated that Australia has one of the highest rates of MDMA and methamphetamine abuse in the world. There are also indications that the use of cocaine has increased throughout Australia in recent years. Although the use of heroin has declined since 2000, law enforcement and health officials continue to aggressively target heroin trafficking and abuse.

III. Country Actions Against Drugs in 2004

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, called "Tough on Drugs," outlines a program to address drug issues. Australia has committed more than US\$750 million (AU\$1 billion) to the Strategy. (NOTE: Throughout this report, figures are in U.S. dollars, calculated at an exchange rate of A\$1 equals U.S. \$0.75) Since 2002, following the Federal Government's creation of the Australian Crime Commission, state and federal investigators have increased their cooperation, bolstered their enforcement responses to serious crimes such as drug trafficking, and improved prosecution at the appropriate state or federal level. The Federal government committed an additional \$187.4 million in 2003 to the "Tough on Drugs" program to reduce the supply of, and demand for, illicit drugs.

In 2004, the Australian government instituted a national program to educate customs officers, container examiners and other law-enforcement personnel on the precursor chemicals used in the creation of synthetic narcotics. It also increased the budget for drug research by \$3 million. This additional \$3 million is being used to research pseudoephedrine, a common ingredient in cold and cough medicine, which is also a precursor to methamphetamine. The government hopes to develop a pseudoephedrine product that cannot be used as a precursor chemical for methamphetamine. There is an ongoing campaign to prevent illegal sales of pseudoephedrine in Australia. The government also introduced technology in 2004 to help combat narcotics trafficking, most notably a neutron scanner to screen air cargo and an advanced ion scanner that enables customs officials to determine drug type quickly.

Accomplishments. The Australian government continues to implement extensive multi-faceted programs to combat drug trafficking and use in Australia. Throughout 2004, Australian law enforcement officials seized record amounts of Ecstasy and crystal methamphetamine. These seizures were consistent with the reported increased use of these drugs throughout Australia. In addition to

these seizures, Australian law enforcement officials worked closely with law enforcement agencies from Fiji, Vanuatu, the U.S., New Zealand and throughout Asia to dismantle an Asian organized crime group that was establishing large-scale crystal methamphetamine production labs in Fiji and in several Asian countries. It is believed that much of the methamphetamine produced at these labs was destined for Australia. State Police agencies continue to report increases in the number of clandestine methamphetamine labs seized throughout the country. The agencies believe that the level of sophistication in many of these labs has advanced. Australian efforts to control the availability of the precursor chemical pseudoephedrine have led to the increase in illegal bulk pseudoephedrine import attempts into Australia. In May 2004, an Australian multi-agency law enforcement effort resulted in the seizure of approximately 1.5 tons of pseudoephedrine in the Philippines destined for Australian methamphetamine production groups. The trial for defendants arrested as a result of the April/May 2003 seizure of 125 kilograms of heroin from the North Korean cargo vessel MV Pong Su is scheduled to begin in January 2005.

Law Enforcement Efforts. Australian law enforcement agencies continued their aggressive counternarcotics efforts in 2004. Responsibility for these activities is divided among the Federal government—primarily the Australian Federal Police (AFP), the Australian Customs Service (ACS), the Australian Crime Commission (ACC) and the Therapeutic Goods Administration (TGA)—and state/territorial police services throughout the country. The AFP maintains 68 officers in 32 overseas liaison posts in 26 countries to assist in narcotics investigation. Liaison Officers, particularly those in the Pacific Islands and throughout Asia, also assist local law enforcement agencies in training and institution building. The AFP and other Australian law enforcement agencies continue to have close working relationships with U.S. agencies including the DEA and FBI. In recent years, the AFP has increased its liaison network in order to focus on transnational crime, including drug trafficking, terrorist activities and people smuggling. Recently, there has been an increase in cocaine couriers using South Africa to transport cocaine into Australia.

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 state police officers have been investigated and tried 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. The USG has a Customs Mutual Assistance Agreement (CMAA) with Australia. Australia 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 its 1972 Protocol. Australia is a party to the UN Convention against Transnational Organized Crime and its protocol against migrant smuggling.

Cultivation/Production. Cannabis is the only significant illicit drug cultivated in Australia. The use of hydroponic growth sites has been increasing throughout the country in recent years. The cannabis grown in Australia is primarily destined for the domestic market and there is no evidence that Australian marijuana reaches the U.S. in any significant quantity. Australia has a well-established and controlled licit opium crop (12,000 hectares) on the island of Tasmania. Although recent significant seizures of foreign produced methamphetamine may be signaling a change in trafficking patterns, a majority of amphetamine and methamphetamine consumed in Australia is produced in small, often mobile, domestic clandestine laboratories.

Drug Flow/Transit. Historically, Australia has been the target for Asian-based criminal groups trafficking in heroin. This trend is continuing and many of these organizations are also involved in the trafficking of methamphetamines into Australia. The primary source for heroin in Australia continues

to be the Golden Triangle area of Laos, Burma and Thailand. Ecstasy consumed in Australia is primarily imported from Europe with some shipments transiting Asia prior to arrival in Australia. South American cocaine trafficking organizations are utilizing the improved transportation/commercial links between Australia and South America to facilitate the smuggling of cocaine. Couriers from South America are intercepted at international airports on a regular basis.

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 \$4 million to drug prevention programs in schools and \$40 million for compulsory education and a treatment system for 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 harm caused by drugs in Australia.

Although the Federal Government opposes supervised injecting rooms, the legal authority to provide injecting rooms rests with the health and law enforcement agencies in the States and Territories. In May 2001, the State of New South Wales passed legislation to 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

U.S. Policy Initiatives. U.S. counternarcotics activities in Australia feature strong ongoing U.S.-Australian collaboration in investigating, disrupting, and dismantling international illicit drug trafficking organizations. In mid-2002, the U.S. and Australia signed a Memorandum of Understanding to outline these objectives.

Bilateral Cooperation. Cooperation between U.S. and Australian authorities is excellent.

The Road Ahead. Australia shows no sign of lessening its commitment to the international fight against drug trafficking. Australian counternarcotics efforts throughout Asia and the Pacific Islands continue to be extremely robust. The U.S. can expect strong bilateral relations with Australia on counternarcotics issues. The two countries will continue to work closely in support of the UN Drug and Crime Program and other multi-lateral fora.

Burma

I. Summary

Burma is the world's second largest producer of illicit opium and a primary source of amphetamine-type stimulants (ATS) produced in Asia. However, annual production of opium has declined for eight straight years and in 2003 Burma produced 292 metric tons of opium, less than five percent (4.8 percent) of the opium produced in Afghanistan. Burma's opium is grown predominantly in the border region of Shan State, in areas controlled by former insurgent groups (less than one percent of Burma's poppy crop is grown outside of Shan State).

Ethnic Wa cultivators along the Chinese border now account for 65 percent of Burma's total poppy crop, and major Wa traffickers continue to operate with impunity. The United Wa State Army (UWSA) has pledged to end opium production and trafficking at the end of the 2005 poppy harvest, but the government has been unable to curb other Wa drug activities and UWSA involvement in methamphetamine production and trafficking remains a serious concern. During the 2004 drug certification process, the USG determined that Burma was the only country in the world that had "failed demonstrably" to meet its international counternarcotics obligations.

The Burmese government has for several years extended its counternarcotics cooperation with other countries in the region, including the opening over the past three years of five border liaison offices on the Chinese and Thai borders, and annual joint operations with China that have destroyed several major drug trafficking rings. 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, but produces only a small fraction of the opium now produced in Afghanistan. Eradication efforts and enforcement of poppy-free zones have combined to depress cultivation levels for the past four years. According to the UNODC, a persistent and strong demand in Asia for opiates and a falling supply in the Golden Triangle region have led to an 80 percent increase in Burmese village-level opium prices.

Declining poppy cultivation has also led to a sharp increase in the production and export of synthetic drugs. According to a joint U.S./Burma opium yield survey, in 2004 the total land area under poppy cultivation was 30,900 hectares, a 34 percent decrease from the previous year. Estimated opium production in Burma totaled approximately 292 metric tons in 2004, a 40 percent decrease from 2003 and an 89 percent decline over the past eight years. In 2004, the average opium yield dropped eight percent from 2003 to 9.5 kilograms/hectare, well below the peak level of 15.6 kilograms/ha recorded in 1996.

Burma plays a leading role in the regional traffic of 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 using precursors imported from those countries.

According to GOB figures, during the first ten months of 2004, ATS seizures totaled over 8 million tablets, more than double 2003 seizures. Aside from these seizures, the government did not take significant steps to stop ATS production and trafficking. Authorities reported that they destroyed one ATS lab in 2004.

Opium, heroin, and ATS are produced predominantly in the border areas of Shan State, areas controlled by former insurgent groups. Starting in 1989, the Burmese government negotiated a series of individual cease-fire agreements, allowing each of several ethnically distinct tribal peoples limited autonomy and continued narcotics production and trafficking activities in return for peace.

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. The government has yet to put significant pressure on the UWSA to stop illicit drug production or trafficking and the Wa, despite a pledge to be poppy-free in 2005, remain the country’s leading poppy growers and opium producers. According to many reports, the Wa are also major manufacturers and traffickers of ATS pills.

Burma has a small, but growing drug abuse problem.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Burma’s official 15-year counternarcotics plan, launched in 1999, 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 in stages, with eradication efforts coupled to alternative development programs in individual townships, predominantly in Shan State. The government initiated its second five-year phase in 2004. U Sai Lin’s Special Region No. 4 around Mong La has been opium-free since 1997; the Kokang Special Region No. 1 banned poppy cultivation in 2003 after missing a 2000 deadline; and the Wa Special Region No. 2, after several postponements, plans to implement a ban in June 2005.

However, according to the 2004 joint U.S./Burma opium yield survey, poppy cultivation within Wa territories now represents 65 percent of the total Burma crop.

The most significant multilateral effort in support of Burma’s counternarcotics efforts is the modest UNODC/Wa project financed by the United States, Japan, and Germany. UN Human Security Funds also contributed to UNODC-implemented activities parallel to this project. The UNODC/Wa project was initially a five-year, \$12.1 million supply-reduction program to encourage alternative development in territory controlled by the UWSA. In order to meet basic human needs and ensure the sustainability of a projected UWSA opium ban in 2005, the UNODC extended the project until 2007, increased the total budget to \$16.8 million, and broadened the scope from 16 villages to the entire Wa Special Region No. 2.

In 2003, the UNODC also established a new project in the Wa and Kokang areas (“KOWI”) aimed at supporting the humanitarian needs of farmers who have abandoned poppy cultivation. The idea is to prevent any return to poppy cultivation and thus to sustain drug control efforts in the long term. Altogether 18 partner organizations--including the WFP, the FAO, and INGOs--are coordinating activities under the KOWI umbrella. The goal of these interventions, many of which commenced in 2004 or are scheduled to start in early 2005, is to provide assistance to poppy farmers and their families facing the loss of their primary source of income.

Japan and Italy were early donors to UNODC, and KOWI partners received support from Australia, Germany, the European Commission (and ECHO), New Zealand, Sweden, Switzerland, and the United Kingdom. UNODC plans to phase out its participation by 2007.

Bilateral counternarcotics projects include a small, U.S.-financed crop substitution 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 Government of Burma, under a 1993 Narcotics Drugs and Psychotropic Substances Law, has in the intervening years issued notifications controlling 124 narcotic drugs, 113 psychotropic substances, and 25 precursor chemicals. Burma enacted a Mutual Assistance in Criminal Matters Law in April 2004 and, in support of a 2002 Control of Money Laundering Law, enacted in December 2003 “Rules for Control of Money Laundering Law.”

Law Enforcement Measures. The Central Committee for Drug Abuse Control (CCDAC)--which is comprised of personnel from the police, customs, military intelligence, and army--leads drug-enforcement efforts in Burma. The 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, the 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 2004, Burmese police, army, and the Customs Service together seized approximately 579 kilograms of raw opium, 958 kilograms of heroin, 128 kilograms of marijuana, 59 kilograms of morphine, and just over 8 million methamphetamine tablets. Opium, heroin and morphine seizures represent approximately 2.3 percent of Burma’s 2003-year maximum potential opium production

Although seizures of raw opium decreased from 2003, seizures of heroin again doubled for the second year in a row, including a massive heroin bust of almost 600 kilograms in July along Burma’s southern coast, leading to an international investigation, including the Burmese Police Force and DEA that resulted in 35 arrests and the seizure of significant assets and property. Seizures of ATS in 2004 also doubled, reversing a downward trend and providing compelling evidence of growth in ATS production and trafficking. In July 2004, Burmese authorities seized 5.5 million ATS tablets in a single bust in northern Shan State.

Through October 2004, according to official statistics, Burma arrested 3,436 suspects on drug related charges. In 2004 Burmese authorities also arrested and extradited 12 Chinese and 2 Thai drug traffickers, and have handed over 32 other Chinese traffickers to China during the past three years.

The government dismantled only one heroin refinery through the first ten months of 2004, compared to 24 over the previous two years. The GOB also reported the destruction of one methamphetamine laboratory. Both facilities were located in northern Shan State. The government eradicated 3,052 hectares (7,545 acres) of opium poppy in 2004, a fraction of the crops destroyed earlier. However, given a significant decline in the land under poppy cultivation, eradicated acreage represented nearly eight percent of the total 2003-04 crop. Overall eradication accounts for almost one-third of the reduction in area under poppy cultivation since 2001.

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 border 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. In October 2004, the military junta ousted Prime Minister General Khin Nyunt, accusing him and hundreds of his military intelligence subordinates of corruption, including illegal activities conducted in northern Shan State. However, none of these officials has been charged with drug-related offenses and no Burma Army officer over the rank of full colonel has ever been prosecuted for drug offenses.

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 (ratified in 1991). In

September 2003, the 1971 UN Convention 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.

Over the past several years, the Burmese government has extended its regional counternarcotics cooperation, including the signing in 2001 of Memoranda of Understanding (MOUs) with both China and Thailand; the opening over the past three years, with UNODC support, of five border liaison offices on the Chinese and Thai borders to facilitate the sharing of intelligence; annual joint operations with China that have destroyed several major drug trafficking rings; and the establishment with Thailand of three joint "narcotics suppression coordination stations."

Cultivation and Production. According to the 2004 U.S./Burma joint opium yield survey, opium production declined in Burma for the eighth straight year. The survey also found that the maximum potential yield for opium in Burma in 2004 totaled 292 metric tons, down 40 percent from the previous year.

Over the past eight years, opium production in Burma has declined by more than 88 percent. During the same period, the total area under cultivation has also dropped by over 80 percent, from 163,100 hectares in 1996 to approximately 30,900 hectares in 2004 (a 38 percent drop for the year). Due in part to poor rainfall, yields have also declined from an estimated 16 kilograms per hectare in 1996 to about 9.5 kilograms per hectare in 2004.

Results from a UNODC-sponsored survey throughout Shan State in 2004 largely corroborated the findings of the U.S./Burma joint opium yield survey. According to UNODC, the area under poppy cultivation in 2004 declined by 29 percent from the previous year and by 73 percent since 1996. UNODC also determined that potential opium yield declined in 2004 by 54 percent.

According to the GOB, Thailand planned to contribute an additional \$700,000 to an opium crop substitution and infrastructure project in southeastern Shan State, having provided \$960,000 since launching the project in 2002. 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. Also in 2004, with the support of UNODC, Burma and Laos agreed to conduct joint patrols along the Mekong River.

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 ethnic Chinese Kokang, and the Shan State Army-South (SSA-S). Heroin and methamphetamine produced by these groups are trafficked overland (or via the Mekong River) primarily through China, Thailand, India, and, to a lesser extent, Laos, Bangladesh, and Burma itself. Heroin seizures in 2004, and subsequent investigations, revealed the increased use by international syndicates of the Rangoon international airport and port for trafficking of drugs to the global narcotics market.

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. Deteriorating economic conditions will likely stifle significant growth in consumption. However, 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 one percent of the population). Most drug users, particularly among the older generation, use opium, but NGOs and community leaders report increasing use of heroin and synthetic drugs, particularly among disaffected youth in urban areas and workers in ethnic minority mining

communities. The UNODC estimated that in 2003 there were at least 15,000 regular ATS users in Burma and a joint UNODC/UNAIDS/WHO study estimated that there are between 30,000 and 130,000 injecting drug users. There is also a growing HIV/AIDS epidemic, linked in part to intravenous drug use. According to a UNODC regional center, an estimated 24 percent of all intravenous drug users in Burma have tested positive for the HIV/AIDS virus, with a range of 10 to 73 percent depending on the specific location. 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.

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 2003-04 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. 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 Shan State in 1993 and 1995 and annually from 1997 through 2004 with 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 and cooperated with UNODC and major regional allies (particularly China and Thailand) in this fight. Although 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, the military regime's ongoing political repression has limited international support of all kinds, including support for Burma's law enforcement efforts.

Furthermore, a true opium replacement strategy must undertake an extensive range of counternarcotics actions, including crop eradication, effective law enforcement, alternative development, and support for former poppy farmers to ensure sustainability. The Government of Burma must foster cooperation between itself and the ethnic groups involved in drug production and trafficking, especially the Wa, and enforce counternarcotics laws to eliminate poppy cultivation and opium production.

The USG believes that the Government of Burma must continue to reduce poppy cultivation and opium production; prosecute drug-related corruption, especially corrupt government and military officials who facilitate or condone drug trafficking and money laundering; take action against high-level drug traffickers and their organizations; enforce its money-laundering legislation; and expand demand-reduction, prevention, and drug-treatment programs to reduce drug use and control the spread of HIV/AIDS. The GOB must also address the explosion of ATS that has flooded the region by gaining support and cooperation from the ethnic groups, especially the Wa, who manufacture and

distribute 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.

Cambodia

I. Summary

The number of drug-related investigations, arrests and seizures in Cambodia continued to increase in 2004. This reflects an alarming escalation in drug activity and perhaps some increase in law enforcement capacity. The government is concerned at the increasing use of amphetamine-type stimulants (ATS) among all socio-economic levels. 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 and expects to become a party in 2005.

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 more than 100,000 methamphetamine tablets enter Cambodia each day, some 25 percent of which are thought to be re-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. Cocaine use by wealthy Cambodians and foreigners in Cambodia is a relatively small but worrisome new phenomenon.

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. There is also evidence that sassafras extract, from a naturally occurring tree species in Cambodia, is being smuggled in large quantities from Cambodia to Vietnam, where it is further processed to create an MDMA (i.e., “Ecstasy”) precursor.

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. In-country sources estimate that 10 to 20 kilograms of heroin are trafficked through Cambodia daily in the form of small-scale shipments. In addition, apparently reliable reports indicate that more sizeable amounts, somewhere in the region of 50 to 100 kilograms per month, transit into Vietnam on a relatively frequent basis. There are indications of involvement by military personnel in these activities. 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 with the financial help, and 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 2004

Policy Initiatives. Cambodian law enforcement agencies suffer from limited resources, lack of training, and poor coordination. The National Authority for Combating Drugs (NACD), which was reorganized in 1999, has the potential to become an effective policy and coordination unit. With the

backing of the Cambodian government, the UNODC launched in April 2001 a four-year project entitled “Strengthening the Secretariat of the National Authority for Combating Drugs (NACD) 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. The UNODC intends to continue the project beyond 2005 if funding continues.

During 2004, the UN and other donors provided the NACD with vehicles, office and audiovisual equipment, and local area computer network (LAN) servers and computers to support staff e-mail, the NACD website, and law enforcement computer-based training centers (CBT) in three key provinces. In addition, the UNODC supplied 12 provincial drug control committees and two new border liaison offices with motorcycles, radios, cameras, computers, scanners and office equipment to facilitate drug use and trafficking surveillance and on-line data collection efforts and to strengthen sub-regional cross-border law enforcement cooperation. The German government donated a computer to the NACD in 2004 and continued to provide a drug control expert to work within the NACD to help increase the organization’s capacity and to develop demand reduction and treatment programs. The UNODC sponsored 4 Cambodian participants in a 2-week intensive harm-reduction training course in 2004.

Accomplishments. During 2004 the NACD began to implement Cambodia’s first-ever 5-year narcotics control 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. The NACD trained 36 policemen in drug identification in 2004. This training complements donor-provided training to increase local law enforcement capacity to test seized substances for use as evidence in criminal trials.

In December 2004, a National Assembly special review committee discussed the 1961, 1971 and 1988 UN Drug Conventions. It is expected that the three conventions will be ratified in the coming year.

Law Enforcement Efforts. In the first 11 months of 2004, 474 people (mostly Cambodians) were arrested for various drug-related offenses. This is an increase over arrests during this same period in 2003, which numbered 305. Police arrested 2 people in heroin-related cases in 2004, including a notorious head of an international heroin ring with Triad (Organized Chinese Criminal) connections. This was the most significant counternarcotics operation in which Cambodian authorities have ever participated. Another key case involved the arrest of 3 international MDMA (“Ecstasy”) traffickers and the seizure of 4,500 MDMA tablets in August 2004.

Total seizures of heroin in 2004 were 2.15 kilograms, a considerable decrease over 2003 seizures, which totaled more than 46 kilograms. Most of the confiscated heroin was discovered in postal shipments. Six people were arrested in ketamine-related cases in 2004 and 25,000 bottles of ketamine were seized. Police also confiscated 2,600 kilograms of sulfuric acid (used as precursor chemical) in a 2004 case. Police arrested 372 people in methamphetamine-related cases in 2004 and seized over 860,000 methamphetamine pills. This is a significant increase over 2003 seizures, which totaled 210,000 pills. Police confiscated over 600,000 methamphetamine pills trafficked from Laos during a single bust in early 2004. This cache was more than 10 times larger than any previous seizure in Cambodia.

Cambodian legal penalties for drug-related offenses are extremely weak, allowing for maximum penalties of just \$5,000 or a somewhat theoretical 10 years imprisonment. The NACD has drafted an amendment to the drug law that would stiffen punishment for drug traffickers. The draft legislation, which is expected to be promulgated in the coming year, provides for a maximum penalty of \$1 million fine and life imprisonment, and would allow proceeds from the sale of seized assets to be used towards law enforcement and drug awareness and prevention efforts.

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. In 2004 there were preliminary discussions within the Cambodian government and international community on ratifying the UN convention on corruption sometime in 2005, drafting a domestic anticorruption law, and establishing an anticorruption commission.

Agreements and Treaties. Cambodia has signed but not ratified the 1961 UN Single Convention and its Protocol. It has not signed the 1971 UN Convention on Psychotropic Substances or the 1988 UN Drug Convention. In December 2004 the National Assembly began to review all three UN Drug Conventions. 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.

Cultivation/Production. During 2004, over 14 hectares of cannabis plantations were destroyed. Eleven people were arrested for ATS production and drug-making equipment was seized.

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). The number of Cambodians using illicit drugs, including ATS and heroin, has increased steadily since the mid-1990's. Despite awareness-raising efforts, the Cambodian populace has an extremely limited understanding of the associated risks. A rapid assessment of illicit drug use in Cambodia conducted by the WHO, UNAIDS and CDC in 2004, indicates a high level of drug abuse, particularly in Cambodia's capital, Phnom Penh, and a growing problem in the Cambodian countryside. Researchers found that users regularly shared needles, tended to engage in unsafe sexual behavior, and sometimes sold their blood for money to purchase narcotics, thereby increasing the public health risk of HIV and other blood borne illnesses. Nearly 40 percent of the respondents were unaware of the risks of HIV transmission through illicit drug use.

With the assistance of the UNODC, UNICEF, the World Health Organization (WHO), CDC, the Japanese International Cooperation Agency (JICA) and NGOs, the NACD is attempting to boost awareness about drug abuse among Cambodians—especially Cambodian youth—through the use of pamphlets, posters, and public service announcements. The NACD and the National Aids Authority have established 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 coalition governments following national elections in 1998 and 2003. However, Cambodia is plagued by many of the institutional weaknesses 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. DEA provided basic narcotics training to Cambodian counternarcotics police in December 2004. During this same month, DOD conducted the first in a series of Joint Interagency Task Force—West (JIATF—West) training missions. The three-week mission trained personnel from the Cambodian police, military, and the Immigration Department. The training was conducted in Koh Kong province and was designed to increase the capacity of Cambodian security forces that are charged with controlling the Thai-Cambodian border. In 2004, the U.S. provided support for a UNODC project to conduct a national survey to collect baseline data on illicit drug use and the associated HIV/AIDS risk. This is the first such study to be conducted in Cambodia and will provide key information needed to develop an effective counternarcotics/HIV Treatment/Prevention strategy for the country.

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. The NACD faces many challenges, including exceedingly low salaries, corruption, lack of authority to recruit its own staff, and heavy dependence on foreign agencies. 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.

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) is a major factor in the regional drug market, serving as a transit country and an important producer/exporter of Amphetamine Type Stimulants (ATS). The PRC continues to have a domestic heroin problem along with an upsurge in the consumption of synthetic drugs such as Ecstasy (MDMA) and crystal methamphetamine, known locally as "ice". PRC authorities view drug trafficking and abuse as a major threat to national security, the economy and national and regional stability, but corruption in far-flung drug producing and drug transit regions of the PRC limit what dedicated enforcement officials can accomplish. Authorities continue to take steps to integrate the PRC into regional and global counternarcotics efforts. The PRC is a party to the 1988 UN Drug Convention.

Cooperation with United States counternarcotics officials has steadily improved over the past year. This was highlighted by a joint operation involving the DEA and several PRC law enforcement agencies in October 2004, which led to the world's largest seizure of Mandrax, totaling 18 metric tons. In 2004, the Chinese Government also continued to provide U.S. counternarcotics officials with samples of drugs seized on a case-by-case basis.

II. Status of Country

Mainland China is situated adjacent to both the major narcotics producing areas in Asia, Southeast Asia's "Golden Triangle" and Southwest Asia's "Golden Crescent." While the "Golden Triangle" area poses a longstanding problem, PRC officials admit that the "Golden Crescent" is a source for increasing amounts of illicit drugs trafficked into western China, particularly Xinjiang Province. The PRC itself is also an important producer of ATS. Diverted Chinese precursor chemicals sustain synthetic drug production in many other countries, including ones as far away as Belgium and the Netherlands. According to the PRC Government, drug abuse in China continues to rise and there were, as of 2004, 1.6 million registered drug addicts, double the number in 1995. Youths made up 74 percent of the registered drug addicts. The majority of registered drug addicts are heroin users. Illegal drug use was recorded in 2,148 cities, counties, and districts across China. The PRC Government reports about 25,000 deaths of drug addicts from overdoses in past years (seeking data for 2004).

As the PRC's economy has grown and its society has opened up over the last decade, the country's youth have come to enjoy increasing levels of disposable income and freedom. This has been associated with a dramatic increase in drug abuse among the country's youth in large and mid-sized cities. In large cities like Beijing and Shanghai a Western style rave culture has begun to take root, accounting for the increasing popularity of recreational drugs, such as Ecstasy and ATS, particularly at local nightclubs. Despite increased awareness by police and several highly publicized campaigns, results have been limited.

With a large and developed chemical industry, China is one of the world's largest producers of precursor chemicals, including acetic anhydride (AA), potassium permanganate, piperonylmethylketone (PMK), pseudoephedrine, and ephedra. China monitors all 22 of the chemicals on the 1988 UN Drug Convention watch list. PRC authorities claim to have seized over 96 tons of precursor chemicals August through November 2004. 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.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In June 2004, the PRC published an authoritative five-year plan to tackle the drug problem, which provided the Ministry of Public Security (MPS) with a mandate to step up counternarcotics efforts. The national budget for counternarcotics efforts has seen regular increases. While the MPS's National Narcotics Control Commission (NNCC), China's counternarcotics coordinating body, received 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. Sources say funding was flat this year, but we have not received official statistics yet. The total narcotics budget, however, is significantly higher, because each province administers its own counternarcotics budget.

Accomplishments. The September 2004 seizure of 10 tons of pseudoephedine tablets in Los Angeles was the result of strengthened bilateral cooperation with U.S. law enforcement agencies (see below under law enforcement cooperation). China 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 drug laboratories within China's borders.

Law Enforcement Efforts. The Chinese Government has continued its aggressive counternarcotics campaign. The coordination between China's Beijing-based counternarcotics efforts and those at the provincial level has grown substantially with increased training and exchange programs. In November 2004, the Anti-Smuggling Bureau (ASB) in Guangdong seized 469 kilograms of MDMA tablet inside shipping containers.

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 levels. Prior to 2003, enforcement was handled by one organization and focused primarily on heroin. With this reorganization, the NNCC can better focus on ATS enforcement.

In 2004, PRC authorities continued to strengthen cooperation with U.S. law enforcement entities. As an example, the September 2004 seizure of 10 tons of pseudoephedine tablets in Los Angeles resulted from strengthened bilateral cooperation with U.S. law enforcement agencies. The MPS continues to provide strategic and concrete information to its DEA counterparts to actively target drug rings. In addition, the MPS routinely facilitates travel of U.S. law enforcement personnel based at the U.S. Embassy in Beijing. In part due to international cooperation with its neighbors in the Golden Triangle, the MPS reports that poppy cultivation in Laos and Burma has been reduced by 44,000 hectares in recent years, which amounts to a 27 percent decrease in the total area of production since 1995.

Corruption. Official corruption in China is a serious problem. Anticorruption campaigns have led to arrests of many lower-level government personnel and some more senior-level officials. Most corruption activities in the PRC involve abuse of power, embezzlement and misappropriation of government funds, but payoffs to "look the other way" when questionable commercial activities occur are clearly another major source of official corruption in China. While narcotics-related official corruption exists in China, it is seldom reported in the press. MPS takes allegations of drug-related corruption seriously, launching investigations as appropriate. Most cases appear to have involved lower-level district and county officials. There is no specific evidence indicating senior-level corruption in 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 cannot 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 are there any indications that senior PRC officials engage in laundering the proceeds from illegal drug

transactions. Narcotics-related corruption does not appear to have adversely impacted on-going law enforcement cases in which U.S. agencies have been involved.

Agreements and Treaties. China actively cooperates with other countries to fight against drug trafficking. The U.S. and the PRC cooperate in law enforcement efforts under a mutual legal assistance agreement signed in 2000. 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, the United States and China reached agreement on the Customs Mutual Assistance Agreement (CMAA.) The PRC continues to cooperate with DEA's chemical initiatives, "Operation Purple" and "Operation Topaz," and strictly regulates the import and export of precursor chemicals. Leakage into the illicit market nevertheless occurs despite this effort.

The PRC continued its participation in the "ASEAN and China Cooperative Operations in Response to Dangerous Drugs (ACCORD)." China, along with its ASEAN partners, held meetings in order to map out a regional counternarcotics cooperative mechanism in pursuit of making the region drug-free by 2015. In June, Burma, China, India, Laos and Thailand signed the Chiang Rai Declaration pledging to implement cooperative counternarcotics programs and exchange counternarcotics information. The PRC also continues to participate in UN Office of Drugs and Crime (UNODC) demand reduction and crop substitution efforts in areas along China's southern borders. China routinely participates in counternarcotics education programs sponsored by the International Law Enforcement Academy (ILEA), located in Bangkok, Thailand. The PRC actively participates in the annual International Drug Enforcement Conference (IDEC) and Regional Targeting Meetings, which are intended to boost regional law enforcement cooperation against drug trafficking.

The Chinese Government sometimes conducts drug operations with its neighbors. In 2004, Burma-China cooperation led to the closure of 9 heroin-processing plants in Burma. The joint operations netted 275 kilograms of semi-processed heroin, 120 kilograms of ATS, 26 tons of poppy seeds and 47 tons of precursor chemicals.

Cultivation/Production. The PRC has effectively eradicated the production of drug-related crops within China. Opium appears no longer to be cultivated in China. The PRC is a main source for natural ephedra, which is used in the production of methamphetamine. China is also one of the world's largest producers of synthetic ephedra. However, ephedra is also used for legitimate medicinal purposes. The Chinese central Government—supplemented by stricter controls in critical provinces, notably Yunnan and Zhejiang—makes laudable efforts to control exports of this key precursor. Despite these efforts, there is little question that some Chinese ephedra finds its way into the illicit market, both in China and abroad.

The PRC Government continues to make shutting down illicit drug laboratories a top priority. MPS seized 198 drug-processing laboratories between July and August 2004.

Drug Flow/Transit. China continues to be used as a transshipment route for drugs produced in the "Golden Triangle" to the international market, despite counternarcotics cooperation with neighbors such as Vietnam, Thailand and Burma. Drug transportation in Yunnan and Guangdong Provinces has been especially pervasive. While China's southern and southwestern provinces constitute the PRC's major drug flow and transit areas, Chinese authorities acknowledge that western China is experiencing significant problems as well. They claim that drugs such as opium and heroin are being smuggled into Xinjiang Province and are then distributed throughout China. The border areas with North Korea are also problematic, with amphetamine and heroin production possible on both sides of the border.

Domestic Programs (Demand Reduction). According to the MPS, China had 1.6 million illegal drug users registered by law enforcement departments. The majority of registered drug users are addicted to heroin. The Ministry of Education (MOE) has expanded drug education and prevention programs, aimed at preventing children from ages 12 to 18 from getting involved in drugs. Chinese officials

report the distribution of over 1.16 million drug education posters and 580,000 leaflets in 2002, reaching out to an estimated 300 million people. In 2004, major cities such as Shanghai and Beijing introduced drug education into the curriculum for all elementary school students. China gave higher priority to controlling the spread of HIV/AIDS in 2004. The MPS also stepped up campaigns targeting young people in its fight against banned narcotics, and created more drug-free residence communities and villages for rehabilitating addicts.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Counternarcotics cooperation between China and the United States continues to develop in a positive way. This cooperation is yielding significant operational results. The information shared by China is leading to progress in attacking drug-smuggling rings operating between the two countries. Chinese authorities continue to share drug samples with U.S. colleagues on a case-by-case basis. In August 2004, the DEA, in conjunction with the NNCC, convened two conferences on precursor chemical control in Shanghai and Nanling, Guangxi Province to provide training to law enforcement officers from China police and customs.

Road Ahead. While China has on occasion provided the DEA with samples of drugs seized in the PRC intended for U.S. markets, the U.S. Government 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 year.

Hong Kong

I: Summary

Hong Kong is not a major transit/transshipment point for illicit drugs destined for the international market 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, preventative education, research work and international cooperation. The 1988 United Nations convention against illicit trafficking in narcotics drugs and psychotropic substances, to which the People's Republic of China (PRC) is a party, applies to Hong Kong. Prior to its reversion to the PRC in 1997, Hong Kong was also a party to this convention.

II: Status of Hong Kong:

Hong Kong's position as a key port city in close proximity to the golden triangle and Mainland China historically made it a natural transit/transshipment point for drugs moving from southeast Asia to the international market, including to the United States. In recent years, Hong Kong's role as a major transit/transshipment point has diminished due to law enforcement efforts and the availability of alternate routes in southern China. Despite the diminished role, some drugs continue to transit Hong Kong to the United States and the international market. Drug-traffickers continue to use Hong Kong as their base of operations, including many investors involved in international drug trafficking activity who reside in Hong Kong.

Hong Kong law enforcement officials continue to maintain cooperative liaison relationships with U.S. counterparts in the fight against drugs. Hong Kong is not a producer of illicit drugs. According to Hong Kong authorities, drugs seized in Hong Kong are smuggled in mostly for local consumption and to a lesser extent for further distribution in the international market, including the United States. Hong Kong experienced an overall decrease in drug abuse in 2004. According to the Hong Kong central registry of drug abuse (CRDA), in the first three quarters of 2004 (January-September), 12,003 drug abusers were reported, a drop of 6.5 percent from the 12,838 reported in the same period in 2003. Heroin was the most commonly abused drug, involving some 72 percent of the 12,003 persons for whom drug information was reported in the first three quarters of 2004. Of the overall total, 17 percent abused ketamine, while 11 percent took triazolam/midasolam and 7 percent used cannabis. In 2004, the total number of arrests for drug offenses in Hong Kong declined by 8.08 percent, compared to 2002.

The Hong Kong government again gave a high priority to tackling psychotropic substance abuse in 2003 and 2004. The Hong Kong government has identified the continuing prevalence of psychotropic substance abuse and the growing trend of young people to experiment with drugs as their major area of concern in the battle against drug abuse and trafficking. Although there was a 14 percent increase in the number of young people arrested for drug offenses from 2003 to 2004 (from 1213 to 1384), the total was less than the 1577 arrested in 2002.

III. Actions Against Drugs in 2004:

Policy Initiatives. In policy-making and coordination efforts, the Hong Kong government's narcotics division of the security bureau acts on the advice of the Action Committee Against Narcotics (ACAN).

ACAN is a non-statutory advisory body comprised of 17 members from the fields of social work, education, medicine and community service. The Hong Kong commissioner for narcotics and an official representing the director of health also serve on ACAN. ACAN works to ensure policy coordination among the various Hong Kong government departments in the effort to stop illegal trafficking of drugs and abuse.

The Hong Kong government issued a revised code of practice for dance party organizers in January 2003 to provide guidance to the organizers of these events on the prevention of drug abuse and other crimes. Under the amended regulations, organizers of dance parties are required to obtain a “places of public entertainment license” from the food and environmental hygiene department for holding such parties in premises that are not otherwise licensed.

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; and the district level police force has responsibility for eradicating street-level distribution.

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. HKCED also does mid-high level narcotics investigations in addition to export monitoring.

In 2003, due to high profit margins, Guam emerged as a new market for mainland China-produced “ice” (crystal methamphetamine). In February 2003, a joint investigation between Hong Kong customs and U.S. DEA led to the seizure of 2.8 kilograms of ice from a parcel that arrived in Guam from Hong Kong and was bound for the United States. In 2004, a similar shipment bound for the United States was seized in Hong Kong.

In 2004, several cocaine seizures in Hong Kong of approximately 60 kilograms have exceeded the combined cocaine seizures of 2002 and 2003 by a wide margin. It appears that cocaine abuse is becoming more prevalent in the East Asia region.

The narcotics bureau of the Hong Kong police cooperates with the PRC, Canada, Australia, the United States, and countries throughout Southeast Asia in combating international drug trafficking. Both the Hong Kong police and HKCED maintain excellent regional cooperation with DEA and regional law enforcement agencies to target significant drug organizations.

Corruption. There is no known narcotics-related corruption among senior government or law enforcement officials of the Hong Kong SAR. 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.

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. The heavy volume of vehicle and passenger traffic at the land boundary between PRC and Hong Kong continues to pose difficulties in the fight against the trafficking of drugs into Hong Kong.

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.

International Cooperation. Hong Kong maintains close links with the United Nations, the World Health Organization (WHO), Financial Action Task Force (FATF), INTERPOL and the World Customs Organization (WCO) as well as individual governments around the world in combating narcotics trafficking and abuse. Hong Kong has "mutual legal assistance in criminal matters treaties" with the United States, Australia, France, the United Kingdom, New Zealand, Italy, South Korea, Switzerland, Canada, the Philippines, Portugal, Ireland, the Netherlands, Ukraine, Singapore and Belgium. Hong Kong has also signed surrender of fugitive offenders agreements with 13 countries including the U.S., and transfer of sentenced persons agreements with seven countries, including the U.S. Hong Kong law enforcement agencies enjoy a close and cooperative working relationship with their mainland counterparts and counterparts in many countries. Through their established liaison channels they exchange operational intelligence on drug trafficking, money laundering and control of precursor chemicals.

Because of the unique "one country, two systems" environment in which Hong Kong operates, Hong Kong's law enforcement and customs operations around the time of reversion (July 1997) operated less efficiently with their mainland counterparts than they do now. In the last few years, liaison information sharing and data-networking functions, such as customs information, have been formalized and have been successful in increasing the levels of inter-system cooperation and efficiency. Because intermittent drug trafficking through Hong Kong often involves mainland China aspects, foreign law enforcement agencies in Hong Kong such as the U.S. DEA have benefited from the increased level of PRC-Hong Kong cooperation.

Domestic Programs. In 2003, the Hong Kong government's preventative education policy efforts continued to focus on youth and parents. The Hong Kong government has provided a comprehensive drug prevention program throughout Hong Kong's education system. The narcotics division worked closely with the Action Committee Against Narcotics (ACAN) to promote counternarcotics education among youth. In 2004, school drug education programs were extended to non-Chinese speaking children (including English School Foundation (ESF) and international schools and local schools serving students of South Asian origin). The Hong Kong government's narcotics bureau also partners with youth organizations and uniform groups such as Junior Police Call, the Hong Kong Red Cross and the Scout Association of Hong Kong to promote the counternarcotics message to youths through the train-the-trainer approach. Corporate volunteers also helped the Hong Kong government promote the counternarcotics message during the year. For example, one of Hong Kong's largest electric power companies distributed counternarcotics leaflets to customers as bill inserts. In June, the Hong Kong Government formally opened the Drug InfoCentre (DIC), funded by the Hong Kong Jockey Club. The DIC is the first exhibition centre in Hong Kong dedicated to counternarcotics education.

The Hong Kong government collects information on drug abuse cases through the Central Registry of Drug Abuse (CRDA) from reports sent to it by law enforcement, treatment agencies and welfare organizations. The information is used for statistical analysis and research purposes. CRDA's reports are published regularly on the trends and major characteristics of drug abusers. In November 2003, the CRDA began a computer system redevelopment project to enhance the functionality of the system, however, that project has not yet been completed.

On the research front, two studies commissioned by ACAN were completed in 2004. The first, which was a three-year longitudinal study of chronic drug abusers in Hong Kong, was disseminated to drug treatment and rehabilitation agencies. The second report was designed to obtain information on abusers who cross the border into the mainland to abuse drugs. Among the report's findings was that

one of the most popular reasons for abusing drugs in the mainland was the lower prices. The narcotics division has exchanged and discussed the findings with relevant authorities from Guangdong province, PRC and Macau.

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 U.S. law enforcement believes will increase the potential for identifying shipments of narcotics. Hong Kong is also an active participant in the International Law Enforcement Academy (ILEA).

The Road Ahead. The Hong Kong government has proven to be a reliable and valuable partner in the fight against drug trafficking and abuse. Hong Kong law enforcement agencies, arguably among the most effective in the region, continue to cooperate with the U.S. counterparts. The U.S. Government will continue to encourage Hong Kong to maintain its active role in counternarcotics efforts.

Indonesia

I. Summary

Although Indonesia is not a major drug producing, consuming, or drug transit country, Indonesia continues to have a growing problem in all three areas. The Indonesian National Police (INP) have participated in several international donor-initiated training programs and continue to commit increased resources to counternarcotics efforts. The INP has received U.S. assistance, including vehicles, software, 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, including the U.S. Indonesia is a party to the 1988 UN Drug Convention.

II. Status of Country

All major groups of illegal drugs are readily available in Indonesia: methamphetamine, in its crystalline and tablet forms, Ecstasy (MDMA), heroin, cocaine, and marijuana. The INP reports that the majority of heroin seized in Indonesia originates in Afghanistan. Indonesian authorities report that much of the heroin trade in Indonesia is controlled and directed by West African and Nepalese traffickers, often utilizing Thailand and Singapore as transit points for their couriers. Methamphetamine used in Indonesia is both imported and produced by domestic clandestine laboratories. According to reports, MDMA is primarily imported from the Netherlands; however, clandestine MDMA labs have been seized in Indonesia. Marijuana is produced domestically, harvested in North Sumatra, especially in Aceh province. In the past, INP has alleged that the Free Aceh Movement (GAM), a separatist movement, is involved in marijuana production to support its operations. Recent eradication operations by the INP, which have led to major seizures, and arrests seem to confirm this. INP reported the seizure of over 40 tons of marijuana and the arrest of a number of GAM members who were guarding marijuana production fields as a result of these operations. According to the INP, GAM levies a tax on marijuana production, which is controlled primarily by trafficking organizations based in Jakarta. Although cocaine seizures continue to occur in major Indonesian airports, the market for cocaine in Indonesia is believed to be very small.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Indonesian counternarcotics code is sufficiently inclusive to enable police, prosecutors, and the judiciary to arrest, prosecute, and adjudicate narcotics cases; however, the continued lack of modern detection, enforcement and investigative methodologies and technology, as well as the presence of pervasive corruption, are the greatest obstacles to advancing counternarcotics efforts.

Accomplishments/Law Enforcement Efforts. The National Narcotics Board (BNN) continues to strive to improve interagency cooperation in drug enforcement, interdiction, and precursor control. In 2004, BNN revised its mission statement to place more emphasis on improvement of enforcement efforts by Indonesian law enforcement agencies. Within the coordinating authority of BNN, plans have been developed for a Joint Interagency Counterdrug Operations Center and Network. The purpose of this program would be to improve coordination and information exchange between various Indonesian law enforcement agencies related to drug enforcement.

The INP Narcotics and Organized Crime Directorate continues to improve its ability to investigate and dismantle international drug trafficking syndicates. The Narcotics Directorate has become increasingly

active in regional targeting conferences designed to coordinate efforts against transnational drug and crime organizations. The maritime counternarcotics effort depends on a myriad of Indonesian law enforcement agencies. Efforts to define the roles of these agencies, including the Navy and the INP Air and Sea police continue in an effort to avoid duplication. The Indonesian courts have sentenced approximately 21 drug traffickers to death since January 2000. In 2004, the Indonesian government began to carry out these sentences, executing three individuals.

Agreements and Treaties. Indonesia 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. Indonesia has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime, and is a signatory to the UN Convention Against Corruption.

Cultivation/Production. Indonesia produces significant amounts of marijuana; however, most is believed to be for domestic consumption.

Corruption. 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 transactions. Corruption in Indonesia, however, is endemic, despite its domestic laws, and seriously limits the effectiveness of all law enforcement, including narcotics law enforcement. The recently elected administration has made anticorruption efforts a major policy initiative.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Indonesia and the United States maintain excellent law enforcement cooperation on narcotics cases. During 2004, the United States sponsored hundreds of INP officers to attend training at the International Law Enforcement Academy (ILEA) in Bangkok, and to State department-funded training in Indonesia. In 2004, DEA provided training in the areas of drug intelligence analysis and precursor control. Indonesia continues to work closely with the DEA regional office in Singapore in narcotics investigations.

The Road Ahead. In 2005, the U.S. will assist the BNN and its member agencies in developing the Counterdrug Operations Center and Network. The goals of the project are to standardize and computerize the reporting methods related to narcotics investigations and seizures, to develop a drug intelligence database, and to build an information network designed to connect all of the provinces of Indonesia.

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. These 2004 figures are the same as those of 2003. During 2004, Japanese authorities seized 387 kilos of methamphetamine and over 413,000 tablets of MDMA (Ecstasy), an increase in Ecstasy seizures of 21 percent (71,640 tablets) from 2003 figures.

II. Status of Country

Japan is not a significant producer of narcotics. Licit cultivation of opium poppies, coca plants, and cannabis for research is done on a modest scale and 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.

Japanese (GOJ) authorities unofficially estimate that 10-20 metric tons of methamphetamine are trafficked annually into Japan. This estimate is unchanged from 2003, which stated that the GOJ estimated that 2.18 million users consume 11 grams per person annually. Through October 2004, law enforcement officials seized 378 kilograms of methamphetamine. GOJ authorities believe the majority of the methamphetamine smuggled into Japan is refined and/or produced in the People's Republic of China (PRC), Taiwan, and the Philippines. Some illicit methamphetamine also probably comes from North Korea, but relative quantities are hard to determine.

Methamphetamine trafficking remains a significant source of income for Japanese organized crime. The illegal immigrant population in Japan also participates actively in drug trafficking. As in 2003, heroin imports from Southeast Asia into Japan significantly decreased this year, with 23 grams of heroin and 174 grams of opium seized through October 2004. Heroin, marijuana and hashish use continues to be significantly lower than that of other illegal drugs in the country.

Seizures of cocaine increased significantly in 2004, with 86 kilos seized through October, compared with 2.3 kilos seized in 2003. The large increase over the previous year is mainly due to two significant seizures of cocaine originating from Colombia, 44 kilos and 28 kilos respectively. The 44-kilo seizure was taken from a Panamanian-flagged tuna vessel, and the 28-kilo seizure from a Federal Express shipment.

III. Country Actions Against Drugs in 2004

Policy Initiatives. DEA Tokyo works closely with the GOJ to add synthetic drugs of abuse to Japan's list of prohibited drugs. During 2002-2003, the GOJ enacted legislation making possession, sale, and/or use of Benzylpiperazine (BZP), trifluoromethylphenylpiperazine (TFMPP), Psilocybin ("magic mushrooms"), Gamma Hydroxybutyrate (GHB), and 4-Methylthioamphetamine (4-MTA) illegal. Japanese officials are currently considering adding Ketamine, AMT, BZP, and 5-MeO-DIPT (Foxy Methoxy) to the list of prohibited drugs.

The DEA is renewing its agency-wide emphasis on money laundering investigations related to drug trafficking and will host a money laundering seminar in Tokyo in April 2005.

Accomplishments. DEA Tokyo promotes regional cooperation through the Asian Drug Enforcement Conference (ADEC) and the International Drug Enforcement Conference. DEA Tokyo continues to serve as an advisory, support and training resource to the Japan National Police Agency (NPA) in the planning and production of the annual ADEC conference, as well as several other regional seminars held annually in Japan. ADEC's primary objectives are to promote the exchange of strategic intelligence regarding international drug trafficking organizations and establish a regional network of law enforcement officials and agencies dedicated to drug enforcement efforts. In February 2004, 130 officials from 28 countries, and members of the UNODC and INTERPOL attended the 9th annual ADEC conference hosted by the NPA.

In July 2004, the Suspicious Transaction Reporting Office (STRO) of the Commercial Affairs Department, Singapore Police Force and the Japan Financial Intelligence Office (JAFIO) established a cooperative framework for the exchange of financial intelligence related to money laundering or terrorist financing. In December 2004, the JAFIO and the U.S. Financial Crimes Enforcement Network signed a similar agreement facilitating information exchange regarding suspicious transactions possibly linked to terrorist financing and/or money laundering/narcotics trafficking.

The U.S.-Japan Mutual Legal Assistance Treaty (MLAT) was signed in 2003 and ratified in 2004. The MLAT paves the way for Japan's Ministry of Justice and NPA to directly ask the U.S. Justice Department for cooperation and information and vice versa.

Law Enforcement Efforts. In August 2004, DEA Tokyo initiated a joint investigation with NPA's Drugs & Firearms Control Division, Kanagawa Prefecture Police and U.S. Naval Criminal Investigative Service to intercept multiple packages containing MDMA tablets mailed from Seattle to a U.S. military base in Japan. This international controlled delivery resulted in the arrests of two U.S. nationals and the seizure of 50,000 tablets of MDMA. The MDMA was sourced to violators in Vancouver, Canada.

Japanese authorities seized 378 (as stated above) kilograms of methamphetamine in 2004. Police counternarcotics efforts tend to focus on Japanese organized crime groups, the main smugglers and distributors of drugs. In addition to smuggling and distribution activities, Japanese law enforcement officials are paying increased attention to drug-related financial crimes. The Financial Services Agency received 18,768 reports of suspicious transactions in 2003.

Between 1992 (when the Asset Seizure Law took effect) and 1999, the NPA 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 GOJ officials being involved in drug-related corruption in Japan in 2004.

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. A mutual legal assistance treaty has been submitted to the Senate for advice and consent to ratification. Japan has signed but has not yet ratified the UN Convention on Transnational Organized Crime.

Cultivation/Production. Japan is a member of the Chemical Action Task Force (CATF) and controls 28 chemicals. 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 refine ephedrine, a chemical used to treat nasal/breathing problems.

Ephedrine is also an essential ingredient in methamphetamine. The DEA Country Attaché in Japan, working closely with his Japanese counterparts, closely monitors end users of dual use precursors.

Drug Flow/Transit. With minor exceptions, all drugs illicitly trafficked into Japan are smuggled from overseas. According to the NPA, Taiwan, China, the Philippines, and North Korea are principle sources. China remains the primary source for methamphetamine seized in Japan, with major seizures of methamphetamine also coming from Taiwan and Malaysia. While not previously identified as a significant source of illicit drugs, Canada was the source country of 44.5 kilos of methamphetamine and 60 kilos of marijuana seized through October 2004. There were no confirmed drug seizures linked to North Korea in 2004, though some drugs listed as coming from China may have some connection with North Korea. While methamphetamine prices dropped significantly during the first five months of 2004, prices rose again in June and stabilized at 2003 levels.

Domestic Programs (Demand Reduction). Domestic programs focus primarily on interdiction. Drug treatment programs are small and generally run by private organizations. The Japanese Government provides narcotics-related counseling focused on drug prevention and supports the rehabilitation of addicts at prefectural centers. The Japanese Government continues to support a number of drug awareness campaigns designed to inform the public about the growing use of stimulants in Japan, especially among junior and senior high school students. The Ministry of Health and Welfare, along with prefectural governments and private organizations, continues to administer national publicity campaigns and promote drug education programs at the community level.

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. DEA Tokyo will work closely with its Japanese counterparts and offer support in conducting international money laundering investigations. In addition, DEA Tokyo will continue to carry out an aggressive education program with Japanese Customs and NPA officials to foster knowledge of money laundering investigations, and their relationship to narcotics trafficking and terrorist financing.

Laos

I. Summary

The Government of Laos (GOL) continued to make some progress in its counternarcotics efforts during 2004. Most notable progress was registered in its efforts to eliminate opium poppy cultivation. Specific actions included: continued cooperation and progress with the U.S.-GOL bilateral program; pursuit of relatively low-level traffickers; improved 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 (NGOs); a sustained campaign to eradicate illicit opium poppy; an increased tempo of counternarcotics public awareness activities, especially concerning amphetamine-type stimulants (ATS); and cooperation on HIV/AIDS, an issue related to drug use.

The Ministry of Public Security's (MPS) cooperation with the DEA Vientiane Country Office (VCO) was minimal—there was no direct actionable or enforcement-related cooperation with DEA. Corruption remains an ongoing and 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. The GOL devoted few of its own modest resources to fighting drugs, relying overwhelmingly on the donor community. During 2004, Laos became a party to the 1988 UN Drug Convention. Laos is also a party to the 1961 Single Convention and the 1971 Convention but has not ratified the 1972 Protocol to the 1961 Convention. Laos is a member of INTERPOL.

II. Status of Country

Laos is landlocked and about 80 percent mountainous. The country borders Burma, Thailand, the PRC, Vietnam, and Cambodia. It is among the least developed countries in Asia, with a per capita income of only about \$320 per year. The population is approximately 5.7 million and includes 49 distinct ethno-linguistic groups. Social indicators are among the worst in the world—infant mortality is 87 per 1,000 births and life expectancy is about 55 years. Health care service coverage is very poor and children die mainly from malaria, acute respiratory infections, diarrhea, malnutrition, and various vaccine-preventable diseases. The growth and consumption of opium, concentrated among minority hill tribe peoples, is closely related to poverty. While illicit opium production is declining, Laos still ranks as the third largest grower, although cultivation lags well behind Burma and Afghanistan. Generally, opium poppy is cultivated (and consumed) in the country's northern region. UNODC estimates that about half is consumed domestically (often for traditional medicinal use) and the other half is exported, generally regionally. Cultivated area in opium poppy estimates vary widely, ranging from a recent GOL estimate of just over 3000 hectares to the USG 2004 estimate of 10,000 hectares. The GOL claims that its estimate takes into account 2004 eradication efforts. UNODC estimates about 6,600 hectares of cultivation, based on its 2004 survey.

Laos has significant structural limitations, including (1) limited capacity for sustainable opium elimination, due to insufficient alternative development; (2) limited capacity for drug demand reduction, due to a lack of data and familiarity with key approaches and concepts; (3) very limited drug law enforcement capability, both among police and administration of justice; (4) lack of data and information on drugs and crime; (5) a lack of drugs and crime legislation, as well as a near absence of implementing regulations; (6) limited human resources in the drug and crime sectors, due to the lack of training at all levels; and (7) a limited penitentiary system, which, like most of the Lao public sector, suffers from neglect and insufficient resources.

In addition to illegal opium cultivation, Laos is a significant transit country for narcotics (mostly heroin and amphetamine-type stimulants (ATS) and precursors. Narcotics transit Laos to Vietnam, Cambodia, and Thailand; some are probably destined for the international market. There are reports that, due to the severe crackdown of ATS in Thailand during the first few months of 2003, some ATS and heroin production may have moved from northern Thailand into Laos, but DEA has not yet confirmed this, at least partly due to the lack of investigative cooperation from the Lao. Other law enforcement officials have noted that, improved law enforcement efforts in Burma and the PRC are likely to expand drug production and trafficking in Laos, where there are many remote areas generally beyond the reach of law enforcement authorities. Precursor chemicals appear to be widely available in Laos and there are few regulatory controls. There are also reports of small amounts of cannabis growing in southern Laos, according to UNODC. The Thai crackdown could also result in increased cannabis production in southern Laos. The Mekong River is an important factor in the trafficking process, since it transverses the country and is minimally patrolled, although this may improve in 2005 with increased Thai-Lao cooperation.

ATS is a problem that is growing rapidly in Laos, both in the rural areas as well as the urban centers. ATS is apparently transiting Laos from the Golden Triangle region and/or may be produced in Laos. The GOL vehemently denies that there is any ATS production in the country.

While information regarding cannabis is sketchy at best, DEA believes that there is limited production in southern Laos and cannabis appears readily available in that region. There may be some contract growing for Thai traffickers. According to Lao Customs and the state-controlled media, Customs officials seized 710 kilograms of cannabis in Boulikhamsay Province (located in central Laos) on December 5 and 9.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The structure of the GOL's counternarcotics efforts is built around the Lao National Commission for Drug Control and Supervision (LCDC). LCDC is also the main counterpart for the U.S. bilateral assistance program. The Minister to the President's Office and Chairman of LCDC is currently Soubanh Srithirath. At the most senior level, the Prime Minister, Bounnhang Vorachit, is also the President of the Central Steering Committee for Drug Prevention, but responsibility for day-to-day management rests with Minister Soubanh. Other Commission members include representatives from the Ministries of Foreign Affairs, Public Security, Justice, Health, Education, and Agriculture. In addition, the Department of Customs (under the Ministry of Finance) and the Council of Ministers, are also represented on the Commission. Within the MPS, the Drug Control Department (DCD) has administrative and some operational responsibilities. The exact nature of cooperation and coordination between LCDC and DCD is not always clear, but in general, MPS is a powerful force within the GOL bureaucracy. In Laos' system of "vertical structure," individual provinces have a Provincial Committee for Drug Control (PCDC) that reports to LCDC. The USG bilateral program provides administrative support for those offices, as well as LCDC, DCD, and seven provincial counternarcotics units (CNU's). DCD and the provincial CNU's serve as the primary counternarcotics law enforcement arm in Vientiane and those provinces.

The 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 and made opium production illegal. In 2001, penalties under Article 135 became more severe, including the death penalty for production, trafficking, and the distribution of heroin (more than 500 grams), amphetamines (more than three kilograms). Other penalties include up to five years imprisonment for possession of less than two grams of heroin.

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 integrated rural development projects. The USG works closely with the UNODC and other donors of development assistance to ensure that counternarcotics objectives are included in all rural development programs in northern Laos. Suppression of trafficking is pursued through support of the CNU and Lao Customs.

While there were no new major policy initiatives during 2004, the GOL leadership regularly emphasized the importance of fighting drugs in a variety of fora. On October 8, Minister Soubanh told the UN General Assembly's Third Committee that, "Illicit drug production, trafficking, and abuse threaten our security and stability and jeopardize development." In the same speech, Soubanh noted that the GOL is "gravely concerned" about the spread of ATS in Laos. In late April, Mr. Linthong Phetsavan, Head of LCDC's Permanent Secretariat, told a multilateral meeting in Thailand that, "eradicating Laos' culture of opium is a top national priority."

The 2001 Seventh Party Congress has had an important impact on national drug policy. During that congress, the Party decreed that Laos would be "opium free" by the end of 2005. Essentially, this resolution has been the driving force behind the GOL's aggressive opium eradication policy since 2001. The decree has pushed GOL policy implementation towards eradication and detoxification and put additional pressure on national and provincial officials to meet the 2005 goal. This has led to controversy within the donor community, some of whom believe that the GOL's goal is not obtainable without undue hardship in the northern provinces.

Accomplishments. UNODC officials said that, over the past few years, the GOL has shown a "higher level of commitment" in dealing with the drug problem, especially concerning opium eradication. However, officials said that they are "less impressed" by the GOL's commitment to fighting ATS and heroin trafficking/abuse. Minister Soubanh, summarizing this year's drug activity, said in November that, the "most important GOL accomplishment" in 2004 was the opium eradication campaign. According to Soubanh, at the beginning of 2004, there were about 7,800 hectares of poppy—as of November 2004, the number of hectares is "around 3,000," due mainly to GOL eradication efforts since the February UNODC survey, he claimed. In 2004, the GOL declared five provinces as "poppy free." There is some anecdotal evidence that the pace of eradication is also leading to a type of "professional grower," i.e., farmers contracted by traffickers to specifically grow poppy in the more remote areas. In addition, there is anecdotal evidence that, with the opium disappearing, addicts are turning to ATS or any other drugs that they can get their hands on. Some foreign officials also fear that heroin use could increase.

Law Enforcement Efforts. In late August, Thai and Lao officials met at the seventh annual Lao-Thai Meeting on Narcotics Law Enforcement Cooperation. At the meeting, the two sides agreed to improve bilateral cooperation, including an enhanced riverine program to patrol the Mekong River from the Thai-Lao border at Nong Khai (Friendship Bridge) and in Xaiaboury Province, which shares a 650 kilometer border with Thailand. The two sides also agreed to establish an online system to monitor cross border movements aimed at reducing the flow of illegal drugs and other contraband.

During 2004, Lao DCD cooperation with the DEA was virtually non-existent; there was no direct actionable or enforcement-related cooperation with DEA and efforts to establish direct links with DCD have thus far been unsuccessful. A senior MPS official appointed as DEA's "direct link" proved ineffective and has reportedly been transferred to another position. DEA has provided information to DCD, but has received almost no feedback, other than some very basic telephone subscriber information. DEA's law enforcement counterpart at LCDC has provided arrest and seizure statistics on somewhat more regular intervals compared to 2003.

Working directly with Lao Customs appears to be showing more promise, according to DEA. In November, Lao Customs detained two Taiwanese heroin traffickers transiting the Vientiane International Airport en-route to another Asian destination. They were arrested holding about 800

grams of heroin. Lao Customs officials provided quick feedback to DEA on the case. During 2004, Lao Customs also provided DEA information on several other active drug related cases in a timely manner.

According to information provided by UNODC for the first six months of 2004, there was a generally upward trend in seizures, other than opium. In all 2003, law enforcement entities seized 39 kilograms of heroin; in the first six months of 2004, 55 kilograms were seized. Despite this improvement, DEA believes that the seizures represent the “tip of the iceberg” of the amount of heroin transiting Laos. Regarding ATS, in 2003, 1.2 million tablets were seized. In the first six months of 2004, law enforcement seized 3.02 million (about one-third in one seizure). Concerning opium, seizures are apparently headed downward, not surprising, since there has been considerable eradication. The last USG opium yield survey “ground truthing” revealed that it is getting harder and harder to find less opium. In 2003, GOL law enforcement seized 241 kilograms of raw opium; during the first six months of 2004 law enforcement seized 43 kilograms. Cannabis seizures appear about the same as 2003. During the first six months of 2004, GOL law enforcement seized 1,806 kilograms; in 2003, law enforcement seized 4,578. Regarding arrests for all drugs, UNODC figures through June 2004 suggest a decline compared to 2003. In 2003, there were 226 drug cases resulting in 445 persons arrested; through June 2004, there were only 79 cases, although those cases resulted in 227 arrests.

The GOL continued a policy of strict punishment for drug offenses. During 2004, there were reports of death sentences and long jail terms for drug traffickers. We have not been able to confirm whether any death sentences related to drugs were carried out in 2004.

GOL law enforcement authorities do not believe that major trafficking syndicates are responsible for moving drugs in and out of Laos. However, DEA is concerned that, with the crackdown in Thailand, more significant traffickers have begun to view Laos as a relatively risk free transit route and storage location.

Resource constraints within the GOL continued to be a major problem in 2004. LCDC, like much of the rest of Laos’ public sector, is essentially bankrupt. In November, Minister Soubanh lamented that LCDC’s budget from the GOL “suffered a 20 percent cut—from 50 million kip (about \$6375) to 40 million kip (\$5100). Seven embassy visits to provincial narcotics enforcement units (CNU) since August have revealed that much of their equipment is outdated and/or inoperable. Most officers have received little training, although some commanders and/or deputy commanders have attended ILEA courses. Generally, office equipment, hand-held radios, and motorbikes are not working. Some buildings are in disrepair. According to LCDC officials, they are unable to finance any repairs themselves and must wait for donor assistance. Among the CNUs visited in 2004, generally, transportation and communication resources are weak and drug testing kits either missing or outdated. CNU officials consistently told NAS and DEA that, in order to operate effectively, they need additional training for the rank and file officers as well as updated equipment such as cameras and night vision goggles.

Corruption. The Lao Government takes a strong stance against official corruption, including narcotics-related corruption. But Drug Czar, Minister Soubanh, acknowledges that “corruption is a big problem.” He attributed the problem to the very low salaries paid to law enforcement officials and the “temptation” to profit from drug trafficking. Soubanh said that at Cabinet meetings the Prime Minister reiterates that corruption in the public sector, including narcotics, “will not be tolerated.” While firm evidence regarding narcotics related corruption is hard to come by, there have been reports that GOL and military officials may be facilitating drug trafficking to some extent. Recognizing the need for further assistance in anticorruption measures, the GOL is working with Sweden to develop appropriate anticorruption enforcement measures. Concerning narcotics-related corruption, the GOL did demonstrate a willingness in 2004 to take limited action, prosecuting several low and mid-level border officials for accepting bribes.

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. An MOU for demand reduction was added to the bilateral program in 2002. Both countries have expressed their intention to continue and expand this cooperation. Although the GOL does not have a mutual legal assistance or extradition treaty with the U.S., it has in the past cooperated in deporting drug traffickers to the United States, generally via Thailand.

The 1988 UN Drug Convention entered into force in Laos on 30 December 2004. Laos is also a party to the 1971 UN Convention on Psychotropic Substances; and the 1961 UN Single Convention. Following its ratification the 1988 UN Drug Convention, GOL officials have stated that the GOL is committed to working with UNODC to pass legislation, such as chemical control and money laundering regulations, necessary to bring Lao law into compliance with the Convention.

Cultivation/Production. The USG 2004 estimate for poppy cultivation is 10,000 hectares. About 85 percent of the crop is concentrated in Phongsaly, Houaphan, Luang Prabang, and Oudomxai provinces in northern Laos. USG methodology included 280 imagery samples from USG satellites and ground visits to 12 fields in Phongsaly, Xieng Khuang and Luang Prabang provinces. With USG support, UNODC and the GOL conducted an opium yield survey in 2004. According to the survey report published in June, there were about 6,600 hectares of opium poppy cultivation. The UNODC effort included limited satellite surveys based on commercially available imagery, as well as ground surveys and interviews with village headmen and household heads in 388 villages in 11 provinces. The satellite images in the UNODC survey were used to crosscheck the results of the ground survey.

Officially, the GOL admits to only about 3,000 hectares of opium cultivation as of November 2004. The GOL bases this figure on the UNODC/GOL figure minus eradication since the survey. Senior LCDC officials maintain that the USG overestimates the size of the opium crop, in part by misjudging the degree of intercropping of opium among other licit crops.

Potential opium production dropped significantly, although the USG figure is still somewhat higher than the UNODC/GOL survey. According to USG figures, 2004 potential production is about 49 metric tons, a huge drop from the 2003 figure of 200 metric tons. The UNODC/GOL figure is 43 metric tons. According to UNODC, the drop in yield was mainly due to “unfavorable growing conditions and an ensuing drought. Regarding yield per hectare, the UNODC/GOL figure is actually somewhat higher (6.5 kilograms per hectare) than the USG figure of 4.9 kilograms per hectare.

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 since 1998, when there were nearly 30,000 hectares of opium poppy throughout northern Laos. Based on USG strategic goals and the Embassy’s Mission Performance Plan, opium poppy elimination in Laos represents a genuine success story.

The cornerstone of the USG-GOL bilateral counternarcotics program are the two LAPs(Lao Assistance Projects) in Luang Prabang and Phongsaly provinces. These two integrated rural development projects account for about 70 percent of the NAS bilateral program budget (not counting salaries and administrative costs). In 2004, the LAP in Luang Prabang province, begun in 2003, moved briskly into the implementation stage, which included the construction of the project offices and several roads and supplementary assistance to agriculture, education, health, and community development sectors.

Concerning the LAP/Phongsaly project, during 2004, the LAP nearly completed a new 23 kilometer road to reach new project target villages; introduced new crops, such as coffee, tea, and galanga; implemented village-based handicrafts; provided over 200 cattle to establish “cattle banks” in project villages; installed clean water systems in 15 villages; trained health volunteers and provided medicine chests in several villages; and detoxed about 200 opium addicts.

Drug Flow/Transit. While DEA, UNODC, and the GOL agree that significant amounts of drugs are transiting Laos, DEA has not yet identified a firm case of heroin entering the U.S. directly from Laos. According to DEA and U.S. Customs officials, there has been some individual smuggling of opium via the mail between Hmong in Laos and the U.S., a trend that seems to have increased in 2004, according to DEA and U.S. Customs officials. A major problem faced by the GOL is the inability to control the long borders with Thailand and the PRC, as well as shorter borders with Burma and Cambodia. The Mekong River is a major conduit for trafficking, according to DEA, and it is only patrolled in a few areas. Many key drug areas, especially in the north, are virtually inaccessible to GOL officials. There is some border control near major population areas, along principal land routes, and at established river crossings, but it is not particularly difficult for traffickers to circumnavigate. Ironically, as the country's highway system continues to improve, this is likely to facilitate illegal trafficking of drugs, people, logs, and other contraband. Various NGO and other foreign officials are especially concerned over the potential impact of the Kunming-Bangkok trans Asia highway that will pass through Luang Nam Tha province.

Domestic Programs/Demand Reduction. While opium is still generally the drug of choice in Laos, ATS use is spreading rapidly. During 2004, ATS appeared to get more attention among GOL officials. There may be more high-level attention because, unlike opium use, ATS use affects the families of the elite, either directly or indirectly. While in the recent past, most ATS use appeared confined to the larger urban centers and the more affluent, there is evidence that it is spreading into remote areas. In June, Houaphan Province's Vice Governor said that ATS "may overtake" opium, as opium cultivation declines. UNODC has also reported that, while opiates are declining, ATS use appears to be increasing.

During 2004, the GOL, with assistance from UNODC and other donors, moved ahead on its national program for demand reduction. According to Minister Soubanh, the main activity during 2004 was a campaign (funded by the U.S.) to implement ATS drug testing in various secondary schools around the country. In Khammouan Province, testing results revealed relatively high positive rates (up to 15 percent of those tested). A LCDC official characterized these results as "surprising". Other activities include construction of ATS treatment facilities in Savannakhet province and Champassak province, which should be completed by the end of 2005. The USG is fully engaged in assisting the GOL to treat drug addiction. The USG has contributed significantly to ongoing UNODC activities through a \$167,000 capacity building project. Part of this funding is helping UNODC to train Lao health professionals to form a drug-counseling network. U.S. funding is also supporting a major UNODC/GOL effort in community-based opium detoxification throughout northern Laos.

According to the GOL, the HIV infection rate in Laos is relatively low compared to its neighbors. But beyond this accurate impression, statistics are so poor that the scope of the problem is essentially unknown. The GOL reports 1,212 HIV-positive individuals and, since 1990, 486 AIDS-related deaths (26 during 2004). However, five of Laos' 18 provinces have not reported any HIV/AIDS data whatsoever. Accordingly, most foreign observers believe that the official numbers under-report the problem. Systematic and nationwide surveillance for HIV is not yet in place, so the future course of the epidemic is uncertain. Because Laos is surrounded by countries that have significant numbers of HIV infections, such as China, Thailand and Vietnam, it is "likely that the epidemic will continue to spread in Laos in the absence of appropriate interventions." UNODC officials said that the main reason that Laos has been spared the higher rates of HIV infection is because there is little intravenous drug use compared to neighbors like Thailand and Vietnam. However, UNODC is "concerned" that there could be social and behavioral changes due to other drug use, especially ATS, that could lead to higher HIV rates. The GOL is beginning to demonstrate an increasing awareness and concern over the problem and appears to have a growing awareness of the nexus between HIV/AIDS and drugs.

IV. U.S. Policy Initiatives and Programs

Since 1989, the USG has provided approximately \$38 million to support the GOL's counternarcotics control program. During 2004, the U.S.-GOL bilateral counternarcotics program continued to make progress. GOL officials continued to be enthusiastic participants in USG-sponsored training at the Bangkok International Law Enforcement Academy (ILEA). Through November, 76 GOL officials had attended various ILEA courses, ranging from basic narcotics to post blast investigations.

Multilaterally, Laos worked closely with UNODC, especially in alternative development and opium detoxification. The USG contributes to some of these activities. In the northern part of Phongsaly province, UNODC is implementing, with financial assistance from the USG and others, an alternative development project aimed at the reduction of opium poppy cultivation. The USG also contributes to UNODC's Program Facilities Unit (PFU), an administrative unit that supports various UNODC/LCDC activities aimed at alternative development, demand reduction, and law enforcement. UNODC is also implementing a village-based development project in Houaphan province, partially financed by the USG. The aim of this project is to reduce opium cultivation through micro development at the village level in one of northern Laos' poorest areas.

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, especially within MPS, to cooperate on a bilateral basis with DEA. On a more positive note, we expect to see continuing and growing bilateral law enforcement cooperation with Lao Customs. During 2004, as in previous years, the GOL made progress with programs aimed at dealing with various facets of the drug problem, most notably in opium poppy eradication. 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. As with most other facets of the GOL public sector, this will not be possible without more resources. The USG-GOL bilateral program will continue and the focus is likely to remain on crop control and development assistance to northern Laos. 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 few financial resources, this will continue to present the GOL and foreign donors a major challenge.

Malaysia

I. Summary

Malaysia has not produced a significant amount of illegal drugs in the past, but a large seizure of precursor chemicals and the destruction of a lab producing crystal methamphetamine last year suggests the past situation might be changing. Heroin and other drugs from 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 continues to grow, though the government has established a “drug-free by 2015” policy. Malaysia’s competent counternarcotics officials and police officers have the full support of senior government officials. Cooperation with the U.S. on combating drug trafficking is excellent, and led to high-profile arrests and seizures in 2004. The U.S. maintains active and successful programs for training Malaysian counternarcotics officials and police. Malaysia is a party to the 1988 UN Drug Convention, and has a bilateral extradition treaty in force with the U.S.

II. Status of Country

While Malaysian officials have expressed concern about rising rates of drug addiction in their country, there is little evidence that Malaysia is a source country or a transit point for U.S.-bound illegal drugs. Narcotics imported to Malaysia include heroin and opium from the nearby Golden Triangle area, and other drugs, primarily amphetamine type stimulants (ATS) including crystal methamphetamine and Ecstasy. These imports either transit Malaysia bound for other markets such as Thailand, Singapore, and Australia, or are consumed domestically. The drugs of choice for Malaysian users are heroin, morphine, marijuana, and methamphetamines, according to government statistics. The Malaysian government identified over 34,000 drug addicts during the first ten months of 2004 through reporting from police, community organizations, and treatment centers, bringing the total since 1988 to over 255,000. Malaysia itself does not produce a significant amount of illicit drugs.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Malaysia launched a long-term effort in 2003 to reduce drug use to negligible levels by 2015. Senior officials including the Prime Minister speak out strongly and frequently against drug abuse. The National Anti-Drugs Agency (NADA, formerly called the National Drugs Agency) is the policy arm of Malaysia’s counternarcotics strategy, coordinating demand reduction efforts with various cabinet ministries. The agency targets its efforts toward youth, parents, students, teachers, and workers, while trying to identify particularly vulnerable groups. The NADA’s extensive efforts engage schools, student leaders, parent-teacher associations, community leaders, religious institutions, and workplaces. In October the Prime Minister chaired the first meeting of a new Cabinet Committee on Eradication of Drugs, composed of 20 government ministers. Parliament passed a bill in 2004 to give NADA authority to make drug-related arrests, in addition to the agency’s policy responsibilities. The stated vision is eventually to put all counternarcotics efforts under one organization.

Accomplishments. The Malaysian police, in cooperation with other international agencies including DEA, in 2004 raided a crystal meth lab near the capital of Kuala Lumpur, seizing enough precursor chemicals to produce two tons of “ice,” the largest ever such seizure in Malaysia and one of the largest in Southeast Asia. Fifteen persons were arrested in the raid, which is part of a larger multi-national effort to combat Asian drug-trafficking syndicates. In another joint operation, again involving DEA and agencies from several other nations, Malaysian intelligence-sharing helped lead to a massive lab seizure in Fiji. Malaysia and seven other Southeast Asian countries signed a multilateral treaty on Mutual Legal Assistance in Criminal Matters in November 2004. It will go into effect when ratified by

the various countries' governments. The treaty is limited by clauses that make legal assistance subject to the parties' domestic laws, but signals a desire to improve regional law enforcement cooperation.

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. Malaysia enforces a mandatory death penalty against major drug traffickers, though judges often seek ways to apply lesser sentences. The narcotics division of the Royal Malaysia Police (RMP) benefits from excellent and innovative leadership, and is well respected in the region for its modernization efforts. There was a 34-percent increase in drug-related arrests for the period January to September 2004, compared with the same period in 2003. Malaysian law provides for the seizure of assets from the proceeds of narcotics crimes. For the first nine months of 2004, according to the NADA, police seized U.S. \$7.7 million and confiscated \$425,000 worth of drug-related criminal assets, both substantial increases from the previous year.

Corruption. No senior officials were arrested for drug-related corruption in 2004 and there was no evidence that the government tolerates or facilitates the production, distribution, or sale of illegal drugs. Malaysia's Anti-Corruption Agency has power to investigate crimes and arrest suspects, while prosecution of corruption cases falls to the attorney general.

Agreements and Treaties. Malaysia is a party to the 1988 UN Drug Convention and, as noted, has signed the ASEAN MLAT. Malaysia is negotiating an MLAT with Australia. The U.S.-Malaysia Extradition Treaty went into effect in 1997.

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, destined for Australia and other markets. Ecstasy from Amsterdam is flown in to Kuala Lumpur International Airport (KLIA) for domestic use and distribution to Thailand, Singapore, and Australia. While drugs 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. There is also at least some production of ATS in Malaysia, in light of the take-down of a large methamphetamine lab last year, and the seizure of a substantial quantity of precursor chemicals awaiting use at that lab.

Domestic Programs (Demand Reduction). Demand reduction programs in public schools and a drug-free workplace prevention program continued in 2004. The NADA has expanded the scope of its anti-Ecstasy demand reduction drive to include all types of ATS. Government statistics indicate that 11,045 persons were undergoing treatment at Malaysia's 28 public rehabilitation facilities as of September 2004, similar to the number last year. The U.S. funded, through the Colombo Plan, two innovative faith-based training seminars on addiction therapy for Afghan religious leaders, held in Malaysia in May and December. In addition, the U.S. sponsored training in 2004 for Malaysian therapists and family members through the Daytop International organization, and other demand reduction programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. counternarcotics training continued in 2004 via the International Law Enforcement Academy (ILEA) in Bangkok and the "Baker-Mint" program sponsored by the U.S. Department of Defense. Baker-Mint aims to raise the operational skill level of local counternarcotics law enforcement officers. The Department of State Assistant Secretary, International Narcotics and Law Enforcement, visited Malaysia in May 2004, meeting with senior police officials and community drug treatment leaders.

Road Ahead. United States goals and objectives for the year 2005 are to: encourage the Malaysian government to use existing aiding and abetting laws more effectively against drug traffickers, and to

enact narcotics-related conspiracy laws; and to continue the excellent cooperation between Malaysian and U.S. law enforcement authorities. United States 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 Malaysian law enforcement officers will continue.

Mongolia

Drug trafficking and abuse are not widespread in Mongolia but continue to rise and draw the attention of the government and NGOs. Mongolia's young burgeoning urban population is especially vulnerable to the growing drug trade. The government continues to implement the National Program for fighting Narcotics and Drugs adopted in March 2000. The National Council headed by the Minister of Justice coordinates implementation of this program. The program is aimed at preventing drug addiction, drug related crimes, creating a legal basis for fighting drugs, elaborating counternarcotics policy, and raising public awareness of the drug abuse issue.

Mongolia's long unprotected borders with Russia and China are vulnerable to all types of illegal trade, including drug trafficking. Illegal migrants, mostly traveling from China through Mongolia to Russia and Europe, sometimes transport and traffic drugs. Police suspect that trafficking in persons and prostitution are also connected to the drug trade.

The government has made the protection of Mongolia's borders a priority. U.S.-sponsored projects to promote cooperation among security forces (support for conferences) and training have provided some assistance. A lack of financial and technical capacity and resources, along with corruption in police forces, and many other parts of government, hinder Mongolia's ability to patrol its borders, detect illegal smuggling, and investigate transnational criminal cases. Mongolia is a party to the 1961 UN Single Convention and its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention. The government of Mongolia attempts to meet the goals and objectives of international initiatives on drugs, where possible. The United States and Mongolia have in force a customs mutual legal assistance agreement.

Occasional reports indicate that the availability and use of marijuana, heroin, amphetamines, and over-the-counter drugs have increased. The Mongolian government, alert to precursor chemical production and export issues, has closed suspected facilities, but foreign interest in the production, export and transit of precursor chemicals in Mongolia continues to surface. Mongolian internal corruption and financial crimes appear unrelated to narcotics activities. The weakness of the legal system and financial structures (i.e., the absence of anti-money laundering and antiterrorist financing legislation), however, leaves Mongolia vulnerable to exploitation by drug traffickers and international criminal organizations, particularly those operating in China and Russia.

Growth in international trade and the number of visitors to Mongolia increases concern about a rise in transnational organized crime. Mongolian law enforcement agencies have proven inadequate to the task of detecting and cracking down on the activities of organized crime elements from Russia and China. The reopening of the North Korean Embassy in Ulaanbaatar in August 2004 also heightens concern that the North Korean Government, through its Embassy in Ulaanbaatar, may again seek (as it did in the late-1990s) to finance North Korean diplomatic and other activities through narcotics trafficking, counterfeiting or other illicit activity.

The Mongolian government and law-enforcement officials have increased their participation in international fora focused on crime and drug issues. Mongolia has observer status in the Asia-Pacific Group on Money Laundering and has committed to adhere to Financial Action Task Force (FATF) standards, while seeking participation and eventual membership in the FATF. Domestic, non-governmental organizations work to fight drug addiction and the spread of narcotics, as well as trafficking in women and children. International donors are working with the government to help Mongolia develop the capacity to address narcotics and related criminal activities before they become an additional burden on Mongolia's development. U.S. government assistance in these efforts includes international visitor programs on transnational crime and counternarcotics, as well as training by

regional representatives of the Drug Enforcement Agency, the U.S. Customs Service, the Internal Revenue Service and the U.S. Secret Service.

North Korea

I. Summary

For decades, North Koreans have been apprehended trafficking in narcotics and engaged in other forms of criminal behavior, including passing counterfeit U.S. currency and trade in copyright products. Numerous instances of North Korean drug trafficking and trade in copyright products, and other criminal behavior by North Korean officials, in many cases using valuable state assets, such as military-type patrol boats, has caused many observers and the Department to come to the view that it is likely, though not certain that the North Korean Government sponsors such illegal behavior as a way to earn foreign currency for the state and for its leaders. This report discusses instances of North Korean involvement in drug trafficking during 2004.

II. Status of Country

On two occasions in 2004 North Korean diplomats were arrested for involvement in narcotics smuggling. In June, Egyptian law enforcement authorities detained two North Korean diplomats working in the Commercial Office at the North Korean Embassy in Egypt for attempting to deliver 150,000 tablets of Clonazipam. Clonazipam is a Schedule IV benzodiazepine used to treat seizures and anxiety. Both North Korean diplomats were expelled from Egypt.

In December, Turkish authorities arrested two North Korean diplomats suspected of smuggling synthetic drugs destined for Arab markets. The diplomats, assigned to North Korea's Embassy in Bulgaria, were caught in a drug raid in Turkey and found to be carrying over half a million Captagon tablets. The Captagon, a synthetic drug taken as an aphrodisiac, had a "street value", i.e., illicit market value, of seven million dollars. The North Korean diplomats were returned to Bulgaria, but were expelled by the Bulgarian government.

These two incidents are the first to come to light in several years involving DPRK officials stationed abroad at embassies caught smuggling narcotics. It is impossible to say with certainty that such individuals were acting under the instructions of their government, and were thus engaged in state trading of narcotics. Neither Captagon, an amphetamine-type stimulant, nor Clonazipam, a central nervous system depressant, has been associated with instances of DPRK trafficking in the past.

DPRK officials have ascribed past instances of official misconduct to the individuals involved, and stated that these individuals would be punished in the DPRK for their crimes. There is no information available indicating if the DPRK diplomats involved in these two drug smuggling incidents were, in fact, punished upon their return to North Korea.

North Korean 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 wrote in a February 2004 "Jamestown Review" article 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. This article and similar reports by defectors have not been conclusively verified by independent sources. Defector statements however, are consistent over years, and occur in the context of multiple narcotics seizures linked to North Korea.

There were also reports in 2004 of more organized smuggling of heroin along the DPRK's border with China. Traffickers living in North Korea reportedly contacted individuals in China to act as heroin couriers ("drug mules"). It is unclear whether the heroin in question was produced in the DPRK. North Korean and Chinese border guards were reportedly complicit, since they received payments from the

traffickers. The presence of North Korean residents in China might well encourage this type of trafficking. Regular refugee traffic and other border trade, often facilitated by bribes, opens the way to drug smuggling. There is also other evidence of close cooperation between Chinese criminals and North Korean criminals in heroin and methamphetamine smuggling to foreign markets.

In addition, several drug traffickers arrested for smuggling methamphetamine into South Korea over the last year have indicated to authorities that the drugs originated from North Korea and were transshipped through China. Methamphetamine is the drug of choice for South Koreans.

There were no seizures of methamphetamines in Japan during 2004 linked to North Korea. As much as 30 percent to 40 percent of methamphetamines seized in Japan in past years have been linked by Japanese enforcement officials to the DPRK. The origin of heroin and methamphetamine seized on Taiwan during 2004, where DPRK-linked drugs have been seized in the past, generally was ascribed to domestic manufacture, to South East Asia or to China, not to sources in the DPRK. The street price for drugs did not change significantly in either Japan or Taiwan, so if past shipments from the DPRK stopped, they were replaced by traffickers operating elsewhere.

The "Pong-Su" incident in Australia in 2003 drew worldwide attention to the possibility of DPRK state trading of drugs. The "Pong Su" is a sea-going cargo vessel, owned by a North Korean enterprise, which was seized in Australia in mid-April 2003 after reportedly delivering a large quantity of pure heroin to accomplices on shore. The "Pong Su" case trial began in late January in Australia and is expected to continue for at least four to five months. The North Korean Captain of the "Pong Su", and other senior officers, will face prosecution for complicity in smuggling the heroin to Australia, and a North Korean communist "Party Secretary" found aboard the "Pong Su", will also face prosecution for complicity in the smuggling, in accordance with evidence developed during an investigation by the Australian Federal Police (AFP) and the Australian Crime Commission. The disposition of the "Pong Su" itself will be determined later this year. The vessel has been in Australian custody since it was seized in the wake of the smuggling incident. During the time it was held, government investigators and prosecutors, as well as defense counsel have had access to the vessel in preparing their respective cases.

Beyond the incidents described above, no additional information about DPRK-linked drug trafficking entered the public record during 2004. As the Department of State noted in its report on North Korea in the March 2004 INCSR, the cumulative impact of drug smuggling incidents linked to North Korea over years in a context of other admitted DPRK state-directed criminal activity, such as the Japanese kidnapping incidents, support the Department's conclusion that it is likely, though not certain that the DPRK is state trading narcotics. 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. 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 with a population of approximately 20,000, and a constitutional government whose structure is comparable to that of the United States. Palau is a former UN trust territory of the United States that became independent on October 1, 1994. There is some crime in Palau, but it is not a major drug trafficking or producing country or a source of precursor chemicals for production of narcotic drugs.

Palau is an attractive tourist destination, especially for divers. The island has good air connections to many regional destinations. The possibility for drug transit exists. Authorities are aware of this danger and take steps to counter it through attentive enforcement. The USG has no evidence that any high-level official in Palau facilitates drug trafficking for personal gain. Small-scale corruption, which might facilitate trafficking, is a possibility; but Palau authorities, focused on maintaining Palau as an attractive tourist destination, are attentive to corruption and punish it when it comes to their attention.

III. Country Actions Against Drugs in 2004

There were 10 cases involving possession or trafficking in methamphetamine, and 33 cases of possession or trafficking in marijuana in 2004. Authorities also destroyed approximately 7,795 marijuana plants. The Ministry of Justice and Ministry of Health have ongoing counternarcotics campaigns, as well as drug treatment and counseling programs.

IV. U.S. Policy Initiatives and Programs

U.S. law enforcement officials have conducted training for local law enforcement officials. Cooperation in law enforcement between the United States and Palau is mutual and professional.

The Philippines

I. Summary

Philippine law enforcement agencies redirected resources in 2004 to target major traffickers and large clandestine drug labs. Although official Philippine government arrest and seizure statistics reflect an overall decline (with the exception of marijuana), the 2004 figures likely indicate a more accurate accounting by Philippine law enforcement. The dismantling of four clandestine methamphetamine laboratories in the last half of December 2004 may raise some seizure statistics to levels close to 2003's totals. The Philippine government continues to develop a dedicated counternarcotics capability in the Philippine Drug Enforcement Agency (PDEA), established by the Government of the Republic of the Philippines (GRP) in 2002. The Philippines continues to be a major producer of crystal methamphetamine. Evidence indicates some links between terrorist organizations and drug trafficking. The Philippines is a party to the 1988 UN Drug Convention.

II. Status of Country

Domestic production of crystal methamphetamine, locally known as "shabu," exceeds demand, with most of the precursor chemicals smuggled into, or illegally diverted after importation into the Philippines from the People's Republic of China (PRC), including Hong Kong (HKSAR). Dealers sell shabu in crystal form for smoking. There is no production or distribution of methamphetamine in tablet form. Producers make methamphetamine in clandestine labs through a hydrogenation process that uses palladium and hydrogen gas to refine the liquid mixture into crystal form. PRC- and Taiwan-based syndicates have established all of the Philippines' clandestine methamphetamine labs using a network of ethnic compatriots with the necessary technical skills. The Philippines also serves as a transshipment point for further export of methamphetamine of foreign manufacture to Australia, Canada, Japan, Korea, the U.S. (including Guam), and Saipan.

The Philippines also produces, consumes, and exports marijuana. Philippine authorities continue to encounter difficulties stemming production. Marijuana cultivation is generally in areas inaccessible to 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 for local consumption, with the remainder smuggled to Australia, Japan, Malaysia, Taiwan, and Europe.

Methyl-dioxy-methamphetamine (MDMA), commonly known as Ecstasy, is a popular recreational drug in the Philippines. Philippine authorities report use among young, prosperous adults, particularly in bars and clubs. Anecdotal reports cite increased availability, but enforcement actions against MDMA did not increase in 2004.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Arroyo Administration continues to concentrate on the full and sustained implementation of counternarcotics legislation and the institution building of PDEA as the lead counternarcotics agency. PDEA conducts investigations and continues to develop a training program. President Arroyo in 2002 created by executive order the Philippine National Police's (PNP) Anti-Illegal Drugs Special Operations Task Force (AIDSOTF). AIDSOTF's mission is to maintain law enforcement pressure on narcotics traffickers while PDEA builds its capacity.

Accomplishments. **Illicit Cultivation.** In 2004, Philippine law enforcement again joined with units from the Armed Forces of the Philippines (AFP) to launch marijuana eradication operations, some of which took place in territory controlled by armed insurgent movements. A new focus on significant

drug traffickers rather than small-scale marijuana farmers produced several large seizures, resulting in a 1400-fold increase in dried marijuana leaves (332,690 kilograms) and a 420 percent increase in marijuana sticks. Using manual techniques to eradicate marijuana, government entities successfully uprooted and destroyed 2,361,581 plants and seedlings. They also confiscated 5 kilograms of seeds. The seized and eradicated marijuana crop was valued at \$155 million, up from \$10.7 million in 2003.

Production. Philippine authorities dismantled 11 clandestine methamphetamine laboratories in 2004, the same number as in 2003. GRP law enforcement officials cite four factors behind the existence of domestic labs: 1) the simplicity of processing ephedrine into methamphetamine on a near 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; and 4) the lack of law enforcement expertise and statutory power to detect precursor chemicals used in clandestine labs and prosecutions that are limited to finished product rather than the potential output. GRP authorities seized a total of 756 kilograms of methamphetamine, with an estimated value of \$27,013,306, and 5,791 kilograms of ephedrine (including pseudo-ephedrine and chlorephedrine), essential precursors in the production of methamphetamine. While these numbers are down from 2003's totals, raids on four clandestine labs in the last half of December 2004 could raise total 2004 seizure statistics close to 2003's levels totals once the GRP releases these latest figures.

Distribution. According to the PDEA, the Philippines arrested 25,221 people for drug related offenses in 2004, a decrease of 7,929 individuals from 2003. The decline reflects the new strategy to concentrate on larger distributors rather than users and low-level dealers. GRP authorities filed criminal charges in 17,887 drug cases. PRC- and Taiwan-based traffickers remain the most influential foreign groups operating in the Philippines. According to PDEA, Philippine authorities arrested and/or disrupted the operations of 127 out of the 295 local drug rings and syndicates.

Sale, Transport, And Financing. The Philippines exports certain domestically produced drugs and is also used as a 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 Philippine archipelago is a drug smuggler's paradise. Vast stretches of the Philippine coast are virtually unpatrolled and sparsely inhabited. Traffickers use shipping containers, fishing boats, and cargo ships (which off-load to smaller boats) to transport multiple hundred kilogram quantities of methamphetamine and precursor chemicals. Deficits in equipment, training, and intelligence sharing hamstring marine interdiction efforts between the AFP and law enforcement.

The DEA Manila Country Office and Joint Inter-Agency Task Force-West (JIATF-W) are developing a plan to create three maritime counternarcotics fusion centers in the Philippines. The primary center will be located in PDEA Headquarters in Metro Manila, with two satellite centers in Poro Point, La Union (Northern Luzon), and the headquarters of the Naval Forces Western Mindanao, Zamboanga Del Sur (Southern Mindanao). Officers from the Philippine Navy, Coast Guard, PNP-Maritime Group, and PDEA will staff the facilities. The purpose of the fusion centers will be to gather information about maritime drug trafficking and other forms of smuggling and provide actionable target information that the agencies at the information centers can use to investigate and prosecute drug trafficking organizations. Construction of these centers will begin in January 2005. The Philippines is also a transshipment point for further export of crystal methamphetamine to Japan, Australia, Canada, Korea, the U.S (including 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 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 2004 figures are not yet available, residential and outpatient rehabilitation centers reported 5,965 admission cases in 2003. 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 28 years old; 3) methamphetamine and/or marijuana are the drugs of choice; 4) the ratio of male to female users is 11:1. Officials of the Philippine Department of Interior and Local Government, which has overall jurisdiction over both law enforcement and demand reduction efforts, have indicated a desire for a program similar to the Partnership for a Drug-Free America. 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.

Law Enforcement Efforts. Throughout 2004, Philippine authorities continued to link drug trafficking activities and terrorist organizations. The Abu Sanyaf Group (ASG), a U.S. and UN-designated Foreign Terrorist Organization operating in extreme southwest 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 the Central and Western Mindanao areas controlled by the Moro Islamic Liberation Front (MILF), 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 government estimates, the Communist New People's Army (NPA), another U.S.-designated Foreign Terrorist Organization, but operating countrywide, receives money for providing safe haven and security for many of the marijuana growers in the northern Philippine 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 prosecution. Philippine laws regarding electronic surveillance and bank secrecy regulations also constrain the ability of prosecutors to build narcotics cases. The 1965 Anti-Wiretapping Act prohibits the use of the information gleaned as a result of wiretapping and the consensual monitoring of conversations as evidence in court. Crimes against the state such as treason and sedition are the only exceptions to the Act. There are also no provisions to seal court records to protect confidential sources and methods. Pervasive problems in the law enforcement and criminal justice systems (i.e., rampant corruption, low morale, inadequate salaries, recruitment and retention difficulties, and lack of cooperation between police and prosecutors) hamper narcotics investigations and prosecutions. Perennial backlogs in the judicial system impede further the already slow pace of proceedings in narcotics cases. Under the Comprehensive Dangerous Drugs Act of 2002, only those courts designated as "Special Drug Courts" can hear drug cases, obliging GRP prosecutors to move cases previously filed in other courts into the Special Drug Courts. The Comprehensive Dangerous Drug Act also prohibits plea-bargaining in exchange for testimony; the GRP can reward cooperation with the filing of lesser charges, but not by reduced sentences.

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. Corruption within the GRP, including law enforcement and customs agencies, diminishes the effective inspection of inbound and outbound shipments.

Corruption. Corruption among the police, judiciary, and elected officials continues to be a significant impediment to Philippine law enforcement efforts. However, GRP policy clearly prohibits senior GRP officials from engaging in, encouraging, or facilitating the illicit production or distribution of narcotic drugs or substances, or the laundering of proceeds from illegal drug actions. There have been recent cases of PDEA officers arrested for dealing drugs and selling seized chemicals. The GRP's Office of the Ombudsman in 2004 undertook vigorous prosecution of significant corruption cases, including against senior civilian and military officials.

Agreements and Treaties. The Philippines 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 Philippines is a party to the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children. The Philippines also is a signatory to the UN Convention Against Corruption. The U.S. and the Philippines cooperate in law enforcement matters through an extradition treaty and a mutual legal assistance treaty, both of which entered into force in 1996.

Cultivation/Production. Authorities have identified at least 98 marijuana cultivation sites spread throughout nine different regions of the Philippines. The largest areas of marijuana cultivation are the mountainous areas of Northern Luzon, Central Visayas, and central, southern, and western Mindanao.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The USG's main counternarcotics policy goals in the Philippines are to: 1) work with local counterparts to provide an effective response to counter the burgeoning clandestine production of methamphetamine; 2) cooperate 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 as the focus for effective counternarcotics enforcement efforts in the Philippines; and 4) develop an improved statutory framework for controls of drug and precursor chemicals.

Bilateral Cooperation. In the largest single raid of a clandestine lab in Philippine history, Philippine authorities in September, acting on intelligence developed from a joint USG-RP-Hong Kong (HKSAR) investigation, raided a methamphetamine mega-lab located in Cebu. GRP authorities arrested eleven people from the Philippines, Taiwan, and the PRC (including Hong Kong)—all of them ethnic Chinese—and seized 498 kilograms of pseudoephedrine and 80 gallons of liquid methamphetamine. The raid and arrests highlighted the Philippines' transition into a major methamphetamine producer and the role of transnational criminal group in production.

Road Ahead. The GRP is committed to sustaining PDEA's funding and staffing requirements in 2005. 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 as well as ongoing programs. 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. 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 2004, 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) keep 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.

III. Country Actions Against Drugs in 2004

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. Arrests for drug-related offenses registered a sharp decline of 47 percent from 2002 to 2003 (no 2004 information was available). The number of persons detained for trafficking offenses, and arrests for abuse and possession also declined. Arrests of first-time heroin abusers fell by 78 percent. Authorities executed 56 major operations during which they crippled 30 drug syndicates and arrested a total of 74 traffickers and 1,993 abusers. The largest marijuana seizure for CNB was 9.3 kilograms of cannabis. Seizures of MDMA declined by 38 percent between 2002 and 2003, however there was an 11 percent increase in the amount of MDMA abusers arrested. The following statistics reflect 2003 arrests related to specific drugs and the corresponding percentage increase or decrease as compared to 2002 arrests: 567 heroin arrests (-74.63 percent), 114 Ecstasy arrests (+16.32 percent), 260 cannabis arrests (+41.3 percent), 369 methamphetamine arrests (-40.48 percent), and 497 Ketamine arrests (+97.22 percent).

In 2003, authorities also seized approximately 94,200 nimetazepam or Erimin 5 tablets (a depressant), an increase of about 140 percent over 2002 seizures.

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.

Agreements and Treaties. Singapore is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs and its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Singapore and the United States continue to cooperate in extradition matters under the 1931 U.S.-UK extradition treaty. In 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 has signed mutual legal assistance agreements with Hong Kong and ASEAN. Singapore has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Cultivation/Production. There was no known cultivation or production of narcotics in Singapore in 2003 or 2004.

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

Bilateral Cooperation. Singapore and the United States continue to enjoy good law enforcement cooperation. In FY04, approximately 24 GOS law enforcement officials (including approximately 14 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 will help further bolster law enforcement cooperation.

South Korea

I. Summary

Narcotics production or abuse is not a major problem in the Republic of Korea. However, continuing intelligence indicates that large quantities of drugs are smuggled through South Korea en route to the United States as well as other countries. South Korea in recent years has become a favored transshipment location for drug traffickers due to the country's reputation for not having a drug-abuse problem. This, combined with the fact that the South Korean port of Pusan is the second largest port in East Asia, makes Korea an attractive location to divert illegal shipments coming from more suspect countries. In response, the South Korean government has taken significant steps to thwart the transshipment of drugs through its borders.

Club drugs such as Ecstasy and LSD continue to grow in popularity among college students. Most of the LSD and Ecstasy used in South Korea comes from North America or Europe. However, methamphetamine continues to be the drug of choice for Koreans. The Republic of Korea (ROK) is a party to the 1988 UN Drug Convention.

II. Status of Country

Drugs encountered in South Korea continue to consist of methamphetamine, marijuana, and club drugs such as LSD, Ecstasy and ketamine. The numbers of persons arrested in South Korea for use of psychotropic substances, mostly club drugs, increased from 3,657 persons to 4,478 persons (a 23 percent increase) while persons arrested for marijuana use fell from 1,276 to 940 (a 26 percent decrease). The overall arrest rate for drug offenders increased slightly, from 6,086 arrests in 2003 to 6,529 arrests in 2004. It should be noted that these figures for both years are based on the first ten months of the year. Total figures for 2004 were not available.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, the ROK National Assembly confirmed newly amended legislation, which enhances the control of certain precursor chemicals. Previously, Korean authorities could only bring administrative charges of mislabeling against companies that transshipped precursor chemicals through Korea. The recent legislative action enhances the controls and enforcement procedures of the host government and allows for criminal sanctions. Unfortunately, the lead agency for this initiative, the Korean Food and Drug Administration (KFDA), has extremely limited resources and is only able to assign a limited number of persons to monitor the precursor chemical program. Still, this proactive legislation demonstrates South Korea's recognition of the need for an enhanced precursor chemical program.

Accomplishments. The ROK has identified the transshipment of narcotics and the export of precursor chemicals as its most serious narcotics trafficking issues, and has taken aggressive, proactive steps in response. To curb the flow of drugs through airports, South Korea law enforcement has increased its presence and implemented tighter screening processes, including enhanced procedures for examining persons, luggage, express mail and cargo. To better manage the export of precursor chemicals, the ROK created a precursor chemical program with greater power to punish offending companies.

In 2003, no cargo containers routed through Korea were identified carrying drugs or precursor chemicals, although intelligence indicated that these items had successfully transshipped through ROK ports. However, in 2004, the DEA and the Korea Customs Service tracked two large transshipments of

illicitly diverted precursor chemicals as they were transshipped through the country, with resulting seizures at the final destinations.

Law Enforcement Efforts. In the past year, the Korean National Police Agency reassigned 175 police to a newly created narcotics detail, creating dedicated narcotics enforcement teams at 14 of the major metropolitan provincial districts. This is the first time that South Korean police officers are being assigned solely to narcotics investigations. However, while the Korean National Police Agency can make arrests, they have limited investigative authority. The police are expected to immediately report the case to the Ministry of Justice Prosecutor's Office, which will usually assume jurisdiction of the investigation.

The DEA Seoul Country Office provided for a one-week training session on narcotics investigations, at the Korean Police University for members of the Korean National Police Agency's narcotics units, the Korea Customs Service, the Korean National Intelligence Service, the Korean Maritime Police and the Korean Supreme Prosecutor's Office. This training is again scheduled for 2005, with an advance course being considered for 2006.

Corruption. Although isolated reports of official corruption continue to appear in the ROK's vigorous free press, there continues to be no evidence that any official corruption adversely influenced narcotics law enforcement in Korea. It is not government policy to facilitate illicit production or distribution of narcotics.

Agreements and Treaties. The U.S. and Korea have an extradition treaty and a mutual legal assistance treaty in force. South Korea 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 its 1972 Protocol. South Korea has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime, and is a signatory to the UN Convention Against Corruption. Korean authorities are exchanging information with international counternarcotics services such as UNODC, INTERPOL and have placed National Police and/or Customs Attaches in Thailand, Japan, Hong Kong, China and the United States. South Korea has several bilateral mutual legal assistance treaties with other countries.

Illicit Cultivation and Production. Legal marijuana and hemp growth is licensed by local Health Departments. The hemp is used to produce fiber for traditional hand-made ceremonial funeral clothing. Every year, each District Prosecutor's Office, in conjunction with local governments, conducts surveillance into suspected or known illicit marijuana growing areas during planting or harvesting time periods in an attempt to match the number of seeds farmers reported planting to mature crops and limit illicit diversion. Last year, a marked decrease of 5,599 plants were seized by local authorities, however, this year, the number of plants seized is extremely high at 58,755 plants. The DEA Office in Seoul suggests that because the limited number of crops in the ROK is heavily dependent on natural phenomenon such as drought, monsoons, etc, the percentages can vacillate greatly from year to year. Opium poppies are grown in the Kyonggi Province and farmers have traditionally used the harvested plants as a folk medicine remedy to treat sick pigs and cows. Opium is not normally processed from these plants for human consumption. All poppies are grown illegally; South Korea forbids the growing of poppies for any reason. Each year, each District Prosecutor's Office, in conjunction with their respective local governments, conduct surveillance into the suspected or known poppy growing areas during planting and harvesting time periods.

Drug Flow/Transit. Few narcotics originate in South Korea for use within country, and none are known at this time to be exported out of the country. However, Korea does produce and export the precursor chemicals Acetone, Toulene and Sulfuric Acid. Most Koreans who attempt to smuggle methamphetamine into Korea are coming from China, and on a few occasions the smugglers have indicated that the methamphetamine originated from North Korea and was simply transshipped through China.

A majority of the LSD and Ecstasy used in South Korea has been identified as coming from North America or Europe. The amount of seizures of Ecstasy went up exponentially from 2,575 tablets in 2003 to 20,358 tablets in 2004. Persons living in metropolitan areas of Korea, as well as USFK (United States' Forces Korea) employees and dependants are known to use marijuana originating from South Africa and Nigeria, whereas those living in rural areas appear to obtain their marijuana from locally produced crops.

The areas of origin for the transshipped narcotics include Thailand, China, North Korea and Canada for heroin; Iran and South Africa for marijuana and hashish; United States and Spain for Ecstasy; and China, Thailand, Philippines and North Korea for methamphetamine. Chemicals used for manufacturing illicit drugs, such as potassium permanganate, ephedrine and acetic anhydride, originate mostly in China for transshipment to South America and the Middle East region. Seizures of trafficked marijuana were down by half, from about 29 kilograms in 2003 to approximately 16 kilograms in 2004. This is probably a result of stepped up customs procedures at the airports and seaports. Heroin is generally not used by Koreans; cocaine is used only sporadically with no indication of its use increasing.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. DEA and Immigration and Customs Enforcement (ICE) work closely with Korea narcotics law enforcement authorities, and the DEA considers the working relationship excellent.

Bilateral Cooperation. The DEA in Seoul completed a survey of chemical monitoring programs operating in other Asian countries and forwarded the results to the Korean Food and Drug Administration to highlight the importance of the steps being taken by neighboring countries. DEA also works closely with the Korea Customs Service, which monitors airport and drug transshipment methods and trends, including the use of international mail by drug traffickers.

Road Ahead. While the Korean law enforcement agencies all strive to combat narcotics use and trafficking within their country, South Korea is also looking forward to a more global approach to address the forces outside of Korea. In addition, Korean authorities have expressed concern that the popularity of South Korea as a transshipment nexus may lead to a greater volume of drugs making its way onto Korean markets. Korean authorities fear increased accessibility and lower prices could stimulate increased drug usage domestically.

Taiwan

I. Summary

In 2004, the Taiwan authorities implemented counternarcotics legislation containing more severe punishments and stricter prosecutorial guidelines passed by the Legislative Yuan in 2003. Cooperation on drug trafficking issues continues to be guided by the Mutual Legal Assistance Agreement (MLAA) between the American Institute in Taiwan (AIT) and the Taipei Economic and Cultural Representative Office (TECRO) in the United States. Although there is little evidence to suggest that Taiwan is becoming a transit/trans-shipment point for drugs bound for the U.S., one disturbing trend has emerged: in 2004, several Taiwan nationals were arrested at crystal methamphetamine “mega labs” located throughout the East Asia/Pacific (EAP) region. Based on these laboratory seizures and arrests, it is apparent that Taiwan-based organizations are exporting skilled lab technicians to manufacture large quantities of methamphetamine in other countries.

Taiwan is not a member of the UN and therefore cannot be a party to the 1988 UN Drug Convention. Nevertheless, Taiwan authorities have amended and passed legislation consistent with the goals and objectives of this Convention.

II. Status of Taiwan

The People’s Republic of China (PRC), North Korea, and Thailand are the primary sources of drugs smuggled into Taiwan. In 2004, Taiwan continued to see a rapid increase in the distribution and use of crystal methamphetamine and club drugs such as MDMA and ketamine. Taiwan has also experienced an increase in the importation of marijuana from Canada. In 2004, a number of heroin seizures were made in Thailand destined for Taiwan, as well as seizures in Taiwan of drug shipments originating from Thailand. Several Taiwan based organizations continue to have a direct impact on the United States, to include the shipment of precursor chemicals and drugs to the West Coast and Canada. However, enhanced airport interdiction, coast guard and customs inspection, surveillance and other investigative methods have prevented serious flows of heroin and other drugs from Taiwan into the U.S.

III. Actions Against Drugs in 2004

Policy Initiatives. In 2004, laws passed by the Legislative Yuan (LY) with regard to narcotics enforcement were implemented. The laws allowed for the use of controlled deliveries as a tool for drug law enforcement. The LY is also currently considering legislation that will permit the use of confidential sources and undercover operations. In 2004, Taiwan also implemented statutes containing more severe punishments, stricter prosecutorial guidelines and the addition of Schedule 4 drugs to comply with the UN Drug Convention. Taiwan is also reportedly considering the establishment of a drug enforcement administration largely modeled after the U.S. DEA. Although only in the preliminary stages of discussion, this proposal would create one primary drug investigative agency by merging several drug law enforcement units currently working under the auspices of different agencies.

Accomplishments. A provision permitting samples of seized narcotics to be shared with other law enforcement authorities, including DEA’s Drug Signature Program (drug origin) is now in effect and has been implemented. In 2004, DEA received several samples of heroin from various law enforcement agencies in Taiwan. In a combined effort with local authorities, DEA also successfully performed the first controlled delivery in Taiwan in 2004. The operation resulted in the arrest of one

individual and the seizure of approximately 4.7 kilograms of cocaine, currently the largest seizure of cocaine documented by Taiwan law enforcement authorities.

Law Enforcement Efforts. The Ministry of Justice continues to lead Taiwan's drug enforcement efforts with respect to manpower, budgetary and legislative responsibilities. However, the Ministry of Justice Investigation Bureau (MJIB), the National Police Administration's Criminal Investigation Bureau (NPA/CIB), Foreign Affairs Police Bureau, Aviation Police Bureau, Military Police Command, Coast Guard and Customs all contributed to the counternarcotics effort in 2004. For instance, Taiwan authorities provided information to the DEA Hong Kong Country Office (HKCO) that led to the successful dismantling of several drug-manufacturing facilities located in the East Asia/Pacific (EAP) region. Taiwan authorities continue to share valuable intelligence and coordinate investigative activities with U.S. counterparts and are currently investigating several large United States-impact organizations involved in the trafficking of methamphetamine. Additionally, MJIB has provided valuable assistance to the DEA on several significant money laundering operations.

From January through September 2004, Taiwan authorities seized 1,360.81 kilograms of methamphetamine, 2,693.74 kilograms of semi-processed amphetamine, 470.78 kilograms of heroin, 296.96 kilograms of MDMA, 517.56 kilograms of ketamine and 35.48 kilograms of marijuana.

Corruption. There is no indication that either the Taiwan authorities, as a matter of policy, or senior officials in Taiwan encourage or facilitate illicit production or distribution of narcotics or psychotropic drugs or other controlled substances, to include the laundering of proceeds from illegal drug transactions. No cases of official involvement in narcotics trafficking were reported in 2004.

Agreements. In 1992, AIT and its 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, methamphetamine, and club drugs for Taiwan. Fishing boats, cargo containers and couriers are still the primary means of smuggling these types of drugs into Taiwan, but there has also been a marked increase in the number of drug seizures at Taiwan's international airports. Seizures of methamphetamine on Taiwan also increased dramatically in 2004. As of October 2004, Taiwan authorities reported the seizure of 12 methamphetamine labs of various sizes. This increase can be attributed to the crackdown on such facilities in the PRC and a relocation of manufacturers to Taiwan.

Domestic Programs. The Ministry of Education and the Taiwan National Health Administration continue to forge partnerships with various civic and religious groups to sponsor periodic campaigns to raise awareness about the dangers of drug-use and educate the public about the availability of treatment programs.

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 prevent Taiwan from returning to its earlier status as major transit/transshipment point for U.S.-bound narcotics. In 2004, the DEA HKCO provided several training seminars to many of Taiwan's law enforcement agencies, focusing on undercover and controlled delivery operations, financial investigations, methamphetamine laboratory safety and airport interdiction. The DEA HKCO also coordinated the visit of four prosecutors from the Taiwan Ministry of Justice and one MJIB Senior Special Agent to the United States for training and familiarization with the investigation and prosecution of drug cases in both the U.S. federal and state legal systems.

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 office and AIT's Regional Security Office. In 2004, MJIB, Coast Guard and NPA police units participated and cooperated with DEA in joint investigations. As a result of this close working relationship, several significant arrests and drug seizures were made throughout the EAP region.

Road Ahead. AIT and DEA anticipate building upon and enhancing what is already an excellent working relationship with Taiwan's counternarcotics agencies. The Taiwan Ministry of Justice, Department of Prosecutorial Affairs anticipates that the LY will pass the pending undercover legislation in 2005 and that this legislation will greatly enhance counternarcotics efforts in Taiwan. The DEA expects to conduct additional training in anticipation of the undercover legislation being implemented, as well as training for financial and money laundering investigations. DEA also intends to expand the Drug Signature Program to receive more samples of heroin and other drugs seized in Taiwan.

Thailand

I. Summary

Thailand continued to be a leading regional partner in combating drug trafficking and other transnational crimes. It did so by ratifying a number of multilateral conventions and passing legislation implementing these conventions into domestic law, diligently honoring bilateral treaties, vigorously enforcing money laundering and narcotics law, adopting new criminal laws and procedures and cooperating closely with counterparts, bilaterally, regionally and internationally. Thailand was not included in the President's 2004 annual report to Congress of major narcotics producing or trafficking countries. This was the first time that Thailand was not listed as a major producing or transit country, and it reflects the overall progress Thailand has achieved over many years in its efforts to combat narcotics production and trafficking. For the past five years, Thailand has not been a major source country for opium and heroin, and for the past three years, the U.S. Government has not included Thailand in its annual survey of opium poppy cultivation and heroin production in Southeast Asia. In 2002-2003, opium production in Thailand was estimated to be only 320 hectares, of which 90 percent was eradicated before it could be harvested. This year's goal is 100 percent eradication.

Thailand is a major victim of trafficking in amphetamine-type stimulants (ATS), which are primarily manufactured in Burma. Narcotics abuse is recognized by the Thai government and people to be 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. In early 2003, Thai authorities launched a far reaching "war on drugs," which resulted in a large reduction in abuse and trafficking as measured by higher prices, reduced availability and consumption, and a drastic drop in seizures, because drugs never reached Thai streets. However, it also led to charges that some authorities had been complicit in extra-judicial killings of suspected drug traffickers. Occasional reports of extra-judicial killings by police of suspected traffickers, reportedly in self-defense, continue to appear in the Thai press. On December 3, 2003, Prime Minister Thaksin declared victory in the war on drugs. Follow-on "phases" of the campaign continued throughout 2004. Efforts were focused on an "area approach" to demand reduction and community based efforts to ensure that villages and communities remained drug free.

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 and through Thailand in 2004. There is limited cultivation of cannabis, and some methamphetamine is 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 krathom, (a mild stimulant that grows wild throughout much of the country), ATS and cannabis. ATS is most frequently encountered in the form of pills or tablets whose purity averages about 25 percent methamphetamine (locally called "yaba"- "Mad Medicine"). Most ATS consumed in Thailand is produced and smuggled from Burma. Many

traditional heroin trafficking organizations in Burma participate in this traffic, but the United Wa State Army (UWSA) dominates ATS manufacturing and smuggling. According to private and public surveys, ATS abuse remains prevalent throughout Thailand, despite large reductions following the Royal Thai Government's (RTG) "war on drugs". One potential side effect of this 2003 campaign has been changes in use patterns of Thai abusers. Late in 2004, there were reports of an increasing popularity in the use of crystallized methamphetamine known as "Ice." Seizures in 2004 included quantities of both methamphetamine powder and "Ice."

Although still limited relative to ATS, the availability and use of Ecstasy, ketamine and cocaine is a growing concern. Ecstasy remains an expensive party drug with a largely "high society" or foreign clientele. Most Ecstasy is smuggled from Europe, often via intermediate countries, although there is evidence of some Ecstasy production in the region. Because of an increased focus on Ecstasy by Thai law enforcement, Ecstasy seizures became routine in 2004, with many resulting from undercover operations by the Thai police. Ketamine is also encountered as a limited "club drug", and its popularity rose in 2004. Thai authorities seized 135 liters of ketamine in January 2004. 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. Much of the cocaine imported by West Africans using couriers sent to South America is re-distributed within the region. 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. The U.S. Government has not included Thailand in its annual opium poppy crop survey for Southeast Asia since 2002. No heroin production laboratories have been found in Thailand for years. Heroin seizures in 2004 began to increase in size, and the overall amount of heroin seized in 2004 increased to 685 kilograms. The UN Office on Drugs and Crime (UNODC) considers that most of the diminishing quantity of heroin produced in Burma and Laos reaches other markets through southern China, although stringent law enforcement pressure there in 2004, caused some traffickers to seek new routes through Thailand.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Following the initial phase of the war on drugs, the RTG launched phase two of the campaign from May 1-December 2003. The focus of this phase was rehabilitation, supervision and treatment of drug abusers to enhance community strength against drug use at the village level. At the end of the second phase, 83,947 villages/communities were declared drug free with 2,767,885 volunteer counternarcotics coordinators in place. These coordinators were responsible for watching to ensure that drug users or traffickers did not return to the areas under their responsibility. During 2004, the Royal Thai Government continued with various phases of its war on drugs after Prime Minister Thaksin declared "victory" in the campaign on December 3, 2003. Phase three took place from December 3, 2003-September 30, 2004 and focused on maintaining sustainable drug free communities.

In early 2003, the RTG established the National Command Center for Combating Drugs (NCCD) under Deputy Prime Minister Chavalit as the highest level planning and policy level organization on developing counternarcotics policies and programs. This body was set up to enhance coordination among government agencies and bring added high level attention and support to the war on drugs. In addition to the NCCD, the Office of the Narcotics Control Board (ONCB) underwent a reorganization and expansion during 2004. The number of regional offices of ONCB doubled from four to eight. Similar plans to decentralize the national police force are under consideration.

Internationally, Thailand continued to expand its role as a donor, as well as a recipient, of drug control assistance. 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 the border. 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.

Accomplishments. During 2004, Thai authorities from the Royal Thai Police (RTP) and ONCB declassified wiretap evidence gathered during Thai investigations and shared with the U.S., in effect, permitting its use in U.S. investigations. Although no formal plea bargaining legislation is yet in place, Thai officials continue to permit and use reduction of sentences for convicted drug offenders that cooperate with authorities. 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.

ONCB in its role as a central authority for coordinating drug law enforcement issued instructions to coordinate complicated drug cases between various agencies such as the police and prosecutors. Legislation on conspiracy and asset forfeiture in drug cases was implemented throughout the country. ONCB organized judicial seminars in which over 350 judges from the courts of first instance located in every province of the country attended to receive training in trying complicated drug cases. In November, the Attorney General's Office announced the formation of a special prosecution task force to work alongside police in cases of special public interest.

The newly enacted Special Investigations Act (SIA) (2004) helped establish the Department of Special Investigation (DSI), a still-evolving elite law enforcement agency modeled in part on the FBI. In furtherance of that role, DSI was placed under the Ministry of Justice to give it independence from the RTP. The SIA clarified that DSI's jurisdiction includes transnational cases, investigation of influential persons, and a wide variety of financial crimes. The SIA gives DSI express authority to wiretap telephones and other electronic communications, and to offer the intercepts as courtroom evidence. The SIA concludes with unprecedented authority for investigator-prosecutor teamwork during the investigative stage of more complex cases. DSI ended the year with what was reported to be one of the largest seizures to date of counterfeit consumer goods.

The RTG is also a full partner in counternarcotics matters related to mutual legal assistance, cooperation on drug-transit and operational freedoms. The RTG responds to U.S. requests for information or evidence made pursuant to the bilateral mutual legal assistance treaty, providing items such as surveillance tapes, phone subscriber information, investigative background materials, etc. Thailand is among the most cooperative partners of the U.S. in regard to suppressing drug transits and targeting influential, transnational drug syndicates that engage in trafficking. Thailand also gives U.S. drug law enforcement entities considerable investigative leeway, permitting such agencies to use virtually any investigative tool available to them in the U.S.

Law Enforcement. According to ONCB, seizures for most types of narcotics continued to decrease in 2004 as a result of Thailand's successful war on drugs. The only categories that increased were heroin; 685 kilograms in 2004 vice 436 kilograms in 2003; raw opium 1,173 kilograms in 2004 vice 267 kilograms in 2003; ketamine 162 kilograms in 2004 vice 98 kilograms in 2003; codeine 1,026 kilograms in 2004 vice 941 kilograms in 2003; psychotropic substances 71 kilograms in 2004 compared to 36 kilograms in 2003. Methamphetamine seizures declined greatly from 6,442 kilograms to 2,082 kilos. Ecstasy seizures declined from 33 kilograms to 21 kilos, cocaine went from 11 kilograms to 7 kilograms and ice (crystal methamphetamine) declined from 48 to 34 kilograms in 2004. Dried cannabis went from 13,771 kilograms last year to 7,062 kilograms in 2004, while fresh cannabis went from 5,878 kilograms last year to 4,555 kilograms in 2004. The number of arrests also declined dramatically from 107,823 in 2003 to 37,121 in 2004. As of October, 2004, 81,184 prisoners were detained for drug offenses, 78 of them on death row.

For much of 2004, the high prices and limited availability of methamphetamine generated by the war on drugs in 2003 persisted. In the latter half of the year, however, seizure quantities of methamphetamine began to creep upward. Police effectiveness has precluded a return to pre-2002

levels of trafficking but law enforcement efforts are not likely to sustain the reduced trafficking levels indefinitely. In declaring victory in the war on drugs in December 2003, the Prime Minister's office issued the following statistics: 43,621 drug producers and dealers turned themselves in, arrests were made of 92,436 drug abusers and 753 importers, 21,855 key drug traders, 22,890 drug retailers, and 1,257 state officials, while six major drug trafficking rings led by "influential figures" were dismantled.

Over the past few years, most heroin seizures were modest, in the five to twenty kilogram range with an occasional large seizure. In 2004 there were more seizures in the twenty to seventy kilogram range. One trafficking organization under investigation by DEA and Thai police is associated with the seizure of 127.4 kilograms of heroin between January and June 2004. There was a seizure of 43.4 kilograms of heroin in Taiwan in January 2004 and another of 64.6 kilograms in June 2004. Both of these commercial maritime shipments of heroin had arrived in Taiwan from Thailand. In late 2004, Thai and Chinese authorities cooperated to seize in China 463 kilograms of Burmese heroin that had been smuggled into China for re-export to Europe. The suspected kingpin, Liu Gang-yi was arrested in Bangkok on October 29 and deported to China shortly thereafter. At least some of these shipments may have been destined for North America.

Corruption. As a matter of government policy, the Royal Thai Government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. Nevertheless, 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. Security of complex investigations against major drug traffickers has been maintained and no major investigations have ever been compromised by the Thai. In January 2004, a former member of NSB was given the death sentence for his complicity in trafficking one million tablets of methamphetamine. Also in the second quarter, one Border Patrol Police officer in Nong Khai Province and a former BPP officer in Chiang Rai were also arrested for trafficking in methamphetamine. Moreover, a former deputy governor of Chiang Rai and Phrae provinces was removed from his post to an inactive position, reportedly because he was involved in taking bribes from one of the largest drug traffickers in the province. Police are investigating the case, and arrests of police, prosecutors, and other local officials are anticipated.

One nondrug related case originated by the National Counter-Corruption Commission (NCCC) (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 but was captured in September and is now serving a 15-year prison sentence. This is the first time that a former minister has been convicted on such a corruption charge. 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.

In September, the Prime Minister announced a new "war against corruption." Early measures taken included: a multi-agency agreement to pool resources in corruption investigations and an agreement

between the Anti-Money Laundering Office (AMLO) and the NCCC to expedite asset seizure procedures for politicians and civil servants found guilty of corruption.

Agreements and Treaties. Thailand is a party to the 1988 UN Drug Convention, the 1961 Single Convention on Narcotic Drugs and the Convention on Psychotropic Substances. Thailand has signed but has not yet ratified the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption.

On September 20, 2004, the United States 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 2004. Thailand has bilateral treaties with the United States on extradition, mutual legal assistance, and the execution of penal sentences. Thailand routinely responds to requests from the United States for assistance under the mutual legal assistance treaty, and repatriates qualified American prisoners under the execution of penal sentences treaty. During 2004, Thailand concluded bilateral agreements with a number of other countries for cooperation in drug law enforcement and related matters.

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 June 2004, Thai officials from ONCB and the Royal Thai Army's Third Army released their estimate of the opium poppy cultivation for the 2003-2004 growing season. According to this estimate, opium poppy cultivation in Thailand reached a record low of 128 hectares compared to 842 hectares for the 2002-03 season, 1,257 hectares in 2001-2002 and 1,103 hectares in 2000-2001 growing season. Much of the cultivation occurred in extremely difficult terrain in Tak, Chiang Rai and southern Chiang Mai provinces. Thai officials estimated they eradicated up to 90 percent of production. Although overall cultivation continues to decline, the opium cultivation survey and eradication campaign remain a necessary deterrent against technological innovations and other strategies used by farmers to avoid eradication. Farmers replanted poppy in areas once harvested or eradicated by government officials while attempting to grow two or three crops in a single season. Opium was interspersed with legitimate crops to avoid detection by aerial survey.

Some cultivation of cannabis occurs on both sides of the Mekong River in Thailand and Laos. ONCB believes most cannabis consumed in Thailand is smuggled over the borders from Laos and Cambodia—as is the case for most of the marijuana that transits on its way to international markets.

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 some small-scale “kitchen” methamphetamine laboratories, but ONCB considers that the vast bulk of ATS drugs sold in Thailand are produced in Burma. However, in November 2004, the first full circle methamphetamine lab since 1997 was discovered in Pathum Thani, a suburb of Bangkok. There is no known production of other illicit drugs or controlled substances in Thailand.

Drug Flow/Transit. 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 most of the steadily diminishing amount of heroin produced in Burma and Laos reaches world markets through China. 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. Methamphetamine, cannabis, opiates and other illegal drugs smuggled into Thailand are largely destined for sale and consumption among 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 its northern 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 are not unusual. A number of police and RTA personnel, and substantially 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 addicts (estimated variously between 30,000 to 50,000) is generally smuggled by the same routes, and same groups, as methamphetamine.

In early July 2004, two traffickers were arrested and authorities seized 140,000 methamphetamine tablets when a joint task force of the Mekong River Operations Unit stopped a speedboat on the Thai side of the river in Chiang Rai Province. Burmese-based trawlers are frequently used to move heroin and methamphetamine into provinces in the isthmus of Thailand, especially Ranong and Phang Nga provinces. Drug loads are often concealed in cover loads of seafood that are offloaded at shore facilities. Sometimes, the drugs are offloaded in boat-to-boat transfers at sea. One commercial maritime shipping venture involving drugs being shipped to Taiwan was uncovered in the second quarter. A shipment with a total of 100 blocks of heroin (totaling 43 kilograms) was uncovered from 40 of the 500 cartons of squid in the shipment. Another Taiwan connection was made in February when three Taiwanese were arrested in Bangkok and charged with attempting to ship twenty slabs of heroin from Bangkok to a buyer in Malaysia.

As always, couriers remain a popular method of smuggling for organizations attempting to get illegal drugs into, out of, or through Thailand. Five West African couriers were arrested in December 2003 and January 2004 as they attempted to smuggle heroin from Pakistan through Thailand to Indonesia. The male couriers were normally ingesting anywhere from 1,000 to 1,500 grams while the female couriers were generally carrying about 1,000 grams of heroin on their bodies or concealed in luggage. The West Africans also continue to use a plethora of routes and methods to get cocaine into Thailand from South America. Often Thai females are used between South America and Bangkok, often passing through South Africa, Indonesia or Malaysia en route. Express mail services also sustain their role as popular means for international smuggling. Numerous examples of drugs being mailed from Thailand to the United States and around the world can be found each month. For example, in 2004 heroin, opium, and methamphetamine have been mailed to locations in the U.S. as diverse as North Carolina, California and Alaska. However, other countries around the world also seize drugs or controlled substances that were mailed from Bangkok. For example, early in 2004, two separate seizures of steroids were made in Costa Rica from packages originating in Thailand. Further, the mail services continue to also be used to import controlled substances and drugs into Thailand. A typical example was the seizure at the Miami International Airport of 5.5 pounds of cocaine secreted in a Sky Net parcel. The parcel was mailed in Peru and was sent to an address in Bangkok.

UWSA methamphetamine production laboratories were increasingly being moved away from the Burmese-Thai border to more remote, less visible locations deeper in the jungles. The methamphetamine is often consolidated for shipment in Tachilek and other border areas in Burma. Thai officials speculate that Tachilek will become even more important as a transit location. Besides Tachilek, the smuggling routes between Burma/Laos and northeastern Thailand as well as the routes involving Burma-Laos-Cambodia-Vietnam, are increasingly important. Multiple organizations transport the drugs (primarily heroin and methamphetamine) down the Mekong River and into Nong Khai Province. From there, the drugs are shipped southward to Songkhla for eventual delivery into Malaysia. Other organizations favor the Laos to Cambodia or Vietnam route. Heroin moving from

Laos into Vietnam is often shipped out to the international markets by organizations of ethnic Vietnamese. Heroin and methamphetamine that is smuggled from Laos into Cambodia is either exported to international market through Cambodian ports or makes it way back into Thailand across jungle borders.

Domestic Programs/Demand Reduction. The RTG has undertaken a massive narcotics demand reduction program in the past few years as part of its war on drugs. The government realizes that demand reduction is a central and vital part of a successful, long term narcotics control program. Over 320,000 drug users turned themselves into authorities in 2003. However, in 2004 that number dropped to only around 30,000. According to surveys by university networks and government agencies, the number of persons who used illegal drugs dropped precipitously in 2004. The RTG intensified efforts to disseminate public awareness and prevention measures and to expand substance abuse treatment available to users. 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 Anti-Narcotics Coordinating Committee. The Ministry of Education has incorporated drug awareness and prevention messages in school curricula at all levels. The RTG attempted to identify and target potential drug users and institute preventive campaigns involving a wide variety of activities designed to keep this group away from drugs. A permanent epidemiological network involving Chulalongkorn and other universities in each of the four major regions of Thailand supports design of prevention strategies with timely information about use patterns and motivations among affected groups. Thailand is active in the international network of public/private sector drug prevention organizations. This network mobilizes public opinion against narcotics abuse. King Bhumipol's eldest daughter, Princess Ubolratana, leads a nationwide campaign called, "To Be Number One" designed to keep youth from drug abuse through a variety of activities designed to develop self-confidence, and to encourage users to attend treatment and rehabilitation programs. The organization had over five million members as of 2004.

To encourage users and addicts to identify themselves for treatment, campaigns have been launched to educate addicts/users, their families, and the general public that addiction should be seen as a disease and users as "patients." There is an on-going campaign to modify the attitude of the public to forgive addicts and users and rehabilitate them within their communities, while maintaining a zero tolerance policy on drug use. Depending on the addict/users circumstances there are a variety of treatment options available—voluntary, compulsory and within the correctional system. In 2004, the Ministry of Public Health further expanded ATS treatment programs, particularly those based on the Matrix model developed at UCLA. Community-based behavioral modification outpatient treatment centers for ATS abuse now exist in locations around the country and are being further expanded as health care workers are trained and capacity increased. The RTG has expanded drug abuse treatment in the correctional system, in collaboration with Daytop International. The Department of Corrections has implemented therapeutic community programs in juvenile corrections and intake centers. The RTG also continued camps operated by the armed forces, which provide three to nine months of rehabilitation for drug-dependent prisoners nearing the end of their terms. Thailand also continued sentencing drug-dependent first offenders charged with possession of small quantities of drugs to mandatory substance abuse treatment as an alternative to incarceration, in accordance with the Narcotics Rehabilitation Act of 2002.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. drug control policy goals consistent with past years' 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; b)

Develop and implement more effective criminal investigation and prosecutorial laws, procedures and methods; c) Strengthen enforcement against money laundering; d) 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; e) Enhance measures against corruption and promote integrity in public institutions.

- The U.S. 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. Longstanding INCLE projects for support of drug law enforcement and opium poppy crop control will continue to be substantially reduced in FY 2004. 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 United States 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. 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 malafide international travelers, including drug couriers. Among the law enforcement agencies resident in Thailand, the Drug Enforcement Administration (DEA) has the lead role for counternarcotics investigations and operations. Under the guidance of the Ambassador, the DEA conducts joint investigations with its Thai counterparts in an aggressive effort to combat common drug trafficking threats. During 2004, the DEA in Thailand expanded its investigative initiatives to greater reflect and contribute to the execution of the United States’ national drug strategy. In two areas, in particular, the DEA in Thailand attempted to advance counternarcotics capabilities of Thai law enforcement entities while significantly contributing to reduced drug flow into the U.S. and more effective prosecutions of transnational drug traffickers operating out of the Kingdom of Thailand.

Bilateral Cooperation. The first policy and enforcement initiative of note was a vastly increased emphasis in 2004 on Thailand-based drug traffickers distributing pharmaceuticals and other controlled substances directly to consumers in the United States. Beginning in November 2003 and continuing throughout most of 2004, the DEA worked with Royal Thai Customs (RTC) to identify, target and dismantle a Bangkok based organization that was mailing pharmaceutical drugs such as Xanax, Valium, and diazepam to U. S. consumers. Recognizing that abuse of pharmaceuticals is one of the fastest growing and most persistent abuse problems in the U.S., the DEA dedicated considerable resources to properly implement this new initiative and set up a task force composed of the DEA, the RTC, the Thai Transnational Crime Division (CSD), the Royal Thai Postal Authority, and members from two the DEA’s Sensitive Investigative Units began a concentrated effort to identify and investigate the Thailand-based individuals that were involved in illegally supplying U.S. consumers.

The second initiative of note undertaken by the DEA in Thailand during 2004 was the close coordination with Thai authorities with regard to information received during court-authorized wiretaps in Thailand. Previously, information gathered on such legal wiretaps was passed to the United States as an integral part of joint investigations. However, that information could only be used for intelligence and lead purposes, and not in court cases in the United States. During 2004, the DEA in Thailand began investigating a transnational drug trafficking syndicate based in Bangkok. This organization traffics in cocaine and heroin in a number of countries throughout the world, including Thailand, the United States, and numerous other countries. Recognizing the scope and significance of this organization, Thai authorities revised their policies and agreed to permit the information intercepted inside Thailand to be used in courts in the United States. This opened the door to greatly enhanced investigations because it permitted, for the first time, drug law enforcement agencies in other jurisdictions in the U.S. and other countries to use leads obtained in Thailand to initiate court-authorized wiretaps in their own jurisdictions.

The Road Ahead. Despite 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. Further legislation to employ advanced techniques for investigation and prosecution of drug and other serious criminal offenses will be approved over the next few years. This can be expected to address, among other issues, more extensive types of plea bargaining, co-conspirator and cooperating defendant testimony, witness protection, and controlled deliveries. Concerned Thai criminal justice institutions, with U.S. assistance, will become proficient in use of such laws, procedures and practices for prosecution of transnational and organized crime. 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 complete necessary domestic legislative procedures to enable it to ratify 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 Corruption Convention.

Vietnam

I. Summary

The Government of Vietnam (GVN) continued to make progress in its counternarcotics efforts during 2004. Specific actions included: sustained efforts of counternarcotics law enforcement authorities to pursue drug traffickers; increased attention to interagency coordination; continued cooperation with the United Nations Office on Drugs and Crime (UNODC); increased attention to both drug treatment and harm reduction; an increased tempo of public awareness activities; and additional bilateral cooperation on HIV/AIDS. Additionally, in March, the U.S.-Vietnam counternarcotics Letter of Agreement (LOA), which was negotiated to permit the United States to provide counternarcotics assistance to Vietnam, entered into force, and the two sides completed the first of the LOA projects. However, real operational cooperation between Vietnamese law enforcement and DEA's Hanoi Country Office (HCO) 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

GVN, UNODC and law enforcement officials no longer consider cultivation a major problem, despite the fact that Vietnam meets the U.S. legislative definition of a "major drug-producing" country based on a 2000 USG imagery-based survey showing 2,300 hectares of poppy cultivated in the northern and western provinces of Lai Chau, Son La and Nghe An. The GVN claims a much lower figure (32.5 hectares) and official UNODC statistical tables no longer list Vietnam separately in drug production analyses. Cultivation in Vietnam probably accounts for about one percent of cultivation in Southeast Asia, according to a law enforcement estimate; DEA has no evidence of any Vietnamese-produced narcotics reaching the United States. There appear to be small amounts of cannabis grown in remote regions of southern Vietnam. Vietnam has not been considered a source or transit country for precursors. Heroin from the Golden Triangle and China transits Vietnam en route to Taiwan, Hong Kong and, increasingly, Australia, and during 2004, large amounts of cannabis, heroin and synthetic drugs entered Vietnam from Cambodia. GVN authorities are particularly concerned about rising amphetamine-type stimulant (ATS) use among urban youth and, during 2004, increased the tempo of enforcement and awareness programs that they hope will avoid a youth epidemic.

Despite some high-profile cases in 2004, lack of training, resources and experience both among law enforcement and judicial officials continues to plague Vietnamese counternarcotics efforts. In addition, resource constraints in drug law enforcement and treatment are pervasive. Drug laws remain very tough in Vietnam. Possession of 100 grams of heroin or five kilograms of opium gum or cannabis resin or 75 kilograms of cannabis or opium plants may result in the death penalty. For possession or trafficking of 600 grams or more of heroin, the death penalty is mandatory.

Foreign law enforcement sources do not believe that major trafficking groups have moved into Vietnam. Relatively small groups—perhaps five to 15 individuals, who are often related to each other—do most narcotics trafficking. DEA believes that as Vietnam becomes a more "attractive" transit country, larger trafficking groups could become more prominent.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The structure of the GVN's counternarcotics efforts is built around the National Committee on AIDS, Drugs and Prostitution Control (NCADP), which includes a broad spectrum of

GVN ministries and mass organizations. In addition, MPS has a specialized unit to combat and suppress drug crimes. According to UNODC, during 2004 the GVN continued to focus on the drug issue, which included an increase in attention from the state-controlled media and GVN-funded training courses, conferences, and international delegations. Many provinces and cities implemented their own drug awareness and prevention programs, as well as demand reduction and drug treatment. The GVN views drug awareness and prevention as a significant objective in its fight against drugs as well as an integral part of its effort to comply fully with the 1988 UN Drug Convention. The GVN has continued to rely heavily on counternarcotics information campaigns, culminating in the annual drug awareness week in June. Officially sponsored activities cover every aspect of society, from schools to unions to civic organizations and government offices. This year, the GVN also made a particular effort to de-stigmatize drug addicts in order to increase their odds of successful treatment. Enforcement played a significant role in the GVN's 2004 counternarcotics activities as well. In 2004, May, June and July saw significant drug seizures in Ho Chi Minh City and Hanoi as well as provinces throughout the country.

At a March NCADP-organized conference, participants at the conference stated that drug crimes are on the rise, and drug seizure data shows a large increase in both the number of drug cases and the per-case quantity of drugs seized. The drug addiction relapse rate is still high, at about 70 percent. According to official numbers released at the conference, there are 160,670 drug users nationwide with 80 treatment centers providing treatment to over 40,000 drug addicts. One of the main outcomes of a high-priority USG-funded UNODC project was the establishment of six interagency counternarcotics enforcement task force units in six border "hotspot" areas. The establishment of these task forces represented a high mark in the normally weak interagency cooperation process among Vietnamese security forces.

Accomplishments. In 2004 the GVN established a narcotics branch in the Department of Crime Statistics in the Supreme People's Procuracy. The new office improved the GVN's collection and sharing of crime statistics. In March the GVN made some final changes that allowed the entry into force of the letter of agreement on counternarcotics activities between the United States and Vietnam. The first project under the LOA, a training course for counternarcotics police and customs officers from all over Vietnam, occurred in Hanoi in August. U.S. Customs and Border Protection agents who taught the course reported that it had an effect immediately: using the new search techniques he had learned in the training the week earlier, one of the inspectors discovered an Australia-bound heroin courier.

Law Enforcement Efforts. The GVN continued a policy of strict punishment for drug offenses. Seizures of opium, heroin, and amphetamine-type stimulants (ATS) increased during the year. According to GVN statistics, during the first six months of calendar year 2004, there were 5,376 drug cases involving 8,484 traffickers with larger amounts of heroin and synthetic drugs seized. Total seizures include 100.3 kilograms of heroin, 53.3 kilograms of opium, 622.7 kilograms of cannabis, 23,902 methamphetamine tablets and 4,128 ampoules of addictive pharmaceuticals and other substances.

All international law enforcement representatives in Vietnam acknowledged that real operational cooperation on counternarcotics cases is minimal or nonexistent due to legal prohibitions against foreign security personnel operating on Vietnamese soil. Without changes in Vietnamese law to permit foreign law enforcement officers to work on drug cases in Vietnam, "cooperation" will remain a function of information exchange and Vietnamese police carrying out law enforcement activities on behalf of foreign agencies on a case-by-case basis. During 2004, GVN law enforcement authorities did not provide meaningful cooperation to DEA's Hanoi country office. DEA agents have not been permitted to work with GVN counternarcotics investigators officially. Cooperation was limited to receiving information from DEA and holding occasional meetings. Thus far, the counternarcotics police have declined to share information with DEA or cooperate operationally. GVN officials explain

that drug information is subject to national security regulations and not releasable to foreigners. To date, there has been nothing concrete to indicate that the GVN has any intention of taking the necessary administrative or legislative steps to permit DEA to expand beyond its current liaison role.

Corruption. In 2004 the GVN made anticorruption policy statements at all levels of government and conducted some high-profile corruption cases involving politically connected government officials, but did not single out narcotics-related corruption for specific attention. The USG has no information linking any senior official of the GVN with engaging in, encouraging or facilitating the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions. Concerning narcotics-related corruption, the GVN did demonstrate willingness in 2004 to prosecute officials, though the targets were relatively low-level. The UN, law enforcement agencies, and the GVN continue to view corruption in Vietnam as an endemic problem that exists at all levels and in all sectors. Vietnam ranks 97 out of 104 countries in the World Economic Forum's corruption index. The GVN's own estimates state that as much as 19 percent of the investment in major infrastructure projects is lost to poor management and corruption. Vietnam has signed the UN Convention against Corruption, and endorsed a regional anticorruption action plan at an ADB (Asia Development Bank) meeting in Manila. Recognizing the need for more anticorruption assistance, the GVN signed an agreement with Sweden in September 2002 for research on socio-economic policy and anticorruption measures. Under the \$2.7 million project, scheduled to run from the end of 2002 through 2005, Sweden will provide resources to assist Vietnam in developing appropriate anticorruption policies.

Agreements and Treaties. 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. Vietnam is currently precluded by statute from extraditing Vietnamese nationals, but the GVN is contemplating legislative changes. However, at the request of the USG (and in accordance with the 1988 UN Drug Convention), Vietnam has in the past agreed to rendition requests and has returned two non-Vietnamese nationals to the U.S. Vietnam has signed but has not yet ratified the UN Convention on Transnational Organized Crime.

Cultivation/Production. Small amounts of opium are 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 2000. There have been reports in past years concerning probable indications of ATS production, as well as some seizures of equipment (i.e., pill presses). DEA also turned up information pointing to an extremely large methamphetamine lab in Ho Chi Minh City in 2004. As part of its efforts to comply fully with the 1988 UN Drug Convention, the GVN continued in 2004 to eradicate poppy when found, and to implement crop substitution. The GVN appears sincere in its poppy eradication efforts. However, GVN officials have admitted that complete eradication is probably unrealistic, given the remoteness of mountainous areas in the northwest and extreme poverty among ethnic minority populations who sometimes still use opium for medicinal purposes. The GVN's Ministry of Agriculture and Rural Development (MARD) continues to support crop substitution projects in various provinces, including a large (partially USG financed) project in Nghe An. The GVN has tasked MARD with developing a national crop substitution proposal to include in the GVN's 2006-2010 Master Plan.

Drug Flow/Transit. While law enforcement sources and UNODC believe that significant amounts of drugs are transiting Vietnam, DEA has not yet identified a case of heroin entering the United States directly from Vietnam. More commonly, drugs, especially heroin and opium, enter Vietnam from Laos and Cambodia, making their way to Hanoi or especially to Ho Chi Minh City, where they are transshipped by air or sea to other countries. The Australia-Vietnam heroin smuggling channel is significant. The ATS flow into the country during 2004 continued to be serious and not limited to

border areas. According to Vice Minister of Public Security Le The Tiem, in addition to opium or heroin, ATS can now be found throughout the country. According to “Phap Luat” (Law) newspaper, ketamine has emerged this year in Hanoi and other major cities. Law enforcement agencies gave warnings of the spreading use of ketamine in nightclubs and discos and called for stricter control of diversion from legal sources.

Domestic Programs/Demand Reduction. Within the GVN, the Ministry of Culture and Information (MCI) is responsible for public drug control information and education among the general population. The Ministry of Education and Training (MOET) carries out awareness activities in schools. Counternarcotics material is available in all schools and MOET sponsors various workshops and campaigns at all school levels. MOET reported that drug abuse remains a problem among the students in 51 universities, colleges and vocational schools in 50 provinces and cities. In its 2004 drug activity report, SODC reported that the border forces continued to play an “active role” in disseminating counternarcotics information to border villages and communes.

According to UNAIDS and the GVN, nearly 70 percent of cumulative HIV/AIDS cases in Vietnam are related to injection drug use. Furthermore, HIV surveillance indicates that nationwide, more than 30 percent of IDUs are HIV-infected; this percentage is much higher (60-80 percent) in Ho Chi Minh City, (65-85 percent) in Quang Ninh Province and other northeastern provinces. Vietnam has a network of drug treatment centers. According to MOLISA, with three new facilities in Binh Phuoc (2) and Hanoi (1), 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. According to Vice Minister of Public Security Le The Tiem, the addiction growth rate has been reduced, but the absolute number of addicts keeps increasing. As resources permit, localities have tried to increase the percentage of drug users in treatment centers (as opposed to permitting “community treatment,” a kind of outpatient drug treatment program). Hanoi, for example is attempting to put all known drug addicts in treatment centers and to launch a pilot compulsory treatment program in Gia Lam and Dong Anh Districts. This effort has been slowed by overcrowding and under capacity. Vietnam has also strived to integrate addiction treatment and vocational training to facilitate the rehabilitation of drug addicts. These efforts include tax and other economic incentives for businesses, which hire recovered addicts. Despite these efforts, at most 18 percent of recovered addicts find regular employment, and there has been some domestic criticism that keeping recovering addicts in supervised “employment parks” is a way of applying administrative punishment through “detention” in a way that fails to ensure the detainees’ civil rights. HIV/AIDS is a serious and growing problem in Vietnam and one that is closely related to intravenous drug use. In July 2004 Vietnam was designated the 15th focus country of PEPFAR (President Emergency Plan for AIDS Relief) and USG’s funding for FY05 is expected to be \$32 million. The Emergency Plan will support existing agencies working in HIV/AIDS in Vietnam, including USAID, U.S. CDC, DOL and DOD. The USAID budget for FY 2004 was \$4.5 million for HIV/AIDS, administered through several non-governmental organizations. USAID’s funding level will rise to \$9.2 million in 2004.

IV. U.S. Policy Initiatives and Programs

In 2003, Vietnam and the United States completed and signed a bilateral counternarcotics agreement, which came into force in 2004. The agreement included counternarcotics and law enforcement projects totaling \$333,390. It represents the first direct bilateral counternarcotics program assistance to Vietnam. The USG currently funds training annually for some GVN law enforcement officers and other officials involved in the legal arena for courses at the International Law Enforcement Academy (ILEA) in Bangkok. During calendar year 2004, U.S. Embassy Hanoi sent 65 Vietnamese law enforcement officers for training at the Academy. The USG also contributes to counternarcotics efforts through the UNODC. During 2004, 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 ATS project achieved its main goals in 2004 with the signing of an interagency MOU and the establishment of six interagency task forces at key border “hotspots” around the country.

The Road Ahead. The GVN is acutely aware of the threat of drugs and Vietnam’s increasing domestic drug problem. However, there is continued suspicion of foreign law enforcement assistance and/or intervention in the counternarcotics arena, especially from the United States. During 2004, 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 operational 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. With the entry into force of the counternarcotics LOA, the USG can look forward to enhanced counternarcotics cooperation in the area of assistance to Vietnamese law enforcement agencies. Operational cooperation, however, remains on hold pending the development of a legal framework in Vietnam to allow foreign law enforcement officers to carry out operations on Vietnamese soil, or the signing of a bilateral agreement between the United States and Vietnam that would create a mechanism for joint investigation and development of drug cases. Neither the legal overhaul nor the bilateral agreement seems likely to occur in the short term.

EUROPE AND CENTRAL ASIA

Albania

I. Summary

Drug trafficking is a significant problem in Albania, which is a major transit country for heroin from Afghanistan and Turkey destined for markets throughout Europe. Organized crime groups use Albania as a transit point for drug and other types of smuggling due to the country's strategic location, weak police and judicial systems, and 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, Greece and the Netherlands. Cocaine is smuggled from South America, via the United States, Italy, Spain, Greece or the Netherlands, and then passes through Albania for distribution throughout Western Europe. There was some domestic opium poppy cultivation in 2004. Marijuana is produced domestically for markets in Europe. There is evidence that high-quality Albanian hashish is exchanged in Turkey for heroin. Synthetic drugs, particularly Ecstasy, are a growing concern. Drug abuse is a growing problem in Albania itself, but remains on a smaller scale than in Western Europe. Statistics continue to be unreliable on drug trafficking or use, and the public is generally unaware of the problems associated with drugs.

The Government of Albania (GOA), largely in response to international pressure and with international assistance, is confronting criminal elements more aggressively, but is hampered by a lack of resources and endemic corruption. In 2001, Albania became a party to the 1988 UN Drug Convention and the 1961 UN Single Convention on Narcotic Drugs, In 2003 it became a party to the 1971 UN Convention on Psychotropic Substances.

II. Status of 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. However, recent restructuring and large-scale firings at the Ministry of Public Order have reduced the ranks of internationally trained police officers, particularly in the counternarcotics sectors. 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 GOA has undertaken a number of measures to combat trafficking. Working with Italian law enforcement, the Albanian police and military brought a near halt to clandestine trafficking via speedboat across the Adriatic for a time during August 2002; however, there is evidence of renewed narcotics trafficking via this route, particularly from the ports of Shengjin and Durres. The Albanian Parliament recently passed an asset forfeiture law that allows the GOA to confiscate illegally obtained property of persons identified as members or connected to members of organized crime groups, including drug traffickers. In 2004, 312 cases of police corruption were reported by the Office of Internal Control to the Prosecutors' Office, with 251 police officers fired, demoted, fined, transferred and/or suspended. Only four of these cases involved narcotics trafficking and low-ranking officers were involved in all four cases.

Plagued by high unemployment, crime, and lack of infrastructure, the Albanian public focuses little attention or debate on the problem of drug abuse. There are no independent organizations that compile data on drug use in Albania. According to the government, there are an estimated 30,000 drug users. 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. It is clear that the country is experiencing an upsurge in drug abuse among younger Albanians, though illicit drugs were only introduced to the country within the last decade. Heroin and marijuana abuse is growing; cocaine

and crack (crystal methamphetamine) are also available, but expensive, keeping use of these drugs at a low level. Heroin is imported from Macedonia, but is refined in Turkey or Afghanistan.

Marijuana is produced domestically and smuggled abroad. Cocaine is smuggled from South America to Albania, though the routes used to get it into Albania are 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, Greece, and the Netherlands as the main trafficking routes. In 2004, the Toxicology Clinic at Tirana's Military Hospital—the only facility in the country to deal with overdoses—has treated 1,740 cases, an increase of nearly 50 percent over last year. Of these cases, 92 percent involved heroin use and the drugs were injected in 66 percent of the cases. The only special treatment center for drug addicts is a center operated by the Emmanuel Community, an Italian NGO under the auspices of the Catholic Church. The Community operates a group home for young recovering addicts. There are 12 young men housed at the center at this time.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The GOA has adopted a National Strategy Against Drugs for 2004-2010, which was developed with the input of central and local government institutions, international organizations and NGOs. In September, the Albanian Parliament passed an antiMafia asset forfeiture law that allows the GOA to confiscate illegally obtained property of persons identified as members or connected to members of organized crime groups, including drug traffickers. The GOA has taken steps to increase the level of accountability to which its law enforcement officials are held. For example, the Director of the Port of Vlore was suspended when seven kilograms of heroin were seized in Italy that had passed undetected through the Port.

Law Enforcement Efforts. Albanian police continued to increase their counternarcotics operations, including large drug seizures in Fier and at the ports of Vlore and Durres, and made successful raids in cooperation with Italian authorities. Authorities report that through November 2004, police arrested 285 persons for drug trafficking, seven of them foreign citizens. An additional 59 persons are being sought for arrest on narcotics offenses and another 39 are under investigation. The police seized 138.9 kilograms of heroin, 4,152.8 kilograms of marijuana, 1.2 kilograms of cannabis seeds, and 2.3 kilograms of cocaine, and destroyed 695 opium poppy plants under cultivation near Fier. They conducted massive helicopter and door-to-door searches throughout the region to search for more. Police also destroyed 73,757 cannabis plants and confiscated 10 tablets of Ecstasy.

Although the quantities of narcotics seized have increased compared to previous years, they still represent a fraction of the drugs transiting Albania. According to the Italian Authorities, in the first three quarters of 2004, they seized 875 kilograms of heroin, 796 kilograms of marijuana, and one kilogram of cocaine that had transited or originated from Albania. Drug trafficking by Albanian citizens in Italy is an extensive problem, with 766 Albanians arrested for drug offences in Italy and 47 deported to Albania in the first three quarters of 2004 alone. The most common drugs involved in these cases were heroin, marijuana, cocaine, hashish, and Ecstasy. Greek authorities reported that in the first three quarters of 2004, they confiscated 96 kilograms of heroin, 754 kilograms of cannabis pressed in bars, 2069 kilograms of dried cannabis, 1.5 kilograms of hashish oil, approximately three kilograms of cocaine and 68 Ecstasy tablets that had originated in or transited through Albania at Albania's border crossings with Greece. 278 Albanian nationals were arrested and tried in Greece in the first three quarters of 2004 on drug-related charges, including cocaine, heroin and cannabis trafficking, as well as possession and/or trafficking of Ecstasy, amphetamines, methadone in tablets and liquid form, and tranquilizers.

Organized crime plays a significant role in drug trafficking, including the facilitation of sales, financial arrangements, and smuggling. The government, with significant help from the Italian authorities, brought clandestine speedboat traffic across the Adriatic Sea to a near halt in August 2002; however,

there is evidence that renewed narcotics trafficking is taking place via this route, particularly from the ports of Shengjin and Durres. Tirana and the central Albanian city of Fier are also known as hubs for drug traffickers.

Due to a recent round of firings at the Ministry of Public Order, the Albanian State Police have decreased the number of police officers assigned to the Anti-Narcotics Unit. The director of the Anti-Narcotics Unit was unable to provide the number of officers and agents assigned to the Unit at this time, but the number is believed to be approximately 100, significantly reduced from the 2003 figure of 146 police officers and agents.

Corruption. 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 (MOU) in December 2002 to foster greater cooperation to help reduce the influence of corruption at Albania's borders. The UNODC reports that this MOU has been effective and led to more effective cooperation between police and customs officials. In addition, the Office of Internal Control, which was created with the assistance of U.S. Department of Justice police trainers (ICITAP) and tasked with investigating police corruption, has been instrumental in bringing about the arrests of several corrupt officers. For the period January through November 2004, some 288 officers have been fired, 72 suspended until the end of their criminal case, and 42 have been demoted. As a matter of policy, the GOA does not encourage or facilitate the illicit production or distribution of drugs or substances, or the laundering of proceeds from illegal drug transactions; however, there are allegations that some senior government officials are engaged in such activities.

Agreements and Treaties. An extradition treaty is in force between Albania and the U.S. Albania is a party to the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children. Albania is also a party to the 1988 UN Drug Convention the 1961 UN Single Convention as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Cultivation and Production. With the exception of cannabis, Albania is not known as a major producer of illicit drugs. According to authorities of the Ministry of Public Order's Anti-Narcotics Unit, cannabis is currently the only drug grown and produced in Albania, and is typically sold in Greece, Italy, Turkey, Bulgaria, Montenegro, Kosovo, Slovenia, the United Kingdom, and Germany. Metric ton quantities of Albanian marijuana have been seized in Greece and Italy. In August 2004, alleged drug traffickers opened fire against an Italian Interforza helicopter, which was carrying Albanian and Italian police forces on a narcotics detection flight. The helicopter was flying over a large cannabis field adjacent to the southern Albanian village of Lazarat, near Gjirokaster. .

Drug Flow and Transit. Heroin is the main drug transiting Albania. Authorities report that heroin typically flows through the "Balkan Route." According to some reports, high quality Albanian hashish is shipped to Turkey in exchange for heroin. Ecstasy also finds its way to and through Albania, but in small quantities.

Domestic Programs/Demand Reduction. Drug abuse is a comparatively new problem in Albania. 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. According to the Tirana Military Hospital, 66 percent of the 1,740 overdose cases treated so far this year resulted from injected drug and heroin was the drug used in 92 percent of those cases.

The GOA's National Strategy for the Fight Against Drugs for 2001-2010 recognizes the limited resources of the GOA, but acknowledges the need to develop and implement treatment programs for

addicts. It also envisions treatment service models to be developed in Tirana and other cities in “high-risk” regions, including Shkoder, Vlore, and Berat.

IV. U.S. Policy Initiatives and Programs

Bilateral and Multilateral Cooperation. ICITAP and Prosecutor 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 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 February 2004, the U.S. 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-detection police dogs and their handlers, including constructing kennels for the dogs. 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, boarding officer training for the navy, and anticorruption programs. Albanian law enforcement has a good bilateral relationship with Italian Interforza and has cooperated with Italian law enforcement to carry out narcotics raids in Albania and conduct narcotics detection helicopter flights, among other activities.

The Road Ahead. U.S. and EU programs will continue to assist the GOA’s overall counternarcotics effort (narcotics, weapons, and humans) by providing integrated and coordinated border management and border control assistance. 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 its potential as a transit route for international drug trafficking, is attempting to improve its interdiction ability. The Parliament passed a bill aimed at strengthening the police mandate to combat drug sales and trafficking in 2002. Together with Georgia and Azerbaijan, Armenia is engaged in 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, limited transport traffic between the country and its neighboring states makes Armenia a secondary traffic route for drugs. Armenia Police Service's Department to Combat Illegal Drug Trafficking has accumulated a significant database on drug trafficking 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 police, is not large. The principal drugs of abuse are opium, cannabis and ephedrine. Heroin and cocaine first appeared in the Armenian drug market in 1996 and, since then, there has been a small upward trend in heroin sales, while cocaine abuse has remained flat. The Interdepartmental Committee on Combating Drug Addiction and Drug Trafficking created in 1993 became an official Government of Armenia body in the past year. The Commission is headed by the Chief of Police.

III. Country Actions Against Drugs in 2004

Policy Initiatives. There were no new policy initiatives since the enactment on May 10, 2003 of the Law on Narcotics and Psychotropic Substances of the Republic of Armenia.

Accomplishments. Preventive measures to identify and eradicate both wild and illicitly cultivated cannabis and poppy continued in 2004. The draft law on Money Laundering, which has passed the first reading, should be enacted in the near future.

Law Enforcement Efforts. In the first 9 months of 2004, the Armenian Police uncovered 340 criminal drug trafficking cases and 156 cases of criminal drug abuse. In this period more than 12 kilograms of drugs were seized, more than twice as much as during the first 9 months of 2003.

Corruption. Corruption remains a problem in Armenia. Although the GOAM has taken some steps to develop an anticorruption program, political will and concrete steps toward implementation have not been adequate. The government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions and no government officials have been found to engage in these activities.

Agreements and Treaties. In 1992 in Kiev, the Ministries of Internal Affairs of CIS (Soviet successor states) member-countries entered into an "Agreement against Illicit Traffic in Narcotic Drugs, Psychotropic Substances and Substances Frequently Used in Illicit Manufacturing of Drugs." On June 6, 1999 in Tbilisi, a "Memorandum of Understanding on Cooperation in the Area of Narcotics Control and Money Laundering" was signed between Armenia, Georgia, Iran and UNDCP. Armenia also has a number of bilateral agreements with CIS countries on law enforcement cooperation that include the

area of illicit traffic of narcotic drugs. Armenia is 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. Lastly, Armenia is a party to the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children.

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. From September 10 to October 10, 2004, Armenian Police carried out “Hemp and Poppy 2004” an annual measure to find and eradicate cultivated and wild growing hemp and poppy.

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 due to the Nagorno-Karabakh conflict; however, according to the police, opiates and heroin are smuggled to Armenia from Turkey via Georgia. When all Armenia’s borders reopen, the police believe that drug transit could increase significantly.

Demand Reduction. The majority of Armenian addicts are believed to be using hashish, followed by heroin and then by ephedrine. 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 the UNDCP.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG continues to work with the Government of Armenia to increase the capacity of Armenian law enforcement. Joint activities include 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 between 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 and will continue to engage the government on operational trafficking issues.

Austria

I. Summary

Austria is primarily a transit country for drug trafficking along major trans-European routes. Foreign criminal groups from former East Bloc countries, 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. The total number of drug addicts is estimated at around 20,000, or 0.25 percent of total population. Production, cultivation and trafficking by Austrian nationals remain insignificant.

Cooperation with U.S. authorities was outstanding during 2004 and led to significant seizures, frequently involving multiple countries. The visit to Vienna of U.S. Attorney General Ashcroft in January 2004, Austrian Interior Minister Strasser's September 2004 visit to Washington, and a January 2004 visit to the ONDCP by Austria's National Drug Coordinator Pietsch and national legislators underscored the close bilateral cooperation between the countries. In 2004, Austria continued its efforts to intensify regional police cooperation within the Salzburg Forum, a meeting of regional interior ministers, as well as with Balkan countries. Furthermore, Austria maintained a leading role within the central Asian border security initiative. Austria has been a party to the 1971 and 1988 UN drug conventions since 1997.

II. Status of Country

Production of illicit drugs in Austria continues to be marginal. However, Austria remains a transit country for drugs which organized crime syndicates transport along the major European drug routes to Western Europe. There were 163 drug-related deaths in 2003, compared to such deaths in 2002. Preliminary figures for 2004 indicate little change compared to 2003. Experts point out that the percentage of drug deaths from mixed intoxication has been rising steadily in recent years. The 21,780 drug-related offenses in 2003 represent a 0.33 percent decrease over 2002. Of these offenses, 470 involved psychotropic substances, and 93 of them precursor materials. Experts estimate the number of conventional, illicit drug abusers at around 20,000-25,000 (0.25-0.30 percent of total population). The number of users of MDMA ("Ecstasy") decreased slightly in 2004, while usage of amphetamines was on the rise during the same period, as these substances became increasingly available in non-urban areas. Studies show that about one third of young adults (ages 19-29) had "some experience" with cannabis, and 2-4 percent of this age group had already used cocaine, amphetamines and Ecstasy. Studies also found that about 25 percent of teenagers (ages 13-18) had already had "some experience" with illegal substances. In 2004 one gram of cannabis sold for Euros 7 (\$9.30) and one Ecstasy tablet cost Euros 3.00 (\$4). Street heroin sold for Euros 70.00 (\$93) per gram, cocaine for Euros 100.00 (\$133) per gram, and amphetamines at an average of Euros 60.00 (\$80) per gram.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Overall, the government continued its no tolerance policy regarding drug traffickers, while continuing a policy of "therapy before punishment" for non-dealing drug offenders. A new law passed in 2004 allows police to mount surveillance cameras in high-crime public spaces. Additionally, the law provides for the establishment of "protection zones" around schools, pre-schools and old-age homes. According to the law, police may ban any person suspected of drug dealing within a protection zone from that area for up to 30 days. In reaction to intense public discomfort over an increase in the number of asylum seekers engaged in criminal activity, including drug dealing, the government submitted a legislative proposal for more restrictive asylum policies which will take effect

in 2005. Throughout 2004, there was an ongoing debate about lowering the existing threshold for the allowable amount of cannabis a person can carry without being prosecuted, as well as about whether to expand police powers to allow police to test drivers suspected to be under the influence of drugs, and about the introduction of mandatory drug tests at schools.

Throughout 2004, Austria maintained its lead role within the Central Asian Border Security Initiative (CABSI) and the VICA (Vienna Initiative on Central Asia) project. At the same time, Austria intensified efforts to cooperate with countries in the Balkans, dispatching law enforcement representatives to Austrian embassies in the region, most recently to the Austrian embassy in Belgrade. Furthermore, Austria continued to address drug trafficking and related security issues through the Salzburg Forum—a recurring ministerial-level security policy meeting which includes representatives from Austria, the Czech Republic, Slovakia, Poland, Hungary, and Italy. Also in 2004, Austria, together with Italy, started a project within the United Nations Office on Drugs And Crime (UNODC) for reform of the justice system in Afghanistan. Additionally, Austria works together with the UNODC, the EU and Iran to establish more effective border control along the Afghanistan-Iranian border.

Law Enforcement Efforts and Accomplishments. No comprehensive seizure statistics are available for 2004. The total street value of illicit drugs (cannabis products, heroin, cocaine, LSD doses, and Ecstasy pills) seized in 2003 amounted to 8.2 million Euros (\$10.9 million). Quantities of cannabis herb and cannabis resin rose by 23 and 80 percent respectively over 2003, cocaine seizures rose by 58 percent, and Ecstasy seizures rose by 10 percent over the same period. Seizures of heroin and LSD dropped by 28 and 65 percent, respectively. Regarding psychotropic substances, authorities booked a total of 461 individuals for related criminal offenses, a slight decrease over 2002. Overall, authorities made 15,600 drug seizures of psychotropic substances, 22 percent less than in 2002. The number of criminal cases involving precursor materials rose by 30 percent, from 60 in 2002 to 93 in 2003. For 2004, officials expect higher seizure figures for heroin and cocaine, and a significant reduction of seizures of Ecstasy.

Corruption. The GOA's public-corruption laws recognize and punish the abuse of power by a public official. Austria has been a party to the OECD 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 the involvement of any high-level Austrian government officials in drug-related corruption.

Agreements and Treaties. An extradition treaty and mutual legal assistance treaty are in force between Austria and the U.S. In 2004, Austria enacted legislation to implement the EU council framework decision on the European arrest warrant and the surrender procedure between member states. 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 the United Nations Office for Drugs and Crime (UNODC). Austria has been a "major donor" to the UNODC with an annual pledge of approximately \$440,000. Austria ratified the UN Convention Against Transnational Organized Crime in 2004.

Cultivation. The U.S. Government is not aware of any significant cultivation or production of illicit drugs in Austria.

Drug Flow/Transit. Austria is not a source country for illicit drugs. Illicit drug trade by Austrian nationals is negligible. Organized drug trafficking is carried out by foreign criminal groups (Kurdish clans from Turkey, Albanians, and nationals of the countries of the former Yugoslavia, West African gangs, and Central and South American gangs), which are well established on major European drug routes, particularly along the Balkan drug route. The illicit drug trade increasingly relies on airports in central and east-Europe, including Austria. 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 2004. Heroin smuggling by air from Turkey via Vienna to the Netherlands increased. Trafficking of Ecstasy products (originating in the Netherlands) was slightly down in 2004 from the record in 2003. Illicit trade in amphetamines, carried out by criminal groups from Poland and Hungary, and trade in cocaine, 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 made the fight against drug trafficking a major policy goal. At the same time, it remains committed to measures designed to prevent social marginalization of drug addicts. Federal guidelines ensure minimum quality standards for drug treatment facilities. The use of heroin for maintenance during drug treatment is generally not allowed. Demand reduction policies emphasize primary prevention, drug treatment and counseling, as well as “harm reduction.” Ongoing challenges in demand reduction are the need for psychological care for drug abusers, and greater attention to older drug abusers and to immigrant drug abusers.

Primary intervention starts at the pre-school level and continues through secondary school, extending also to apprenticeship institutions and out-of-school youth programs. The government and local authorities routinely sponsor educational campaigns inside and outside schools. Overall, youths in danger of addiction have become prime targets of new treatment and care policies.

Austria has syringe exchange programs in place for HIV prevention. HIV prevalence rate among drug-related deaths slightly increased (to 8 percent) in 2004, while hepatitis prevalence rates declined (hepatitis C: from 71 percent to 51 percent; hepatitis B: from 47 percent to 34 percent). Policies toward greater diversification in substitution treatment (methadone, prolonged-action morphine and buprenorphine) continued. Throughout the year experts also discussed introduction of consumption rooms and heroin maintenance programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Austrian cooperation on U.S.-interest drug cases is excellent. In the past, Austrian interior ministry officials have exchanged lessons-learned with the FBI, DEA and Department of Homeland Security to improve enforcement techniques. Austria and the U.S. operate a joint “contact office” in Vienna that serves as a key facilitator for flexible and speedy anticrime cooperation. The U.S. Embassy regularly sponsors speaking tours of U.S. narcotics 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. 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 2004, the main drugs seized were hashish and opium. Since 2002, the United States has funded counternarcotics assistance to Azerbaijan through the Freedom Support Act. 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 by land from Iran or via 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. Approximately 14 percent of territory claimed by Azerbaijan is occupied by Armenia; reports that narcotics transit through this area are impossible to verify from Azerbaijan and denied vigorously by Armenia. Domestic consumption continues with approximately 16,800 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 2004

Policy Initiatives. In 2004, the Virtual Law Enforcement Center completed the training of law enforcement personnel from Moldova, Ukraine, Azerbaijan and Georgia. Computer equipment was donated to the government of Azerbaijan (GOAJ) in order to initiate the cooperative effort of information exchanges among the participating countries. In early 2005, training will begin in the other participating countries to integrate them into the system. The 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. During the first ten months of 2004, the U.S. provided \$715,000 to continue the implementation of the State Commission together with the UN's South Caucasus Anti-Drug Program (SCAD), a five-year regional initiative. The SCAD Program has established a resource center and information network that provides access to a central database of information pertaining to narcotics control.

Accomplishments. According to the Ministry of National Security, during the first ten months of 2004, GOAJ seized 6.2 kilograms of heroin, 28.6 kilograms of hashish, 13.7 kilograms of opium, and 12.5 kilograms of marijuana. From 2001-2004, 10,157 drug crimes were recorded and authorities detained 638 kilograms of drugs including 367 kilograms of marijuana, 134 kilograms of opium, 20 kilograms of heroin and 25.8 kilograms of hashish. More than 1.5 tons of narcotics were destroyed in that period.

Law Enforcement Efforts. The Ministry of National Security reported that during the first ten months of 2004, 222 people were prosecuted for trafficking drugs. The 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 remains a significant problem, but the GOAJ has taken steps to address it with new anticorruption legislation enacted in 2004, which will go into effect in January 2005. However, the GOAJ has done little to implement anticorruption legislation, vet specialized units, or adopt a charter for the anticorruption commission.

Agreements and Treaties. Azerbaijan is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, and the 1961 Single Convention as amended by the 1972 Protocol. Azerbaijan also is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in women and children.

Cultivation and Production. Cannabis and poppy are cultivated illegally, mostly in southern Azerbaijan.

Drug Flow/Transit. Narcotics traffickers rely on familiar transit routes. However, 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. Opium and poppy straw originating in Afghanistan transit through Azerbaijan from Iran, or from Central Asia across the Caspian Sea. Drugs are also smuggled through Azerbaijan to Russia, then on to Central and Western Europe. Azerbaijan cooperates with Black Sea and Caspian Sea littoral states in tracking and interdicting narcotics shipments, especially morphine base and heroin. Caspian Sea cooperation includes efforts to interdict narcotics transported across the Caspian Sea by ferry. Law enforcement officials report that they have received good cooperation from Russia.

Demand Reduction. Opium and cannabis are the most commonly used drugs. The GOAJ has begun education initiatives directed at curbing domestic drug consumption, particularly among students.

IV. U.S. Policy Initiatives and Programs.

Bilateral Cooperation. In 2004 the Export Control and Related Border Security (EXBS) program continued to provide assistance to the Azerbaijan State Border Guards and Customs services. 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 2004, EXBS sponsored numerous courses for the Border Guard Maritime Brigade. These courses included "Advanced International Border Interdiction Training" which introduced the participants to real-time, hands-on inspections and Border Patrol tactics in the field. EXBS also hosted the "US-Azerbaijan Legal Technical Forum III" which provided assistance to the GOAJ in strengthening its legal framework for an export control system in Azerbaijan that is consistent with international standards. In addition, in 2004, EXBS Conducted a Counter-Narcotics Instructor Course and reorganized the Border Guards conscript and officer training programs.

U.S. and European experts participated in a three-day workshop on "Implementing the norms of international law on extradition and mutual legal assistance related to drug offences into national law and practice." During this workshop, U.S. and European legal experts provided training to and shared advice and practical experience with relevant Azeri legal professionals (police, prosecutors, judges and parliament) on the implementation of Azerbaijan's international legal obligations related to drug offences.

Key Azerbaijani law enforcement officials participated in a U.S.-based study tour which provided them with a first hand look at how the U.S. criminal justice system operates in practice, with a particular focus on issues related to reforms currently underway in Azerbaijan. The participants were

introduced to various investigative and forensic techniques and the concept of vetted units of police and prosecutors working as a team.

The Road Ahead. The U.S. and Azerbaijan will continue to 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, and the DEA plans to help Azerbaijan increase its counternarcotics capabilities.

Belarus

I. Summary

Belarus continues to grow in importance as a transit country for drugs. Local drug use, drug-related crime, and HIV/AIDS infection rates continue to increase. Belarus does not produce drugs for export, though it may be a source of precursor chemicals. With the help of other nations and organizations, Belarus is improving its efforts to combat drug abuse and trafficking, but corruption, and lack of organization, funding and equipment continue to hinder progress. Belarus is a recipient of the EU/UNDP program BUMAD (Belarus, Moldova, Ukraine Anti-Drug Programme), which seeks to reduce trafficking of drugs into the European Union. The program seeks to develop systems of prevention and monitoring, improve the legal framework, and provide training and equipment. It is the most significant counternarcotics program in Belarus at this time.

II. Status of Country

Drugs increasingly transit Belarus on their way to points east, west and north due to Belarus' porous borders and good railway and road system. Most heavy drugs, especially heroin, enter Belarus from Russia. This trade is facilitated by Belarus' customs union with Russia, and the resultant lack of border controls between Belarus and Russia. Before the customs union with Russia, more than 30 percent of all seizures occurred on that eastern border. Police claim Roma groups control much of the drug trade into Belarus, particularly heroin. The formation of the Eurasian Economic Community (Belarus, Russia, Kazakhstan, Kyrgyz Republic, and Tajikistan) has the potential to create a broader border-free area, which would facilitate all types of trafficking. Narcotics enter Belarus from all neighboring countries, except Latvia. Belarusian border guards lack the training, and in many cases the equipment, to conduct effective searches.

In the first nine months of 2004 authorities seized 1,750 kilograms of narcotics, slightly more than in all 2003 (1,688 kilograms). Official seizure figures do not reflect the reality of the problem, as it is assumed most drugs transit Belarus undetected. Neighboring countries reported an increase in drugs that came from or passed through Belarus.

Drugs enter Belarus from Russia, Ukraine (Semi-refined Opium); Baltic states, the Netherlands, Poland (Amphetamines); Afghanistan, Caucasian republics, Pakistan, Russia, Tajikistan, Turkmenistan, Ukraine (Heroin); Caucasian republics, Ukraine (Marijuana); Russia (Methadone); Ukraine (Poppy Straw).

Drugs transit Belarus to Poland, Russia (Amphetamines); Russia, Western Europe (Heroin); Lithuania, Russia (Marijuana, Poppy Straw); Poland, Russia (Precursors); Baltic states, Russia (Rohypnol).

Police report Nigerian drug rings frequently hire Belarusian citizens to smuggle drugs from Russia, South America, Africa, and the countries of the Golden Crescent/Golden Triangle into Western Europe.

There is no evidence of large-scale drug production in Belarus. However, Belarus has all the resources necessary for the production of synthetic narcotics and lack of controls, which lead to such production elsewhere. The chemical industry, completely government owned, is allowed to police itself. According to law enforcement officials in neighboring countries, Belarus is a source of precursor chemicals, but officials in Belarus deny this.

According to official data, there are approximately 10,500 registered drug addicts in Belarus, double the number since 2002. Belarusian experts estimate the real number at 100,000. The estimated number

of addicts is growing by 20-25 percent annually. The percentage of youth, women, and student addicts is growing. The level of addiction is worst in Gomel Oblast, where in some towns the level of addiction per population is four times the national average.

The many unregistered addicts fear consequences at work, school, and in society if their addiction becomes known. Drug use is heavily criminalized and highly stigmatized by government and in society. The exception is among youth. A recent study found youth have ready access to narcotics at dance clubs, university dormitories and educational facilities. A strong link between HIV/AIDS and drug use exists. In the worst hit city, Svetlogorsk, 74 percent of registered drug users are HIV/AIDS positive. The number of HIV/AIDS positive registered addicts is increasing by 40 percent annually. Sharing of syringes by intravenous drug users is the primary cause of transmission of HIV/AIDS in Belarus.

Belarus' narcotics problems have increased many-fold since the Soviet era, and continue to worsen. Since 1987, the number of drug-related crimes has increased by 17.3 percent; the number of people charged with narcotics-related offences grew by 18.3 percent; the number of people charged with the sale of illegal narcotics increased by 41 percent; charges against drug users increased to 102.5 percent; and the total weight of drugs seized increased roughly 100 percent.

Synthetic drugs are growing in popularity. In the last two years heroin use has dropped sharply, replaced by the slightly more expensive but much longer lasting methadone. In the first half of the year, authorities seized 464 grams of methadone, a 470 percent increase over the same period in 2003. Amphetamine use is growing rapidly, particularly among youth; police seized 20.5 kilograms of amphetamines in the first five months of the year, compared to less than one kilogram in all of 2000.

The average age of drug users is 25. Seventy-nine point one percent of drug users are men; 8.3 percent are under 18 years old and 22.5 percent are ages 18-24. Thirty-seven point eight percent of drug addicts first used drugs in prison, 50.9 percent in their local neighborhoods, and the rest at work, in the military, or at school.

Belarus continues to have problems with abuse of, the extract from poppy straw, which is very popular in Ukraine, Russia, and Belarus. Poppy straw was the drug seized in greatest quantity in 2004 (1,150 kilograms). There is, however, no evidence of large-scale production of poppies for export.

III. Country Actions Against Drugs in 2004

Law Enforcement Efforts. From January to October, 2,825 people were charged with drug crimes. Authorities seized 1,749 kilograms of drugs from January to November 2004, but experts, including government officials, agree that this quantity fails to reflect the real quantity of drugs transiting or used in Belarus.

Enforcement efforts suffer from lack of communication and coordination among agencies, as well as from lack of training and resources. For example, less than 50 percent of border checkpoints have adequate equipment. Even when the equipment is present, border guards often do not know how to use it. Main shortages involve x-ray devices, air detectors, mobile labs, computers and networks, and drug-detection dogs. Police officers have no training in undercover operations or controlled delivery stings. Despite these resource problems, the majority of government officials take seriously their efforts to combat drug smuggling. By all accounts officials involved in combating drug trafficking cooperate well with their colleagues in neighboring countries.

Drugs seized January-November 2004 (in kilograms): Poppy Straw (1150); Marijuana (260); Extraction Opium (210); Benzodiazepine (57.9); Amphetamine/Methamphetamine (27.6); Hashish (22.6); Acetylated Opium (liquid heroin) (14.5); Hallucinogens (2.7); Heroin (2.5); All Other Drugs (under one kilogram).

Corruption. Corruption is a problem among border and customs officials. Some reports implicate high-level members of the regime in narcotics trafficking. These factors make interdiction of narcotics difficult. In 2004 there was a crack down on corruption amongst border guards, though thus far the prosecuted cases have not included narcotics-related offences or any senior officials.

Agreements and Treaties. Belarus is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Belarus is a party to the UN Convention against Transnational Organized Crime and its three protocols.

The international donor community has had repeated difficulties in getting assistance programs registered by the government. There have also been attempts by the Belarusian government to tax foreign aid, despite international agreements. These problems have slowed the implementation of international assistance programs.

Cultivation/Production. There is no confirmed drug cultivation or production in Belarus. Belarus law enforcement officials are not trained in tracking precursor chemicals or the detection of synthetic drug manufacturing facilities. There is no legislation in Belarus dealing with precursor chemicals. Control of precursors is not on the agenda of policy makers.

Drug Flow/Transit. The Government of Belarus is not operating any significant programs particularly aimed at combating trafficking. The BUMAD program is attempting to improve Belarus' border checkpoints and the training of law enforcement personnel. Resource shortages plague the government's efforts in this area.

President Lukashenko in 2003 threatened to open Belarus' western border to all forms of trafficking, narcotics, migrants and trafficked women, in retaliation against EU efforts to encourage democratization. However, he did not act on this threat. This year Lukashenko on several occasions decried the "great costs" Belarus incurs preventing smuggling into Europe, and ordered his government to seek reimbursement from the European Union.

Domestic Programs (Demand Reduction). A national drug abuse prevention strategy exists, called The State Program of Complex Measures Against Drug and Psychotropic Substances Abuse and Their Illicit Trafficking for 2001-2005. Government officials confess, however, that the program lacks details of implementation, timeframes, as well as sufficient financial support. The Ministry of Interior has primary responsibility for its implementation. Other institutions involved in reducing drug demand include the Ministry of Health, Ministry of Foreign Affairs, Ministry of Education, Committee on State Security (BKGB), and the State Customs Committee.

Belarus still lacks an effective system of counternarcotics education, though such programs occur at the local level with varying degrees of success. Police officers who work with juvenile crime run drug prevention programs in schools, but lack sufficient training, resources, and nation-wide coordination of curriculum. The BUMAD program aims to formulate a national curriculum and provide training.

Treatment of drug addicts is generally done in psychiatric hospitals, either as a result of court remand or self-enrollment, or in prisons. The emphasis of all programs is only detoxification and stabilization. NGOs run six rehabilitation centers, which attempt to provide long-term care, including psychological assistance and job training. Financial limitations constrain the breadth of these programs.

IV. U.S. Policy Initiatives and Programs

The USG has not provided narcotics/justice sector assistance to the GOB since a U.S. policy of selective engagement became effective in February 1997.

The Road Ahead. The USG will continue to encourage Belarus authorities to enforce their counternarcotics laws.

Belgium

I. Summary

Belgium remains an important transit point for a variety of illegal drugs, most significantly Ecstasy, cocaine, and heroin. 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 in Belgium appear to be on the rise. Belgium is also a transit point for a variety of chemical precursors used to make illegal drugs. Traffickers use Belgium's busy seaports and two international airports to move drugs to their primary markets in the United Kingdom, the Netherlands, and elsewhere in Western Europe—as well as to the United States to a much lesser extent. Belgium takes a proactive approach to interdicting drug shipments and cooperates with the 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 eight synthetic drug labs in 2004. 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 produces synthetic drugs and cannabis and remains a key transit point for illicit drugs bound for the UK, the Netherlands, and elsewhere in Western Europe, as well as the United States. 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. Belgian officials believe that sea freight is likely 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 UK, but there appears to be growing demand in Belgium as heroin becomes cheaper, purer, and more readily available. Heroin usage in Belgium 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. In October 2004, the Belgian Supreme Court revoked the article of the 2003 Drugs Act that had instructed authorities not to prosecute minor possession of cannabis for personal consumption. This revocation, however, is believed to be temporary and knowledgeable observers of the drug scene in Belgium predict that it will have no major bearing on either domestic demand or police seizures. Cannabis seizures have remained stable and even lower than usual in 2004, a trend that may be explained by the rise of indoor 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 2004

Policy Initiatives. Belgium's National Security Plan for 2004-2007 cites synthetic drugs and heroin as the top large-scale drug trafficking problems. Of particular concern to Belgium in the next three years

will be the importation of cocaine and the exportation of synthetic drugs. The National Security Plan calls for attention to be concentrated on shutting down clandestine laboratories for synthetic drugs, on breaking up criminal organizations active in the distribution of synthetic drugs and heroin, and on halting the rise of drug tourism in Belgium. 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. DEA and DoJ officials conducted a five-day training seminar in March for the Belgian Federal Prosecutor's Office, local prosecutors, investigating judges, and the Federal Police. The seminar addressed asset seizure and money laundering.

Accomplishments. Belgian authorities seized eight laboratories in 2004: three producing Ecstasy, three producing amphetamines, and two producing GBL. As in past years, all production sites were located along the northern border with the Netherlands. These seizures bring the number of laboratories seized in the past six years to 41. By comparison, only ten laboratories were seized in the six-year period from 1992 to 1998. During 2004, two high-capacity amphetamine labs were seized. One of these super laboratories, reported to be the largest ever seized in Europe, had produced 2.5 tons of amphetamine over the course of four months. Belgian authorities discovered over 12,000 liters of toxic chemical by-products of refining at this lab, which had been operational for two years. An investigation conducted jointly among the U.S., Belgium, and the Netherlands resulted in the arrest of several Israeli traffickers. The investigation is believed to have largely dismantled an important Israeli trafficking group, which had once dominated the export of Ecstasy from Belgium and the Netherlands. The DEA Brussels Office documented the seizure of more than 1,500 kilograms (7.5 million tablets) of Ecstasy in 2004. Major seizures included in this sum were 120 kilograms located inside a safe in Antwerp and 354 kilograms sent to Italy in a pizza oven. This figure does not take into account an 835 kilogram controlled delivery to Australia in November 2004.

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, they focus their efforts on combating synthetic drugs, heroin and cocaine. Belgian authorities continued to cooperate closely with DEA officials stationed in Brussels.

At Brussels' Zaventem airport in the Brussels region, non-uniform personnel trained by the Federal Police to help detect drug couriers became increasingly proficient during 2004. Over 114 kilograms of illicit drugs were seized at Zaventem in 2004; the majority of these seizures involved one to five kilogram amounts of cocaine. Belgian authorities 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, appears almost certainly to be inadequate. Although Belgium's busy seaports appear to be used to ship Ecstasy (as demonstrated by a major seizure in Australia that had been shipped from the port of Zeebrugge in 2003), Belgian inspectors have uncovered no such shipments at any Belgian port in 2003 or 2004. Port inspectors did, however, seize significant amounts (575 kilograms) of cocaine at the port of Antwerp in 2004.

Corruption. The Belgian government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official of the 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. 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, the 1961 UN Single Convention and its 1972 Protocol, as well as the 1971 UN Convention on Psychotropic Substances. In August 2004, Belgium ratified the UN Convention against Transnational Organized Crime, the trafficking in persons protocol and migrant smuggling protocol, and ratified the firearms protocol in

September 2004. 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. As part of a joint U.S.-EU venture, in 2003 the U.S. and Belgium signed bilateral instruments implementing the 2003 U.S.-EU Extradition Agreement.

Under a bilateral agreement with the United States as part of the U.S. Container Security Initiative, U.S. Customs officials in 2004 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 Counter Drug Initiative. The MOU provides the terms and conditions for U.S. Coast Guard law enforcement detachments to embark in Belgian navy ships deployed to the Caribbean to participate in multinational efforts (led by the United States) to detect, monitor and interdict drug smuggling by sea and air in the Caribbean.

During FY-2004, eight MLAT requests for narcotics case information sharing were submitted between Belgium and the United States.

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. 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 the Netherlands 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 three labs in 2004. Dutch traffickers are also linked to Belgium's production of Amphetamine-Type Stimulants (ATS). As Dutch law enforcement pressure mounts on producers of Ecstasy and other ATS in the Netherlands, some Dutch producers either look to Belgian producers to meet their supply needs or to establish their own facilities in Belgium. Authorities 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), its two international airports, highway links to cities throughout Europe, and proximity to the Netherlands. Illicit drugs from Belgium flow to the United Kingdom, the Netherlands and elsewhere in Western Europe, as well as to the United States.

Israeli drug traffickers no longer figure so prominently in the export of Ecstasy from Belgium and the Netherlands (see above), but a new trend involves Chinese traffickers shipping precursor chemicals from China to Belgium and the Netherlands. Ultimately, the Ecstasy is sent in bulk from Belgium to Chinese or Vietnamese gangs in Canada. These Chinese groups are believed to have largely displaced traditional Ecstasy sources. Ecstasy production continues to be controlled by Dutch chemists on either side of the border between Belgium and the Netherlands.

The port of Antwerp continues to be the preferred destination for cocaine imported to Europe, with an estimated 20 tons entering the port each year. The flow of cocaine to Belgium is controlled by Colombian organizations with representatives residing in the region. Antwerp port employees are also documented as being involved in the receipt and off-load facilitation of cocaine upon arrival at the port. In January 2004 Belgian authorities seized 400 kilograms of cocaine. Subsequent investigation demonstrated that the same organization had managed the shipment of about six tons of cocaine during the prior twelve-month period. The predominant cocaine trafficking groups in Belgium are

Colombian, Dutch, Surinamese, Chilean, and Israeli. Though not as significant, Albanian and Moroccan traffickers have also been identified.

Belgium remains 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. Moroccan and Algerian groups control most of the cannabis importation overland from France. Indoor growth activity of marijuana is controlled by Belgian and Dutch groups.

Domestic Programs. Belgium has an active counternarcotics educational program that targets the country's youth. The regional governments (Flanders, Wallonia, and Brussels) now administer such programs. The programs include education campaigns, drug hotlines, HIV and hepatitis prevention programs, detoxification programs, and a pilot program for "drug-free" prison sections. The Belgian system contrasts with the U.S. approach in that Belgium directs 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.

The annual spending on heroin consumption in Belgium is about \$225-\$300 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 for Belgian authorities, especially given that one dose costs as little as 10 Euros (\$12.50). This worrying trend, together with the crime and social costs associated with heroin addiction, make thwarting the proliferation of this drug a top priority for Belgian public health and law enforcement officials alike.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States and Belgium frequently share counternarcotics information. Officials in the Federal Police, Federal Prosecutor's Office, and Ministry of Justice who work on counternarcotics in the GOB are fully engaged with their U.S. counterparts.

The Road Ahead. The U.S. looks forward to continued close cooperation with Belgium in combating illicit drug trafficking and drug-related crime, with a growing emphasis on systematic consultation and collaboration on operational efforts. The U.S. also welcomes Belgium's active participation in multilateral counternarcotics fora such as the Dublin Group of countries concerned with narcotics-trafficking.

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 law enforcement cooperation, gradual improvements in the oversight of the financial sector, increased seizure of drugs, and substantial legal reform, local authorities are politically divided and enforcement efforts are poorly coordinated. Narcotics trade remains an integral part of the influence wielded by foreign and domestic organized crime figures and ethnic extremists who operate with the tacit acceptance (and sometimes active collusion) of some corrupt public officials. Border controls have improved, but flaws in the regulatory structure and justice system, coupled with a lack of attention by Bosnia's political leadership, mean that few effective measures against narcotics trafficking and related crimes exist. BiH is in the process of developing a national counternarcotics strategy and is creating a state-level body to coordinate the fight against drugs. In 2004, police powers were given to the State Investigative and Protection Agency (SIPA) to conduct search and seizure counternarcotics operations. In 2005, the BiH government will launch a public information campaign to raise awareness about the dangers and effects of drugs. BiH is party to the 1988 UN Convention on Drugs and is attempting to forge ties with regional and international law enforcement agencies.

II. Status of 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 1991-95 war, both as a reflection of the general breakdown of law and order and as a means for 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 Peace Accords. Traffickers have capitalized in particular on an ineffective justice system, 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 warehouse for drugs en route to Western Europe.

Information on domestic consumption is not systematically gathered, but anecdotal evidence and law enforcement information 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-entity 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 for customers Central European customers. 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 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 2004

Policy Initiatives. The BiH Government implemented a new Criminal (CC) and Criminal Procedure (CPC) Codes in 2003. 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 have reduced this undue influence. Law enforcement and judicial officials have better tools, in the new CPC, to investigate and prosecute serious crime or corruption cases. In particular, the criminal procedure code permits communications surveillance, use of informants, and undercover police work. Department of Justice ICITAP and Overseas Prosecutorial Development Assistance Training (OPDAT) training organized for law enforcement agencies are teaching police and prosecutors how to use these tools. Improved relations between BiH and 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.

Accomplishments. Under close observation 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-Republica Serbska) joint task force. The Government of BiH has established the State Court and State Prosecutors Office, that has jurisdiction over serious criminal offenses such as terrorism and trafficking and has created new state-level Ministries of Security and Justice as well as strengthened border and financial controls.

As of 2004, the SBS covers one hundred percent of Bosnia's borders. Forty-seven international border crossings are manned by SBS personnel and all four international airports are under SBS control. However, there are still a large number of illegal crossing points, chosen at locations where SBS does not exercise effective control. Five SBS Mobile Support Units 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, the less porous borders, which have been achieved, should help stem the flow of illicit goods through Bosnia. 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. 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 are available to other law enforcement institutions, particularly SIPA, for joint law enforcement operations. 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. 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, in 2004 the international community completed the vetting and appointment of all judges and prosecutors in the country.

Law Enforcement Efforts. Counternarcotics efforts have improved but remain inadequate given suspected trafficking levels. In the Federation, drug-related criminal reports to the prosecutor have increased by thirty percent, while the number of minor offense reports has decreased by fifty percent.

Based on data through December 2004 the number of drug-arrests in the RS has increased by 34 percent compared to 2003 levels. RS police operations have seized a total of approximately 166,182 kilograms of marijuana (a decrease of 20 percent over 2003 levels, 1692 grams of heroin a 10 percent increase over 2003 levels), and 1978 Ecstasy pills (a 20 percent increase over 2003 levels).

Through December 2004, fifteen arrests in the Brcko District were reported. Meanwhile, preliminary figures indicate that the SBS has filed 31 criminal reports and 33 minor offense charges, and seized approximately 176 kilograms of marijuana, 11 grams of heroin, and 8 Ecstasy pills through December 19, 2004.

Through December 2004 in the Federation, 280 criminal reports were filed for the unauthorized production, processing and trade of drugs (a 13 percent decrease in comparison with 2003), 980 criminal reports for possession of drugs (a 215 percent increase in comparison with 2003). The enormous increase of criminal reports for drug possession is linked to implementation of the Federation Criminal Code, which criminalized drug possession. Federation counternarcotics operations have resulted in the seizure of 34 kilograms of marijuana, 3.323 kilograms of heroin (a 50 percent increase over 2003 levels), and 1214 Ecstasy pills (a 50 percent increase over 2003 levels).

Corruption. Bosnia and Herzegovina does not have laws that specifically target 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. 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 the Kingdom of 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 declining, largely as a result of the ready import of cheaper and better quality cannabis from Albania through Montenegro. There are also indications that there is increasing production of synthetic drugs, like Ecstasy, on a small but rapidly increasing scale. Though Bosnia and Herzegovina does not have the industrial infrastructure that could support large-scale illicit manufacturing, a modest level of synthetic drugs produced in clandestine labs cannot be ruled out, given that the production and possession of chemical precursors to synthetic narcotics are currently legal under 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.

An NGO, 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 recovering addicts. 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 Kosevsko 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 2004, a total of thirty patients were successfully rehabilitated through UG-PROI programs. Currently, UG-PROI is focusing on development of a nation-wide database of drug abusers, as well as on the development of a study to standardize treatment.

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, de-politicizing the police, improving local governance, strengthening bank regulatory authorities, and introducing free-market economic initiatives. The USG 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. Since the European Union Police Mission (EUPM) took over from the International Police Task Force (IPTF) in 2004, 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 capacity 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 Government of Bulgaria has continued to make progress in improving its law enforcement capabilities and customs services, although major structural changes remain to be implemented. The Bulgarian government 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, investigators, 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 continued to move from primarily being a drug transit country to 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. The spillover effect of drugs as payment for transportation services is resulting in an increase in local user populations. Transporters, reimbursed in product instead of money, typically break down the purer drugs for street level consumption.

The Government of Bulgaria has emphasized its commitment to combat serious crime including drug trafficking. Despite some progress towards this goal, there were no major convictions for drug trafficking, or other serious related crimes, including organized criminal activity, corruption or money laundering during 2004. Among the problems hampering counternarcotics efforts are poor interagency cooperation, inadequate equipment to facilitate narcotics searches, widespread corruption, and an overall weak judicial system.

III. Country Actions Against Drugs in 2004

The Bulgarian government has issued an annual national drug prevention strategy every year since 2002, and in 2004 it continued its efforts to interdict the flow of narcotics through Bulgaria. Additional measures—started in 2002—continued through 2004, including the creation of a 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 (apx. \$134,000) out of an estimated BGN 10 million (apx. \$6.7 million) needed.

Accomplishments. The Bulgarian law-enforcement services have opened a new crime intelligence center with multi-agency input and access. This intelligence center will be pivotal in the collection, analysis, and dissemination of investigative information in a time sensitive and usable form.

Law Enforcement Efforts. From January to September 2004, Bulgarian Customs seized 1430.64 kilograms (kg) of drugs, including 784 kilograms of heroin, 113 kilograms of marijuana and 410 kilograms of amphetamines. This compares to roughly 1074 kilograms of drugs seized in 2003 and 462 kilograms in 2002. The rise in seizures suggests that Bulgarian interdiction efforts have improved and that more traffickers are being apprehended. Additionally, the seizure of precursor chemicals, including ephedrine and acetic anhydride, are priorities of Bulgarian Customs and law enforcement officials.

Corruption. In 2002, the Bulgarian 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. Bulgaria has signed but has not yet ratified the UN Corruption Convention.

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 is a party to the UN Convention Against Transnational Organized Crime and its three protocols. 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.

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. There has been a steady increase in the indigenous manufacture and distribution of amphetamine products (captagon), followed by ecstasy, cocaine, and opiates such as hydrocodone, triazolam, and morphine.

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 Republic of Macedonia. Precursor chemicals for the production of heroin pass from the Western Balkans through Bulgaria to Turkey. Methods of transport and conveyances are automobiles, trucks, buses/coaches, and mini-buses/vans, followed by postal proceeds, air cargo consignments, airplanes, territorial checkpoints, and pedestrians.

Domestic Programs (Demand Reduction). 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. For drug treatment, there are 35 outpatient units and approximately 12 inpatient facilities nationwide. The NCA has psychiatric units in 20 regional centers. Specialized professional training in drug treatment and demand reduction has been provided through programs sponsored by UNODC and the EU and the Council of Europe’s Pompidou Group.

IV. U.S. Policy Initiatives and Strategies

Bilateral Cooperation. DEA operations are managed from Embassy Athens. The USG also supports various 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, and an FBI Legal Attache will soon arrive in Sofia.

The Road Ahead. The U.S. will continue to assist Bulgaria's counternarcotics and legal sector reform efforts.

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. Croatia is a party to the 1988 UN Drug Convention.

II. Status of Country

Croatia shares borders with Slovenia, Serbia, Hungary, and Bosnia and Herzegovina, and has a 1,000 km long coastline (4,000 km adding in its 1,001 islands), which presents an attractive target to contraband smugglers seeking to move narcotics into the vast European market. Croatian police have noted 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.”

III. Country Actions Against Drugs in 2004

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 apportions 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. The Interior Ministry maintains cooperative relationships with Interpol and an expanding number of neighboring states.

In the fall of 2004, the government formed a working group to review and draft changes to the criminal code, including revising some drug-related provisions. Parliamentary discussion of these changes is expected by summer 2005.

Accomplishments. In October 2004, the parliament revised the law governing the work of the special Office for Combating Organized Crime and Corruption (USKOK). In addition to strengthening the tools USKOK can use to combat organized crime, the new law gives USKOK jurisdiction to investigate narcotics-linked organized crime cases.

Croatia continues to cooperate well with neighboring and Western European states to improve the control and management of its porous borders. Cooperation on narcotics enforcement issues with neighboring states is generally described as excellent. In January 2004, working with Austrian, Slovenian, and Serbian police, Croatian police joined an operation targeting narcotics smuggling through Kosovo, resulting in the seizure of 7 kilograms of heroin from an Albanian national. However, officials complain that overlapping jurisdictions and significant legal loopholes in Bosnia and Herzegovina limit the utility of cooperation.

Law Enforcement Efforts. Croatian police improved and focused their counternarcotics efforts on targeted border-crossing points, leading to the largest total amount of heroin seized in Croatia to date. Police note, however, that the purity of heroin seized this year is significantly lower than in previous years. As a result of a new law passed in July to reduce drug and alcohol-related traffic incidents, 50 traffic police were trained in narcotics detection techniques and equipment use.

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 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 signed the UN Convention Against Corruption in December 2003. Croatia is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention and its 1972 Protocol and the 1971 UN Convention On Psychotropic Substances. Croatia is also a party to the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children.

In the fall of 2004, the Chief State Prosecutor initiated discussions with his counterparts in neighboring countries toward signing bilateral agreements to facilitate cross-border criminal prosecutions. In December 2004, the Croatian State Prosecutor's Office joined 11 other regional Prosecutors in signing a memorandum of understanding on joint work to fight organized crime. Over the past several years, Croatia has entered into a number of bilateral agreements with neighboring states on law enforcement cooperation, including Slovenia, Bosnia and Herzegovina, Serbia and Montenegro and Hungary. It also intensified its cooperation with Austria, Germany, Italy and Slovenia on border control. In 2000 Croatia entered the Southeast Europe Cooperative Initiative (SECI) agreement to prevent and combat trans-border crime. Croatia has a representative at the SECI crime center in Bucharest.

Extradition between Croatia and the United States is governed by the 1902 extradition treaty between the U.S. and the Kingdom of Serbia, which applies to Croatia as a successor state. The Croatian constitution prohibits the extradition of Croatian citizens; however, the Government of Croatia permits its citizens to be extradited 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 illegal 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." authorities believe that up to 80 percent of the heroin from Asian sources travels across this route on its way to the European market. Although not considered a primary gateway, police seizure data indicate smugglers continue to attempt to use Croatia 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 illicit labs in The Netherlands and Belgium are the primary sources.

Demand Reduction. The Office for Combating Drug Abuse is the focal point for coordination of various agencies activities to reduce demand for narcotics. This Office develops the national counternarcotics strategy and coordinates implementation of the annual National Action Plan, which was approved in February 2004. The Office also serves as Croatia's focal point for international coordination and is working to harmonize counternarcotics policies with European Union norms. In July 2004, the parliament approved some changes to the criminal code allowing courts to mandate therapeutic treatment in some drug addition cases.

According to the Office, drug abuse rates were highest in Istria County (major city Pula) in 2003 (latest data available), followed by the capital of Zagreb and urban areas of Sibenik, Zadar and Rijeka. In 2003, 5,678 persons underwent drug addiction treatment, which is 2.3 percent less than in the previous year. The number of new opiate addicts has varied in the past several years ranging between 820 and 1,048 annually. The number of first time seekers of addiction treatment has been sliding since 2001; in 2003 it dropped to 1,840, an 11 percent drop from the previous year. Seventy percent of the overall number of addicts are addicted to heroin. Over 72 percent were infected with hepatitis C, and 0.7 percent were HIV positive. There were 71 drug-related deaths in 2003, which represents a 26 percent increase from the year before.

Demand reduction programs are coordinated by national Office for Combating Drug Abuse. The Ministry Of Education requires drug education in primary and secondary schools. Additional major drug abuse prevention and public awareness programs are run by the Ministry of Defense, the Ministry of Public Health, the Ministry of Justice, and the Ministry of Interior. Other ministries and government organizations also run outreach programs to reach specific constituencies such as pregnant women. 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. The Office projected 91.3 million Kuna (approx. \$16,000,000 at current exchange rates) will be spent in 2004 in aggregate for demand reduction efforts, although actual figures will not be available until mid-2005. The Government of Croatia also will sponsor the creation of expert advisory groups that will work with local governments to counter drug abuse.

IV. U.S. Policy Initiatives and Programs

Goals. The primary objectives of U.S. initiatives in Croatia are to offer assistance with the development of skills and tools among Croatian law enforcement agencies to improve their ability to combat organized crime and narcotics trafficking and to improve Croatian law enforcement agencies' abilities to work bilaterally and regionally to combat trafficking.

Accomplishments. 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 graduated from a completely revamped basic police school in July 2004. This class will be the first to proceed from graduation to probationary assignments with specially trained, senior police officers as coaches and mentors. A new police policies and procedures field manual was issued to all police officers in fall 2004. In addition, Croatian police have been regular participants in training programs at the U.S.-funded International Law Enforcement Academy in Budapest as well as follow-on training in Roswell, New Mexico. Under the Export Control and Border Security (EXBS) program, police and customs officers have been trained on risk analysis methodologies and new equipment has been donated to help improve at-the-border detection of smuggled contraband.

Road Ahead. In fall 2004, an experienced U.S. organized crime and narcotics criminal investigator was placed in the Criminal Police Directorate to work with police and prosecutors in developing crime task-force investigative skills. For 2005, U.S. expert training teams will join in-country U.S. trainers to help Croatian police develop witness protection and confidential source management skills, as well as provide follow-on assistance to improve police and prosecutor cooperation in complex narcotics and organized crime cases. Additional training and detection equipment donations planned for 2005 under the EXBS program will have ancillary benefits for Croatia's fight against narcotics trafficking, particularly in the areas of interagency cooperation and border management capabilities.

Cyprus

I. Summary

Although Cypriots do not produce or consume significant amounts of narcotics, increase in local drug use continues to be a concern. The Government of Cyprus traditionally has had a low tolerance toward any use of narcotics by Cypriots and continues to employ a public affairs campaign to remind Cypriots that narcotics use carries heavy costs, and users risk stiff criminal penalties. Cyprus' geographic location and its decision to opt for free ports at its two main seaports continue to make it an ideal transit country for legitimate trade in most goods, including chemicals, between the Middle East and Europe. To a limited extent, drug traffickers use Cyprus 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. Cannabis is the most commonly used drug, followed by heroin, cocaine, and MDMA (Ecstasy), which are available in major towns. Reports of heroin overdoses have increased in 2004: there have been ten confirmed overdose deaths this year. 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 that they are diverted for illegal use. Cyprus offers relatively highly developed business and tourism facilities, a modern telecommunications system, and the seventh-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 two years for drug users less than 25 years of age with no prior 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 for the confiscation of drug-related assets as well as the freezing of profits, and a special investigation of a suspect's financial records.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In May 2004, Cyprus became a member of the European Union (EU). Prior to its accession into the EU, Cyprus implemented all the necessary requirements to comply with EU regulations. To meet EU regulations, Cyprus established the Anti-Drug Council, which is responsible for national drug strategies and programs. The council is chaired by the Health Minister and is composed of heads of key agencies with an active role in the fight against drugs. They are appointed

by the Council of Ministers for a period of three years. As the national coordinating mechanism on drug issues in the country, the Council's mandate includes the planning, coordination and evaluation of all actions and programs and interventions aimed at the primary, secondary and tertiary levels of drug prevention. The Council acts as a liaison between the Republic of Cyprus and other foreign organizations concerning drug related issues, as well as having the responsibility for promoting legislative or any other measures in an attempt to effectively counter the use and dissemination of drugs. Moreover, the Cyprus Anti-Drug Council is the responsible body for the strategic development and implementation of the National Drugs Strategy and the National Action Plan on Drugs aligned with the EU Drugs Strategy.

In connection with EU entry this year, Cypriot Authorities also established the Cyprus Police European Union and International Police Co-operation Directorate, which replaces a similar operational unit established in 2002. The Division is responsible for cooperating with foreign liaison officers appointed to Cyprus, including the U.S. Drug Enforcement Administration (DEA), Nicosia Country Office (NCO), as well as Cypriot liaison officers appointed abroad. The Cyprus Police European Union and International Police Co-operation Directorate assisted in the extradition of two individuals to the United States arrested on narcotics charges. In 2004, the Cyprus Police, Drug Law Enforcement Unit, (DLEU) appointed a new commander, with twenty years of service in the DLEU. The commander rose through the ranks of the DLEU and his experience will greatly assist the unit. The DLEU has increased its budget in 2004 for the training of DLEU members in Cyprus and abroad to combat drug trafficking. In 2004, Cyprus established two new centers for the detoxification and rehabilitation of drug addicts. A new law enacted in Cyprus provides judges with the discretion to send convicted drug addicts to jail or to one of these centers under certain conditions.

Cultivation/Production. Cannabis is the only illicit substance cultivated in Cyprus, and it is grown only in small quantities for local consumption. While cannabis is the most widely used drug, there has been a reported decrease in the cultivation of cannabis plants over the past year. The Cypriot authorities vigorously pursue illegal cultivation.

Drug Flow/Transit. Although no longer considered a significant transit point for drugs, there were several cases of narcotics smuggling in the past year. Cypriot law enforcement authorities continued to cooperate with the DEA office in Nicosia on several international investigations initiated during 2004. Tourism to Cyprus is sometimes accompanied by the import of narcotics, principally Ecstasy and cannabis. Cyprus police believe that to a large extent their efforts in combating drug trafficking have 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 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 statistics on arrests and seizures of narcotics, this theory has changed. Last year, arrests of Cypriots for possession of narcotics with intent to distribute were significantly higher than the number of arrests of non-Cypriots on similar charges. During the past year there has been an increase in the number of Turkish Cypriots arrested for the distribution of narcotics in Cyprus. There is no production of precursor chemicals in Cyprus, nor is there any indication of illicit diversion. Dual-use 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 cases subject to their jurisdiction permit them to, and readily supports the international community in efforts against the narcotics trade. 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 by any other country except Turkey. The U.S. Embassy in Nicosia, particularly the DEA, within the Embassy, nevertheless 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. Cyprus is a party to the UN Convention against Transnational Organized Crime and its three protocols, and is a signatory to the UN Convention Against Corruption. An extradition treaty between the United States and Cyprus entered into force in September 1999. A mutual legal assistance treaty (MLAT) between the United States and Cyprus entered into force on September 18, 2002. Cyprus also became a member of the EU in May 2004.

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

Policy Initiatives. 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 2005, the USG will continue to work with the Government of Cyprus to strengthen enforcement of existing counternarcotics laws and enhance Cypriot participation in regional counternarcotics efforts. DEA regularly provides information and insight to the GOC on ways to strengthen counternarcotics efforts. New laws to empower members of the Drug Law Enforcement Unit in their fight against drug traffickers are currently before Parliament.

Czech Republic

I. Summary

Illegal narcotics are imported to, manufactured in, and consumed in the Czech Republic. Marijuana, both imported and, to a much lesser extent, grown locally is used more than any other drug. Consumption of marijuana continues to grow, particularly among the young. The popularity of Ecstasy (MDMA) is also growing, especially among the young and “rave dance scene” participants, who consider it a “recreational” drug. According to an EU report for 2003, more than twice as many Czech students (44 percent) used marijuana or hashish than the European average (21 percent). Similarly, twice as many Czech students (12 percent) used some other illicit drug than the ESPAD average (6 percent). The government has taken note of these trends and has altered its drug strategy for the next 5 years to include more counternarcotics education for the young. On the positive side, the use of what the Czechs call problem drugs, such as heroin or the amphetamine Pervetine, decreased slightly. The level of cocaine use remains very low. Tobacco and alcohol consumption is very high. The Czech Republic is a producer of ephedrine, a precursor for Amphetamine-Type Stimulants (ATS) and a producer of lysergic acid, ergometrine and ergotamine, used for production of LSD.

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, the closure of most of the traditional customs posts along the nation’s borders as part of EU accession in 2004, 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 Czech National Focal Point for Drugs and Drug Addiction, which became fully operational in January 2003, is the main body responsible for collecting, analyzing and interpreting data on drug use. It issues an annual report on the drug situation in the Czech Republic and cooperates closely with the European Center for Monitoring Drugs and Drug Addiction (EMCDDA).

The Focal Point report for 2003 indicates that the number of problem drug users is approximately 30,000 (19,000 Pervetine and 11,000 heroin users). This represents a 15 percent drop from the estimate of 35,000 problem users for the previous year. Between 80 percent and 90 percent of this group are intravenous drug users. Focal point estimates that 60 percent of problem drug users are in regular contact with treatment centers, and drop-in centers. Health officials say there were only 4 new cases of HIV among problem drug users in 2003. They attribute the relatively low numbers of HIV and hepatitis infections to the fact that the majority of IV drug users are in contact with treatment centers and drop-in centers which offer needle exchange.

Authorities offer differing explanations for the decrease in heroin use. Some attribute it to effective substitution treatment with buprenorphin or methadone. Others, particularly among police officials, say the heroin market was unstable and lower amounts of heroin were available.

While the use of heroin declined significantly, consumption of softer drugs such as marijuana and Ecstasy increased in 2003. The annual report by the European School Survey Project on Alcohol and other Drugs (ESPAD) showed an increase in marijuana use from 34.8 percent in 1999 to 43.6 percent in 2003. Similarly, Ecstasy use grew from 3.4 percent in 1999 to 8.3 percent in 2003. The ESPAD report also highlighted increased trend in cigarette smoking and alcohol consumption among 16 years olds. The report also confirms the decrease in experimental use of heroin and Pervetine.

One third of children have their first experience with legal drugs (tobacco and alcohol) by the age of 11. Children try illegal drugs, primarily marijuana, at the age of 14-16. While the average age of heroin users went up in 2003, suggesting fewer new young addicts, the average age of those using drugs with lower health risks went down.

III. Country Actions Against Drugs in 2004

Policy Initiatives. There is an ongoing debate in the Czech government and society over whether there should be a more liberal line taken in regard to soft drugs, in order to focus on hard drugs. In March, 2004, the Christian Democrats announced their war on drugs, which, with its stricter policy on marijuana ran counter to the then prevailing liberal line of the government's drug policy. Due to the important position of the Christian Democrats in the governing coalition, the preparation of the government's drug policies for 2005-2009, as well as preparation for the recodification of the nation's penal code, were interrupted. The proposed changes to the Penal Code would have divided drugs into soft and hard classes. That division and consequent lower penalties for soft drugs were behind the debate that led to the dismissal of Josef Radimecky, the man who until early December, 2004 was the head of the body responsible for government drug policy. But on one of the last business days of 2004 the government approved the next five-year plan on drug strategy, to a large extent along the lines suggested earlier by Radimecky. The plan focuses on the fight against organized gangs that provide drugs, and taking steps to further lower the number of addicts.

Based on the results of an internal audit, the National Drug Headquarters—the main institution responsible for major drug cases—changed its organizational structure in June 2004. They now have only two departments: one focused on natural drugs, and one on synthetic drugs and precursors. This structure allows much better coordination of existing cases and enables them to establish task forces. In the past there were six departments focusing on particular drugs (heroin, Ecstasy, marijuana) or particular organized groups (Asians, ethnic Albanians, Africans, Russian speaking groups etc). The original structure showed problems in cases when a certain criminal group was involved in more than one activity and dealt with more than one kind of drug. The National Drug Headquarters also strengthened cooperation with The Financial Police Unit, which was established in July 2004 under the Ministry of the Interior.

The General Directorate of Customs underwent major changes in 2004 as part of the Czech Republic's entry into the EU. All of the traditional customs posts along the nation's borders with Poland, Germany, Austria, and Slovakia, other EU states, were closed. The only remaining international customs post is at Prague's International Airport. Eight mobile customs teams have also been set up and these teams now conduct random checks along highways, in warehouses, and at marketplaces.

The drug unit of the Czech Customs Service gained new responsibilities such as monitoring transport, and imports and exports of precursors from and to third countries. Beginning in January 2005, they will also be responsible for monitoring the growth of poppies and technical cannabis (containing less than 2 percent THC). This monitoring used to be done by the Czech Ministry of Agriculture.

Accomplishments. In the first half of 2004, the National Drug Headquarters, together with the Custom Service, seized 5.66 kilograms of heroin; 35,691 ecstasy pills; 1.5 kilograms of methamphetamine, 26 kilograms of marihuana, 729 cannabis plants, 5.17 kilograms of hashish, 0.5 kilograms of ephedrine and 3 kilograms of cocaine. They also found 105 laboratories for methamphetamine production.

There were several prominent arrests in the second half of the year. In November 2004, the National Drug Headquarters, in cooperation with the Customs Service, arrested a five-member gang, two Czechs and three foreigners, suspected of organizing the export of heroin from the Czech Republic.

The police seized 27 kilograms of heroin but suspect them of having smuggled roughly 220 kilograms of heroin to other European countries.

In cooperation with specialists from the U.S., Holland, Israel and Belgium, in September 2004, the Czech National Drug Headquarters arrested the head of a Czech-Israeli gang that organized the export of Ecstasy from Europe to Los Angeles. 300,000 tablets were seized in the U.S. Two Czechs were arrested in Austria while receiving payment for the sale.

According to the police statistics for the first half of 2004, 2149 people were investigated for drug related crimes. 2085 suspects were investigated for unauthorized production and possession of narcotics and psychotropic substances. 173 others were investigated for drug possession for personal use, and 67 were investigated for spreading addiction. According to statistics provided by the Ministry of Justice for 2004, the state prosecuted 2945 suspects and indicted 2589 others for drug related crimes. 363 were accused of drug possession for personal use and 299 were accused of spreading addiction. Courts have convicted 1376 people; among those there were 64 convictions for drug possession for personal use and 45 for spreading addiction.

Statistics for year 2004 showed that most of the convicted criminals (52 percent) received conditional sentences for drug related crimes and only one fourth of convicted criminals were sentenced to serve time. Only 12 percent of this latter group received sentences higher than 5 years. The majority (77 percent) of those given prison sentences received from 1 to 5 years.

Corruption. Possession of a small amount of drugs is considered an administrative offence and possession of more than a small amount a criminal offence. The vague definition of what is a “small amount” opened up the possibility for police corruption, allowing some venal officers to construe any 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 on whether to pursue drug cases.

In 2003 10 police officers committed drug related crimes. There were 9 cases of production and distribution of drugs, and 1 case of spreading addiction. Four of the 10 police 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 escape destruction and then arranged with two policemen to sell the heroin. In 2002 only 4 police officers committed drug related crimes (3 cases of production and distribution and 1 case of spreading addiction. All those cases were conditionally suspended.

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, though the extradition treaty is 80 years old, based on outdated mutual lists, and does not allow the extradition of Czech nationals to the U.S. The Czech Republic has taken the necessary legislative measures to join the European Arrest Warrant system. However, the EAW has not been used and there is sharp debate about whether the Czech constitution even allows the extradition of nationals to other EU Member States. A test case before the Constitutional Court may resolve the issue in 2005. The Czech Republic has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

Drug Flow/Transit. Marijuana cultivation used to be primarily for personal use only. However the police recently found many laboratories where the drug was cultivated hydroponically, which appears to be an indication that the marijuana is produced for local distribution. Police discovered three big laboratories in the first half of the year. The marijuana growers stated that they were encouraged to start these large marijuana operations by the signals of the government’s more liberal drug policy

against soft drugs. Marijuana is also imported from Holland and more recently from Morocco via Spain.

Czech police focused their activities on ethnic Albanian drug gangs that import heroin mainly from Afghanistan via Iran and Turkey. There were no reports of imports of white heroin from Thailand or Burma. Heroin sometimes transits the Czech Republic via the Balkan Route to Northern and Western Europe. But police believe shipments are now smaller and more frequent, unlike the big heroin cases of the past. Cocaine is mainly exported to the Czech Republic through Holland. It usually 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. Czech drug couriers mainly use the airport in Amsterdam where the cooperation with the local police is very complicated in terms of arrest. The local police more often than not confiscate the drug, but do not start prosecution. 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.

Pervitine, a synthetic amphetamine, is produced mainly by Czechs, primarily for local consumption. It is often produced in home laboratories where ephedrine, the main ingredient in Pervitine, is extracted from pills that are readily available. One Czech company, INC Roztoky u Prahy, had been producing tons of ephedrine annually. INC announced a production pause in May 2004, in connection with plans to sell the factory or the production technology. Neither of those two options have taken place, but all ephedrine stocks have been sold, mainly to the USA (Novus; cca 30 tons), South Africa (cca 3 tons), Argentina and Brazil or to local companies. It looks as though INC plans to restart its production in 2005. Pervitine is exported mainly to Germany and to a lesser extent to Austria. Czech technology for the production of Pervitine has also been sold to neighboring Slovakia.

Ecstasy, still the favorite drug of the dance scene, is imported mainly from Holland and Belgium. The import is organized among smaller, closed groups or individuals; however, the amounts of drug shipments are growing. Most Ecstasy in the Czech Republic is in pill form. There are no indications that Ecstasy is produced in the Czech Republic.

The Ministry of Agriculture monitors the growth and sale of poppies that are cultivated for poppy seeds sold to EU markets or used in traditional Czech cooking. Total production in 2003/2004 (July 2003-June 2004) was 19,544 tons (16,918 tons in 2002/2003). 80 percent-90 percent of production is exported. The Czech Customs Service will be responsible for monitoring growth as well as exports beginning January 2005.

Domestic Programs (Demand Reduction). School prevention programs continue to be the most common prevention programs. After-school activities are organized by NGOs. The number of contact centers that provide needle exchange is growing. In 2003 1.7 million needles were distributed.

In 2003, the state budget provided 317 million Czech Crowns, or \$13.7 million to national drug programs and an additional 48 million Crowns, or \$2.1 million directly to the regions. The Government Commission for Coordination of Drug Policy received \$4.45 million for projects at the local level, up from the 2002 amount of US\$3.75 million.

The Commission needs to coordinate with other institutions to make sure that the resources for prevention and treatment programs will be spent wisely. It has been criticized for supporting programs to test the purity of Ecstasy at dance-parties in the past. Since there are many preventive as well as treatment programs (and a lot of them are not very effective), the Committee came up with a proposal to evaluate programs.

The U.S. Department of State supports the prevention efforts of 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 schools.

Bilateral Cooperation. Czech police consider cooperation with the U.S., German, Austria, Israel, Switzerland and the UK as very good. Czech and German police continue to cooperate in Operation Crystal to combat Pervitine trafficking.

IV. U.S. Policy Initiatives and Programs

The U.S. covers Czech Republic drug issues through the DEA office in Berlin. DEA maintains an extremely active and cooperative relationship with Czech counterparts, particularly with the National Drug Headquarters. DEA cooperates with NDH on investigations. DEA also assists with organizational changes at NDH and has provided training. The State Department has given grants for counternarcotics education and has provided equipment and training for customs officers.

The Road Ahead. In the first half of the year the Government Commission for Coordination of Drug Policy did an analysis of Czech drug policy. Based on the results of their analysis, they proposed a new drug policy strategy for 2005-2009. They proposed a general document to which they would add two action plans for 2005-2006 and 2007-2008. The priority will be given to public health concerns, including a balance between drug supply, 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 and wants to increase the number of these centers. The government also wants to implement a certification scheme for NGOs providing these services. Legal drugs, tobacco and alcohol, became another priority of the government. They want to focus more on misuse of these drugs by children, based on the latest research results. This strategy hasn't been approved yet due to political differences over drug policy. 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. The bill is prepared but hasn't begun the legislative approval process.

Denmark

I. Summary

Denmark's strategic geographic location and status as one of Northern Europe's primary transportation points make it an attractive drug transit country. The Danes cooperate closely with their Scandinavian neighbors, 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 and increased cocaine 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 that entities based or operating in Denmark play a significant role in the production of drugs or in the trading and transit of precursor chemicals.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Legislation creating stiffer penalties for narcotics-related crime was enacted in March 2004 and raised the maximum jail sentence for serious drug-related crimes from ten to sixteen years. In 2003, 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 Banditos—both involved in illegal drugs. Undercover operations and informants may now be used when investigating crimes punishable by terms of over six years in prison.

Previous Danish legislation passed in late 2002 requires the reporting of money exceeding 15,000 Euros (approximately \$17,850) to customs upon entry to or exit from Denmark. This law has led to a proactive response by Danish customs in intercepting illegal money.

Denmark continues to provide counternarcotics 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. In early 2004, three people were arrested following the seizure of 325 kilograms of hashish that had been smuggled into Denmark in a refrigerated truck. One of the persons arrested was a member of the Hell's Angels biker gang. In 2004, the Danish Police also demolished the hashish booths in a previously loosely regulated area of Copenhagen known for illicit drug trade and arrested 70 people in the process. Authorities succeeded in closing down the area in response to complaints from residents about the open sale of illegal substances.

Law Enforcement Efforts. During 2004, there was a large increase in cocaine seizures. Cocaine investigations are the current top priority of counternarcotics police efforts in Denmark. The Danish National Police Commissioner issued a statement that the increase in cocaine seizures can be

attributed to “police efforts to fight organized crime and with the systematic police investigations aimed at criminal groups and networks which are involved in drug crime.” The Police Commissioner vowed to continue “goal oriented and systematic efforts to fight organized crime in close cooperation with the European police unit at Europol and foreign police authorities.” Police also targeted members of the Hell’s Angels and Banditos biker gangs active in narcotics smuggling and distribution by increased enforcement of tax laws. Authorities brought 31 cases of tax evasion against members of the biker gangs resulting in fines up to a top fine of DKK 4,000,000 (\$727,272).

Heroin availability in Denmark has fluctuated based on the heroin production levels in Afghanistan. Heroin trafficking continues to be largely controlled by Serbian nationals. By November 1, 2004, the Danish authorities had seized 22.15 kilograms of amphetamine, 15.3 kilograms of methamphetamine, 16.8 kilograms of heroin, 84.2 kilograms of marijuana and 325 kilograms of hashish, 24.4 kilograms of cocaine, and 31,581 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, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. Denmark also is a party to the UN Convention against Transnational Organized Crime and its protocol against trafficking in women and children, and is a signatory to the UN Convention Against Corruption. The USG has a Customs mutual assistance agreement, 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. The Danish Police report that the continuous smuggling of cannabis to Denmark is typically carried out by car or truck from the Netherlands and Spain. Amphetamines are typically smuggled from the Netherlands via Germany to Denmark and there distributed by members of the Hell’s Angels and Banditos biker gangs. Continued international cooperation, including information sharing among EU members’ national police forces, has helped stem drug flow across the Danish-German border by allowing better detection (at origin) and tracking (to destination) of attempted narcotics smuggling efforts.

Domestic Programs. Denmark’s Ministry of Health estimates that in 2003 (Most recent data available) there were approximately 25,500 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, to 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 September 2004, the Department of Homeland Security (DHS) and the U.S. Coast Guard (USCG) conducted a joint training seminar for 34 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. DHS and USCG conducted similar training in 2003, which included presentations from the Drug Enforcement Administration (DEA). In 2003, DEA sponsored the Second International Drug Profiling Conference in Sweden, which was attended by twenty forensic chemists from the U.S., Europe, including Denmark, Asia and Australia.

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 to travel and commerce of all sorts. When visa-free travel is fully implemented, there will unavoidably be an 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 cooperation with Danish authorities and work to deepen joint efforts against drug trafficking.

Estonia

I. Summary

Despite continued, concentrated police effort, the abuse of, and trafficking in, illegal drugs continue to rise in Estonia. Frequent arrests of drug traffickers at Estonia's borders indicate not only the extent of drug transit through Estonia, but also the increasing efficiency of counternarcotics efforts of Estonian law enforcement agencies. A 2004 pan-European survey showed that teenagers in Estonia are more eager to use legal and illicit drugs than their European peers, which, in combination with the increasing number of Estonians dying of drug overdose, suggests an increase in domestic drug consumption.

II. Status of Country

The October 2004 closure of a drug lab in Parnu County and seizure of a record amount of Ecstasy pills and Ecstasy precursors at the site prove that Estonia is involved in the production of synthetic illicit drugs. According to the Head of the Central Criminal Police, more than 330,000 pills of Ecstasy and over ten kilos of MDMA were seized, making it the biggest amount of Ecstasy found in the Nordic and Baltic countries to date. In December 2004, officials of the drug squad of the Estonian Tax and Customs Board seized seven kilos of hashish at the Virtsu Port on Estonia's west coast. The drugs were seized as they were being loaded onto a small Finnish vessel.

Estonia has one of the highest HIV infection growth rates in Europe. As of December 2004, 4,408 cases of HIV have been registered, 709 in 2004. Although the virus has started to spread to the general population, intravenous drug-users still form the biggest share of the newly registered HIV cases. Therefore, state policies on HIV/AIDS and other drug-related infectious diseases are a key part of the national drug strategy.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004 a number of changes were introduced to the state legal framework regulating drug-related issues. The Amendments to the Penal Code providing for more strict penalties with respect to crimes associated with narcotics and psychotropic substances entered into force on January 1, 2004, expanding considerably the category of drug related offenses.

In 2004 the GOE approved the Draft Narcotic Drugs and Psychotropic Substances Act (NDPSA), and in September 2004 it passed its first reading in Parliament. The NDPSA will empower the Estonian Drug Monitoring Center to collect data on drugs and drug addiction and set up a drug treatment registry.

In April 2004, the GOE Parliament unanimously approved the National Strategy on the Prevention of Drug Dependency 2004-2012. The strategy includes six fields: prevention, treatment-rehabilitation, harm reduction, supply reduction, drugs in prison, and monitoring of the drug situation. The Government Coalition Agreement for the period of 2003-2007 provides for several activities related to the fight against illicit and licit drugs to be carried out by the parties in the ruling political coalition.

To improve procedures for the prescription of medical products containing buprenorphine, and to avoid illegal use of this same product, additional restrictive measures against the drug were adopted in 2004.

Law Enforcement Efforts. Combating the drug trade and reining in domestic consumption is a top priority not only for Estonian law enforcement agencies but also for several government ministries. In

2004 the Ministry of Justice announced the start of a three-year fight against the organized trade in narcotics. In addition, in 2004 twenty officials from the Estonian prison system were trained as counternarcotics instructors. The Prosecutor General and Director General of the Police Board have both stated that the fight against drugs will be among Estonia's top two law enforcement priorities in 2005. Local governments have also taken steps to combat the increasing domestic drug consumption. In 2003 the Tallinn City Government adopted its own Action Plan for the Prevention of Drugs and HIV-AIDS in Tallinn for the years 2003-2007. In December 2003 the City Government of Narva adopted a similar action plan to combat drug trade and fight HIV/AIDS.

Corruption. Narcotic-related corruption in Estonia occurs at lower levels of the enforcement system, and is prosecuted when discovered. There is no indication of higher level narcotics-related corruption.

Agreements and Treaties. Estonia is a party to the 1961 UN Single Convention as amended by its 1972 Protocol, the 1971 UN Convention on Psychotropic Substances, and the 1988 UN Drug Convention, and the 1990 Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. The domestic drug legislation of Estonia implements international agreements on illicit drugs. A 1924 extradition treaty, supplemented in 1934, remains in force between the U.S. and Estonia, and a mutual legal assistance treaty entered into force in 1998. Estonia is a party to the UN Convention Against Transnational Organized Crime and its three protocols.

Cultivation and Production. There are increasing indications that at least some synthetic drugs are produced in Estonia, especially Ecstasy.

Drug Flow/Transit. The Estonian Border Guard and Police have noted that most Estonian-Finnish drug trafficking is done via small ports. Of the total narcotics trade in Estonia, transit accounts for approximately 70 percent and domestic use 30 percent.

Domestic Programs. Drug treatment is available. Authorities give particular attention to health counseling and HIV/AIDS prevention/detection.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2004, the Department of State approved funding for a workshop for the Baltic States on clandestine drug laboratories, to be held in Lithuania in 2005. Also, in 2004, Embassy Tallinn's Legal Attache Office funded the participation of two members of the Estonian Security Police and one representative of the Estonian Criminal Police in the FBI national re-training course in Norway. In 2004 the USG funded a series of counternarcotics children's books. The U.S. Embassy in Tallinn also co-sponsored a production of the American musical "Rent" to raise awareness of drug and HIV/AIDS issues in Estonia.

The Road Ahead. The United States anticipates continued close cooperation with Estonian authorities in the international battle against drugs.

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. Law enforcement authorities must act in accordance with Finland's constitution, which strongly emphasizes civil liberties and constrains the state from using electronic surveillance techniques such as wiretapping, etc., in all but the most serious investigations; Finland's political culture tends to favor demand reduction and rehabilitation efforts over strategies aimed at reducing supply. The police believe increased drug use in Finland 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 remain concerned about shipments of Ecstasy and other Amphetamine-type Stimulants (ATS) 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 major donor to the UNDCP and is active in counternarcotics efforts within the EU. 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 export 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 relating to narcotics offenses, and precursor chemical control. Domestic drug abuse rehabilitation and education programs are excellent. Legislation passed in 2001 allows the police to fine violators for possession of small amounts of narcotics. Statistics are not yet available for how many fines were levied in 2004. 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 has grown significantly in recent years, 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 cities. Social service authorities believe the introduction of GHB and other "date rape" drugs into Finland has led to an increase in the number of sexual assaults reported by young women. Finnish law enforcement authorities admit that their lack of resources, together with legal restrictions on electronic surveillance and undercover police work, make penetrating the Ecstasy trade difficult. Increasingly permissive social and cultural attitudes toward drug use and experimentation also contribute this 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 had a purity as low as 5 percent. Despite increased use, overdose-related deaths have declined for several years because the heroin content of drugs available in Finland is low.

Because of the difficulty of obtaining high-grade heroin, some users are turning to Subutex (buprenorphine), which they obtain primarily from France. Subutex is used in the treatment of heroin addiction in France; doctors there can prescribe up to a three week supply. Finnish couriers frequently travel to France to obtain Subutex, which they then resell in Finland at a high mark-up. Possession of Subutex is legal in Finland with a doctor's prescription, but there is also a vigorous black market fed by these illegal imports.

The incidence of new HIV cases related to IV drug use in Finland held steady in 2004. 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. Crime syndicates are already using Finland as a transit country into the Schengen region for trafficking-in-persons, and police are concerned that narcotics trafficking in both directions might be next. Police report that Estonians run most of the illicit drug smuggling trade for Finland, although the domestic street-level dealers are chiefly Finns. In the past, the Estonian rings primarily smuggled Dutch or Belgian made Ecstasy. Beginning in 2003, the syndicates also began smuggling greater quantities of Estonian-produced Ecstasy, although the quality and market value is lower. Most Ecstasy in Finland today is now believed to originate in Estonia. Estonian crime syndicates also organize the shipment of Moroccan cannabis from Spain to Finland. Russian syndicates in St. Petersburg have been the primary suppliers of heroin for the Finnish market, but Estonian traffickers are now active in this area as well.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 1998 the Finnish government released a comprehensive policy statement on illegal drugs, 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 young offenders 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 sends 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. A member of parliament in 2004 was involved in a tabloid scandal when she admitted having smoked hashish at a party as a sitting MP; there were no charges filed in the case.

Accomplishments. In late 2000, parliament passed legislation that would increase the law enforcement's community's ability to pursue criminals with investigative tools, such as undercover investigations and wiretaps. Although the legislation went into effect in 2001, a number of restrictions on using such techniques remain and the practical result is that they are not regularly employed. The Finnish government's strategy during 2004 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. In 2004 Finland played a major role in developing OSCE's drug control strategy.

Law Enforcement Efforts. Although final figures are not yet available, the police believe that arrests and seizures remained relatively stable in 2004. Beginning in the mid-1980s, law enforcement authorities focused police resources on major narcotics cases and significant traffickers, which, due to resource limitations, was 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 90's led to a situation in which the number of drug offenders exceeds the resources deployed to combat illegal

drugs. Following the release of the 1998 government policy statement on drugs, greater resources have been devoted to investigations at the street level by uniformed patrols as well as plainclothes police officers.

Corruption. As a matter of government policy, the Finnish government does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal 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 it has implemented the Convention through domestic legislation. 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, amended by its 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. Finland is a party to the UN Convention Against Transnational Organized Crime. A 1976 bilateral extradition treaty is in force between the United States and Finland. Finland in 2004 signed the bilateral instrument of the EU-U.S. Extradition Treaty. The United States has also concluded a customs mutual assistance agreement with Finland. Finland is a signatory to the UN Convention Against Corruption.

Cultivation/Production. There were no seizure of indigenously cultivated opiates, no recorded diversion of precursor chemicals, and no detection of illicit methamphetamine, cocaine, or LSD laboratories in Finland in 2004. 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. Production is chiefly for personal use. The distribution of the 22 key precursor chemicals used for cocaine, amphetamine, and heroin production is tightly controlled.

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 using buprenorphine is a relatively new treatment for heroin addicts in Finland and not yet widespread.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The United States has pursued cooperation with Finland in a regional context, coordinating assistance between Finland and the other Nordic States with assistance to the Baltic States. Cooperation between Finnish law enforcement agencies and their U.S. counterparts on narcotics objectives is excellent.

The Road Ahead. The United States anticipates continued excellent cooperation with the government of Finland in all areas of countering narcotics trafficking. The principal limitation to such cooperation will likely be limitations created by the small resource base that Finnish law enforcement authorities have at their disposal.

France

I. Summary

France is a transshipment point for drugs moving into, from and within Europe. Given France's shared borders with trafficking conduits such as Spain, Italy, and Belgium, France is a natural distribution point for drugs moving toward North America from Europe and the Middle East. France's own maritime presence in the Caribbean its proximity to North Africa and its participation in the virtually Europe-wide Schengen open border system, contribute to its liability as a transit point for drugs, including drugs originating in South America. France's own large domestic market of predominantly cannabis users is, of course, attractive to traffickers as well. Specifically, in descending order, cannabis originating in Morocco, cocaine originating in South America, heroin originating in southwest Asia, and Ecstasy (MDMA) originating in the Netherlands and Belgium all find their way to France. Increasingly, traffickers are also using the Channel tunnel linking France to Great Britain as a conduit for drugs from mainland Europe to the UK and Ireland. With numbers of drug arrests and seizures increasing again in 2003 (latest figures), new Government of France (GOF) counternarcotics initiatives in 2004 included increasing cooperation with neighboring countries and Morocco and facilitating confiscation of traffickers' assets. France is a party to the 1988 UN Drug Convention.

II. Status of Country

In 2003, the number of drug offenses, seizures, and arrests increased over 2002 levels, according to official French figures, as did the volume of seizures of cannabis, heroin, cocaine, crack, and amphetamines. Seizures of Ecstasy remained almost equal with 2002 levels. Seizures of methamphetamines and LSD declined, as did fatal drug overdoses, continuing a trend that began in 1995 (with the exception of a small up-tick in 2000). The number of deaths due to drug overdose has decreased by more than 25 percent between 2000 and 2003, with an eight percent decrease from 2002 to 2003 alone.

Cannabis users account for more than 90 percent of all drug users in France, according to official French statistics. By contrast, users of the next most popular drugs, heroin and cocaine, account for only four percent and two percent of users respectively, and Ecstasy users total fewer than two percent of all users. In 2003, authorities seized more than 80 tons of cannabis products (mostly resin), more than 4 tons of cocaine, 545 kilograms of heroin, and more than 2 million Ecstasy pills. Police, customs officials, and the gendarmerie arrested more than 90,000 users and more than 17,000 persons for trafficking. Males far exceeded females as users: males made up 93 percent of those interrogated by the police for using cannabis, and more than eight out of 10 users of cocaine, heroin, and Ecstasy. French nationals accounted for 93 percent of those arrested for cannabis usage, and the average age of all users was just over 22 years; among traffickers, French nationals represented 86 percent of those arrested. Of cocaine traffickers arrested, only 56 percent were French, while 72 percent of heroin traffickers were French. Almost two-thirds of drug users, according to French figures, are between 18 and 25 years old.

III. Country Actions Against Drugs in 2004

France continued to work hard to meet its obligations under the 1988 UN Drug Convention:

Policy Initiatives. France's drug control agency, the Mission Interministerielle de la Lutte Contre la Drogue et la Toxicomanie (MILDT, or the Interministerial Mission for the Fight Against Drugs and Drug Addiction), is the focal point for French national drug control policy. Created in 1982, MILDT

coordinates the 19 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 European Union. In June, Interior Minister Dominique de Villepin announced plans to have police conduct searches more often in planes and trains originating from particular destinations, especially the Netherlands, Spain and Belgium. Villepin noted that he hoped to sign agreements with those countries to allow French investigators to work at their airports. He also sought to establish mixed patrols at the borders, intensify controls on roadways, and create a new Interministerial Antidrug Committee (CILAD), which will draw up a map of the main illegal drug centers in France.

Given the primary role that cannabis resin from Morocco plays in the French market (80 percent of the hashish seized in France each year comes from Morocco) in mid-September Villepin went to Rabat to meet with his counterpart to discuss ways to reinforce cooperation. The director general of the national police, the director of Public Liberties and Judicial Affairs, and the director of the Directorate of Territorial Security (DST, France's FBI equivalent) accompanied Villepin and met with their counterparts as well. The two countries agreed to exchange liaison officers specializing in counternarcotics. According to the agreement, France's Office Central pour la Repression du Traffic Illicit des Stupfians (OCTRIS, the Central Office for the Repression of Illicit Trafficking in Narcotics) will set up an operation in Tangiers, and, in an attempt to uncover supply networks, French police will question 167 French or Franco-Moroccans being held in Morocco for drug offenses. They hope ultimately to establish a Mediterranean counternarcotics group, also involving Spain.

In October, National Assembly member Jean-Luc Warsmann of the ruling Union for a Popular Majority proposed 44 measures to fight drug-trafficking networks. U.S. Drug Enforcement Agency (DEA) officials had briefed Warsmann on drug trafficking in the region in preparation for his proposal. In response to Warsmann's proposals, Villepin announced the creation of a "unit for the identification of property" which will allow justice and finance officials to pinpoint-even prior to arresting traffickers-all of the traffickers' property, both in France and abroad, thus facilitating seizures. Authorities will confiscate all assets that the owner cannot prove were acquired with 'valid money.' In late October, the directors-general of the French and Spanish national police met to follow up on a meeting earlier that month between their respective interior ministers. They signed agreements calling for Spain to send one Central Drugs Unit inspector to Martinique as a liaison officer for investigation of cocaine trafficking, and another to OCTRIS headquarters in Paris to enhance cooperation generally in drug-trafficking investigations.

Law Enforcement Efforts. French counternarcotics authorities are efficient and effective. In 2004, French authorities made several important seizures of narcotics. In addition, they dismantled several drug rings across France.

In March authorities confiscated several large hauls of cannabis resin. On March 12, customs authorities in Perpignan seized two tons; on March 19, police in southeastern France seized another ton; on March 27, customs authorities seized another ton in a minibus at a toll plaza near Arles; and at the end of the month, customs authorities in Perthus, in the eastern Pyrenees, seized 3.1 tons of the drug hidden in a truck in potato sacks. In late March, police in northern France arrested 24 people trafficking cannabis resin.

In June, police seized 5.6 million Euros' worth of cannabis resin (2.8 metric tons) on the A10 national motorway near Orleans, south of Paris, from a truck headed for the Netherlands. Later that month, French customs authorities seized 10 tons of cannabis resin off the French coast from a British-registered boat returning from Morocco. In mid-July, customs officials at Orly made the year's biggest airport seizure, confiscating 27 kilos of cocaine with a value of 1.2 million dollars from a passenger arriving from Suriname.

In late August, customs officials in Perthuis seized nine tons of cannabis resin on a truck from Spain destined for Germany. Valued at 17.5 million Euros, the haul was one of the most important seizures in France in recent years.

In September, the narcotics brigade seized 4.5 tons of Moroccan cannabis worth 25 million Euros in a warehouse in the Paris suburbs—a record for the Paris region in recent years, according to the police. In conjunction with the raid, authorities dismantled an international network they had been investigating since May and arrested eight people who were working in a structured international network shipping Moroccan drugs via Spain to France. In late September, French authorities worked with Dutch, Belgian and Luxembourg officers to conduct a major drugs sweep. Authorities confiscated more than 10 kilos of cocaine worth more than 400,000 Euros and arrested the three major figures in the network.

In October, customs officers in Perpignan (near the Spanish border) confiscated 2.1 metric tons of cannabis resin in a truck that came from Barcelona destined for the Netherlands, bringing to 25 tons the amount of cannabis resin that authorities there had seized in 2004. Later in the month, police in Lille (close to the Belgian border) carried out a major operation resulting in the arrest of 41 people. The ring purchased drugs in Morocco, stashed them in Belgium and the Netherlands, and sold them in northern France, according to French authorities.

By the end of October, French and Spanish authorities had seized 1.5 tons of cocaine that had washed up on beaches over the course of the year. The cocaine probably came from a traffickers' ship—thought to have originated in Colombia—that lost its cargo in a storm.

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 drugs proceeds.

Agreements and Treaties. France 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 its 1972 Protocol. The USG and the French government have bilateral narcotics-related agreements in place, 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 and its protocols against migrant smuggling and trafficking in women and children.

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 DEA to monitor and control those products. According to authorities, there are no significant Ecstasy laboratories in France, although there may be some small kitchen labs.

Drug Flow/Transit. France is a transshipment point for illicit drugs to other European countries. France is a transit point for Moroccan cannabis (hashish) and South American cocaine destined for European markets. 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 and southeast Asia (primarily Burma) to the United States through West Africa and France, with a back-haul of cocaine from South America to France through the United States and West Africa. Law enforcement officials believe these West African traffickers are stockpiling heroin and

cocaine in Africa before shipping it to final destinations. There is no evidence that significant amounts of heroin or cocaine enter the United States from France. Most of the South American cocaine entering France comes through Spain and Portugal. However, officials are seeing an increase in cocaine coming directly to France from the French Caribbean, giving impetus to the creation of the Martinique Task Force—a joint effort with Spain, Colombia, and the UK. Most of the Ecstasy in or transiting France is produced in the Netherlands or Belgium.

Domestic Programs. 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 the public debate concerning decriminalizing cannabis use continues, the French government is opposed to any change in the 1970 drug law, which criminalizes usage of a defined list of illicit substances, including cannabis.

Substitution treatments for addicts have saved 3,500 lives in less than ten years, according to French authorities; there are currently 85,000 persons taking Subutex in France now, and 25,000 on methadone. However, a health-insurance reform law adopted in July could have dramatic consequences for clinics, according to French press. Under the law, someone seeking medication treatment to combat drug addiction would have to sign a treatment contract with both a physician and his health insurance to have the state cover the drugs to treat their addiction (previously, one needed only to consult a doctor to receive a prescription). Some advocates warn that this requirement could discourage addicts in need of help, noting that adding more administrative measures to the process of getting help could increase the risk of the most susceptible turning to the streets to acquire the drugs. It is possible that these dire predictions are part of an effort to discourage any changes at all in France's generous social welfare arrangements, including national health care.

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. Since October 2001, the DEA's Paris Country Office (CO) and OCRTIS have been working together on an operation that has resulted in the seizure and/or dismantling of 17 operational, or soon-to-be-operational clandestine MDMA (Ecstasy) laboratories, and the arrests of more than 30 individuals worldwide. International Controlled Deliveries have resulted in nine lab seizures in the United States, two each in France, Germany, and Australia, and one each in New Zealand and Spain.

Road Ahead. The United States will continue its cooperation with France on all counternarcotics fronts, including through multilateral efforts such as the Dublin Group of Countries Coordinating Narcotics Assistance and UNODC.

Georgia

I. Summary

Georgia has the potential to be a transit country for narcotics flowing from Afghanistan. The “Silk Road” or “Caucases Route” winds through Azerbaijan, Armenia and Georgia, presenting a stable drug trafficking route from Asia to Europe. This situation has been further compounded by the existence of uncontrolled territories, vestiges of long standing ethno-political conflicts that created transit routes for black market and illicit goods. Following the “Rose Revolution” in Georgia, the new Georgian administration has begun to take steps to make Georgia’s borders less permeable. There have been notable improvements along the Turkish border, the Black Sea coast, and the Russian border that have resulted in major increases in customs revenues. The Ministry of Internal Affairs, which has since merged with the Ministry of State Security to become the Ministry of Police and Public Safety (MPPS), has initiated a vigorous counternarcotics campaign. Unfortunately, statistics for law enforcement activities that resulted in seizures, arrests, and prosecutions for narcotics related crime in the country are scarce and much remains to be done to reduce the trafficking of all illicit goods into and through Georgia. Georgia is a party to the 1988 UN Drug Convention and receives assistance from the UN Office on Drugs and Crime (UNODC).

II. Status of Country

Given Georgia’s geographic location and its ambition to be a key link in overland trade between Europe and Asia, the potential for it to emerge as a major drug trafficking route is always present. The logical narcotics trafficking routes through Georgia are principally east/west routes. Asian cultivated narcotics destined for Europe enter Georgia from Azerbaijan via the Caspian and exit through the northern Abkhaz or southern Ajaran land and water borders. Similarly, west/east routes traffic illicit synthetic drugs from Europe destined for Georgia and other countries in the region. Thinly staffed ports of entry and confusing and restrictive search regulations make TIR (Transport Internationale Routierre—a system of customs-sealed trucks to facilitate trade across borders) trucks the main vehicles for narcotics trafficking in the region. TIR trucks move westward from Azerbaijan crossing into Georgia at the Gardabani regional border points (Red Bridge). Once in Georgia, the drugs move west to the Black Sea ports of Poti, Batumi (Ajara) and Sukhumi (Abkhazia). From there the shipments are mainly bound for Turkey (Istanbul), Romania (Constantia) and Ukraine (Odessa). Conversely, synthetic drugs are trafficked from Europe in small quantities, undetected via used-car trade routes where vehicles acquired in Western Europe are driven through Greece and Turkey destined for Georgia. In November of 2004 at the Turkish-Georgian border point of Sarpi, \$70,000 of Subutex and Tramal trafficked via this route and bound for Georgia was confiscated. Subutex is a pharmaceutical used in France, and other European countries to wean heroin addicts from their addictions, while Tramal is used to treat pain. Both are subject to abuse by individuals not under medical supervision—their effects are analogous to heroin. The function of detecting illegal smuggling at the Georgian borders was transferred a year ago from Customs to the newly established Operational Investigative Unit under the Ministry of Tax and Revenues. Narcotics seizure statistics are not adequate; they hint at, but do not prove, that borders are more secure. A sharp increase in revenues from better customs duty enforcement at borders suggests more clearly that improvements have also been registered on the narcotics interdiction front.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Government of Georgia (GOG) is investing a great deal of time and resources into an on-going reorganization of the law enforcement sector, building capacity and addressing immediate needs of its people. Reorganizations are aimed at excising layers of bureaucracy that fostered nepotism and corruption. The Criminal Procedure Code that will move the country towards an Anglo-American Common Law system is presently being rewritten. The formerly independent Narcotics Bureau was folded into MPPS and since then efforts have been made to appoint corruption-free and competent leadership. Controlling illicit substances is on the GOG's radar screen, but just now the focus is more sharply on rule of law.

Law Enforcement Efforts. Registered drug seizures and arrests decreased from 2003 to 2004. According to the MPPS, its counternarcotics unit uncovered 1,763 drug-related cases, compared to 4,183 in the previous year. Of this year's cases 1,698 or 96.3 percent resulted in criminal proceedings. A noticeable decrease in the registered drug seizures could be caused by lack of coordination among agencies involved in the counternarcotics fight. A number of counternarcotics officials and policemen suspected of involvement in illicit trade activities were recently arrested in Georgia. This suggests that large volumes of contraband drugs are being unofficially seized and resold on the fast-expanding local black market. According to GOG statistics:

Corruption. Corruption has long been the most significant problem within Georgia's law enforcement agencies. The result has been a huge number of uninvestigated cases, criminals who remain at large, an increase in crime throughout the country and loss of trust among the society towards law enforcement employees. Since the Rose Revolution, the law enforcement community, under government prodding, has taken noteworthy positive steps to launch a fierce war against corruption. A considerable number of corrupt former government and law enforcement officials have been detained, their property confiscated and large fines levied. The GOG is working on civil service, tax and enforcement reforms aimed at deterring and prosecuting corruption in the future. Complex structural reforms have been implemented within the law enforcement sector to root out corruption, streamline bureaucratic processes and build a professional police force. But there is still a long way to go to truly create governmental and societal systems that effectively deter corruption.

Agreements and Treaties. Georgia is a party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substance, and the 1961 UN Single Convention as amended by its 1972 Protocol. Georgia has signed, but has not yet ratified the UN Convention Against Transnational Organized Crime.

Cultivation and Production. Estimates by the GOG on the extent of narcotics cultivation within the country are unreliable and do not include those areas of the country outside the central government's control (South Ossetia and Abkhazia). Apart from a small amount of low-grade cannabis grown mainly in the foothills of the Caucasus mountains, largely for domestic use, Georgia is not a significant producer of narcotics.

Drug Flow/Transit. The GOG has no reliable statistics on the volume of drugs transiting through Georgia. The MPPS has previously reported that 95 percent of illegal drugs entering Georgia are destined for onward shipment, but the basis for this estimate is unclear. Prices for drugs in Georgia are currently estimated at the wholesale level at \$150-\$200 for one gram of heroin. The current street price of opium is estimated at \$15 per gram, and the price for one pill of "Subutex" is \$100-\$120. The price for heroin over the past two years has remained relatively stable. The price for raw opium has steadily decreased.

Demand Reduction. Independent and official sources indicate that there were at least 275,000 drug users in Georgia during 2004. The increase in the number of drug addicts and drug consumption in comparison with last year's figure of 150,000 is mainly caused by the import and illegal sale of

Subutex. This drug is not registered in the Georgian health care system and is imported illegally mainly from Europe. The price for one tablet of Subutex is approximately \$100. The tablet is dissolved into an injectable solution for three or four people at \$25-\$30 cost per user. Since 2001, the Southern Caucasus Anti-Drug Program has been implementing projects that address three main areas: to strengthen interdiction capacities at sea ports; to strengthen interdiction capacities at land borders; and to develop compatible systems of intelligence gathering and analyses.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In 2004, the USG continued timely and direct assistance on criminal justice issues to the GOG as well as to the legal and law enforcement community in the areas of procuracy reform, corruption, money laundering, criminal procedure, forensics, police academy, human trafficking and creation of the patrol police.

The Road Ahead. The best way to assist Georgia's law enforcement reform efforts is to provide focused training and technical assistance from the U.S. and the international community on a few high-priority, achievable objectives. Any assistance to Georgian law enforcement, including counternarcotics, must include a provision for anticorruption reform, and must be closely monitored for progress.

Germany

I. Summary

Although not a major drug producing country, Germany continues to be a consumer and transit country for narcotics. The government actively combats drug-related crimes and focuses on prevention programs and assistance to drug addicts. In 2004, the German government established the National Inter-agency Drug and Addiction Council to coordinate implementation of its June 2003 “Action Plan on Drugs and Addiction.”

Cannabis is the most commonly consumed illicit drug in Germany. In 2003, consumption of amphetamine, crack, and cannabis increased, while the use of cocaine remained static and the use of heroin and Ecstasy decreased. Drug-related deaths decreased in 2003, as well as during the first half of 2004, and the number of first time users of illicit hard drugs decreased in 2003. Narcotics trafficking, and increasingly “multi-drug trafficking,” continued to be the main criminal activities of organized crime groups in Germany. The number of drug-related crimes has increased continuously in the last ten years, with a moderate rise of 2 percent in 2003. Germany is a party to the 1988 UN Drug Convention. The Federal Criminal Police (BKA) publishes an annual narcotics report on illicit drug related crimes in Germany, including data on seizures, drug flows, and consumption.

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 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. Organized crime continues to be heavily engaged in narcotics trafficking. Germany remains 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 2004

Policy Initiatives. In June 2003, the cabinet adopted the Health Ministry’s new “Action Plan on Drugs and Addiction,” superceding 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 EU and UN drug policy.

The Drug Commissioner at the Federal Health Ministry continues to coordinate national drug policy. The national plan focuses on specific prevention strategies for new risk groups, enhancing international cooperation, and addressing trends in the states of the former East Germany. 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 developments in 2004 are in line with Germany’s four key policy initiatives:

Survival Aid. In 2004, there were 25 “drug consumption rooms” in Germany. The 2003 International Narcotics Control Board (INCB) Annual report (published in March 2004) noted that “drug consumption rooms” are not in compliance with international drug control treaties “insofar as they serve as forums in which drugs acquired on the illicit market can be abused.” The Federal law requires

personnel at these sites to provide medical counseling and other professional help. Room managers are required to take measures to prevent the rooms from becoming a venue for criminal activity.

Interagency Council. In October 2004, the German government established the National Inter-agency Drug and Addiction Council to coordinate and to review the implementation of the government's 2003 "Action Plan on Drugs and Addiction." The council is comprised of the Drug Commissioner, high-level federal and state level officials, as well as scientists, NGOs, and representatives from counseling centers. The Council will establish a working group on prevention.

Focus On Cannabis. In June 2004, the Federal Health Ministry published a study on cannabis consumption, therapies, and assistance programs in Germany. In November 2004, the Drug Commissioner hosted a two-day conference on cannabis consumption, prevention, and therapy strategies.

Telephone Hotline. In 2004, the Health Ministry conducted a public relations campaign to increase awareness of the new telephone hotline. Established in 2003, this hotline offers professional counseling, aid, and information on drugs and drug problems. The hotline merges previous hotlines of several local drug-counseling institutions.

Law Enforcement Efforts. Counternarcotics law enforcement continues to be a high priority for the Federal Criminal Police (BKA) and the Federal Customs Police (ZKA). German law enforcement agencies scored numerous successes in seizing illicit narcotics and arresting suspected drug dealers. In Germany, in the first half of 2004, the seizures of heroin, opium, cocaine, and amphetamines increased compared to the first half of 2003, while the seizures of LSD and hashish dropped. In the first half of 2004, the Customs Office at Frankfurt Airport alone made seizures totaling 432 kilograms of illicit narcotics, with hard drugs seizures (cocaine, heroin, and opium) increasing by almost 40 percent compared to the first half of 2003.

In one of the biggest narcotics-trafficking investigation successes over the last several years in Germany, police in Munich in July 2004 arrested the head of a major ring for smuggling 600 kilograms of heroin from Turkey to Western Europe. The arrest was the result of international cooperation of law enforcement officials from Germany, the Netherlands, and Turkey.

Corruption. Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs. No cases of official corruption in this regard have come to the USG's attention.

Agreements and Treaties. A 1978 extradition treaty and a 1986 supplement treaty is in force between the U.S. and Germany. The U.S. and Germany signed a Mutual Legal Assistance Treaty in Criminal Matters (MLAT) on October 14, 2003, which the German Bundestag is expected to ratify in 2005. The MLAT has also been sent to the U.S. Senate for its advice and consent. In addition, the U.S.-EU Agreements on Mutual Legal Assistance and Extradition will further improve U.S.-German legal assistance and cooperation. The U.S.-Germany implementing instrument is currently under negotiation. That instrument, along with the implementing instruments of other EU member states, must be signed before the agreement can be ratified. There is a Customs Mutual Legal Assistance Agreement (CMAA) between the U.S. and Germany. In addition, Germany is 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. Germany has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Cultivation and Production. Germany is not a significant producer of hashish or marijuana. The Federal Criminal Police reported that all fourteen synthetic drug labs seized in Germany in 2003 were small and were not equipped for large-scale production.

Drug Flow/Transit. Germany's central location in Europe and its well-developed infrastructure make it a major transit hub. Traffickers smuggle cocaine from South America, especially from Colombia, to and through Germany from the Netherlands to other European countries. Heroin from Afghanistan transits from Eastern Europe to Western Europe, especially to the Netherlands. Cannabis is trafficked to Germany mainly from the Netherlands. Frankfurt Airport is still a major transshipment point for Ecstasy and other drugs destined for the U.S. from Europe.

Domestic Programs/Demand Reduction. The Federal Ministry of Health continues to be the lead agency in developing, coordinating, and implementing Germany's drug policies and programs. Drug consumption is treated as a health and social issue. Policies stress prevention through education. The ministry is expanding Internet-based information and their prevention programs. Addiction therapy programs focus on drug-free treatment, psychological counseling, and substitution therapy. The Ministry of Health launched a heroin-based treatment pilot project to treat seriously ill, long-term opiate addicts in March 2002, which is still ongoing.

IV. U.S. Policy Initiatives and Programs

Initiatives and 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 BKA, the AKA, and the state criminal police (LKAs). German agencies routinely work very closely with their U.S. counterparts in joint investigations using the full range of investigative techniques, such as undercover operations. German-U.S. cooperation to stop diversion of chemical precursors for cocaine and heroin production also continues to be close (e.g., Operations "Purple" and "Topaz"). 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. BKA and DEA also participate in a tablet exchange program to compare samples of Ecstasy pills.

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 U.S.-German MLAT and the U.S.-EU Agreements on Mutual Legal Assistance and Extradition, once implemented, 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 drug use drops. 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 land borders with other countries through which drugs are transported, Greece’s geography plays an important role in establishing Greece as a favored drug transshipment route to Western Europe. Greece is 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 categorized as a controlled substance.)

III. Country Actions Against Drugs in 2004

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. Greece’s inter-party committee for handling the drug problem is composed of representatives of various political parties and is responsible for reviewing drug related statistics and issues, including proposed narcotics-related legislation and demand reduction programs.

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 Government of Greece (“GOG”) is very responsive in its aggressive pursuit in the processing of U.S. requests for legal assistance.

Several notable joint U.S./Hellenic Counter Narcotics investigations occurred in 2004 with significant arrests and seizures. In July 2004 after a three-year investigation, the DEA, in cooperation with Hellenic, British, Spanish, Belgian and French authorities, dismantled a major maritime smuggling organization. The effort culminated in the seizure of 5,400 kilograms of cocaine, the seizure of the M/V AFRICA I, the seizure of 4,000,000 Euros, and the arrest of 9 individuals. Additionally, the Hellenic Financial Crimes Unit is conducting an intense financial investigation into the related drug trafficking organization, which may lead to additional financial seizures and arrests.

In June 2004, DEA and the Hellenic Counter Narcotics Units targeted a group utilizing pleasure craft to transport multi-ton quantities of cocaine from the Caribbean to Western Europe. In August 2004, this joint investigation culminated with the seizure of 1.2 tons of cocaine, the seizure of a sailing yacht, and the arrest of seven individuals. Information that was developed post-arrest revealed that

approximately 500 kilograms of cocaine was to be exchanged for Ecstasy pills that would be transported back to the Caribbean.

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. Regarding the judiciary, at least a dozen judges are currently being investigated for allegedly taking bribes in exchange for favorable judgments for a variety of defendants, including accused drug traffickers. The Justice Ministry has ordered the investigation be accelerated so that indictments may be handed down by mid-2005. 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, the 1971 UN Convention on Psychotropic Substances, the 1961 UN Single Convention on Narcotic Drugs as amended by its 1972 Protocol. 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). The CMAA allows for the exchange of information, intelligence, and documents to assist in the prevention and investigation of customs offenses, including the identification and screening of containers that pose a terrorism risk. Greece has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and is a signatory to the UN Convention Against Corruption.

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 refined in 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 Republic of Macedonia. 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. Police and customs authorities report a decline in drug trafficking on the Greece-Turkey border, attributed to more stringent enforcement, including vehicle X-rays on the Turkish side of the border. Heroin from Afghanistan is trafficked using other routes through the Balkans into Western Europe. 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. A small portion of these drugs is smuggled into the United States.

Domestic Programs (Demand Reduction). Drug addiction continues to climb in Greece. The most commonly used substances are chemical solvents, and marijuana and heroin. There is a surge in the illegal use of tranquilizers and, to a lesser extent, Ecstasy pills, that reflects developments in the

growing European synthetic drug market. The GOG estimates that there are between 20,000 and 30,000 addicts in Greece, with the addict population growing.

OKANA, the state agency that coordinates all national treatment policy in Greece, is currently treating 2,900 addicts (up from 1,640 in 2003) in six methadone treatment centers. OKANA runs a buprenorphine substitution program with 15 centers, of which seven are operated in or with public hospitals. OKANA has plans to extend the program to other regions and to open it to more addicts, but its plans are threatened by strong local reactions against the establishment of such treatment centers. OKANA treated 1,967 addicts in “cold-turkey” therapeutic programs in 2004, up from 1,469 in 2003. (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

The geographical location of Hungary, its modern transportation system, and the war in the former Yugoslavia has contributed to making Hungary a primary transit country for heroin from Southwest Asia to Western Europe. Over the past fourteen years, however, Hungary has expanded into a consumption country as well. Drug abuse shot up in the nineties, and is still increasing. The illicit drugs of choice in Hungary are heroin, marijuana, amphetamines, and Ecstasy (MDMA), as well as the abuse of opium-poppy straw, barbiturates and prescription drugs containing benzodiazepine. In the last 2-3 years a significant development took place in the field of drug related legislation for harmonization with relevant EU legislation.

In 2004, the Ministry of Children, Youth, and Sports Affairs, which oversaw matters involving illegal narcotics, was dissolved and the newly created Ministry of Youth, Family, Social Affairs and Equal Opportunity was given primacy over drug issues. Fewer funds were allocated to drugs and less support was given to drug demand reduction, than in previous years. A data collection center was established in February 2004 to report valid, comparable and reliable data on drug abuse trends to the European Monitoring Center for Drugs and Drug Addiction. 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. Hungarian drug-pushers, networks are getting stronger, too, and involve an increasing number of immigrants and ethnic minorities. 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.

III. Country Actions Against Drugs in 2004

Policy Initiatives. A National Drug Data Collection Center was established in February 2004 in the National Epidemiological Center of the National Public Health Network. This center is required to compile an annual report of valid, comparable and reliable data for the European Monitoring Center for Drugs and Drug Addiction. The National Drug Prevention Institute (NDPI) was set up in 2000 to provide technical and financial support for drug action teams in cities with populations over 20,000. The NDPI encourages the creation of local fora composed of officials of local government institutions, law enforcement agencies, schools and non-governmental organizations. These fora create local drug strategies, customized for local needs. Out of 64 cities 56 have thus far established counternarcotics fora.

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 dealing at schools. Research findings indicate that the rate of those experimenting and using drugs is on a steady increase. One in five youth have tried marijuana, one third of these are under the age of fourteen. The drugs of choice are marijuana, Ecstasy, and to a lesser extent LSD.

Accomplishments. Preliminary data show that the seizures of Ecstasy and cocaine increased dramatically from 2003 to 2004. Modern electronic detection equipment provided by the European Union for certain high threat border posts installed in 2003 has improved border interdiction of all types of contraband.

Law Enforcement Efforts. In order to provide for an effective stance against drug-related crimes in 2004, close cooperation was introduced between the Hungarian Border Guards and the organs of the National Police Headquarters, as well as with the Ministry of Finance and the National Headquarters of the Customs and Finance Guard. Jointly planned and staged actions related to crime and border traffic were implemented with a view to preventing drug trafficking and other kinds of illegal trade. By the end of 2004, the Ministry of Interior had begun preparing a unified police drug strategy in harmony with the requirements of the EU drug strategy for the period between 2005 and 2012. The stated goals of this strategy are to guarantee the security of the society, combat the illegal production and smuggling of drugs and precursors, facilitate joint actions with the EU member countries, as well as combat production, trading and consumption of synthetic drugs.

According to year-end statistics, the number of criminal drug cases increased by more than 25 percent from 2003 to 2004, with more cases opened on almost every major drug. Seizure statistics were dramatically up in 2003 almost all across the board.

The cooperation between the Hungarian National Police (HNP) and DEA offices in Vienna slowed in 2004. There are currently no cooperative cases between the two groups and the exchange of information has become burdensome.

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 Single 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. The Hungarian National Assembly is expected to ratify the UN Convention against Transnational Organized Crime in Spring 2005.

Cultivation/Production. GOH authorities report that marijuana (mostly cultivated in Western Hungary) is locally produced; Ecstasy (MDMA), and LSD may also be manufactured locally, however, no production laboratories have been discovered. 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 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. Hungarian officials continue to report the seriousness of their domestic drug problem, particularly among youth. Drug prevention programs are taught to teachers as part of the normal training in prevention programs. Several drug prevention and health promotion programs are running in schools and many teachers have graduated from drug prevention projects. The largest one, the Life Skills program was developed in the early nineties with USIA assistance, trained somewhat more than 10,000 teachers by 2004. Community based prevention focuses on the teen/twenties age group and delivers more complete information about the dangers of substance abuse while

emphasizing productive lifestyles as a way of limiting exposure to drugs. There are about 230 healthcare institutions that care for drug patients. At the end of 2004 circa \$200,000 was granted by the Ministry of Health to establish 4 drug outpatient clinics in regions where such institutes were not yet available. By the end of 2003 about \$600,000 was transferred to the National Institute of Addictive Diseases for distribution to those institutions in 2004, which participate in the alternative treatment type of care.

An amendment to Hungarian counternarcotics 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 allows 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. There has been a push by the Constitutional Court in beginning in December 2004 to scale back the treatment programs and focus again on prison sentences, however, the State Secretary for Drug Affairs has reconfirmed her commitment to alternative treatment programs. In 2004, the GOH continued to run several needle exchange dispensers in Budapest to guarantee inexpensive, sterile needles for drug users.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG focuses its support for GOH counternarcotics efforts on training and cooperation through the ILEA and a small bilateral program developed especially for Hungary by the U.S. Embassy in Budapest. DEA maintains a regional office in Vienna that is accredited to Hungary and works with local and national authorities. The UCSD (University of California, San Diego, US, performed training for 200 drug treatment professionals in Budapest at the end of 2003 in the Ministry of Health, in order to acquainted them with the American experiences in the field of diagnosis and treatment of drug addict offenders in the criminal justice system.

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 continues to work with the HNP in an effort to streamline the flow of actionable investigative information.

Iceland

I. Summary

Iceland is not a significant drug-producing or drug-transit country. Icelandic authorities focus mainly on stopping the importation of narcotics for domestic use 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

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 is limited to marijuana plants and perhaps a small number of small-time amphetamine laboratories. Domestically cultivated marijuana has become increasingly competitive with imported marijuana, and current estimates indicate it makes up anywhere from 10 to 50 percent of the total cannabis market. The most recent National Commissioner of Police figures shows that there were 45 seizures of domestically cultivated cannabis in 2004. 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, with the latter becoming increasingly common during the year as part of a trend of increased stimulant drug use that also involved heightened levels of cocaine in circulation. The recent National Commissioner of Police figures also show that 74 persons were arrested in 2004 for importing drugs and precursors. Preliminary results of the third European School Survey Project on Alcohol and Other Drugs, conducted in 2004, 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. Typically stimulants and cocaine are used by young people, so data from the European School Survey suggesting reduced drug use by Icelandic young people conflicts with sharply higher seizures of “recreational” Club Drugs like cocaine and stimulants.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Public Health Institute, established in 2003, is responsible for alcohol and drug abuse prevention programs on behalf of the government. Programs are funded through an alcohol tax, with allocations overseen by the independent national Alcohol and Drug Abuse Prevention Council (ADAPC). The institute’s mission policy remains to be fully developed, but its primary activities are data collection on use of intoxicants and funding and advising local governments and non-governmental organizations working primarily in prevention. During the year it made grants worth \$680,000 to a total of 59 groups across the country. The institute is reviewing demand reduction programs in other countries in order to develop best practices for Iceland, and intends to employ focus groups to analyze the effectiveness of its future programs. The major emphasis in future will be on teaching teens and parents interactively about drugs instead of relying on fear as a deterrent against drug experimentation/use. The institute’s “Together” project continues to urge parents (through posters, print advertisements, and television spots) to develop better relationships with children, using the slogan: “The togetherness of the whole family is the best prevention.” The institute is part of the Nordic Council for Alcohol and Drug Research, which promotes and encourages a joint Nordic research effort on drug and alcohol abuse.

Reykjavik Customs continued with its national drug education program, developed in 2002 and formalized in an agreement with the state (Lutheran) church in 2003, 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. Parents are invited to the meetings in order to encourage a joint parent-child effort against drug abuse. Since 2003 customs officials have also used the meetings to distribute an educational multimedia CD dealing with drug awareness. While there is not a fully-developed master plan for Icelandic counternarcotics efforts, since 1997, Icelandic authorities have given particular attention to bolstering law enforcement resources relating to drug crime: the government has allocated additional budget resources for the project annually, Reykjavik (by far the country's largest city) has bolstered numbers of narcotics police officers, and the National Commissioner of Police has deployed specially trained narcotics officers to all major police districts. The National Commissioner has also given priority to new equipment purchases for narcotics policing and formalized the operational parameters of the police canine units. Since 2001, the Government has had a special fund for the investigation of major drug cases, and the Police College has added narcotics instruction to basic cadet training. The National Commissioner of Police supported this initiative with his own effort, launched in 2003, encouraging Icelandic police commissioners to step up their counternarcotics efforts. Authorities state that this push has contributed to an increase in seizures over the past two years (from 1170 in 2002 to 1640 in 2003 and 1887 in 2004, as of December 2, 2004).

Accomplishments. At seaports, authorities conducting package post and container searches confiscated 15 kilograms of cannabis arriving from Denmark in February, leading to four persons being charged; 1,000 Ecstasy tablets and 131 grams of cocaine were discovered hidden in candles in a shipment from the Netherlands in the same month, leading to charges against seven persons; and, in the largest case of the year, customs agents cooperated with the captain of an Icelandic shipping liner to confiscate 10.4 kilograms of amphetamines, 600 grams of cocaine, and 2,000 doses of LSD in a series of package mail shipments throughout the year. The case remains under investigation with nine persons already under arrest. Through November 2004, Keflavik International Airport (KEF) authorities made about 60 seizures compared to 45 for the same period in 2003. In the year's largest seizures, customs at KEF in May discovered one kilogram of cocaine and one kilogram of amphetamines hidden on a passenger's person. In February, KEF customs found 10 kilograms of cannabis expertly hidden inside Nepalese wooden artifacts shipped through DHL. In June, a woman traveling from Paris was discovered to be carrying 5,000 Ecstasy tablets hidden in a backpack. The following month she was convicted and sentenced to a five-year prison term. In February, a recreational diver discovered the corpse of a Lithuanian citizen in Neskaupstadur harbor (East Iceland). Apparently a drug "mule," concealed in his body were 223 grams of amphetamines packaged in condoms. In November, Reykjavik District Court sentenced three men to two and a half years in prison for contributing to the death of the man by withholding medical care and then disposing of the body. Authorities suspect that the case may be connected to the arrest, by KEF police in August, of another Lithuanian man carrying 70 packets of cocaine totaling 300 grams in his intestinal tract. No U.S.-bound passengers were discovered smuggling illegal drugs, but authorities note that transit flights to the U.S. are not searched for drugs during the required screening for explosives and weapons. Airport officials say that the biggest trend in drug smuggling during the year has been the increased incidence of drugs smuggled in bodily orifices or through orally ingested packets. While there has been an increase in foreign drug mules in recent years, Icelandic drug mules still account for about 80 percent of seizures. In the year to date as of December 2, 2004, local police forces had shut down 27 cannabis producers. During the year, police confiscated at least 7,500 Ecstasy pills, almost double the number seized in 2003, and seized over 15,600 amphetamine tablets, compared to fewer than 3,000 in 2003. Police attribute the increases to improved enforcement rather than increased usage.

Law Enforcement Efforts. In the sixth and seventh such incidents in recent years, Icelandic authorities expelled a total of 17 members of Scandinavian biker gangs arriving at KEF. Nordic and

local officials believe biker groups engaged in organized crime are attempting to import their criminal operations to Iceland, and the authorities 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 in 2003. Installed at Iceland's main prison, Litla Hraun, the machine was also periodically moved to various other locations to be used in unannounced chemical searches. Authorities at Litla Hraun have initiated a series of searches, using drug-sniffing dogs, designed to stop visitors from smuggling drugs into the prison and to discover hidden drugs in cells and other areas.

Customs and police have increased their efforts to monitor Iceland's only overseas passenger ferry service, which travels from Seydisfjordur (East Iceland) to Denmark via the Faroe Islands, following major seizures in 2003 and suspicion that the route might be a particular target for drug smuggling. Customs and police have cooperated in setting up snap inspections involving drug-sniffing dogs and X-ray equipment at ferry landings. But with only 23 minor seizures, for a combined total of 116 grams of assorted narcotics captured during the year, the impression is that the port has not in fact been a major transit point for illegal narcotics.

KEF Police acquired a new drug-sniffing dog in 2004, bringing their total number of canines to three. Customs and police deployed drug-sniffing dogs to popular outdoor festivals on a holiday weekend in early August to deal with drug distribution among attending youths. They made over one hundred seizures of small amounts of narcotics.

In September, a three-member training team from the U.S. Customs Office of International Affairs provided a week of instruction for 39 Icelandic officials. Participants represented all customs offices around Iceland as well as the Icelandic Coast Guard and civil aviation authorities. The course highlighted latest practices and technology for intercepting smuggled cargo and possible terrorist contraband as well as means to combat internal corruption.

Corruption. There was one incident of narcotics related corruption during 2004 in Iceland. The incident involved the deputy of the Reykjavik Narcotics Division channeling seized drug money into his personal bank account. The Chief Detective Inspector was convicted and received a nine-month jail sentence. The country does not, as a matter of government policy, encourage or facilitate the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior official of the government is known to engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or to be involved in the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Iceland 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 its 1972 Protocol. Iceland has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime. The U.S.-Denmark extradition conventions are applicable to Iceland.

Drug Flow/Transit. Authorities consider Iceland a destination country for narcotics smuggling rather than a transit point. There have been no major seizures of transit shipments during the year and only rare seizures of such shipments in previous years.

Domestic Programs (Demand Reduction). Heroin abuse is virtually unknown in Iceland. Cannabis is the prevalent drug among persons under 20, while older addicts are partial to injecting morphine. Ecstasy, cocaine (but not crack), and particularly amphetamines are popular on the capital region's weekend 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 National Center of Addiction Medicine. 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. DEA will continue to support Icelandic requests for U.S.-sponsored training.

The Road Ahead. The DEA office in Copenhagen and the Regional Security Office in Reykjavik have 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 until now has facilitated the exchange of intelligence and cooperation on controlled deliveries. The USG will continue efforts to strengthen exchange and training programs in the context of mission effort to strengthen law enforcement, homeland security, and counterterrorism ties with Iceland.

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. According to Government of Ireland (GOI) officials, overall drug use in Ireland continues to remain steady, with the exception of cocaine use, which doubled over the last two years. 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. In 2004, the GOI signed the European Arrests Warrant Act 2003, allowing Irish police to have suspects detained by foreign police and extradited to Ireland for trial, and the Criminal Justice Act, enabling Irish authorities to investigate international criminality in close cooperation with EU member states. Ireland is a party to the 1988 UN Drug Convention.

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, though in a single raid in May, officials found a quantity of precursors intended to manufacture around Euro 500 million worth of Ecstasy and amphetamines.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The GOI continued with drug abuse strategies it established in its National Drug Strategy for 2001-2008. Its goal is to “to significantly reduce the harm caused to individuals and society by the misuse of drugs through a concerted focus on supply reduction, prevention, treatment and research.” By 2003, substance abuse programs were a part of every school curriculum in the country and the GOI launched the National Awareness Campaign on Drugs. The campaign featured television and radio advertising, and lectures by police, supported by an information brochure and website, all designed to promote greater awareness and communication about the drug issue in Ireland. Regional Drug Task Forces (RDTF), set up to examine drug issues in local areas, were fully operational throughout the country. The GOI established a review procedure to measure how effectively each department in the government is internally implementing the National Drug Strategy. The GOI will release the results and recommendations of this review in April 2005.

Accomplishments. Seizures in 2003 totaled Euro 121 million, three times the goal set in the National Drug Strategy, 2001-2008. The Justice Minister attributed this both to the increase in usage and improvements in law enforcement. The Irish Police continued to cooperate closely with other national police forces. On December 12, after eight months of coordination among forces from the United Kingdom, Spain, the Netherlands, and Ireland, authorities cracked down on a major drug smuggling gang. This gang is suspected of supplying cocaine to most of the drug users in Dublin and Limerick. This investigation is still in progress.

Law Enforcement Efforts. Official statistics are not yet available for 2004 but the Irish Police confirmed that drug-related arrests remained constant over the previous three years. There are normally 7,000-8,000 arrests annually, including the approximately 450 arrests made by the National Drug Unit each year. The NDU's arrests tend to include most of the large seizures, but local police also have had success. In December 2004, for example, the local police in Cork seized Euro one

million of narcotics in a series of arrests the weekend before Christmas. Each year, 60-65 percent of arrests for drug-related offenses nationwide tend to be for simple possession; 20-25 percent possession with the intention to sell; and the remainder related to obstructing drug arrests or forging prescriptions. In 2003, there were in total 7,150 arrests, of which 25 percent were possession with the intent to sell and 67 percent simple possession. Cannabis was the drug most often seized, followed by heroin, Ecstasy and then cocaine. The value of seized drugs for 2003 was Euro 121 million.

Official statistics for 2004 are not yet available, but highlights of key raids, arrests and prosecutions include the January seizure of 500,000 Ecstasy tablets worth a street value of Euro 5 million. Also, in January, police seized 80 kilograms of Khat, worth Euro 200,000. In February, local police, supported by the National Drugs Unit, seized eight kilograms of cocaine estimated at Euro 800,000. In March, Irish police raided a cocaine-processing plant, recovering Euro 50,000 worth of contraband, and in another raid, police seized Euro 400,000 worth of cocaine. The same month, the Dublin Circuit Criminal Court jailed a South African resident for three years for smuggling Euro 30,000 worth of cannabis and an Irish citizen was sentenced for seven years for possession of Euro 150,000 worth of cocaine and ecstasy. An April seizure netted 88 kilograms of cannabis, estimated at a value of Euro 1.14 million. In May, officials found a quantity of precursors intended to manufacture around Euro 500 million worth of Ecstasy and amphetamines. Officials tracked chemicals shipments from southern China, to Rotterdam and then on to Ireland. In June, police seized over Euro 1 million in cocaine from drug gangs. On November 4, an American citizen was arrested at Dublin airport for smuggling 4 kilograms of cocaine from Lagos via Paris. Her case is pending criminal proceedings. On December 16, in three operations, Irish police seized up to Euro 16 million in cocaine. An arrest was made of a Nigerian national attempting to smuggle 14.5 kilograms into Dublin airport. Another unrelated arrest during a raid resulted in the seizure of up to 60 kilos. Under the Drugs Trafficking Act, the suspect can be held without charge for a maximum of seven days.

Corruption. Ireland 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. Senior officials of the government do not engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. The United States and Ireland signed a mutual legal assistance treaty (MLAT) in January 2001, which was ratified by the U.S. in 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. Ireland is a signatory to the UN Convention Against Corruption. In June, the Irish government signed the Criminal Justice Act of 2004 into law, enabling authorities across EU states to investigate international crimes. In January, the European Arrests Warrant Act of 2003 became law, allowing for foreign arrests and extradition.

Cultivation/Production. Only small amounts of cannabis are cultivated in Ireland. With the exception of the precursor chemicals seized in May, 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 7,100 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 65 methadone treatment locations. Most clients of treatment centers are Ireland's approximately 14,500 heroin addicts, 12,400 of which live in Dublin. In 2004, the GOI undertook an evaluation of drug treatment centers' ability to cope with the leveling off of heroin use and the increase of other drugs. The review's results are due in early 2005.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In 2004, the United States continued 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 Government of Italy (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 stand. 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, as well as for cocaine originating from South America. Domestic and Italy-based foreign organized crime groups are heavily involved in international drug trafficking. GOI cooperation with U.S. law enforcement agencies continues to be exemplary. Italy is a party to the 1988 UN Drug Convention.

II. Status of Country

Italy is mainly a narcotics transit and consumption country. Law enforcement officials focus their efforts on 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. Although Italy produces some precursor chemicals, they are well controlled in accordance with international norms and not known to have been diverted to any significant extent.

III. Country Actions Against Drugs in 2004

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 as well as decrease tolerance for possession of a “moderate quantity” of drugs, making possession and personal use of drugs illegal. At minimum, drug users would be compelled to enter treatment or face administrative penalties such as suspension of driving licenses or passports. Above certain prescribed levels, violators would face criminal charges. The Senate Justice Committee began to discuss this legislation in mid November 2004.

At the multilateral level, Italy is the second largest 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 in 2003 championed the need to get tougher on synthetic drugs, enhance counternarcotics assistance in the Balkans, and strengthen the role of the family in drug abuse prevention.

Accomplishments. Comparing January to September data for 2003 and 2004, seizures have decreased in each drug category with the exception of MDMA (Ecstasy). Arrest and death by overdose statistics also decreased. There are a number of factors, from inclement weather in source countries to successful international counternarcotics operations to explain these decreases. In January 2004, the Italians and several other European and South American countries, along with U.S. authorities, delivered a devastating and disrupting blow to a joint Italian (Calabrian) organized crime and Colombian cocaine distribution organization following a 4-year investigation. Throughout the duration of the investigation there were in excess of 3 tons of cocaine seized and the arrests of over 100 individuals. This successful operation tremendously disrupted the criminal organization and its ability to continue its illicit activities.

The fight against drugs is a major priority of the national police, carabinieri, and financial police—which are the three services coordinated by the Central Directorate for Drug Control Prevention (DCSA). Working with the liaison offices of the U.S. and western European countries, DCSA has 18 drug liaison officers in 17 countries that focus on major traffickers and their organizations. Two additional drug liaison positions have been approved for Tehran, Iran and Tashkent, Uzbekistan. Investigations of international narcotics organizations often overlap with the investigations of Italy's traditional organized crime groups (e.g. the Sicilian Mafia, the Calabrian N'drangheta, the Naples-based Camorra and the Puglia-based Sacra Corona Unita). Additional priority trafficking groups are Albanian, Nigerian and other Balkan organized crime groups responsible for smuggling heroin into Italy, while Colombian, Dominican and other South American trafficking groups are involved in the importation of cocaine. Italian law enforcement officials employ the same narcotics investigation techniques used by other western countries: informants, extensive court-ordered wire-tapping of phones and email accounts, undercover operations and controlled deliveries under certain circumstances. Adequate financial resources, money laundering laws, and asset seizure/forfeiture laws help insure the effectiveness of these efforts.

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. Laws against corruption come under the Criminal Code, apply to all public officials, and pertain to the receipt of money or other advantages in exchange for an official act or for delaying or not performing an official act. Penalties range from 6 months to 5 years, depending on the charge.

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 is a signatory to the UN Convention Against Corruption. 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 narcotics 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. Albanian heroin traffickers work with Italian criminal organizations as transporters and suppliers of drugs. Heroin is smuggled into Italy via automobiles, ferryboats and commercial cargo.

Cocaine destined for Italy originates with Colombian and other South American criminal groups. Cocaine shipments consisting of multi-hundred kilograms enter Italy via several seaports concealed among commercial cargo. Large cocaine shipments are also off-loaded in Spain where they are eventually transported to Italy and other European countries by means of vehicles. Smaller amounts of cocaine consisting of grams to multi-kilograms enter Italy via express parcels or airline couriers traveling from South America. They are usually concealed in luggage. The couriers are primarily of Nigerian, Colombian and Dominican as well as other South American descent.

Ecstasy found in Italy primarily originates from the Netherlands and is usually smuggled into the country by means of couriers utilizing commercial airlines, trains or vehicles. Italy has been utilized as a transit point for couriers smuggling Ecstasy destined for the United States. A method used by trafficking groups in the past has been to provide thousands of Ecstasy tablets concealed in luggage to couriers in Amsterdam. The couriers then travel by train or airline to Italy. Once in Italy, the couriers are provided an originating airline ticket from Italy to the U.S. disguising the fact that the couriers recently traveled from a source country before entering the U.S. thereby minimizing scrutiny by law enforcement authorities.

Hashish is smuggled regularly into Italy on fishing and pleasure boats in multi-hundred kilogram quantities from Morocco and Lebanon. As with cocaine, larger hashish shipments are smuggled into Spain and eventually transported to Italy by vehicle.

Domestic Programs/Demand Reduction. The Italian Ministry of Health funds 557 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, 159,000 receive services at public agencies and approximately 15,000 are served by smaller private centers. Others either are not receiving treatment or arrange for treatment privately. The Berlusconi government continues to promote more responsible use of methadone at the public treatment facilities. For 2005, the Italian Government has budgeted 120 million Euro for counternarcotics programs run by the health, education, and labor ministries. Seventy-five percent (75 percent) of this amount is dedicated to the different regions and the remaining twenty-five percent (25 percent) is for national programs.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The U.S. and Italy continue to enjoy exemplary counternarcotics cooperation. The DEA Administrator visited Italy in April 2004 to discuss counternarcotics issues with both Italian law enforcement and ministry level officials. During 2003, the DEA re-initiated the Drug Sample Program with the GOI, which consists of the analysis of seized narcotics to determine purity, cutting agents and source countries. In 2004, the DEA received approximately 114 samples of heroin, cocaine and Ecstasy. DEA recently expanded this program to the countries of Slovenia, Croatia and Albania. The sample collection from these countries and others in the Balkan region is essential in determining production methods and trafficking trends that ultimately impact Italy. The DEA independently conducted drug awareness programs at international schools in Rome and Milan.

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' abilities to apply effective demand dampening policies. Italian authorities plan to assign two drug liaison officers in Tehran, Iran and Tashkent, Uzbekistan to address the heroin problem along the Balkan route that directly impacts Italy. The Italian authorities are considering an invitation by the Afghanistan Drug Czar to assign a drug liaison officer in Kabul, Afghanistan.

Kazakhstan

I. Summary

Kazakhstan continues to be a major route for Afghan heroin and opium in transit to Russia and Europe. An Associate Professor of the Academy of National Security estimates that approximately 100-150 tons of Afghanistan's narcotics will move through Kazakhstan this year. Approximately 30 percent of these drugs will be sold in Kazakhstan. More than 19 tons of narcotics were seized since the beginning of 2004, which is 14 percent more than the previous year. Local drug use and its health consequences continue to increase, but local crime connected to drug use seems to have dropped. Kazakhstan continues to take steps to control drug-related crimes within its own borders, but official corruption complicates efforts to improve controls over drug trafficking. Kazakhstan is a party to the 1998 UN Drug Convention.

II. Status of Country

Although vast fields of wild marijuana and ephedra, along with some small-scale opium growing, demonstrate that Kazakhstan could become a major producer of narcotics, evidence continues to suggest that local production is mostly limited to in-country use and small-scale smuggling into Russia. Drugs transiting Kazakhstan impact Russia and Europe, not the U.S., but proceeds from drug smuggling potentially could serve as revenue for terrorist groups. There were no discoveries of laboratories for the production of narcotics announced this year.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Kazakhstan is in the fourth year of its five-year plan in the fight against drug trafficking, but President Nazarbayev announced this year that it will take twenty years before Kazakhstan can fully control its narcotics problem. On March 3, 2004, the President signed a decree that established the Committee on Combating and Controlling Narcotics (the Committee) within the Ministry of the Interior (MIA), a DEA-like office whose sole responsibility is fighting narcotics. The Committee coordinates efforts among law enforcement entities, analyzes developing trends in the trafficking and consumption of narcotics, initiates legal reform and drafts statutes pertaining to the narcotics problem in Kazakhstan, interacts with the mass media and the press to inform the public on counternarcotics efforts taken by the Committee and other governmental agencies, and engages with international counterparts through the national branch of Interpol. The Committee's staff is comprised of 630 officers. In cooperation with the Statistics Division of the Prosecutor's Office, the Committee has changed the format of the GOK's intelligence collection on statistics related to narcotics trafficking, cultivation, seizures, and demand reduction. The Committee's current database includes detailed information on major narcotics dealers, underage narcotics users, and the socio-economic background of addicts and those who are involved in criminal activities related to drugs. The GOK also announced that more than \$5 million was allocated this year from national and local budgets within the framework of the National Program for Combating Narcotics.

On June 28, 2004, the GOK signed "The Additional Protocol to the Memorandum of Understanding on Narcotics Control and Law Enforcement between the Government of the United States of America and the Government of the Republic of Kazakhstan." This agreement established a framework to support projects designated to improve the capacity of Kazakhstani law enforcement agencies to combat narcotics trafficking and organized crime. The agreement includes a provision for technical assistance aimed at improving the ability of the Ministry of the Interior's counternarcotics forces to interdict narcotics and other contraband transiting through Kazakhstan. It also calls for improving the

collection and reporting of crime statistics with an emphasis on those statistics and regions germane to the evaluation of GOK progress in the fight against narcotics trafficking.

Accomplishments. Kazakhstan continues to work toward the UN Convention's goals on combating illicit narcotics cultivation and production within its borders. The annual "Operation Poppy" campaign eradicated more than 977 square meters of illicit poppy and marijuana cultivation this year.

The Presidential decree of March 3, 2004 that established the Committee headed by Colonel Anatoliy Vyborov was a significant move forward this year in Kazakhstan's fight against narcotics trafficking. In his April interview with a local newspaper, Colonel Vyborov called for urgent legal reform to assist the Committee in its work. According to Vyborov, the country needs to toughen punishments for those involved in drug trafficking and the sale of narcotics to the underage population. The MIA is soliciting public opinion regarding an increased sentence for drug-related crimes through its website. While this legal reform is in its early stages, if done transparently and correctly, it could greatly assist the Committee in its work by serving as a deterrent to potential criminals. The Committee is also currently working on statutes to amend the Law of the Republic of Kazakhstan on "Narcotics, psychotropic substances, precursors, and countermeasures to illegal consumption."

In an effort to combat production and trafficking in narcotics, the Ministry of the Interior has also initiated "Operation Dope." This project has led to several raids resulting in the confiscation of narcotics, the most effective of which were conducted by the division of the Ministry of the Interior in Astana, Almaty, and Karaganda. The Karaganda division of the MIA seized 25 tons of narcotics.

Law Enforcement Efforts. The GOK continues to actively fight drug smuggling, but the results of these efforts only demonstrate a slight improvement over last year. The Committee's statistics for the first nine months of 2004 show only a moderate increase in seizures of opium and a slight increase in seizures of heroin and cannabis. The Committee supervised forces, which made the majority of narcotics seizures and has actively employed undercover tactics to eliminate major narcotics traffickers.

More than 19 tons of various narcotics, including 92 kilograms of heroin, were seized in the first nine months of 2004, which is approximately four tons more than the previous year (15 tons and 70 kilograms of heroin in 2003.)

Since the beginning of this year, more than 22 undercover operations were led by the Committee. Two major organized criminal groups and eight smuggling rings with criminal ties to other organized crime groups in the country were apprehended and charged with illicit narcotics activities. More than 21 kilograms of heroin was seized from one of these groups. In May 2004, more than 2.5 kilograms of heroin and 26.5 kilograms of opiates were seized in the northern region of Kazakhstan from a drug dealer who was trafficking narcotics from the Kyrgyz Republic to Kazakhstan. Another notable seizure took place in Almaty where a Kyrgyz citizen was apprehended while trying to sell 1.5 kilograms of heroin to an undercover Committee agent.

The annual project "Operation Poppy," which combines intelligence collection, interdiction of smugglers, eradication of cultivation, and demand reduction was conducted from June 7 until October 15, 2004. More than 1,700 officers from the Ministry of the Interior, 145 officers from Customs, and 55 officers from the Committee on National Security combined their efforts in this project. As a result, more than 103 individuals were arrested for the cultivation of opiates and 236 were arrested for marijuana cultivation. In addition to these arrests, authorities seized more than 12 tons of marijuana.

Another large-scale operation, entitled "Dope," is aimed at the control and seizure of psychotropic substances and precursors. A total of more than 15 tons of drugs were seized during the first stages of the operation this year. The Committee raided 703 drug stores, 111 storage facilities, 387 medical facilities and 120 industrial facilities that were discovered to be in possession of illicit/diverted narcotics. As a result, 243 people, including 11 medical workers, were convicted of violations related

to the illicit diversion of narcotics substances. In October 2004, the National Security Committee (NSC) also arrested a German citizen in Almaty who was in possession of over 30,000 psychotropic pills. According to the detainee, he acquired the pills in the German town of Aalen in May 2004 and brought them to Kazakhstan in the secret compartment of a vehicle that he shipped overland. According to the NSC, this particular seizure was one of the biggest in all of the CIS countries during 2004.

Overall, however, there has been a decrease in narcotics-related convictions in Kazakhstan. From January 2004 until September 2004, there were 7,897 criminal cases related to narcotics, which is 18.6 percent lower than the previous year (9,705) and comprises only 8 percent of the overall reported national crime apprehensions.

More than 94 percent (4,910 out of 5,185 registered cases) were related to the production, processing, and trafficking of narcotics, psychotropic drugs, and other controlled substances. 44.5 percent (2,123) of these criminal cases were related to the sale of or an attempt to sell narcotics.

In comparison to the previous year, the Committee has reported a drop (25.3 percent) in criminal cases related to illegal narcotics transiting the country, a 15.9 percent decrease in the underage population known to be involved in the narcotics business, and a 13.5 percent drop in cases involving non-Kazakhstani citizens from elsewhere in the former USSR. Overall, there were 63 criminal cases related to the abuse of psychotropic and controlled substances, which is 18.2 percent lower than in 2003 (77 cases). It is difficult to determine whether these statistics are suggestive of an overall decrease in the actual use and trafficking of narcotics in the country or a decrease in the effectiveness of Kazakhstan's law enforcement agencies in apprehending those involved in narcotics. Since this decline in convictions is coupled with at least a slight increase in narcotics seizures, however, it does appear that Kazakh law enforcement agencies are having more success in apprehending larger drug trafficking rings than was the case last year.

Corruption. While it is difficult to determine the extent to which corruption negatively affects the country's efforts to combat narcotics trafficking, widespread corruption in Kazakhstan indicates that it is almost certainly a critical factor in hampering the country's war on drugs. Nonetheless, there appears to be an increasing effort to apprehend at least lower-level officials involved in corruption. The Department on Combating Economic Crimes and Corruption of Almaty City investigated 68 criminal cases this year.

The number of corruption cases increased 4.5 times over 2003.

According to the Constitutional Council of Kazakhstan, in 2004 there were 356 criminal cases involving corruption, 222 officials were reprimanded for abusing their authority, and 210 officials were accused of taking bribes. According to the Head of the Committee on Combating Narcotics of the MIA, Anatoly Vyborov, these corruption charges included 26 criminal cases against individuals from the Ministry of the Interior for illegal actions involving their operations with narcotics. In all cases, the perpetrators were sentenced to jail terms and were immediately fired from their positions in the MIA. While these efforts demonstrate that the GOK is beginning to address corruption among law enforcement officials combating narcotics, given the money involved in drug trafficking, it is likely that corruption will continue to be an issue of grave concern.

Agreements and Treaties. The U.S. and Kazakhstan signed a Memorandum of Understanding on narcotics control and law enforcement in December 2002. Kazakhstan is party to the 1998 UN Drug Convention and has signed the Central Asian Counter-Narcotics Memorandum of Understanding with the UNODC. The Kazakhstan national counternarcotics law, passed in 1998, specifically gives the provisions of international counternarcotics agreements precedent over national law (Article 3.2). Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan signed an agreement in September 1999 on cooperation in combating transnational crime, including narcotics trafficking. The five Central Asian

countries, Azerbaijan, Georgia, Iran, Pakistan, and Turkey are members of the Economic Coordination Mechanism supported by the UNODC. Kazakhstan has signed but has not yet ratified the UN Convention Against Transnational Organized Crime.

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 the Chu Valley. It is estimated that approximately 97 percent of the marijuana sold in Central Asia originates in Kazakhstan. The production of opium and heroin remains minimal. In the first nine months of 2004, the Statistics Division of the Prosecutor General's Office identified 195 cases of the illicit cultivation of opium poppies, marijuana and ephedra and 31 cases of the cultivation of wild marijuana (916 square meters and 61 square meters of eradicated fields). According to Anatoly Vyborov, the situation in the Chu Valley is growing worse as there is increasing evidence that organized crime rings are involved in the region's marijuana cultivation and production. Evidence of the sophistication of marijuana cultivation includes the discovery of land mines near the entrances to green houses where marijuana is being cultivated. Believing that this problem has not been adequately addressed, the MIA this year fired for incompetence the head of its counternarcotics division in Zhambyl oblast, which includes the Chu Valley.

Drug Flow/Transit. Despite the efforts of law enforcement agencies, Kazakhstan continues to be an important transit country, especially for drugs coming out of Afghanistan. According to UNODC 30 percent of Afghanistan's opium crop will pass through Central Asia, and 70 percent of that (about 800-1000 metric tons) passing through Kazakhstan. The GOK's estimate of the opium transiting Kazakhstan is considerably lower. The main routes for the transit of Afghani narcotics through Kazakhstan continue to run through Tajikistan and the Kyrgyz Republic, or Turkmenistan and Uzbekistan.

Domestic Demand. Kazakhstan's increasing prosperity has also created a new market for Ecstasy and amphetamines shipped in from Russia. A much larger problem, however, is the growing use of heroin in Kazakhstan. Likely due to the large amount of heroin and opium transiting Kazakhstan, drug addiction is a quickly growing problem in the country. Since 1991, the number of drug addicts in Kazakhstan is estimated to have grown 22-fold. During the first nine months of 2004, it was estimated that there were approximately 47,000 drug addicts in Kazakhstan. Almost two thirds of these addicts are people younger than 30 years of age. The Procuracy's statistics show a slight drop in the number of registered addicts, almost a 2 percent decrease in comparison to previous year. Experts estimate that the true number of addicts is about five times the number of those registered.

State financing for drug rehabilitation centers has grown substantially over the last several years. This year the GOK allocated 68 million Tenge (130 Tenge equals \$1) to finance drug rehabilitation centers, and more than 86 million Tenge has already been allocated for next year. In addition, the GOK has sponsored several drug awareness programs since the beginning of this year. These included 37 counternarcotics programs initiated throughout schools as part of a pilot project on combating narcotics among the underage and teenage population as well as 812 publications in the press, 1010 films, and 163 radio talk shows devoted to combating narcotics abuse.

IV. U.S. Policy Initiatives and Programs

In March 2003, President Nazarbayev approved the State Department Narcotics Assistance Letter of Agreement, signed in December 2002, allowing the commencement of assistance to Kazakhstan. Despite its continued problems of drug trafficking and abuse, Kazakhstan has made considerable progress since that time, especially compared to the rest of the region. Given Kazakhstan's great potential as a partner in the fight against narcotics, terrorism and money laundering, our overall goal is to develop a long-term cooperative relationship between the police and investigative services of the United States and those of Kazakhstan.

Bilateral Cooperation. In 2004 the U.S. Government assisted Kazakhstan's counternarcotics effort in several ways:

In August 2004, the State Department sponsored two UK Customs agents who provided training on drug profiling as well as pedestrian, rail and vehicular searches to selected MIA and Border Guard units as well as to the academies of both the Ministry and the Border Guards.

State continued to assist the National Forensics Laboratory in Almaty. One gas chromatograph as well as numerous drug test kits and "Drug ID Bibles" were delivered to the Laboratory in March 2004.

State also continued to sponsor the Committee on Combating Drugs. As part of a larger project aimed at combating narcotics trafficking in Kazakhstan Approximately one-third of the funds provided by the U.S. were used to acquire equipment needed to search vehicles for contraband, especially illegal narcotics. The remainder of the money is being used to provide specialized training to the unit in a variety of areas including drug identification, the search of vehicles using the equipment provided under the project, and Kazakh legal statutes pertaining to illegal narcotics and the arrest and detention of criminal suspects. The legal training also includes the principles of asset forfeiture (principles of legal seizure, custody, cooperation with prosecutors and judges, and transfer to GOK authorities responsible for the sale of forfeited assets.)

Training and equipment was provided to the Statistics Committee of the Prosecutor's Office, which targets drug trafficking organizations operating in Kazakhstan. The project also covered the costs of modernizing the Statistics Division of the Prosecutor's Office. The first field offices to be modernized under the project were those contiguous to the Kazakh-Kyrgyz border between Kordai and Taraz, the field office in the town of Sarishagan near Lake Balkash, and the field offices contiguous to the Kazakh-Russian border in the towns of Aul and Zheshkent. In total, \$117,000 worth of technical equipment was given to the Prosecutor's Office of the GOK under this project, including computers, printers, monitors, and copy machines. In November 2004, computer equipment was distributed throughout Kazakhstan to 17 different branches within the Criminal Statistics Unit; and the State Department sponsored 25 training courses in 2004, during which a total of 687 GOK officials were trained.

The Road Ahead. Kazakhstan is making serious efforts to end its status as a narcotics transit country. The GOK is working to refine its laws related to narcotics, to develop its police services and to cooperate 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 is a transit route for heroin and other opiates from Afghanistan destined for Russian, Western European and American markets. Several of the main drug trafficking routes out of Afghanistan run directly through the Kyrgyz Republic. There is minimal internal production of illicit narcotics or precursor chemicals. During the calendar year 2004, 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 abuse problems. The GOKG recognizes that the drug trade is a serious threat to its own stability and is continuing efforts to focus on secondary and tertiary drug-related issues such as money laundering, drug-related street crime, and corruption within its own government ranks. Drug abuse is a continuing and escalating problem that has placed a burden on law enforcement and the health care system. The Ministry of Health reports that ninety percent of known HIV and AIDS cases are related to intravenous drug use.

Public confidence is continuing to be eroded as it relates to 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 such as counternarcotics programs, toleration of government corruption, and a growing dependency on a shadow economy that includes drug trafficking, street sales, and usage. While the GOKG has been a supporter of counternarcotics programs, it is still struggling to deliver a clear and consistent counternarcotics strategy to either the Kyrgyz people or the international community. The former State Commission for Drug Control and the newly established Kyrgyz Drug Control Agency (DCA) (a counternarcotics agency sponsored by the USG and managed by UNODC) have been fighting a losing battle against drug trafficking. Particularly in the city of Osh and its surrounding regions, the drug trafficking has become an ever-increasing source of income and employment. There is hope the establishment of the DCA will mark a new beginning in the Kyrgyz Republic's efforts to minimize drug trafficking and reestablish the public's confidence.

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 of the year. These isolated passes are some of the most heavily used routes for drug traffickers. Government outposts 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 crossroads for road and air traffic and a 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 do grow wild in many areas.

Agreements and Treaties. The Kyrgyz Republic is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances. The Kyrgyz Republic has signed bilateral and multilateral agreements concerning narcotics control with all CIS countries as well as Pakistan, Germany, Austria, China, Iran, Bulgaria, and the Czech Republic. The Kyrgyz Republic is a party to the UN Convention against Transnational Organized Crime.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The GOKG has instituted various national programs and legislation to combat drug trafficking and drug abuse. 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.

Drug Flow/Transit. The GOKG and the State Commission for Drug Control (SCDC) had 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 Valley; 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.

Domestic street values of heroin have shown a steady increase over the past four years, returning to 1997 levels. In 2001 the price for a kilogram of heroin in the northern region was approximately \$6,000. In the southern regions it was closer to \$3,000. In August 2003, a kilogram of heroin could be purchased in Bishkek for approximately \$8,000, depending on purity of drugs. One year later, a kilogram of heroin with the same purity level is now selling for up to \$10,000. In Kyrgyz Republic's southern regions it has increased from a high-end of \$4,500 to nearly \$5,000 per kilogram over this same one-year period. However, the price of a street-dose (0.1 gm.) of heroin has remained fairly stable in the northern regions of the country and risen proportionately in the southern regions. By contrast, raw opium has shown a dramatic increase in cost over the last four years in both regions of the Kyrgyz Republic. In 2001 a kilogram of opium was selling in the range of \$400-\$500 in the northern region and \$300-\$400 in the southern. In 2004 that cost has risen to nearly \$1,500-\$1,900 in the northern region and \$1,000-\$1,500 in the southern. This might be caused by a shortage of opium, as more Afghan opium is being refined in Afghanistan and shipped as a refined opiate (heroin and morphine base), since this product is much less bulky than opium. The upward trend in heroin prices could reflect competition for available heroin with richer "customers" in Russia and Western Europe

While the street-price of marijuana has followed the same trend as opium, hashish has shown a slight reduction in price over this four-year period.

Law Enforcement Efforts. The GOKG's State Commission for Drug Control, which has existed since 1993 with only 16 staff members, was replaced in 2004 by the creation of the Kyrgyz Drug Control Agency (DCA) with a staff of 240. The DCA became operational in March 2004. The DCA estimates that, based on its own internal reporting and that of the other law enforcement agencies, there were 3,760 kilograms of illicit narcotics seized, compared to 3,355 kilograms during the same reporting period in 2003. Additionally, in 2004 the DCA was successful in initiating a controlled delivery of one kilo of heroin that originated in Tajikistan and traversed the Kyrgyz Republic, Russia, and Latvia and terminated in Germany with the identification and arrest of several drug traffickers. This was the first transnational operation for the DCA, which culminated in Western Europe. The

GOKG and the DCA have had difficulty gathering information and controlling resources in some of the remote regions, particularly in the Osh and southern districts.

Corruption. The DCA 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). The Osh region remains an unwieldy and volatile drug trafficking region that the DCA has declared a high priority target for its counternarcotics efforts and has identified as the location for the DCA southern-branch headquarters.

Domestic Demand. As of January 2004, the Kyrgyz Republic's National Narcology Center reported 6,350 registered drug addicts, which is an increase of 739 from its July 2003 figures. While there was still an increase in the number of registered addicts, the percent of increase declined in 2004. Best estimates are the actual number of drug abusers is likely to be 10-15 times this amount. The DCA has reported that the number of drug related crimes reported in 2004 is 2,764 versus 2,771 in 2003, a decrease of 0.2 percent. The number of investigated drug related crimes was 2761 versus 2722 in 2003 and increase of 1.4 percent.

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 for International Narcotics and Law Enforcement Affairs (INL), signed a Letter of Agreement (LOA) to construct a Model Customs Post in the village of Kyzyl-Art on the Tajik border. This \$250,000 project will seek to serve as a model, which can be replicated for efforts to counter the narcotics traffic on what has been identified as one of the Kyrgyz Republic busiest drug-trafficking routes. This post will be equipped with modern detection equipment and manned on a 24-hour basis. The U.S. also provided other GOKG law enforcement bodies with counternarcotics equipment—including vehicles, office, laboratory and communications equipment.

In June 2003, the GOKG and the United Nations Office on Drugs and Crime (UNODC) signed a Project Document on the establishment of the DCA. The only donor to this \$6.3 million project is the U.S. Government. The USG works together with GOKG and UNODC to reduce corruption and foster transparency in the GOKG's struggle against narcotics trafficking and its effects. During a lengthy hiring process for the DCA, the UNODC and USG have insisted in a strict vetting process to reduce the likelihood of criminals or corrupt officials being included in the organization. One hundred and seventy (170) positions have been filled and although only partially staffed and equipped, the DCA has conducted several successful counternarcotics operations resulting in drug seizures and arrests. Construction and renovation of the DCA's government donated headquarters building in Bishkek has been completed and is operational. The OSH headquarters building has been identified and renovation has begun with a completion date of mid-year 2005. Additional operational equipment has been procured and will be distributed early in 2005.

In November 2003, the GOKG and the International Organization for Migration (IOM) Bishkek Office signed a Memorandum of Understanding (MOU) to establish a new International Passport system in the Kyrgyz Republic. This project is of great importance for the Kyrgyz because their current passport fails to meet international security standards. The Passport Project was scheduled to be completed by June 2004. However, governmental bureaucracy has delayed the issuance of the passports to ordinary citizens. That event is now scheduled for early in 2005. The USG is the sole donor of this \$1.6 million project.

The Road Ahead. The USG will continue to assist the GOKG in its counternarcotics efforts through prosecutorial, customs and law enforcement training and logistical support. The USG will continue working with the GOKG to provide direct support and training to its law enforcement and customs canine services.

Latvia

I. Summary

Amphetamines, cannabis, and heroin are the drugs of choice in Latvia. Shifting patterns of recreational drug use, due in part to information campaigns about the dangers of intravenous drug use, have accelerated a shift away from heroin towards increased abuse of amphetamines, cocaine, and cannabis. Concentration levels of locally sold heroin, which dropped dramatically during the war in Afghanistan, have returned to pre-war levels. 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 from Lithuania, 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 Lithuania, the Netherlands, and Poland, often through the mail. Heroin is primarily trafficked via Russia from Central Asia. Drugs tend to be transshipped 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 chemicals in the first half of 2002 to 7.54 kilograms of solid chemicals and 1,560 ml of liquid chemicals in the first half of 2003. In 2004 the Latvian police seized 109.2 kilograms of safrole, an extract from sassafras plants used to produce Ecstasy tablets, as it was being smuggled by car across the border from Lithuania into Latvia.

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 their clients’ contact with them. 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 decreased following hostilities in Afghanistan, and police officials report that this was due to a disruption in the supply of heroin flowing from Central Asia through Russia to Latvia and points further west. This disruption caused the quantity and quality of heroin available in Latvia to deteriorate, with concentration levels in seized heroin dropping from 80 percent in 2001 to an average of 6 percent to 30 percent in 2002 through 2003. Seizures in 2004 showed that concentration levels had climbed back to 70 percent. Through the first nine months of 2004, Latvian police seized 494.38 grams of heroin, compared to 503.34 grams in the previous year. Latvia’s growing affluence, coupled with the diminished supply of heroin in 2002 and 2003, 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 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 2004, there were 2690 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 15 LVL for 0.1 gram (approx. \$29).

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Latvian State Police and the Ministry of Interior have drafted a master plan that addresses national drug control and drug abuse, which was submitted to the Prime Minister's Cabinet for official government approval in 2004. Under this plan, the Prime Minister presides over a Narcotics Coordination Bureau that supervises Latvian law enforcement action against narcotics trafficking and use. 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 to combat drug distribution in May 2003, placing their domestic drug control unit under the supervision of the Organized Crime Bureau.

Law Enforcement Efforts. The total number of drug-related crimes increased from 727 in the first nine months of 2003 to 814 in the same period of 2004. The 2004 drug-related crime statistics include 796 crimes related to sales, purchasing, possession, and repeated illegal use of narcotics; ten crimes related to large-scale drug contraband. In the first nine months of 2004, police filed drug-related criminal charges against 575 individuals. In the first nine months of 2004, the amount of seized poppy straw, LSD, and Ecstasy increased compared to 2003 figures. Cocaine and hashish seizures dropped.

In 2003 police made two large seizures of hashish and one large seizure of cocaine that were far greater than normal. Thus, hashish seizures in 2004 dropped from 30144.3 grams to 139.62 grams through the first nine months of the year. Cocaine seizures fell from 1776.34 grams to 628.41 grams over the same time period. Seizures of poppy straw grew from 37.05 kilogram in 2003 to 103.13 kilogram in 2004. Police also seized 4385 Ecstasy tablets, a significant increase over the previous year's 1119.

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 involvement in retail drug dealing and led to the arrest of two former criminal police officers. In 2004, the Anti-Corruption Bureau doubled its criminal caseload and continued its campaign to improve professional responsibility across all levels of Latvian law enforcement. 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, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by its 1972 Protocol. A 1923 extradition treaty, supplemented in 1934, remains in effect between Latvia and the United States. A bilateral mutual legal assistance treaty between the United States and Latvia entered into force in 1999. Latvia is a party to the UN Convention against Transnational Organized Crime.

IV. U.S. Policy Initiatives and Programs

U.S. Policy and Bilateral Cooperation. The United States maintains programs in Latvia that focuses 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

director of Latvia's Narcotics Bureau credited a U.S. Embassy-funded HIV/AIDS program with helping to stem the number of IV drug users in Latvia.

The Road Ahead. 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

In 2004, Lithuania strengthened its counternarcotics efforts, rolling out a National Drug Addiction Prevention and Drug Control Strategy for 2004-2008. The use and sale of narcotics, however, continues to increase in Lithuania. Lithuania remains a transit route for heroin from Asia to Western Europe and produces synthetic narcotics for both domestic use and export. Law enforcement authorities estimate that the domestic drug trade is 500 million Litas (\$200 million) per annum and growing. The most popular drugs include synthetic narcotics, poppy straw extract, heroin, and cannabis. Industrially produced psychotropic drugs are also popular. Though public awareness campaigns have grown, the number of registered drug addicts and drug-related crimes increased in 2004. USG and GOL law enforcement cooperation is very good. Lithuania is a party to the 1988 UN Drug Convention.

II. Status of Country

Synthetic narcotics, poppy straw extract, heroin, and cannabis are the most popular drugs in Lithuania. Poppy straw and cannabis are popular because they are inexpensive, while synthetic narcotics are most popular on the black market. The price of a dose of heroin, 20 Litas (\$5.70), remained unchanged from 2003. Heroin is smuggled into Lithuania from Central Asia and the Balkans. Cocaine imports from South America travel through Western Europe into Lithuania. Poppy straw is especially popular in the countryside, and is smuggled to the Kaliningrad district of Russia. Industrially produced psychotropic drugs (e.g., GHB), artificial heroin, and new psychotropic substances are increasingly popular. Hashish is not popular. Law enforcement authorities estimate that the domestic drug trade is 500 million Litas (\$200 million) per annum and growing. Lithuanian organized crime groups have begun to penetrate the German narcotics market.

There were 4,689 registered drug addicts in January 2004, an increase of 284 individuals from 2002. In 2003, 356 persons approached health care institutions for the first time (653 in 2001). Nearly 75 percent of all drug addicts are younger than 35 years old, while more than 90 percent live in cities, and one-fifth are women. Over 90 percent of drug dependency cases are intravenous drug users. Lithuania had 943 registered cases of HIV in October 2004, an increase from 735 cases at the beginning of 2002. Eighty percent of those registered with HIV contracted the disease through intravenous drug use. In 2003, rates of Hepatitis B and C infection among intravenous drug users decreased by 26 percent and 35 percent, respectively. The number of 15-16 year-old students who have tried drugs at least once remained stable at approximately 15 percent (15.6 percent in 2003, 15 percent in 2002). Health education programs have been integrated into school curricula, resulting in an increased awareness about the dangers of drug use. Lithuania is a member of the international European School Survey Project on Alcohol and Other Drugs (ESPAD 95, ESPAD 99, ESPAD 03) and monitors the fluctuations of data on substance abuse among children aged 15-16. A 2003 survey showed that the consumption of cannabis, hashish, amphetamines, alcohol and tobacco is increasing, while the consumption of heroin and Ecstasy is decreasing among Lithuania's student population. According to an international survey published in 2004, 81 percent of children in foster care abuse alcohol, drugs, or glue.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In order to improve preventive measures, combat addiction, and bring Lithuanian law in line with the European Union's 1999 counternarcotics strategy, the Government of Lithuania

(GOL) enacted the National Drug Addiction Prevention and Drug Control Strategy for 2004-2008 (“Strategy”). The Strategy, initiated in April 2004, increases cooperation between national authorities and drug control organizations, promotes local government initiatives to prevent and control drug use, and increases the role of society in dealing with drug problems. In 2004, the GOL provided 10.2 million Litas (\$4.08 million) to the Strategy. In 2004, more resources were allocated for initiatives that focused on prevention and rehabilitation than were allocated for fighting the trafficking and sale of narcotics. EU structural funds, however, augmented GOL expenditures in support of strengthened national borders. The GOL’s Narcotics Control Department, which implements the Strategy and coordinates the efforts of the national and local governments, began operation in January 2004. In December 2004, parliament created a Drug Addiction Prevention Commission. The GOL continued to implement its National HIV/AIDS Prevention and Control Program for 2003-2008. The program seeks to prevent the transmission of HIV/AIDS within high-risk groups (intravenous users, prostitutes, sailors, long-distance drivers, and prisoners). In the summer of 2004, the Parliament annulled a provision in the Criminal Code that established alternative punishments (15 to 90 days of incarceration) for those convicted of drug distribution. Those convicted now face prison terms of between five to eight years.

Accomplishments. Experts note that public awareness concerning the hazards of drug use is rapidly increasing. In 2004, the GOL allocated approximately 4 million Litas (\$1.6 millions) for public awareness programs, primarily conducted by the Ministry of Education and Science and NGOs. Police conducted separate awareness programs.

Law Enforcement Efforts. The number of drug-related crimes increased in 2004. By December 2004, Lithuanian law enforcement authorities registered 1,121 crimes (up from 886 in 2003). In 2004, the police shut down a laboratory producing high-quality amphetamines. The Customs Criminal Service initiated six narcotics related criminal cases in 2004 (13 in 2003, 14 in 2002, 8 in 2001, 0 in 2000). In December 2004, a Kaunas court sentenced three Lithuanian citizens to 10.5 years, 8 years, and 2 years of imprisonment, respectively, for producing amphetamines. In the largest seizure of 2004, police seized 18,000 doses of LSD, 71,000 Ecstasy tablets, 3 kilograms of marijuana, and 2 liters of precursors in November from a 19-year-old student who police believed to be a member of an organized trafficking group. On December 31, 2003, in the largest seizure of the year, Customs officials confiscated 300,000 Rohypnol pills (26 kilograms) at a Latvian border checkpoint.

Corruption. Corruption is a problem in Lithuania; however, the government enforces its laws against corruption, and as a result, narcotics-related corruption is not believed to be a major factor in trafficking. In December 2004, a parliamentary ombudsman, Kestutis Virbickas, resigned following findings that he had illegally intervened on behalf of a Lithuanian national standing trial for drug trafficking in Norway.

Cultivation/Production. An intravenous opium extract produced from locally grown poppies and the drug “Ephedrone,” made from medications containing ephedrine, remain popular in Lithuania. Police, in cooperation with Customs agents, destroyed 52,141 square meters of poppy plots (up from 31,426 in 2003 and 22,676 in 2002) and 196 square meters of cannabis plots between June and September 2004 (down from 687 in 2003 and 1,884 in 2002). Illicit laboratories produce amphetamines for local use and export.

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 arrive from Poland and the Netherlands.

Domestic Programs (Demand Reduction). Lithuania operates five national drug dependence centers. Ten regional Public Health Centers with local outlets work to prevent the use of drugs, especially in schools. In 2004, 20 rehabilitation centers (which together can service around 200 people annually) and 17 addict rehabilitation communities operated in Lithuania. Methadone treatment programs have operated in major cities since 1995, with 315 people receiving treatment in 2003 (133 in 2002). According to the Ministry of Justice's Prisons Department, in January 2004, 1,148 persons, or 14.4 percent of all prisoners, are registered drug users. In September 2004, 219 inmates were infected with HIV. After the HIV outbreak in the Alytus prison in 2002, the GOL allocated 2 million Litas (\$800,000) for equipment and activities designed to prevent the trafficking of drugs, train officials, and educate inmates at the Alytus facility. In May 2003, a reconstructed building capable of housing 300 HIV-infected prisoners opened in Alytus. In November 2003, a prevention and rehabilitation center for drug addicts and HIV-infected prisoners opened at the Pravieniskes correctional center.

Treaties and Agreements. Lithuania is a party to the 1988 UN Drug Convention, the 1971 UN Convention against Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. Lithuania also is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in Women and Children. An extradition treaty and mutual legal assistance treaty are in force between the U.S. and Lithuania.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. USG and GOL law enforcement cooperation is very good. In 2004, the U.S. continued to support GOL efforts to strengthen its law enforcement bodies and improve border security. To strengthen regional cooperation in the fight against HIV/AIDS in the Baltic States and Russia, the U.S. funded "The Network of Excellence" project. In June 2004, a U.S. court in Florida acquitted 11 Lithuanian sailors apprehended in June 2003 of drug trafficking charges following the seizure of 3.5 tons of cocaine aboard the merchant vessel Yalta. In December 2003, Lithuania extradited an American citizen wanted for narcotics trafficking. In 2003, the Lithuanian State Security Department discovered a package suspected of containing counterfeit U.S. currency that was being sent to Minneapolis, Minnesota. The package also contained 100 tablets of Ecstasy. A joint investigation by the State Security Department and U.S. Secret Service resulted in arrests in both countries, including that of a major organized crime figure in the city of Kaunas. His trial is ongoing.

The Road Ahead. The USG looks forward to continuing its close cooperative relationship with Lithuania's law enforcement agencies. Although Lithuania has made some progress in improving regulations and procedures and developing an export control infrastructure, it still lacks the professional skills to detect narcotics and clandestine labs. In 2005, the USG will continue to promote increased GOL attention to the drug problem, and support activities aimed at preventing the production and trafficking of illicit narcotics. In 2005, the DEA will provide training to Lithuanian law enforcement agencies on the investigation and seizure of drug laboratories.

Macedonia

I. Summary

Macedonia, a country with a population of just over two million, is neither a major producer nor a major transit point for illicit drugs. However, the country lies along the so-called “Balkan route,” which is used frequently by traffickers to ship heroin from Afghanistan, and marijuana and hashish from Albania, to the Western European consumer market. Some progress was made in combating drug trafficking in Macedonia during 2004. Drug seizures, measured by quantity, increased by approximately 50 percent over the previous year, with a notable increase in seizures in the last half of the year. The increase is credited to more effective enforcement procedures, made possible in some instances by new legislation that gives the police and Customs officers greater latitude in employing investigative and prosecution techniques and methods.

Although the government demonstrated some increased political will to combat narcotics trafficking, counternarcotics operations often were hindered by ineffective inter-agency coordination and lack of central strategic planning. Macedonian local police, particularly ethnically mixed police teams, the border police, and mobile customs teams benefited from international assistance. They also demonstrated increased focus on counternarcotics operations, despite security and equipment challenges. Over the year, the Ministry of Interior (MOI) reported a 12 percent increase in drug-related criminal offenses. In 2004, the government adopted several key pieces of legislation to strengthen counternarcotics efforts. Macedonia is a party to the 1988 UN Drug Convention.

II. Status of Country

Macedonia lies along one of several overland routes used to deliver Southwest Asian heroin (through Turkey) to Western Europe. This route also is used to deliver high-grade hashish and marijuana produced in Albania to Turkey, where it is exchanged for heroin that subsequently is transported to Western European markets. Small amounts of marijuana are grown in Macedonia, but the narcotics is produced mainly for personal use since the market for it is small and it cannot compete with higher quality, cheaper Albanian marijuana. Wild marijuana is a problem in eastern Macedonia, where it is easy to cultivate due to favorable climate conditions. Macedonia is not known to produce precursor chemicals. Police and Customs officials strictly control the entry of possible precursors at the borders. A Law on Control of Precursors went into effect in June 2004. Cocaine is not transported to or through Macedonia in significant quantities. Trafficking in synthetic drugs, in particular Ecstasy, increased in 2004.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Macedonia undertook, in 2004, comprehensive legislative reforms of its criminal codes, following the prior adoption of an amendment to the Constitution to allow police to use specialized investigative methods, including wire tapping in drug cases. Changes to the Criminal Code increased penalties for drug trafficking, introduced the possibility of immunity from punishment for cooperating defendants/witnesses, and imposed criminal liability on legal entities involved in drug trafficking. New legislation also introduced better witness protection rules and more detailed provisions for confiscation/asset forfeiture in trafficking cases. A special draft Law on Electronic Surveillance, which will provide for detailed rules for wiretapping operations, is pending adoption by the Parliament. A special Law on Witness Protection had been drafted but not yet approved, and parallel activities were underway by year’s end to create within the MOI a Special Witness Protection Unit for cooperating witnesses/defendants. A new Law on the Public Prosecutor’s Office was adopted

in 2004, enhancing the role of prosecutors in criminal investigations while creating a Special Anti-Organized Crime Prosecutors Unit.

The Law on Money Laundering Prevention was amended in 2004 to strengthen the authority of the Money Laundering Prevention Directorate and to bring it into compliance with European Union guidelines. The new Financial Police Unit, which is part of the Ministry of Finance and has the authority to investigate serious financial crimes, including money laundering, was only partially operational in 2004 due to organizational and funding restrictions. The Parliament ratified the Second Protocol to the European Convention on Mutual Legal Assistance in Criminal Matters. The Second Protocol allows for cross-border monitoring of drug traffickers and joint investigative teams to pursue cases against them. The National Anti-Corruption Commission actively reviewed cases of corruption alleged against public officials. The Commission has brought such cases to the attention of law enforcement officials and prosecutors, but there have been few successful prosecutions to date.

The Law on Control of Precursors, which brought Macedonian law into compliance with UN Office on Drugs and Crime (UNODC) and European Union standards, was passed in mid-2004. An inter-ministerial working group, including medical and pharmaceutical experts as well as professionals from the Agriculture Ministry, MOI, and other agencies, is completing the draft text for a special Law on Narcotics that should further enhance counternarcotics efforts.

The Customs Administration continued to strengthen its intelligence units and mobile teams. As a result, the Administration was able to report a significant increase in the number of drug seizures by customs officers in 2004. The Ministry of Interior and the Customs Administration strengthened their cooperation and coordination in 2004.

Accomplishments. Macedonian police worked on an inter-agency basis with colleagues from neighboring countries on a number of drug cases in 2004. Through increased interagency cooperation and intelligence sharing with the Ministry of Interior, the Customs Administration in 2004 was able to seize the largest quantity of drugs in the history of its existence. In December, Macedonian authorities reported three major drug seizures: on the Macedonian-Serbian border, the Macedonian-Albanian border, and in Skopje. The seizures amounted to 142.5 kilograms of high-quality heroin (origin unknown) destined for Serbia; 500 kilograms of hashish from Albania; and 102 kilograms of paracetamol and codeine, also from Albania.

Law Enforcement Efforts. Counternarcotics police benefited from U.S., EU and UNODC training and support. In 2004, 2,860 uniformed police officers participated in specialized OSCE-sponsored training, included a counternarcotics component. The UNODC is supporting a project to promote regional criminal intelligence gathering and sharing. The high turnover rate in political-appointee leadership positions in the MOI deprived the counternarcotics effort of consistent leadership focus.

Drug seizures in 2004 increased by more than 50 percent over the previous year's total. During the year, MOI and Customs Administration agents seized over 550 kilograms of marijuana; 417 cannabis sativa plants; 242 kilograms of heroin; 530 kilograms of hashish; 839 milliliters of hashish essence; 131 grams of cocaine; 6 kilograms of opium; 1,216 methadone pills, 128 Ecstasy pills; 39 LSD doses; and 14 tons of different precursors.

During the same time period, the MOI participated in several coordinated regional activities. As a result of these efforts, eight international narcotics trafficking routes were uncovered, four of which were used for heroin trafficking, two for hashish, one for hashish oil, and one for marijuana trafficking. Nine drug traffickers (nationals of the Republic of Albania, and of Serbia and Montenegro) were extradited to Macedonia for trafficking-related prosecutions in 2004. Five drug traffickers were extradited from Macedonia to Italy, Switzerland, Norway, and Serbia and Montenegro for prosecution on drug charges. The MOI worked with Interpol to identify and forward data on 20 Macedonian nationals arrested abroad for narcotics trafficking.

Counternarcotics police continued to find it difficult to penetrate predominantly ethnic-Albanian drug trafficking organizations. Despite the increased number of ethnic-Albanian police officers in high-ranking MOI positions, few potential ethnic-Albanian informants were willing to work with counternarcotics police. Law enforcement officials expect to obtain a higher level of cooperation from informants in 2005, provided new criminal legislation is passed and implemented that would provide protection for cooperating witnesses.

Due to the introduction of the use of special investigative methods and rules on the admissibility of evidence at trials, police and Customs officials are able to arrest traffickers while they are preparing to commit a crime, which was not permitted by law before the amendments were passed. Law enforcement officials may seize vehicles involved in trafficking, but have been reluctant to force forfeiture of vehicles or other assets. With the adoption of improved asset forfeiture legislation in 2004, Macedonian authorities expect an increase in court decisions ordering asset forfeiture in narcotics cases in 2005.

Corruption. As a matter of government policy and practice, the government of the Republic of Macedonia does not encourage or facilitate the illicit production or distribution of drugs or the laundering of proceeds from illegal drug transactions.

However, corruption is prevalent in Macedonia and is widely seen as a necessary part of doing business in the country. Low salaries and high unemployment help to foster graft among law enforcement officials. However, corruption among police and Customs officials appeared to decline in 2004, compared to previous years. The judiciary remains weak and frequently is accused of corruption. The Parliament approved the dismissal—recommended by the Republic Judicial Council—of eight judges on corruption/unethical conduct allegations in 2004. However, only one judge was convicted on corruption charges during the year, although criminal proceedings had begun in another case. Anticorruption legislation in effect since 2003 was amended this year, but it was too early to determine whether it contributed to any decrease in official corruption. A special Law on Prevention of Conflict of Interest is in the drafting stage.

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 United States 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. Macedonia has signed the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in women and children.

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 and processing of legally cultivated poppy plants cultivated poppy on 380 hectares, producing approximately 22 kilograms of poppy straw per hectare in 2004. The overall 2003-2004 poppy crop yield was approximately the same as the previous year. Authorized poppy production is reported to the Ministry of Health, which shares that information regularly with the Vienna-based International Narcotics Control Board. Limited quantities of marijuana are cultivated illegally for personal use in southeastern Macedonia, and wild poppy plants were located and destroyed 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 approximately 90 percent of large-scale traffickers arrested in Macedonia are ethnic Albanians; however, the number of arrested Serbian nationals also increased in 2004. Drug gangs used heavy trucks, vans, buses and cars to transport the bulk of the drug shipments. Local officials reported a notable trend in the

smuggling to Turkey of high-quality hashish and marijuana produced in Albania, where it is exchanged for heroin refined in Turkey. Occasionally, hashish and marijuana produced in Albania was trafficked to Greece via Macedonia. Police reported that the quality of heroin produced in Turkey and transiting Macedonia improved, while the price had dropped. Macedonian officials reported that drug smugglers generally appeared to prefer trading Albanian marijuana for Turkish heroin via northern Greece or by sea, rather than using Macedonia as a transfer point. The most recent heroin seizure, of 122 kilograms, was the largest such seizure ever by Macedonian authorities. In December 2004, police in Germany reported the arrest of four Macedonian citizens suspected of having smuggled 450 kilograms of heroin from Macedonia to Germany.

Police officials also reported that narcotics traffickers appeared to be using the northern Balkan route—from Turkey to Bulgaria, Serbia or Romania, and then on to Western Europe—more often than they did the southern route through Macedonia. The small quantity of cocaine that entered Macedonia from Bulgaria and Greece generally arrived in packages of one to six kilograms. It usually was transported via airmail or courier through one of Macedonia's two airports. The average price of a kilo of cocaine in Macedonia was approximately \$40,000.

The quantity of synthetic narcotics trafficked in Macedonia in 2004 remained limited, although police reported a slight increase in the overall quantity sold here. Officials are aware of Macedonia's increasing vulnerability to synthetic drugs trafficking, since the cost of such drugs is low. Most synthetic drugs aimed at the Macedonian market originated in Bulgaria or Serbia and arrived in small amounts by vehicle. They were sold to Macedonian users for approximately \$10 per pill.

Domestic Programs (Demand Reduction). Official Macedonian statistics regarding drug abuse and addiction generally are unreliable. Observers believe the number of drug abusers in Macedonia to be relatively high; of particular concern is the fact that many new drug addicts are below the age of 15. According to police and health care officials, most registered drug abusers use marijuana (53 percent), and there is a growing level of heroin abuse (41 percent). Six percent of addicts abuse other drugs. Authorities also reported an increase in the abuse of Ecstasy and medical drugs by both long-term drug users and newcomers. Cocaine abuse remained modest, due to its high cost and relative unavailability on the domestic market. Police data available for the first nine months of 2004 showed 6,216 registered drug addicts, indicating an additional 182 addicts compared to 2003. Unofficial statistics from NGOs and the health sector suggest that the actual number of drug addicts in the country could be as high as 30,000.

Macedonia's health care and social welfare systems are still woefully unprepared to deal efficiently with the effects of drug abuse and dependence. The situation worsened in 2004 when the Center for Social Welfare removed a number of drug addicts from the welfare rolls in 2004 due to budget shortfalls. The GOM admitted that its social welfare agents, due to a lack of expertise, training, and technical equipment, were unable to adequately assist with the social reintegration of recovering drug addicts following completion of their medical treatment.

Periodic public awareness campaigns in 2004 were similar in theme to those in 2003. Educators and NGOs continued their programs to increase public awareness of the harmful consequences of drug abuse. The Ministry of Science and Education launched an illegal drug use information campaign at the primary and secondary school level. The campaign used existing academic curricula, textbooks, handbooks, and specially organized events to highlight the counternarcotics theme. The Ministry's Agency of Youth and Sport provided financing to 40 NGOs for public awareness-raising activities concerning drug abuse. Educators continued to play an important role in the work of the National Commission on Prevention of Drug Abuse in implementing its Action Plan for Combating Drug Abuse. In 2005, the GOM expects its National Youth Strategy to involve 80 NGOs in counternarcotics campaigns.

Societal attitudes in 2004 remained firm in advocating complete abstinence as the most effective way to avoid drug dependency. The Office for Social Inclusion Activities for Drug Addicts and Their Families, which was opened in 2003 by the Ministry of Labor and Social Policy, showed some results. The Ministry of Labor and Social Policy is in the process of opening Out-Patient Care and Rehabilitation Centers for Drug Addicts in five Macedonian towns whose populations are facing severe drug addiction problems. These Centers will provide comprehensive services and counseling for drug addicts and their families. A few local NGOs have made limited efforts to establish prevention programs, such as the SOS telephone line financed by the EU, for which information is available to the public through the printed and electronic media.

Macedonia has one state-run outpatient medical clinic for drug addicts, founded in 1985, which dispenses methadone to approximately 500 registered heroin addicts daily. The clinic has a pressing need to expand its capacity, technical equipment and personnel. The illegal diversion of methadone from treatment centers to the streets dramatically increased in 2004. The media reported numerous cases in which patients receiving methadone from a the clinic sold the medication to non-patients in front of that facility. According to available information, the government took no action to eliminate or ameliorate the problem.

Evidence indicates that official statistics did not accurately capture all drug overdose cases. Some health care officials estimated that there were as many as 200 non-lethal overdoses in 2004. There were two registered fatal overdoses among drug addicts in 2004. According to unofficial sources, however, as many as 20 deaths resulted from fatal overdoses in 2004. Drug treatment programs did receive increased attention from the GOM in 2004 with the opening of the five Out-Patient Day Care and Rehabilitation Centers mentioned above. However, given budgetary constraints, difficulties can be expected regarding the normal maintenance and operations of those Centers.

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 United State. Macedonian police and customs officers benefited in 2004 from a two-month specialized law enforcement course—which also covered counternarcotics issues—at the U.S.-funded ILEA regional training facility in Budapest. MOI police, financial police, customs officers, prosecutors, and judges received State Department-financed training in specialized anti-organized crime operations and techniques. U.S. Customs officials continued to provide technical advice and assistance to Macedonian Customs and the MOI's Border Police.

The Road Ahead. Because of Macedonia's porous borders and the growing influence of regional, mostly ethnic Albanian narcotics trafficking groups, Macedonia is likely to face increased transit rates of illegal drugs, especially synthetic drugs. The United States government, through its law enforcement and rule of law training programs, will continue to encourage police to monitor and arrest well-known narcotics traffickers, and to enhance the ability of prosecutors and judges to effectively prosecute and punish them. The United States will continue to push for criminal justice sector reform and the adoption of specialized counternarcotics and witness protection legislation that is indispensable for 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. Surveys indicate that illicit drug use is confined to a small segment of the population. The Maltese Government dedicated much time and effort over the past several years updating Malta's laws and criminal codes in preparation for accession to the European Union that occurred on May 1, 2004. As a result, Malta's criminal code stands in harmony with the goals and objectives of the 1988 United Nations Drug Convention, which Malta ratified in 1999. The Malta Police Drug Unit and the National Drug Intelligence Unit (NDIU) continue to improve their capabilities. Success is perhaps best illustrated by the upward trend in seizures of Heroin and Cocaine over the last several years. This trend is the result of improved coordination and communications among all agencies involved in controlling drugs.

II. Status of Country

Malta, an island nation of 400,000 between Sicily and North Africa, 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. Because Malta's population is small and Malta is an island, unwanted trends are easy to detect and deter. The drug problem is generally limited to the sale and use of consumer quantities of illegal drugs. There has been a recent increase in the proliferation of recreational drugs such as Ecstasy and also an increased use and trafficking of illicit drugs by persons under eighteen. Cultivation activity is limited to the growing of less than a few hundred cannabis plants per year. Malta is not a precursor or essential chemical source country. Malta does not produce or possess significant amounts of precursor or essential chemicals nor does it have chemical manufacturing or trading industries that conduct considerable trade with drug producing regions.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Maltese Police and Customs personnel have had significant success through the profiling and targeting of suspected drug couriers transiting the airport. The Police and the Armed Forces work together to monitor, intercept and interrupt sea borne smuggling of illegal drugs. Maltese Customs officials have worked to become more adept at detecting and preventing the movement of drugs through the Malta Freeport, a daunting task, given the volume of containers moving through the Freeport. Port authorities have shown the ability to respond quickly when notified by foreign law enforcement of intelligence related to transshipment attempts.

Accomplishments. In June of 2004, the Government of Malta and the United States signed a Letter of Agreement concerning 'Cooperation to Suppress Illicit Traffic in Narcotic Drugs and Psychotropic Substances by Sea'. This Maritime Counter-Narcotics Cooperation Agreement should assist the interdiction of the flow of drugs through Mediterranean shipping lanes. Currently, there is no extradition treaty between the United States and Malta. However negotiations on both a Mutual Legal Assistance Treaty (MLAT) and a bilateral extradition treaty are ongoing, with a target for completion in the first half of 2005. The USG has successfully used an extradition agreement between the United Kingdom (Malta's former colonial power) and the United States, applicable to Malta, to effect extraditions to the U.S. The most recent example involved the October 2004 extradition of a U.S. national charged with cocaine distribution in the Northern District of Iowa. There was no significant

seizure of property related to drug crimes in 2004. However, current Maltese law provides the necessary provisions for asset forfeiture of those accused of drug related crimes.

Law Enforcement Efforts. Maltese law enforcement seized modest amounts of heroin, cannabis, Ecstasy and cocaine during 2004, amounting cumulatively to under 5 kilogram of dangerous drugs.

Corruption. The USG is not aware of any wide spread 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. 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 is 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. The final outcome in this case is pending appeals filed on behalf of the defendants right to a fair trial.

Treaties and Agreements. Malta is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1971 UN Convention on Psychotropic Substances.

Drug Flow Transit. Currently, there is no data that indicates that Malta is a major trafficking location. The Malta Freeport is a continuing source of concern due to the volume of containers that passes through its vast container terminal. The USG has provided equipment and training as part of non-proliferation and border security initiatives that also have enhanced Malta's ability to monitor illicit trafficking through the Freeport. This should improve detection and act as a deterrent to narcotics traffickers seeking to use container shipping activity at the Freeport as a platform for drug movements through the country. Malta serves as a transfer point for travelers between North Africa and Europe. Heroin smuggled into Malta is primarily carried in by visitors from North African countries (Libya, in particular). Malta's most typical drug problems involve the importation and distribution of small quantities of illegal drugs for individual use. Malta has the world's fifth largest ship registry, which makes it a likely player in future ship interdiction scenarios.

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. U.S. Customs provided several training courses in Malta during 2004. The U.S. Customs Export Control Advisor based at Embassy Valletta continues to work closely with port officials in an effort to improve their ability to monitor and detect illegal shipments. 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 Regional Security Officer (RSO) works closely with the DEA Country Attach and the FBI Legal Attach based in Rome to foster cooperative efforts to strengthen law enforcement. 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 number of arrests and seizures for drug related offenses has steadily increased, indicating that Maltese authorities want to battle the drug problem within their own country and benefit from close USG cooperation. .

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

The Moldovan Ministry of Interior (MOI) remains responsible for counternarcotics law enforcement activity. The number of law enforcement personnel within the Drug Enforcement Unit decreased from 115 to 103 officers nationwide, with 15 officers at headquarters in Chisinau supporting 88 officers in the regions. Statistics in 2004 regarding the quantity of illicit opium and poppy straw seized show a noticeable decrease compared with 2003, while marijuana seizures show a significant increase. The number of criminal proceedings this year also indicates a noticeable increase in 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 usage increases by approximately 35 percent each year. Moldova is not a significant producer of narcotics or precursor chemicals. During 2004, the United States provided no training specifically related to narcotics investigations, but supported travel abroad by Moldovan prosecutors, judges and legislators, and more general administration of justice training with unquestionable “spin-offs” for better narcotics enforcement. The training focused on 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 conducive to the cultivation of marijuana and opium poppy. Annual domestic production of marijuana is estimated at several thousand kilograms. By November of 2004, authorities had seized and destroyed 8,588 kilograms of hemp plants and 8,950 kilograms of poppy plants during 2004. 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, codeine, ephedrine and other psychotropic substances this year. Domestic drug traffickers remain closely connected to organized crime in neighboring countries. These groups are not only involved in narcotics, but also in trafficking in persons.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The introduction of a new criminal code in 2003 reduced the maximum penalty for narcotics trafficking to 12 years in prison. Related legislation permits Moldovan authorities to charge those who, while not directly involved, aid and/or abet narcotics traffickers. The Drug Enforcement Unit is comprised of 103 officers nationwide, all of whom are dedicated exclusively to counternarcotics efforts. Moldova also continues to pursue, with U.S. support, anticorruption, antitrafficking and border control initiatives that supplement counternarcotics efforts.

Accomplishments. Despite the lack of rudimentary equipment such as vehicles, Moldovan authorities do their best to fight against narcotics traffickers at all levels. Seizures and lab destructions remain high priorities for the counternarcotics units. During the first 11 months of 2004, 1,947 cases (98 percent of those reported) were sent to the PG, with 1,554 (70 percent) going to trial.

Law Enforcement Efforts. Moldovan authorities initiated over 1,947 drug related cases in the first 11 months of 2004, compared to 2,142 cases for the entire year of 2003. This year, 460 kilograms of poppy straw and 13.5 liters of opium were seized, down from 547 kilograms of poppy straw and 4.324

kilograms and 15.7 liters of opium in 2003. Historically, many transit countries have become user countries over time, which is a concern for Moldova. Moldova will need to invest significant resources in education, border enhancement, and further law enforcement initiatives if it hopes to stem the growth in its user population.

Corruption. Corruption remains a major factor in Moldova. Corruption in the Customs Department and in the police creates opportunities for drug trafficking, while the Center for Combating Economic Crime and Corruption is at best ineffective, and at worst is used to harass political opponents of the administration. For example, recently, the Mayor of Chisinau was detained and many of his city council members arrested. Passage on December 16, 2004 of the new National Anti-Corruption Strategy and Plan may signal a new will on the part of the government to deal with corruption.

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 amended by its 1972 Protocol. Moldova is also a party to the Strasbourg Convention of 1990 and the UN Convention for the Suppression of the Financing of Terrorism, and cooperates in accordance with these agreements where resources and abilities permit. Moldova has signed but has not yet ratified the UN Convention on Transnational 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 from Turkey through Romania and Moldova into the CIS.

Domestic Programs. As of November 2004, the number of officially registered addicts was 8,260, a slight decrease from 2003 (8,527) for the same reporting period. Treatment remains an option for only the wealthiest of offenders. Financial hardships and dilapidated facilities restrict rehabilitation and treatment efforts by the Moldovan government. In past year, NGO's provided needed but minimal counternarcotics information and education campaigns.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. On-going USG training and equipment initiatives are designed to improve the abilities of police to investigate and infiltrate organized crime and narcotics syndicates. Other training programs related to counternarcotics include customs and border improvement programs, aimed at strengthening Moldovan border controls and reducing the flow of illegal goods through Moldova.

The Road Ahead. The U.S. and Moldova will continue to 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 (MDMA)), and a substantial consumer of most illicit drugs. U.S. law enforcement information indicates the Netherlands is still the largest source-country for Ecstasy in the U.S., although some U.S. analysts are watching the increasing trafficking from Canada with concern. The current Dutch center-right coalition has made measurable progress in implementing a five-year strategy (2002-2006) against production, trade and consumption of synthetic drugs. According to the public prosecutor's office, the number of Ecstasy tablets seized in the U.S., which could be linked to the Netherlands dropped to one million in 2003 from 2.5 million in 2002 (most recent year for statistics). The National Criminal Investigation Department ("Nationale Recherche"-NR), which was set up to enhance the efficiency and effectiveness of criminal investigations and international joint efforts against narcotics trafficking, officially began operations in January 2004. Operational cooperation between U.S. and Dutch law enforcement agencies is excellent, despite some difference in approach and tactics. This was reflected by the several trips to the Netherlands by the DEA Administrator in 2004. Furthermore, in October 2004, the Netherlands became the first European country to sign an MOU with DEA's El Paso Intelligence Center (EPIC) to participate in law enforcement information sharing. 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, one of the world's busiest container ports 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 Ecstasy and marijuana is significant; there is also production of amphetamines and other synthetic drugs. The Netherlands also has a large (legal) chemical sector, making it an opportune location for criminals to obtain or produce precursor chemicals used to manufacture illicit drugs.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In January 2004, the National Crime Squad officially started functioning. 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.

Cannabis. On July 1, the Dutch Parliament approved the April 2004 "Cannabis Letter" from the Ministers of Health, Justice and Interior, which included an "Action Plan to Discourage Cannabis Use." According to the letter, Dutch coffee-shop policy has not led to a significantly higher cannabis use since Dutch use is "average" compared to that of other EU countries. The Ministers argued that the distinction between hard and soft drugs had worked: hard drugs were seldom found in coffee shops. Still, they were concerned about the health risks of cannabis use and the sharp rise in the THC content. The Action Plan included the following initiatives:

- An experiment with the introduction of special coffee-shop passes for Dutch residents in order to ban foreigner “drug tourists”. Justice Minister Donner said the ban was in line with the stricter EU drug regulations. Donner wants to start a trial project with the special passes in Maastricht (close to the German and Belgian borders). If successful, the experiment, which will limit the purchase of soft drugs in Dutch coffee shops to Dutch nationals, will be expanded;
- An investigation into possible risks of cannabis with a high THC content. (In 2003, the THC content of Dutch-grown cannabis (“Nederwiet”) was 18 percent and Dutch hashish 35.8 percent.) If research should prove use of high-level THC cannabis involved serious health risks, cannabis with high THC levels could be placed on List 1 of the Opium Act, making it an illegal hard drug;
- Stricter licensing criteria with respect to the distance between coffee shops and schools; and
- Intensified controls on cannabis cultivation.

The 2003 National Drug Monitor, published in March 2004, showed the number of recent (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). Life-time prevalence (ever-use) 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. According to the Trimbos Addiction Institute, cannabis use among young people ages 12-18 dropped in 2003: recent (last-month) use for boys dropped to 10 percent, which was almost one-third less than in 1966. Last-month cannabis use by girls stabilized at 7 percent.

According to a December 10, 2004 letter by Health Minister Hoogervorst to the Second Chamber, legal sales of medicinal cannabis by pharmacies have largely failed. Only some 1,000 to 1,500 patients are buying the government-controlled cannabis, which is one-tenth of the number of expected customers. The disappointing sales, which will cost the Ministry almost 400,000 Euros in 2004, are attributed to reluctance among doctors to prescribe and the higher prices of the “state wiet.” Since March 2003, doctors are allowed to prescribe medicinal cannabis for their patients.

Cocaine Couriers. Justice Minister Donner touted the Schiphol airport 100 percent control measure, initiated in December 2003 to stop drug trafficking into the Netherlands from the Netherlands Antilles, Aruba, Suriname, and later Venezuela, as a success, citing declining cocaine seizures at Schiphol as an indicator. According to the program’s sixth progress report published December 16, 2004, 3,313 cocaine couriers (an average of about 100 couriers per day) were arrested in the first eleven months of 2004, all of whom had been blacklisted. Seven-hundred and thirty-nine kilos of cocaine were seized from the bodies of the couriers, in addition to 3,451 kilos hidden in other materials. An additional 1,675 kilos of cocaine were seized at Schiphol and 565 couriers arrested during regular controls (coming from countries other than those targeted in the 100 percent control program). Over the 11-month period, a total of 1,545 kilos of cocaine were found at Schiphol in freight, of which 713 kilos were discovered through the 100 percent control program. On average, two couriers are found per flight now (initially, there were an estimated 80-100 couriers per flight). Donner noted the primary goals of his policy, seizing drugs and blacklisting couriers, have proved much more effective than simply arresting large numbers of “small” couriers. He planned to continue the policy for the time being, including the “temporary” measure of turning back “bolita swallowers” carrying less than three kilos (“catch and release”). Although cocaine seizures in Rotterdam port have been rising this year, the report stated it was too early to draw a link with the 100 percent Schiphol control program, noting seizures at the port fluctuate from year to year, just as in other European ports.

In December 2004, the KLPD began sharing the names of “blacklisted” Schiphol couriers with U.S. DEA’s El Paso Intelligence Center (EPIC).

Heroin Experiment. In June 2004, the Cabinet approved expansion of the experiment under which heroin is medically prescribed to a group of seriously ill and chronic addicts for whom all other forms of treatment have failed. The number of persons receiving such “medical treatment” will be increased from 300 currently to 1,000 in 15 major cities (up from six currently). For each participant a treatment contract is drawn up stating improvements required within a year. Government funding to the project of 5 million Euros per year will be raised by one million in 2005.

Ecstasy. In June 2004, Justice Minister Donner officially launched an information campaign to keep potential Ecstasy traffickers from smuggling to other countries. The Justice Ministry has opened a website with information about foreign prison sentences and prison conditions.

Accomplishments. A major accomplishment was the drafting of the EU 2005-2008 Drugs Strategy during the Dutch EU presidency in the second half of 2004. In October 2004, the Dutch Government signed a joint cooperative agreement with the Government of China concerning precursor chemical investigations. The agreement pledges both countries to cooperate on precursor chemical investigations. The GONL also approved the stationing of a police drug liaison officer in China to facilitate law enforcement cooperation. In addition to working directly with the Chinese, the Netherlands is an active participant in the International Narcotics Control Board’s (INCB) PRISM project’s taskforce. Minister Donner said on March 31, 2004 the first assessment report of the five-year (2002-2006) Ecstasy action plan proved very successful.

Law Enforcement Efforts. Overall 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, policy is coordinated in tripartite consultations among 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, Ecstasy), and “soft” drugs (cannabis products). Trafficking in “hard drugs” is prosecuted vigorously and dealers are subject to a prison sentence of 12 years. When this takes place on an organized scale, another one-third of the sentence may be added (up to 16 years). However, actual sentences are considerably lower. Sales of small amounts of cannabis products (under five grams) are “tolerated” (i.e., not prosecuted, even though technically illegal) in “coffee shops” operating under regulated conditions (no minors on premises, no hard drug sales, no advertising, and not creating a “public nuisance”).

Dutch police teams and National Prosecutors give high priority to combating drug trafficking. 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.

In September 2004, the Dutch joined the Joint Intelligence Working Group (JWIG) in Washington D.C. This group, representing six countries, meets to share drug intelligence and assist in coordinating international drug trafficking investigations. In October 2004, the KLPD signed a Memorandum of Understanding (MOU) with the DEA and EPIC in order to enhance police-to-police intelligence sharing on narcotics-related investigations.

All active narcotics case-related requests for assistance from foreign jurisdictions are sent to the DIN (International Network Service). The DIN has assigned two liaison officers to assist only DEA. Since the new reorganization, the DIN has allowed DEA and other liaison officers to contact one of the five regional offices directly with requests. This policy has allowed for better coordination during ongoing enforcement actions, such as controlled deliveries. Due to Dutch law enforcement policy, prosecutors

still control all aspects of an investigation. Dutch police officers need prosecutor concurrence to share police-to-police information. This policy often hampers quick sharing of information, which can be used proactively in an ongoing investigation. Many controlled delivery requests sent to the DIN by DEA are turned down due to lack of manpower. In November and December 2004, however, the Dutch approved four controlled delivery requests (including one involving 70 kilos of cocaine which resulted in the arrest of six suspects). The vast majority of these controlled deliveries are small amounts of cocaine (less than five kilograms) contained in parcels being sent from South America or the Caribbean. Since the initiation of the 100 percent controls on inbound flights from the Caribbean, there has been a serious reduction in the amount of outbound couriers arrested at Schiphol. This reduction is due in part to the amount of law enforcement capacity required to conduct the 100 percent inbound checks. The amount of flights targeted for outbound checks has decreased.

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 or systemic. An investigation in 2004 by the special Schiphol CargoHarc drug team, comprised of military police, fiscal investigation/control service (FIOD-ECD) and Customs, led to the arrest of fourteen baggage handlers and four shop assistants accused of smuggling drugs through uncontrolled airport channels. To address concerns about the influence of drug trafficking on police, Customs and other officials, the Justice Ministry is funding a study on the extent of corruption in the Netherlands that will be completed by mid-2005.

The national prosecutor's office confirmed in November 2004 that a criminal organization involved in large-scale cocaine smuggling and money laundering had invested part of its drug profits in Air Holland, a Dutch charter airline flying mostly to the Netherlands Antilles. In the interim, this airline has gone bankrupt (in April 2004).

Agreements and Treaties. The Netherlands is party to the 1988 UN Drug Convention, the 1971 UN Convention on Psychotropic Substances, the 1961 Single Convention on Narcotic Drugs, and the 1972 Protocol amending the Single Convention. The Netherlands is a member of the UN Commission on Narcotics Drugs and the major donors group of the UNODC. The Netherlands is a leading member of the Dublin Group of countries coordinating drug-related assistance. The Netherlands ratified the UN Convention on Transnational Organized Crime on May 26, 2004, and has signed but not ratified the protocols on trafficking in persons and migrant smuggling as well.

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. A November 2003 national police report of the Dutch drug market estimated the Netherlands has between 17,000-22,000 cannabis plantations producing about 68,000-99,000 kilos of "Nederwiet." Although the Dutch government has given top priority to the investigation and prosecution of large-scale commercial cultivation of Nederwiet, legally tolerated coffee shops appear to create the demand for such cultivation. According to the Government's "Cannabis Letter," about half of the anonymous crime reports received annually relate to drug trafficking, particularly cannabis cultivation, indicating serious public concern.

The Netherlands remains one of the largest producers of synthetic drugs, although the INCB has noted a shift to Eastern Europe. According to a report by the South Netherlands Core Team/Unit Synthetic Drugs (KTZ/USD) and the five Dutch Ecstasy teams (all of them now part of the National Crime Squad), some 214 suspects were arrested in 2003. Together the teams seized 11,453 liters of chemical precursors. They also completed 33 investigations. The number of Ecstasy tablets with an alleged

Dutch connection confiscated by U.S. authorities decreased significantly to approximately one million tablets in 2003. The seizures of drugs around the world that could be related to the Netherlands involved almost 13 million MDMA tablets and more than 871 kilos of MDMA powder and paste. MDMA (powder and paste) seizures in the Netherlands in 2003 dropped to 435 kilos, and the number of Ecstasy tablets seized dropped 20 percent to more than 5.4 million. The number of dismantled production sites for synthetic drugs dropped to 37 from 43 in 2002. Of the 37, some 11 were found in residential areas. The KTZ/USD reported increased amphetamine seizures in 2003 from 2002.

Drug Flow/Transit. The Netherlands remains an important point of entry for drugs to Europe, especially cocaine. According to the National Crime Squad, an estimated 40,000-50,000 kilos of cocaine are smuggled annually into the Netherlands, about 20,000 kilos via Schiphol and the remainder via seaports and overland by road from Spain (Dutch cocaine use is estimated at 4,000-8,000 kilos annually). The Dutch government has stepped up border controls to combat the flow of drugs, including 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 have also been intensified.

Demand Reduction. The Netherlands has a wide variety of demand 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, less than one-quarter of one percent of the population); the number has stabilized over the past few years; the average age has risen to 40; and the number of overdose deaths related to opiates has stabilized at between 30 and 50 per year.

According to the 2003 National Drug Monitor, the out-patient treatment centers registered some 26,605 drug users seeking treatment for their addiction in 2000, compared to 26,333. The number of cannabis and opiate addicts seeking treatment has stabilized at 3,443 and 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. Although the most recent data about drug use are unavailable to confirm the impression, drug experts have noted a significant drop in Ecstasy use, while cocaine use appears to be going up.

Demand Reduction/Prevention. Drug prevention programs are organized through a network of local, regional and national institutions. Schools are targeted for special demand reduction attention in an effort 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 March 2004, the Health Ministry and the Trimbos Institute launched a major cannabis information campaign warning young people in the 12-18 age group about the health risks. The 24-hour national Drug Info Line of the Trimbos Institute has become very popular.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. and Dutch law enforcement maintained excellent operational cooperation, with principal attention given to countering the Netherlands' role as a key source country for MDMA/Ecstasy entering the U.S. The U.S. Embassy in The Hague has made the fight against the Ecstasy threat one of its highest priorities. Although the Dutch and U.S. agree on the goal, we differ over which law enforcement methodology is most effective in achieving it. The Dutch continue to resist criminal undercover "sting"-type operations in their investigations of drug traffickers. Manpower constraints also prevent them from pursuing international and organized crime aspects of

each Ecstasy investigation. The third bilateral law enforcement talks, which were held in The Hague in March 2004, resulted in additional points included in the “Agreed Steps” list of actions to enhance law enforcement cooperation in fighting drug trafficking. Since 1999, the Dutch Organization for Health Research and Development (ZonMw) has been working with the U.S. National Institute on Drug Abuse (NIDA) on joint addiction research projects.

The Road Ahead. U.S.-Dutch bilateral law enforcement cooperation will intensify, building on the successful visits of the DEA Administrator to the Netherlands in 2004. The Dutch government’s Ecstasy Action Plan should continue to produce results against Ecstasy trafficking. The Dutch synthetic drug unit, which now is part of the National Crime Squad, will continue to make concrete progress. The bilateral “Agreed Steps” agreement will certainly boost cooperation on international investigations, including Ecstasy and money laundering cases. The recent decision by the Dutch Government to begin sharing information with U.S. law enforcement on drug couriers detected at Schiphol Airport is a positive development that should promote enhanced bilateral cooperation in preventing drug transshipment through the Caribbean. The U.S. anticipates increased cooperation with the Netherlands and China on precursor chemicals, especially now that a Dutch drug liaison officer is stationed in China (early 2005).

Norway

I. Summary

As in previous years, illicit drug production in Norway remained insignificant. Norway continued to tightly control domestic sales, exports and imports of precursor chemicals. The number of drug seizures declined, but seizure volumes rose as the police maintained a recent shift of attention from individual abusers to traffickers. Police also increased efforts to track and intercept drugs in transit. Cannabis accounted for the bulk of 2004 seizures (41 percent), followed by amphetamines (19 percent) and benzodiazepines (18 percent); other drugs were 22 percent. 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. It remains, however, a popular market and transit point for drugs produced in Central/Eastern Europe and elsewhere.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Norwegian Police Directorate (POD) continued to implement its 2003-2008 Counter-Narcotics Action Plan, a common framework for all Norwegian police districts. The Action Plan focuses on reducing domestic drug abuse and identifying and curbing illicit drug distribution. The ultimate aim, according to the police, is to ensure that Norway does not become an attractive country for production, import, and sale of narcotics. The Customs and Excise Directorate (CED) also continued its counternarcotics efforts aimed at curbing drug imports and seizing illicit drug money and chemicals used in narcotics production. The CED has now been equipped with mobile X-ray scanners that can detect drugs, illegal arms and alcohol in vehicles passing major border crossings. Norway contributed NOK 15.5 million (\$2.5 million) to the United Nations Office on Drugs and Crime (UNODC). Norway is a member of Interpol, the Dublin Group, and the Pompidou Group.

Accomplishments. According to the Ministry of Health and Social Affairs, Norway remains in full compliance with the 1988 UN Drug Convention. Norway's counternarcotics plans/initiatives are progressing as scheduled, law enforcement efforts remain steady, and cooperation with the UN's Drug Control Program continues. In 2004, Norway also cooperated with the EU's European Monitoring Center for Drugs and Drug Addiction (EMCDDA) on issues relating to narcotics problems and counternarcotics measures and policies.

Law Enforcement Efforts. According to statistics compiled by the Norwegian police crime unit (KRIPOS), the number of drug seizures in 2004 declined to an estimated 23,500 cases from 25,210 in 2003. Volumes of seized drugs, however, again rose as the police continued to shift their focus from individual abusers to traffickers. The volume of heroin seized rose significantly in 2004, from 51 kilograms in 2003 to an estimated 215 kilograms in 2004. The number of persons charged with narcotics offenses also dropped, from 37,204 in 2003 to an estimated 35,000 in 2004, as a result of the heightened focus on bulk suppliers. In November, the Oslo police seized a record 860 kilograms of hashish and arrested 18 in two raids. The raids, part of a coordinated effort against one of Norway's biggest smuggling rings, resulted from cooperation between the Oslo police, regional authorities, the Customs and Excise Directorate, and Interpol. One of the seizures occurred at a border crossing with

Sweden, where the police stopped a long-distance truck from the Netherlands and used their new mobile screening unit to discover the drugs, which were hidden in cartons of soap. Responding in part to police calls for additional resources, Parliament budgeted an additional NOK 500 million (\$80 million) for police activities in 2005.

Corruption. Norway 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. Senior officials of the government do not engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Norway 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. Norway also is a party to the UN Convention Against Transnational Organized Crime and its three protocols, and is a signatory to the UN Convention Against Corruption. Norway has an extradition treaty and customs agreement with the U.S.

Drug Flow/Transit. The inflow of illicit drugs—particularly cannabis, heroin, benzodiazepines, Ecstasy, and amphetamines—remains significant. Norway expects the flow of heroin into the country will increase, particularly with the increase of opium cultivation in Afghanistan. In one 2004 raid, Oslo police confiscated 150 pounds of heroin, double the previous largest seizure. Most illicit drugs are brought into Norway by vehicle from other European countries. For example, in August the police seized a record 22 kilograms of amphetamines from three Chinese nationals crossing the Swedish border. As in the past, some drugs have been seized in commercial vessels arriving from the European continent and Central/South America. According to police authorities, gangs from the Balkans, particularly Albania, and Lithuania are among the most active narcotics-traffickers in Norway. The police expect that in the coming years more narcotics will also enter the country from Russia. While there is concern that narcotics dealers may establish mobile laboratories to convert chemicals into drugs, the police did not uncover significant drug production in 2004.

Domestic Programs. The Ministry of Health and Social Affairs implemented its joint Narcotics and Alcohol Abuse Treatment and Prevention Reform. Effective January 1, 2004, the State, represented by regional health enterprises, has assumed responsibility for treatment and prevention programs from local county councils. The principal aim of the centralization is to provide better and more uniform health and counseling services for drug and alcohol abusers nationwide. The Narcotics Action Committee, established by the Ministries of Health and Social Affairs in 2003, continued to advise the government on narcotics policy for the 2003-2005 period. The committee is empowered to evaluate preventive strategies and to propose drug rehabilitation and treatment measures. The government estimates that Norway has approximately 14,000 heroin addicts. The number of overdose deaths peaked at 338, before dropping to 210 in 2002 and 172 in 2003. Initial estimates for 2004 indicate that the number will again rise, partly as a result of lower drug prices and the return of purer Afghan drugs to the market. Oslo authorities attributed 11 deaths during an 18-day period in May to a potent batch of heroin.

IV. U.S. Policy Initiatives and Programs

U.S. Drug Enforcement Administration officials consult with Norwegian counterparts when required.

The Road Ahead. The U.S. and Norway will continue to cooperate on narcotics control issues.

Poland

I. Summary

Poland has traditionally been a transit country for drug trafficking. However, improving economic conditions and increased ease of travel to Western Europe have increased its 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 continue to become 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 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 has traditionally been a transit country for drug trafficking. However, improving economic conditions and increased ease of travel to Western Europe have increased its 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 continue to become 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 EU accession has accelerated the process of GOP diligence on narcotics policy. Poland is a party to the 1988 UN Drug Convention.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The National Program for Counteracting Drug Addiction, which covers the period 2002-2005, brought Poland into compliance with the 2000-2004 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. In 2004, the National Program budget was increased to \$3.6 million. In addition, individual ministries and local governments continue to finance Program activities out of existing counternarcotics budgets.

Accomplishments. During 2004, Polish police shut down 17 major amphetamine-producing laboratories. Most of these were in the Warsaw region, with two in Lodz and one in the Mazury Lake District. To fight international crime, the use of informants, telephone taps, and controlled purchases are now all permitted by Polish law, and a witness protection program is in place. In December 2004, witness protection and courtroom security training were conducted for Polish judges, prosecutors, investigators and senior police officials by the U.S. Marshals Service, with the aim of improving understanding of the most effective use of such programs, and cooperation among the various agencies. This training was part of a series of highly successful courses presented at the National Police Training Center under a Law Enforcement Assistance Letter of Agreement (LOA) signed in November 2002.

Law Enforcement Efforts. DEA agents visit Poland nearly every month and have enjoyed close collaboration with Polish officials on drug-related investigations. The National Bureau for Drug Addiction is well-known for its openness and cooperation in discussing drug-related issues.

Corruption. A comprehensive inter-ministerial anticorruption plan is in existence that 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, there is no evidence 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, which impedes or discourages police investigations or prosecution. The number of cases investigated and successfully prosecuted relative to the number of reported incidents, however, remains low. The U.S. Government has worked closely with the Polish National Police to improve police training on ethics and corruption, and has presented several training courses on the subject under the Law Enforcement LOA mentioned above.

Agreements and Treaties. Through the National Program, Poland has fulfilled requirements to harmonize its laws with the European Union's Drug Policy. Poland is a party to the UN Convention on Organized Crime and its protocols against migrant smuggling and trafficking in persons, and is a signatory to the UN Convention Against Corruption. Poland 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. An extradition treaty and MLAT are in force between the U.S. and Poland.

In May 2004, Poland became 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 implemented 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 targeting training 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. DEA-conducted seminars and train-the-trainer programs will continue and will be part of the 2005 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.

The Road Ahead. Poland's accession to EU membership on May 1, 2004 played a key role in sharpening the Government of Poland's (GOP) attention to narcotics policy. The EU is by far the largest donor to Poland's counternarcotics activities, which serves as a motivating force for even closer collaboration between Poland and its neighbors to the East and the West. GOP priorities for 2005 include better educational campaigns addressed to specific target groups (including media campaigns, and a 'peer campaign' for children and students) and a new pilot program for the assessment of the quality of medical, rehabilitation, and health damage reduction treatments provided by various institutions. Authorities will also focus on the creation of strategy for counteracting drug addiction at the local (township) level. 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. Hashish remains the most prevalent drug used in Portugal, with Ecstasy (MDMA) and heroin also taking a heavy human and economic toll. Overall drug seizures in Portugal for the period 2000-2004 were up over 500 percent when compared to the period 1995-1999, although apprehensions were down by approximately 27 percent when compared to the same period.

Portugal actively participates in international counternarcotics programs. U.S./Portugal cooperation on narcotics control has included visits by U.S. officials and experts, training of law enforcement personnel, and assistance in establishing rehabilitation programs. Portugal is 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 was the primary source of cocaine in 2004. Some shipments transit Brazil and Venezuela, which have large resident Portuguese populations. Other primary source countries in 2004 were Morocco (hashish) and Afghanistan and Pakistan (heroin). Cocaine and heroin enter Portugal by car, commercial aircraft, truck containers, and maritime vessels. Heroin transits through the Netherlands and Spain en-route to Portugal. The Netherlands and Spain are the primary source of Ecstasy in Portugal. Drug abuse within the Portuguese prison system continues to be a major concern for authorities.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Portugal decriminalized drug use for casual consumers and addicts in July 2001. The law makes the "consumption, acquisition, and possession of drugs for personal use" a simple administrative offense. In March 2002, Portugal 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. Public debate surrounding the national action plan for 2000-2004 revealed some success stories, particularly regarding increased drug seizures, but press coverage focused on the fact that other key targets in the plan were not met, such as reducing the number of users.

Accomplishments. The Institute of Judicial Police and Criminal Science reported that between 2000-2004, more than EURO 30 million in drug-related assets were seized. This figure includes vehicles, property, and currency. From 2000-2004, Portuguese authorities seized 500 percent more drugs than in the previous five years. Hashish accounted for the majority of seizures, followed by cocaine and heroin. Just over 600,000 Ecstasy pills were seized over the same period. Apprehensions for hash and Ecstasy increased in the last five years, although total apprehensions declined by almost 27 percent when compared to 1995-1999.

Law Enforcement Efforts. Portugal has seven separate law enforcement agencies that deal with narcotics: the Judicial Police (PJ), the Public Security Police (PSP), the Republican National Guard (GNR), Customs (DGAIEC), the Immigration Service (SEF), the Directorate General of Prison

Services (DGSP), and the Maritime Police (PM). The PJ is a unit of the Ministry of Justice with overall responsibility for coordination and criminal investigations. Authorities apprehended more than 4,500 individuals for drug related offenses in 2003 and seized more than 63 thousand grams of heroin, 3 million grams of cocaine, and 31 million grams of hash.

In November 2004 the PJ seized more than 3,200 kilograms of hash on a boat originating from North Africa that was planning to land in Portugal. Other drug arrests were made at the Lisbon airport when police seized 63 kilograms of hash and over 4 thousand kilograms of cocaine. Authorities seized more than 66 thousand Ecstasy pills in the first semester of 2004 alone.

Corruption. No cases of systematic or large-scale corruption were reported in 2004. Government policy actively discourages the illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal transactions. No senior officials are known to be involved in, or encourage, such activities.

Agreements and Treaties. Portugal 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. Portugal also is a party to the 1971 UN Convention on Psychotropic Substances and the 1961 UN Single Convention as amended by the 1972 Protocol. 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 also is a party to the UN Convention against Transnational Crime and its protocols against migrant smuggling and trafficking in persons, and is a signatory to the UN Convention Against Corruption.

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. In October 2004, Venezuelan and Portuguese authorities detained several Portuguese citizens in Caracas and Lisbon in a highly publicized arrest of drug traffickers that netted 386 kilograms of cocaine. The U.S. has not been identified as a significant destination for drugs transiting Portugal.

Domestic Programs. Responsibility for coordinating Portugal's drug programs was moved to the Ministry of Health in 2002. The Government also 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). IDT is charged with gathering statistics, disseminating information on narcotics issues, and managing government treatment programs for narcotics addiction. IDT sponsors several programs aimed at drug prevention and treatment. The most important is the Municipal Plan for Primary Prevention. Its objective is to create, with community input, locality-specific prevention programs in thirty-six municipal districts. IDT runs a hotline and manages several public awareness campaigns. Regional commissions are charged with reducing demand for drugs, collecting fines, and arranging for the treatment of drug abusers. A national needle exchange program was credited with significantly reducing the spread of HIV/AIDS and hepatitis, although HIV infections resulting from injections are still a major concern in the Portuguese prison system.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA-Madrid cooperates with the Portuguese Judicial Police on drug cases involving the U.S. and Portugal. The Portuguese Customs Bureau cooperates with the U.S. under the terms of the 1996 CMAA. In March 2004, 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 as well as a counternarcotics instructor course in April.

The Road Ahead. Continuing cooperation between the U.S. and Portugal on narcotics law enforcement will aid in attacking drug trafficking networks. Portugal's eventual ratification of the bilateral implementation protocol to the U.S.-EU MLAT and Extradition Treaty will enable better cooperation and information sharing. Additionally, Portugal's plan to join the Container Security Initiative should provide a fringe benefit in improved seizures of narcotics in maritime cargo containers.

Romania

I. Summary

Romania is not a major source of production or cultivation of narcotics. However, Romania serves as a transit country for narcotics and lies along the well-established Northern Balkan route used to move heroin and opium from Southwest Asia to Central and Western Europe. It is a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. Romania recently has begun to serve as a source of amphetamines and is used as a transit point for South American cocaine destined for Western Europe. In 2004, Romania made several major drug seizures. Romania worked to implement its 2003-2004 National Anti-Drug Strategy and developed a National Anti-Drug Strategy for 2004-2007. Allegations of corruption continued to damage the image of the primary drug fighting law enforcement body. Romania is a party to the 1988 UN Drug Convention.

II. Status of Country

Romania lies along what is commonly referred to as the Northern Balkan Route, and thus it is a transit country for narcotics, mainly heroin and opium, moving from Southwest Asia, through Turkey and Bulgaria and onward toward Central and Western Europe. Romania also lies along a developing route for the transit of synthetic drugs from Western and Northern Europe to the East. A large amount of precursor chemicals transits Romania from West European countries toward Turkey. Romania increasingly is becoming a storage location for illicit drugs prior to shipment to other European countries. In 2004, law enforcement officials made several important drug seizures and arrests and dismantled an international drug trafficking network. Heroin and marijuana are the primary drugs consumed in Romania; however, the use of synthetic drugs such as MDMA (Ecstasy) increased among segments of the country's youth. Officials also predict an increase in domestic heroin consumption.

III. Country Actions Against Drugs in 2004

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 throughout the country. The General Directorate for Countering Organized Crime and Anti-Drug (DGCCOA) operates at both the central and territorial level, with 15 local centers and 42 county offices for combating narcotics and organized crime. Joint teams of police and social workers carry out educational and preventative programs against drug consumption. Romania plays an active role in the Bucharest-based Southeast European Cooperative Initiative (SECI) Center's Anti-Drug Task Force.

Accomplishments. Romania worked to implement its 2003-2004 National Anti-Drug Strategy and developed a National Anti-Drug Strategy for 2004-2007. Romanian courts have sentenced several drug traffickers to long sentences under the narcotics law enacted in 2000. The Romanian Parliament modified the narcotics law in November 2004, reducing the penalties for cultivation, production, manufacturing, buying, or possessing narcotics for personal consumption from up to five years in custody to either six months to two years in prison, or a fine. Tougher sentencing provisions were retained for cases involving high-risk narcotics. Under the modified law, a person arrested for personal consumption of narcotics may be released without sanction if they enter a treatment program. The modified narcotics law coincides with recent narcotics cases involving family members of several prominent individuals, raising some concern that the new law could provide a loophole for politically connected offenders. 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. Legislation enacted in 2004 strengthened legal provisions against the use of precursor chemicals for illicit drug production.

Law Enforcement Efforts. In the first eleven months of 2004, Romanian authorities seized 426 kilograms of illegal drugs, including 64.9 kilograms of heroin, 7,734 amphetamine pills and 12,503 LSD doses. Over 15,000 kilograms and 2,000 liters of precursor chemicals also were seized. Police investigated 2,189 individuals for drug-related crimes and 524 individuals were convicted. Also in 2004, 213 drug trafficking rings were dismantled, including a Turkish-Romanian heroin trafficking network and a Bucharest-based heroin trafficking network. An international drug precursor chemical trafficking ring and a Spanish-Romanian cocaine and Ecstasy trafficking network also were dismantled.

Romania continues to modernize and reorganize the DGCCOA, Romania's primary drug fighting service. In 2003, the DGCCOA was reorganized into two divisions—an organized crime division and a counternarcotics division. The DGCCOA now has 165 officers, with 26 specializing in counternarcotics; it also has internal squads working undercover operations. In 2004, Romania nearly doubled the number of counternarcotics officers at both the county and regional levels, operating with 419 officers throughout the country. Intelligence analysis and physical-chemical analysis capabilities also were expanded at the regional level.

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 National Anti-Corruption Prosecutor's Office (PNA) began operation September 1, 2002 and has made some progress on investigating low and mid-level corruption cases. In April of 2004, Romania enacted a code of ethics for police officers, providing strict rules for the professional conduct of law enforcement. It specifically addresses corruption, use of force, torture, and illegal behavior. Unlawful or abusive acts may trigger criminal or disciplinary sanctions. In conjunction with the code of ethics, the government created a permanent commission within the Ministry of the Administration and Interior to monitor compliance with the code.

Agreements and Treaties. Romania 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. An extradition treaty is in force between Romania and the United States. A mutual legal assistance treaty came into force in October 2001. Romania is party to the UN Convention Against Transnational Organized crime and its three protocols, as well as to the UN Convention Against Corruption.

Cultivation/Production. Not applicable. This section is not applicable to Romania, because illicit drugs are neither grown nor manufactured in Romania, as far as the Department is aware

Drug Flow/Transit. Illicit narcotics from Afghanistan and Central Asia enter Romania both from the north and east, and through its southern border with Bulgaria. Land transportation methods include both cargo and passenger vehicles. However, drugs, primarily heroin, are also brought into the country via the Black Sea port of Constanta on commercial maritime ships and across the border with Moldova, as well as via the country's international airports. Once in Romania, the drugs move either northwest through Hungary, or west through Serbia. Police estimate that 80 percent of the drugs entering Romania continue on to Western Europe. Romania also is becoming an increasingly important route for the transit of synthetic drugs from Western and Northern Europe to the East.

Domestic Programs. 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. In the first eleven months of 2004, approximately 2,000 individuals were registered for treatment.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2004, the United States provided \$950,000 in assistance to further develop Romania's cybercrime and counternarcotics capabilities, to reform the criminal justice system, and to combat emerging crimes and counter official corruption. In addition, Romanian Police officers participated in U.S. Secret Service cybercrime training and received specialized software and computers. They have also participated in DEA and Customs Enforcement undercover operations training, focusing on drug related investigations. Romanian police officers participated in the U.S. Bureau of Customs and Border Security Canine Enforcement Officer training, as well. Romania also benefited in 2004 from approximately \$1.2 million in U.S. assistance to the Bucharest-based Southeast European 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, including the narcotics trade. The U.S. is a permanent observer country at the SECI Center and maintains a DEA Liaison Officer who assists in coordinating narcotics information sharing, maintains liaison with participating law enforcement agencies, and coordinates with the DGCCOA on case-related issues. A Resident Legal Advisor from the U.S. Department of Justice also is assigned to the SECI Center, providing guidance on drug trafficking investigations.

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. The United States will continue supporting Romania's efforts to strengthen its judicial and law enforcement institutions.

Russia

I. Summary

In 2004, the Government of Russia (GOR) intensified its counternarcotics efforts. President Vladimir Putin and other leaders frequently highlight the drug trade as a threat to Russia's national security in their public remarks. The State Committee for the Control of Narcotic and Psychotropic Substances (GKPN), which had been created in 2003, was reorganized and renamed the Federal Drug Control Service (FSKN). On multiple occasions, FSKN Director General Viktor Cherkesov has emphasized the need for international cooperation in order to confront drug traffickers, who operate without regard for borders. The FSKN has recently announced plans to station liaison officers in other countries. In 2004, Russia signed bi-lateral agreements on counternarcotics cooperation with China, Kyrgyz Republic, and Nicaragua. Heroin trafficking and abuse continue to be major problems facing Russian law enforcement and public health agencies. Opium cultivation and heroin production in Afghanistan have risen dramatically. With 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 crime and the number of HIV/AIDS and Hepatitis C cases, both related to increased intravenous drug use.

Russian forces have been guarding the border between Tajikistan and Afghanistan since 1992. Initially placed there to prevent incursions by Islamic extremists, narcotics interdiction has become one of their primary functions. In October, however, President Putin and Tajik President Emomali Rahmonov signed an agreement that provides for a phased withdrawal of Russian forces by 2006. Licit pharmaceuticals and precursor chemicals are frequently diverted to the illicit market in Russia. Perhaps the greatest concern in this area has been the diversion of Acetic Anhydride (AA), a precursor chemical essential for the production of heroin. AA produced in Russia is used in the manufacture of heroin in Turkey and Afghanistan. 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. Health education programs in schools are beginning to incorporate messages about the harmful effects of drug use and the links between injecting drugs and the transmission of HIV/AIDS. 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 both a transshipment point and a market for heroin and opium. Opiates transiting Russia originate almost exclusively in Afghanistan and are typically destined for Europe. The Russian border with Kazakhstan is roughly twice the length of the U.S.-Mexican border and is poorly monitored. Considering the resource constraints facing local law enforcement agencies, Russian authorities are unlikely to prevent a significant portion of the heroin entering their country.

The average price for a gram of heroin in 2004 remained steady in the thirty-dollar range. Per gram prices as low as ten dollars and as high as fifty dollars have been reported.

Synthetic drugs produced in Russia typically take the form of amphetamine-type stimulants (ATS) and heroin analogues like methadone. Ecstasy labs have also begun to appear in Russia, which are typically located in the Northwest of the country close to St. Petersburg and the Baltic States. In the early summer of 2004 a group of chemistry students at Moscow State University was arrested for selling MDMA they had produced in one of the school's labs.

Although the MDMA tablets produced in Russia are of poor quality, the low prices (as little as \$5) are attractive to Russian youth, compared to the \$20 typically charged per pill for MDMA tablets manufactured in the Netherlands.

In addition to AA, used in refining heroin, other precursors such as ergotamine (LSD), red phosphorous (methamphetamine), and acetone (several substances) are also produced in Russia. As of yet, there have been no reports of large-scale diversion of these other chemicals for illicit uses.

Cocaine trafficking is not widespread in Russia. Cocaine prices in Russia remain very high, though the drug is easily obtained by those who can afford it. Cocaine is frequently brought into Russia through the port of St. Petersburg. Sailors aboard fruit carriers and other vessels operating between Russian and Latin America provide a convenient pool of potential couriers. Cocaine also enters Russia smuggled in containerized cargo. Couriers traveling on commercial flights also smuggle cocaine into Russia, often operating through third countries, including the United States. The third largest cocaine seizure in Russian history is reported to have taken place in May 2004 in St. Petersburg when members of the Federal Customs Service and the FSKN seized a total of 29 kilograms. The cocaine had been brought to St. Petersburg by sailors aboard two freighters operating between Ecuador and Russia. Part of this cocaine was intended for distribution in Russia; the rest was destined for Germany where authorities recently made several arrests in a related case.

At a press conference in June 2004, FSKN Director Viktor Cherkesov cited Ministry of Health figures that placed the number of officially registered addicts in Russia at 390,000—up 14.7 percent from 340,000 as reported in 2003. Director Cherkesov further stated that FSKN estimates that four to five million Russians use illegal drugs on a regular basis.

According to the Ministry of Health, as of November 2004, there were 300,000 officially registered HIV/AIDS cases in Russia. This is a 10 percent increase from last year. The United Nations AIDS program and the GOR's Federal AIDS Surveillance Unit estimate the number of actual cases was at roughly one million at the end of 2003. Intravenous drug users made up about seventy percent of new HIV cases registered in 2001-2002. Eighty percent of those intravenous drug users who tested positive for HIV/AIDS also tested positive for Hepatitis C.

At the wholesale level, the heroin trade in Russia is dominated by Central Asians. Tajiks, Uzbeks, and others with ethnic and family ties to Central Asia transport Afghan heroin across the southern border with Kazakhstan and into European Russia and western Siberia. Retail distribution of heroin and other drugs is carried out by a variety of criminal groups. Again, these organizations are typically organized along ethnic lines with Central Asian, Caucasian, Russian/Slavic, and Roma groups all active in drug trafficking.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The FSKN was originally established in 2003 as the State Committee for the Control of Traffic in Narcotic and Psychotropic Substances (GKPN). Russian President Vladimir Putin issued an edict in July 2004 calling for the restructuring of the agency, which is now known as the Federal Drug Control Service (FSKN). Since FSKN's creation, Director Cherkesov has stressed the importance of attacking money laundering and other financial aspects of the drug trade. The FSKN has also continued its efforts to implement effective monitoring of the chemical industry. Prior to the creation of FSKN, precursor chemicals and pharmaceuticals were governed by a patchwork of regulations enforced by different agencies. For example, the Ministry of Health was responsible for pharmaceuticals, while the Ministry of Economic Development regulated import and export of chemicals. Pending legislation will make FSKN the sole regulator for controlled substances. Production, transportation, distribution, and import/export of controlled substances will all require

licensing from FSKN. The GOR has signed bilateral agreements on counternarcotics cooperation with the governments of China, Kyrgyz Republic, and Nicaragua.

Accomplishments. Russia now has a legislative and financial monitoring scheme that facilitates the tracking, seizure, and forfeiture of all criminal proceeds. Russian legislation provides for a variety of investigative techniques, such as search, seizure and the compulsion of document production. On February 1, 2002, Russia's financial intelligence unit, the Financial Monitoring Committee (FMC), became operational. (The FMC has since been renamed the Federal Service for Financial Monitoring or FSFM.) The FSFM has responsibility for coordinating all of Russia's anti-money laundering and counterterrorist financing efforts. Legislation passed in 2001 requires that financial institutions report suspicious transactions to the FSFM. According to sources in the FSKN, approximately 120 drug money-laundering cases had been initiated as of November 2004.

In 2004, Russia also passed new witness protection legislation. Russian law previously provided some protection for testifying witnesses, but the provisions were weak and ineffective. Police statistics indicate that six witnesses in criminal cases were murdered in Russia in 2003 and each year approximately one fifth of all witnesses are pressured to change their testimony. The new legislation, entitled "On Protection of Victims, Witnesses and Other Participants in Criminal Proceedings" expands protection to all parties involved in a criminal trial. Prosecutors or investigators may recommend that a judge implement witness protection measures if they learn of a threat to the life or property of a participant in a trial. Steps taken to protect a program participant could include personal and property protection, change of appearance, change of identity, relocation, and transfer to a new job.

Law Enforcement Efforts. Despite some initial growing pains, FSKN's investigative efforts are gaining momentum. For the first nine months of 2004, FSKN reports having seized more than 107 tons of controlled substances, including over a ton of heroin, and 162 tons of chemical precursors.

Corruption. Since its inception, controlling corruption has been a stated priority for the Putin administration. Implementing this policy, however, has been a constant challenge. Inadequate budgets, low salaries, and lack of technical resources hamper performance, sap morale, and encourage corruption throughout the ranks of law enforcement. This has led some observers to question the commitment and vigor of the Putin administration in fighting corruption within its government.

In 2004, there were several reports of corruption among low to mid-level law enforcement officers. Speaking in November, FSKN Director Cherkesov stated that roughly 100 law enforcement officers had come under suspicion of having ties to drug trafficking. In November, a joint FSKN/MVD investigation resulted in the arrest of an MVD Lieutenant Colonel, who stands accused of leading a gang of seven former police officers caught dealing heroin in Naro-Fomisk and Odintsovo (Moscow Region). 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. Russia also is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in women and children. Russia is also a signatory to the UN Convention Against Corruption.

Under the U.S.-Russia Mutual Legal Assistance Treaty (MLAT), which entered into force on January 31, 2002, the requested country is obligated to provide assistance if there is dual criminality and the other pertinent requirements of the treaty are met. If there is no dual criminality, assistance is discretionary. As a result of the treaty's requirement for designating a central authority and point of contact, a separate office responsible for implementing international assistance requests has been formed within the Russian General Procuracy. Under the MLAT, Russia has provided assistance to the U.S. 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 are cultivated. In Russia, there are small, illicit opium poppy fields of about one to two hectares. 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.

Cannabis grows wild throughout Russia and is also cultivated in quantities ranging from a few plants to plots of several hectares. As part of the annual “Operation Poppy” eradication effort, Russian authorities identified and eradicated a total of 1,066 individual incidents of illicit cannabis and poppy cultivation.

Drug Flow/Transit. Opiates (and hashish to a lesser degree) from Afghanistan are trafficked across the Central Asian borders into Russia. Contraband is typically carried in vehicles along the region’s highway system. The Russian cities of Yekaterinburg, Samara, Omsk, and Novorossisk have emerged as hubs of trafficking activity. Passenger trains are also frequently utilized by couriers. Air couriers on flights from Central Asia are widely known to carry drugs internally on what are known by Russian police as “drug flights.”

Cocaine destined both for Russia and redirection to Europe enters the country through the port of St. Petersburg. Synthetic drugs manufactured in Russia and Europe flow in both directions across Russia’s western borders. Again, much of this smuggling activity appears to be concentrated in the Northwest region around St. Petersburg. In 2004, there were multiple seizures of large quantities of ephedrine tablets that had originated in Turkey. These seizures were not associated with any evidence of large-scale methamphetamine production. Ephedrine tablets are often sold in Russia in their original form as a low-cost stimulant.

Russian forces have been stationed in Tajikistan since the dissolution of the Soviet Union and took responsibility for sealing the border with Afghanistan when civil war broke out in 1992. At that time, Russia’s stated goal was to prevent incursions by Islamic extremists. The stationing of Russian Border Guards in Tajikistan was formalized in a 10-year agreement signed in 1993. Since that time, narcotics interdiction has become one of Russian Border Guards’ primary functions. In 2003, Russian forces on the Tajik-Afghan border seized 4,501 kilogram of heroin and opium. This is more than half the total seized in all of Tajikistan in 2003 (7,924 kilogram). In the first nine months of 2004, the total quantity of heroin and opium seized by Russian Border Guards operating in Tajikistan stood at approximately 3,100 kilogram.

In May 2003, an agreement governing the presence of Russian forces on the Tajik-Afghan border was set to expire, and rumors of their imminent withdrawal began to circulate. After a summer of mixed signals from both sides President Putin and Tajik president Emomali Rahmonov signed a final accord in October 2004. The accord provides for a phased withdrawal of Russian forces to be completed by 2005. The Russians will leave behind facilities and equipment that will be taken over by the Tajik border guard service.

Demand Reduction. Russian authorities are attempting to implement a comprehensive counternarcotics strategy that would combine education, health and law enforcement. FSKN is tasked with demand reduction among its other responsibilities and has recently begun a large-scale public awareness campaign. Russian law enforcement authorities also believe that demand reduction should complement law enforcement efforts to reduce supply. With support from USAID’s “Healthy Russia 2020” project, demand reduction messages are being incorporated into a Ministry of Education sanctioned health education curriculum for high school students.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal U.S. goals in Russia are to help strengthen Russia's counternarcotics law enforcement capacity to meet the challenges of international drug trafficking into and across Russia and to strengthen and develop Russian law enforcement personnel, making them effective partners with U.S. law enforcement.

Bilateral Cooperation. 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. In 2004, DEA's International Training teams provided State Department-funded instruction to its Russian counterparts in basic drug enforcement, airport interdiction, and vehicle interdiction. Progress continued on the Southern Border Project, a joint INL/DEA effort that will lead to the establishment of three mobile drug interdiction task forces based in Orenburg, Chelyabinsk, and Omsk along the Russian-Kazakh border. Also, the U.S. and Russia worked together to provide canine training to counternarcotics law enforcement officials from four Central Asian countries. The U.S. also provided technical assistance in support of institutional change in the areas of criminal justice reform, mutual legal assistance, anticorruption and money laundering.

The Road Ahead. The GOR places high priority on counternarcotics efforts and has indicated a desire to deepen and strengthen its cooperation with the United States and other countries. The USG will continue to encourage and assist Russia to implement its comprehensive, long-term national strategy against drugs with multidisciplinary sustainable law enforcement assistance projects that combine equipment, technical assistance and expert advisors. In 2005, DEA is scheduled to provide State Department-funded counternarcotics training to over 100 trainees, drawn from the FSKN, the MVD, and the Federal Customs Service.

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. Slovakia is a party to the 1988 UN Drug Convention.

II. Status of Country

Levels of both consumption and production of narcotics in Slovakia remain relatively low; however, the domestic market for narcotics is growing and becoming more fully-developed. Demand for stimulants, mainly Pervitin and Ecstasy, is rapidly growing, and their use, along with that of marijuana, is quickly spreading into smaller Slovak towns.

The Government of Slovakia (GOS) remains concerned that Slovakia is a transshipment point for smuggled drugs and concentrates its interdiction efforts on east-west smuggling from Ukraine and Russia. Russian organized crime groups traffic Afghan heroin and cooperate with the established Albanian criminal groups using the Balkan route. The Albanian community is at the forefront of the heroin trade in the region, and they mainly use the southern Balkan route through Bulgaria and Croatia. EU accession and more open borders have created conditions for drug-related organized crime groups to take root in Slovakia, and most of them are based on ethnic principles. Street sales have not taken root in Slovakia, and the Roma (Gypsy) community dominates domestic drug distribution by selling drugs from their homes. Albanian groups supply the Roma sellers.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The national plan for the fight against drugs was revised for 2004-2008 and its revised version represents a comprehensive strategy to reduce drug use. The GOS also established a ministerial council for drug dependencies and drug control, which is mainly focused on education and prevention. Law enforcement ministries participate and implement their parts of the plan independently.

Law Enforcement Efforts. In the first half of 2004, there were 597 drug-related criminal cases in Slovakia. The number of cases involving synthetic narcotics increased 42.67 percent compared with the first half of 2003, and the share of synthetic drugs in overall drug-related crimes was 28.6 percent, up from 19.2 percent in 2003. Methamphetamines (precursor to Pervitin) accounted for much of the increase. The National Anti-Drug Unit (NADU) investigated 18 cases in Bratislava and 23 cases in other regions, representing a 29 percent decrease from 2003.

Accomplishments. The Ministry of Interior (MOI) underwent comprehensive organizational restructuring in 2004. The criminal and financial police, in which the NADU is located, merged with the MOI's security police. Slovak authorities hope the restructuring will facilitate better communication and shorten investigations. A specialized police agency targeting organized crime is also part of the reorganization. In this re-organization, the NADU lost some of its authority and is responsible only for the Bratislava region as a part of the Office for Fighting Organized Crime (OFOC). Other regional counternarcotics units have been incorporated into the OFOC, but they do not communicate with the NADU. Contrary to the 2000 GOS' resolution that called for an increase in the NADU's staff from 150 to 250 personnel, the MOI downsized the unit to 35 people when the MOI made it responsible only for the Bratislava region.

Corruption. Slovakia has made major legislative 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 passed in 2004, and a special prosecutor and court to fight corruption were set up. The head of the GOS' anticorruption office is a noted human rights lawyer who encourages the use of "sting" operations and introduced a "whistle blower" statute to protect government employees who talk to investigators about corruption in their offices. Successful execution of the newly-implemented measures remains a challenge.

Agreements or Treaties. Slovakia 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 extradition treaty between Czechoslovakia and the United States continues in force between the United States and Slovakia as a successor state. Slovakia is a party to the UN Convention against Transnational Organized Crime and its three protocols, and is a signatory to the UN Convention Against Corruption.

Cultivation/Production. The NADU reports that marijuana cultivation has increased in all regions of the country, and several groups are growing high-quality marijuana in laboratory conditions. However, the majority of marijuana used in Slovakia is still imported from Morocco, Lebanon, India, Pakistan and Afghanistan. It does not appear that heroin is being produced in Slovakia. Use of Ecstasy in Slovakia has increased, although there have been few reports of its production within the country. On the other hand, Pervitin is produced for mainly domestic consumption, and Czech "experts" are hired and consulted on production methods. In recent years police have discovered between 20-30 synthetic drug laboratories primarily dedicated to the production of Pervitin annually.

Drug Flow/Transit. The shared border with Hungary and Ukraine was the site of the greatest number of attempts to enter Slovakia with illegal narcotics. The greatest number of attempts to smuggle drugs out of Slovakia happened at the Czech and Austrian borders.

Domestic Programs. According to the 2003 Mini-Dublin group report, the GOS is among the highest spenders on preventative activities in relation to per capita GNP. Centers for education and psychological prevention focus on community outreach concerning drug use and function in half of the municipal districts of 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 law enforcement officials participated in several U.S. DOJ courses, funded by the Department of State. The classes were designed to promote the resistance to corruptive influences at the working level and to improve counternarcotics and organized crime detection/investigative skills. The USG's 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 similar program on the Slovak-Ukrainian border.

The Road Ahead. The USG will continue to encourage the GOS 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 EU membership in May 2004, and its goal of attaining full Schengen membership as soon as possible resulted in a continued intensive focus on border controls in 2003 and 2004. 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 2004 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 availability of the drug.

III. Country Actions Against Drugs in 2004

Policy Initiatives/Accomplishments. In June 2004, a two-year regional project sponsored by the European Union concluded. It was aimed at strengthening cooperation of law enforcement structures and other agencies such as Customs of EU candidate countries the areas of tracking, risk assessment and shipment controls among others. The project was extensive and extremely welcomed and highly valued by Slovene Police and Customs officials.

Law Enforcement Efforts. Law enforcement agencies seized 198 MDMA tablets in the first 11 months of 2004 compared with 2,536 MDMA-Ecstasy tablets in the first 9 months of 2003, 7,051 tablets in 2002, and 1,773 Ecstasy tablets in 2001. In 2004, 148.6 kilograms of heroin were seized compared with 77.24 kilograms in 2003, 65.6 kilograms of heroin in 2002, and 88.9 kilograms of heroin in 2001. In addition 16.6 kilograms of marijuana and 4893 cannabis plants were seized in 2004 compared with, 144.37 kilograms of marijuana seized in 2003, 1,083.8 kilograms of marijuana in 2002, and 170.56 kilograms of marijuana in 2001. In the first 11 months of 2004, 104.8 kilograms of cocaine were seized by Slovene authorities.

Corruption. Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs. 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 as a successor state. Slovenia is a party to the UN Convention against Transnational Organized Crime and its three protocols.

Drug Flow/Transit. According to the Slovene Criminal Code, in the first 11 months of 2004, the Slovene authorities registered 1,183 criminal acts involving the production of and trade in narcotic drugs and psychotropic substances and the facilitation of illegal drug use. There were several

substantial seizures of drugs in the first 11 months of 2004. The majority occurred at the Obrezje border crossing with Croatia. This is the primary border crossing international traffic coming from the southern Balkans to and through Slovenia. Those seizures were primarily of cocaine, heroin and cannabis. A total of 20 kilograms of heroin were seized in Ljubljana in late 2004.

Domestic Programs. Slovenians enjoy national 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, the USG expects to continue joint U.S.-Slovenian law enforcement investigation cooperation into 2005.

Spain

I. Summary

In 2004, Spain continued its efforts to enforce the 1988 UN Drug Convention as well as EU conventions on counternarcotics trafficking. Spanish National Police, the Guardia Civil and Customs Services interdicted record amounts of cocaine, hashish, and heroin and performed numerous enforcement operations throughout Spain to arrest distributors of synthetic drugs, such as LSD and Ecstasy. However, officials have acknowledged that Spain continued to be a significant transit point and top consumer of cocaine and hashish in Europe. This issue prompted the newly elected Socialist government to restructure its drug policy coordination body, the National Drug Plan (PND), by assigning responsibility of its harm reduction unit to the Ministry of Health and its supply reduction unit to two new offices that are under the administrative control of the Secretary of State for Security within the Ministry of Interior. The GOS ranks drug trafficking as one of its most important law enforcement concerns, and has continued to maintain excellent relations with U.S. law enforcement. Cooperation between GOS and USG officials on Spain's domestic narcotics efforts and joint enforcement efforts in Latin America is a top policy objective of the new Spanish government.

II. Status of Country

Spain remains a principal gateway for shipments of cocaine transported from Latin American countries, such as Columbia and Venezuela, or transshipped from West Africa through Morocco. Spanish police continue to seize large amounts of Moroccan hashish along Spain's southern coast, some of which is trafficked by illegal immigrants. The majority of heroin that arrives in Spain is transported via the Balkan route from Turkey. 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. This year, Spanish drug enforcement did not uncover any laboratories used to produce synthetic drugs. 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 by the Secretary of State for Security and the Spanish Customs Service since July 2004. Spain is a transit point to the U.S. for Ecstasy and other synthetic drugs produced mainly in the Netherlands.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Spanish strategy on drugs is directed by the PND, 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 reintegrate individuals who have overcome drug addictions into Spanish society. The strategy also targets money laundering and illicit commerce in chemical precursors, and calls for closer counternarcotics cooperation with other European and Latin American countries. Following a review of the demand side of the PND in July 2004, the Government agreed to restructure the PND by placing its harm reduction unit under the authority of the Ministry of Health. The Ministry of Health was particularly concerned about drug use among school children following a nationwide survey it conducted on drug use among 25,500 Spanish children aged 14 to 18. In September 2004, officials revealed that the survey showed that within the last year, 36.1 percent of Spanish school children said they had used cannabis (double the percentage reported in 1995); 6.8 percent had taken cocaine; and less than one percent had tried heroin. In November, a European Union annual report on narcotics revealed that Spain was the top consumer of cocaine and cannabis in Europe. On drug supply, the Government placed its policymaking unit in the PSD under the

competency of a two new offices under the Secretary of State for Security: the Cabinet for Analysis and Prospective and the Cabinet for Concerted Action on Drug Trafficking, Money Laundering, and Related Crimes in Department of Security of the Ministry of Interior to coordinate its policy agenda with counternarcotics enforcement agencies. Officials have stated that it would consider additional revisions to the PND before it is comprehensively reviewed in 2008.

The Secretary of State for Security coordinates counternarcotics operations among various government agencies, including the Spanish National Guard, the Spanish National Police, and the Customs Service. Their cooperation appears to function well. There is no evidence of corruption of senior officials or their involvement in the drug trade.

In 2003, Spain and Portugal signed a Treaty of Cooperation to prevent drug consumption and to control the illegal trafficking of controlled substances. The Treaty establishes a joint “Hispano-Portuguese Commission” to exchange information, to coordinate intelligence gathering and professional training efforts.

Law Enforcement Efforts. Spanish officials at the Ministry of Interior reported that drug enforcement agencies seized 23,000 kilogram of cocaine, 223 kilogram of heroin, 531,000 kilogram of hashish, and 622,000 units of MDMA between January and August 2004. Exact interdiction statistics based on comprehensive data collected by the Civil Guard and Spanish Customs Agency will not be available, however, until March 2005.

The following are some notable cocaine seizures in 2004. On February 12, 2004, the Guardia Civil and the Spanish Customs Service discovered 5,735 kilogram of cocaine aboard the fishing vessel “Lugo” in Galicia. Seven Colombian nationals were arrested in this incident. On April 24, Spanish authorities interdicted a British-flagged sailing ship, the “Diaosa Maat” that contained 2,700 kilogram of cocaine. On March 27, the Spanish National Police interdicted a ship in the Port of Valencia carrying 3,280 kilogram of cocaine. On December 1, police officials discovered 3,100 kilogram aboard the “White Sands” shipping vessels in Galicia. They arrested 24 individuals including 11 Colombian nationals.

Although Spanish drug policy officials reported a decline in the number of interdictions of synthetic drugs generally, Spanish authorities seized large supplies of Ecstasy. On July 22, Spanish national police seized nine kilograms of MDMA powder (approximately 180,000 pills) in the luggage of a Spanish passenger at Madrid’s international airport. On September 1, the police arrested a Spanish passenger en route to the United States who was carrying 39,100 MDMA tablets at the Barcelona international airport. On August 18, police interdicted 41,000 MDMA pills carried by a Spanish passenger traveling to Puerto Rico. On December 1, Spanish police arrested a major international Ecstasy dealer, Hank Romi, in Malaga by using information provided by the Madrid DEA Country Office.

On July 7, the Guardia Civil discovered laboratories in three apartments in Madrid containing chemical materials used to produce cocaine. Eleven Colombian nationals were arrested in connection with the incident. Authorities also arrested a Romanian passenger in possession of 6.3 kilogram of heroin. The Spanish National Police interdicted 70 kilogram of heroin in Toledo on July 21.

Hashish trafficking appears to be particularly acute in the region of Catalonia and in the Costa del Sol (Sun Coast) in the province of Malaga. Drug enforcement officials have estimated that they captured 40,000 kilogram of hashish in drug raids in Barcelona, Tarragon, and Levante in 2004. Authorities in Malaga reported that they captured 21,813 kilograms and arrested 490 persons for drug-related crimes in 2004. Officials have acknowledged that hashish traffickers, primarily from North Africa, now use the coast of Catalonia more frequently than Spain’s southern coast as an entry point for their trade because there are fewer counternarcotics patrols along Catalonia’s coast and along its border with France, where drugs can be more efficiently transported to other parts of Europe by road.

Some notable hashish interdictions include the capture of 3,030 kilogram of hashish in the Deletebre in Catalonia on March 21. Police arrested seven individuals in this incident. On September 7, Spanish counternarcotics agents captured 1,100 kilogram of hashish in Guadalquivir in Sevilla. Police arrested eight Spanish citizens in the incident. On December 3, counternarcotics agents captured 4,100 kilogram of hashish and arrested 27 nationals of France, Romania, Albania, Morocco, and Algeria in a nationwide drug investigation. Officials determined that those arrested were members of a narcotics Mafia based in Marseilles.

Agreements and Treaties. Spain is a party to the 1988 UN Drug Convention, and all of the convention's articles are applied in Spain. Spain is also a party to the 1990 Strasbourg Convention. Spain signed the UN Convention against International Organized Crime and its protocols in 2000. 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. On December 17, Spain and the United States signed an additional MLAT on judicial assistance that will facilitate further mutual cooperation on drug trafficking cases.

Spain is a party to European Conventions on Mutual Assistance in Criminal Matters, Extradition, the Transfer of Proceedings in Criminal Matters and the International Validity of Criminal Judgments. Spain has mutual legal assistance treaties or bilateral counternarcotics agreements with most countries in Latin America, as well as with Morocco, Israel and Turkey. Spain approved March 14, 2003, the European Union-wide common arrest and detention order, which facilitates the transfer of prisoners and suspects among EU states. This law took effect on January 1, 2004.

Spain is a member of the UNDCP major donors group and the Dublin group of countries coordinating narcotics assistance efforts. Spain also chairs the regional Dublin group for South America and North Africa. Spain also funds programs through the Organization of American States' Inter-American Drug Abuse Control Commission. Spain pledged USD 100 million to support Plan Colombia in 2003 and has pledged to continue to support the program in the coming years. Spanish aid is targeted towards institutional strengthening of police and judicial forces, alternative development, and demand reduction. Spain sponsors numerous training courses for police and judicial authorities in Latin America and Morocco to exchange information and best practices in the area of law enforcement on drug trafficking, money laundering and related crimes.

Cultivation/Production. Coca leaf is not cultivated in Spain, and cannabis is grown in insignificant quantities. For example, on August 27, police officials arrested the owner of a farm in Oviedo where they located 28 mature marijuana plants, 250 grams of dried marijuana plants, and a small amount of hashish. Opium poppy is cultivated under strictly regulated conditions for research. Refining and manufacturing of cocaine and synthetic drugs is minimal, with some small-scale laboratories converting cocaine base to cocaine hydrochloride.

Drug Flow/Transit. According to Spanish drug enforcement officials, most of the cocaine trafficked to Spain originates in Colombia, Peru, and Ecuador. Traffickers exploit Spain's close historic and linguistic ties with Latin America and its long southern coastline to transport drugs for consumption in Spain or distribution in other parts of Europe. Maritime vessel and containerized cargo shipments account for the bulk of the cocaine shipped to Spain. Spain remains a major transit point to Europe for hashish from Morocco; Spain's North African enclaves of Ceuta and Mellila are principle points of departure. Police officials acknowledge that traffickers are beginning to abandon traditional drug trade routes between the Strait of Gibraltar and the coasts of Huelva, Cadiz, Malaga, and Almeria, and are delivering hashish and other narcotics, to points along the coasts of Alicante, Valencia, Castellon de la Plana and Barcelona, regions not covered by Spain's electronic patrol system currently used along the Gibraltar Strait, the Integrated System for the Surveillance of the Strait of Gibraltar (SIVE). Spain's international airports in Madrid and Barcelona are transit points for passengers who intend to traffic

Ecstasy and other synthetic drugs, mainly produced in the Netherlands, to the United States. These couriers, however, are frequently captured before they leave Spain or when they arrive in the U.S.

Domestic Programs. The national drug strategy identifies prevention as its principal priority. In that regard, PND continued its publicity efforts targeting Spanish youth. Spain's autonomous communities provide treatment programs for drug addicts, including methadone programs and needle exchanges. Prison rehabilitation programs also distribute methadone. The Government has also provided approximately USD 5.4 million (4.1 million Euros) to assist private, non-governmental organizations that carry out drug prevention and rehabilitation programs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. U.S. goals and objectives for Spain are focused on maintaining and increasing the current excellent bilateral and multilateral cooperation in law enforcement and demand reduction. We seek to promote intensified contacts between officials of both countries involved in counternarcotics and related fields. Latin America remains an important area for counternarcotics cooperation. Spanish officials are working closely with the U.S. Narcotics Affairs Section at the American Embassies in Bogotá, Colombia.

The Road Ahead. The U.S. will continue to coordinate closely with Spanish counternarcotics officials through the Madrid Country Office. Spain will continue to be a key player in the international fight against drug trafficking.

Sweden

I. Summary

Sweden is not a significant illicit drugs producing, trafficking or transit country. The fight against illegal drugs figures among the government's top priorities and enjoys strong public support. In 2004 the number of seizures of illegal drugs decreased by 15 percent, while overall quantities seized increased by 6 percent. Amphetamine and cannabis remain the most popular illegal drugs. The government completed year three of its National Action Plan on Narcotic Drugs. Sweden actively participates in numerous international counternarcotics fora. Sweden is a party to the 1988 UN Drug Convention.

II. Status of Country

Swedish government and society are highly intolerant of illegal drugs. Sweden has approximately 27,000 seriously addicted drug addicts (i.e., regular intravenous use and/or daily need for narcotics). There are approximately 350 narcotics-related deaths each year. Government reports issued in June indicate that the overall numbers of young people who use drugs and of heavy drug users are declining. The December 2004 publication of results from the European Schools Project on Alcohol and Other Drugs (ESPAD) showed that 7 percent of Swedish sixteen-year-olds have tried cannabis and 3 percent have tried any other form of narcotic drug, as compared with European Union averages of 21 percent and 6 percent respectively. Sweden places strong focus on drug prevention and education.

Prime Minister Gran Persson has declared the fight against narcotics as one of his government's top priorities. To this end, Sweden has allotted approximately \$42 million to a National Action Plan on Narcotic Drugs, which began in January 2002 and runs through the end of 2005. Restriction of supply for youth figures prominently in the plan. Continued cooperation with countries in the Baltic region—where significant trafficking routes exist—constitutes an ongoing and important element in Sweden's counternarcotics efforts.

In 2004 Swedish Customs reported its first seizures of liquid steroids originating from China. In an attempt to reduce black market trade of the medicine methadone and of the related drug "Subutex," authorities limited the circumstances under which physicians may prescribe them.

Trends observed in 2004 include increased cocaine use among young drug users, and an increase in seizures of drugs within prisons. The National Prison and Probation Administration increased efforts to combat drugs in prisons. The use of Rohypnol (a powerful central nervous system depressant) dropped significantly during the year. Swedish Customs attributed the decline to a reduction in smuggling via Lithuania, the primary conduit for Rohypnol's entry into Sweden. Problems that arose in 2003 with the synthetic drug Fentanyl did not reoccur.

III. Country Actions Against Drugs in 2004

Accomplishments. The government's "Mobilization Against Drugs" taskforce continued to implement the National Action Plan on Narcotic Drugs established in January 2002. Its work during 2004 involved information campaigns and seminars throughout the country designed to raise awareness, in addition to the establishment and/or maintenance of networks with national and international NGOs.

The government initiated a two-year, \$100 million project to strengthen rehabilitation of drug addicts. It earmarked an additional \$30 million for preventive actions (chiefly information campaigns) for youth. The NGO CAN (Association for Information on Alcohol and Narcotics) launched an information website in a cooperative effort with other NGO's and government authorities.

Sweden continued to participate in several international fora including: the UN Commission on Narcotic Drugs (CND); the UN Drug Control Program (UNDCP); the Dublin Group; the Pompidou Group of the Council of Europe; the Comprehensive Action against Synthetic Drugs in Europe (CASE) project; the Nordic Police and Customs Initiative (PTN); and the European PHARE project on synthetic drugs and their precursors. Sweden is one of the major contributors to the UNDCP. Its 2004 contribution totaled approximately \$7.3 million.

In 2004 the government spent an extra \$1 million at the municipal level on drug preventive programs for young people, treatment for drug addicts, and special assistance for children of addicts.

Fighting drugs remains a high priority area for Sweden's official development assistance. The Swedish International Development Authority (SIDA) allocated about \$8 million in 2004 for multilateral and bilateral UN normative instrument projects against drugs and tobacco. SIDA also developed and secured government adoption of a new strategy aimed at deepening Swedish engagement within the UNDCP.

Law Enforcement Efforts. No major drug processing labs were detected during the year. Police reported 32,900 narcotics-related crimes for the January-September 2004 period. This represents a seven percent increase over the corresponding period of 2003. Approximately 30 percent of these arrests led to convictions under the Narcotics Act. The majority of the crimes involved consumption.

Corruption. There were no known cases of public corruption in connection with narcotics in Sweden during the year. Swedish law covers all forms of public corruption and stipulates maximum penalties of six years imprisonment for gross misconduct or taking bribes. The Narcotics Act contains severe penalties for the use and/or production of illegal narcotic substances.

Agreements and Treaties. Sweden has bilateral customs agreements with the United States, the United Kingdom, Germany, Spain, Norway, Hungary, Latvia, Slovakia, the Czech Republic, Iceland, Russia, Lithuania, France, Finland, Estonia, Poland, Denmark and the Netherlands. Through the EU, Sweden also has agreements with other nations concerning mutual assistance in customs issues and counternarcotics efforts. An extradition treaty and protocol are in force between the U.S. and Sweden.

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, as amended by the 1972 Protocol, and to the 1971 Convention on Psychotropic Substances. Sweden is a party to the UN Convention against Transnational Organized Crime and its protocol against trafficking in persons, and is a signatory to the UN Convention Against Corruption.

In 2004 Sweden joined the Container Security Initiative (CSI), a U.S. Government-sponsored program designed to safeguard global maritime trade. Through identification and examination of high-risk and/or suspect containers, CSI enhances security for the global trading system, deterring terrorism and hindering illicit traffic of all kinds. Two U.S. Customs Officials are currently based in Gothenburg in support of this program.

Cultivation/Production. Government reports noted that small cultivations of cannabis were detected and seized in Gotland, Halland, Lulea and Pitea. The seeds reportedly came from Copenhagen and/or were purchased via the Internet from other places. Some legal cultivation of hemp/cannabis for use in fibers occurs in Sweden, as allowed for under EU regulations on the cultivation of flax and hemp for fiber.

Drug Flow/Transit. Drugs mainly enter the country concealed in commercial goods, by air, by ferry, and by truck over the Oresund Bridge linking Sweden to Denmark. Statistics show that 70 percent of all seizures are made in the southern region. Despite increased smuggling through the Baltic countries and Poland, 75 percent of illicit drugs are smuggled through other EU countries. Most of the seized amphetamine originates from Poland, the Netherlands, and Baltic countries. Seized Ecstasy comes mainly from the Netherlands; cannabis from Morocco and southern Europe; and khat from Eastern Africa via Amsterdam and London. Cocaine often comes through Spain and the Baltic region. The route for heroin is more difficult to establish.

In 2004 law enforcement officials did not encounter any drugs intended for the U.S. market.

Domestic Programs and Demand Reduction. The National Institute of Public Health, and municipal governments, are responsible for providing compulsory drug education in schools. Several NGO's are devoted to drug abuse prevention and public information programs.

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 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, total drug-related arrests were down during 2003 by 4.7 percent. Across Switzerland five to ten per cent of police time is spent fighting drugs.

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 was rejected by parliament in June 2004.

One month later, a Swiss NGO known as "For the Protection of Youth Against Drug Criminality" initiated a new ballot initiative demanding the decriminalization of cannabis including the possession, consumption, and purchase for personal use. Supporters include well-known legislators from a wide political spectrum, physicians, scientists, prevention professionals, business leaders, as well as law enforcement and hemp industry representatives. The group collected 70,000 signatures over four months and is expected to collect the required total of 100,000 to bring the matter before the voters before the end of 2005.

In parallel, a zero tolerance federal ordinance against driving while on drugs (cannabis, heroin, cocaine, ecstasy) went into effect on January 1, 2005.

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. An international survey recently revealed that Swiss teenagers smoke more cannabis than their peers in more than 30 other European countries, with one in three Swiss 15-year-olds smoking pot at least once within the past year. There are an estimated total of 250,000 people who regularly smoke cannabis—nearly twice as many as a decade ago. Drug consumer arrests nevertheless dropped by 5.4 percent in 2003 and most concerned cannabis smokers.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Jurisdiction for all cases involving organized crime, money laundering, and international drug trafficking is with the federal prosecutor's office in Bern. Beginning January 1, 2002, it became illegal to advertise products that contain narcotics or other psychotropic substances without government certification. Violators who put human lives at risk 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. 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 federal public health figures show that the number of new HIV cases among intravenous drug users steadily declined from over 400 in 1991 to around 100 in 1997. Drug-related mortality increased dramatically by 16 percent from 167 in 2002 to 194 in 2003 (in contrast to a 6 percent rise the year before).

There are about 30,000 consumers of hard drugs in Switzerland; 2,500 addicts have been treated in medically supervised heroin programs, and 18,000 addicts are being treated using methadone as a substitute therapy.

Law Enforcement Efforts. The most current seizure and arrest statistics available cover the 2003 period. Cannabis seizures decreased from 23,210 kilogram in 2002 to 13,032 kilogram in 2003, and the number of narcotics apprehensions during 2003 decreased from 49,201 to 46,886 (-4.7 percent) percent, with wide disparities among cantons. Drug trafficking also increased by 5.9 percent during 2003 (down from +15.4 percent a year before), mostly involving cocaine, marijuana and heroin. The sharpest rise in drug trafficking arrests involved abuse of amphetamines, hashish and marijuana. Drug smuggling also increased by 4.4 percent, with dramatic redistribution among the cantons. The top cantons with historically significant drug smuggling activity are: Zurich (103, down from 991 arrests a year ago), Valais (44), St. Gallen (35), Basel City (26) Geneva (zero, down from 806), Bern (9, down from 434) and Vaud (9, down from 286).

During 2003, Swiss police seized just 13,032 kilogram of cannabis, in sharp contrast with the 23,210 kilogram seized in 2002 (-43 percent), 188 kilogram of cocaine (+1 percent), 300 kilogram of heroin (+44 percent), 20,599 doses of synthetic drugs (down from 88,342 doses the year before). Zurich police expressed concerns that the city had become the "hemp Mecca" of Switzerland, with an average of 30 shops selling hemp in several different districts of the city. Most of these shops sell hemp as a sideline to other ordinary goods. Zurich police believe that a single person has been behind this activity for the last 15 years. Swiss hemp is produced in the Zurich area, Aargau, Thurgau and St-Gallen, and large quantities are exported to neighboring countries.

Foreigners and asylum seekers play a significant role in the Swiss drug scene, especially in distribution. During 2003, 71.4 percent of the 3,649 drug traffickers, 78 percent of the 259 drug smugglers and 35 percent of the 37,464 drug consumers were foreigners. One fifth of those arrested originated from the Balkans (Albania, Former Yugoslavia, Bosnia) Africa (Sierra Leone, Guinea), Europe (France, Germany, Italy and Portugal). According to the Swiss Federal Police, there are three types of criminal organizations in the country: the West African networks involved in the cocaine traffic; Albanian gangs dealing in heroin and prostitution; and the money laundering networks consisting of persons from the former Soviet republics. Noticing that many resident aliens suspected (but not convicted) of drug dealing travel from canton to canton, several cantonal authorities increasingly ban drug dealers resident in another canton, or from certain areas such as the railway stations and schools. 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.

Drug Policy. Heroin prescription programs were only permitted for a limited period of five years, ending in December 2004. But on June 15, the Parliament extended the period until 2009. 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, who 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 does not encourage 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. Following the release of the "Zurich Drugs and Addiction Policy Report" made public in August 2004, Zurich authorities admitted that they had been so busy tackling the heroin addiction problem that other areas of addiction had been missed. After concentrating on the heroin problem for the past ten years, the city said it wanted to be more active in other areas such as encouraging the reintegration of all drug addicts. While heroin consumption is on the decline, the use of cocaine and Ecstasy is on the increase. A pilot project for the distribution of cocaine under prescription is underway but it is not being supported for the time being by the Federal Health Office in Bern.

Several drug arrests made especially noteworthy headlines: In late December 2003, Lausanne police arrested a German woman accompanied by her 2-year old child after they discovered 500 grams of Dutch heroin hidden in her shoes. Five other persons, including the smuggling ring leader, were later arrested. In a year, Lausanne police dismantled no less than 11 cocaine networks operating in the city. On February 28, 2004, Swiss customs arrested a Swiss-Guinean drug trafficker at the Geneva airport while he was about to depart to his home country. The police found 250,000 Swiss francs in cash and came to the conclusion that it was drug money. The suspect later acknowledged he was being used as a "mule" to repatriate other traffickers' funds. Another 430,000 francs had already been repatriated between August 2003 and January 2004. The police later arrested a drug trafficker from Sierra Leone with 13,000 Francs in his possession, and 400 grams of cocaine. According to the police, most drug smugglers are well integrated in the society and benefit from possession of a legal Swiss residency permit, which enables them to travel freely in Switzerland. Most of the proceeds of the sale of drugs are being laundered through the purchase of real estate in Africa, or second-hand cars for export to Africa. In March 2004, Lausanne police arrested 13 drug traffickers, all asylum seekers of Kurdish-Iraqi origin. Police originally found out about the heroin and cocaine network when citizens discovered drug doses hidden in Lausanne public parks. Investigators later found out that the traffickers were commuting by train between Lausanne and Geneva to sell the drugs. Police seized a total of 1.3 kilos of heroin and 500 grams of drug chemicals.

On March 9, 2004, a Tessin court sentenced Scott Blakey, a 40-year old Australian drug trafficker known as the "Hemp Guru," to 4 years in prison and a 10-year ban on entering Switzerland. The convict is believed to have played a significant role in a hemp shop in Tessin, selling no less than 5 tons of hemp in the Swiss and international market.

In May 2004, the Geneva investigative judge Paul Perraudin issued a legal assistance request to Saudi Arabia in connection with the alleged smuggling of cocaine by the Saudi Prince Naef al-Chalaan, founder of the now defunct Kanz Bank in Geneva. Naef al-Chalaan, now hiding in Saudi Arabia, is accused by French and U.S. authorities of smuggling several tons of cocaine from Columbia to Europe. In spring 2004, Neuchatel police dismantled 11 indoor hemp plantations (equivalent to 30,000 plants) located in the northern Val-de-Travers region close to the French border. Six people have so far been arrested. The media expressed concerns that the local police did nothing to prevent these activities, despite persistent rumors among the local population.

July 2004 was a busy month for narcotics arrests in Switzerland. Swiss customs in Tessin arrested a Dutchman at the Chiasso railway station after finding 8.6 kilos of cocaine hidden in a suitcase. The suspect was planning to cross the border to Italy. In the same month, an international network bringing

cocaine from South America to Switzerland was broken up in a joint operation by Swiss and German police agents. The investigation that lasted about six months showed that at the head of the network were a German national and his wife from Cameroon, a Nigerian residing in Switzerland, and another German national—a businessman in Ludwisburg (Germany). A total of 12 individuals were arrested and 7 kilogram of cocaine were confiscated worth \$600,245.00.

Also in July 2004, Tessin police arrested a 34-year-old Yugoslav near the Italian border after finding 10.5 kilos of heroin hidden in his car. Two other Yugoslav men and a Czech woman were arrested soon after. Police found in their apartments 40 grams of cocaine, several weapons including a Kalashnikov, a bulletproof jacket, and several cell phones. The arrests were the result of a joint investigation with the Bern counternarcotics police unit.

In July, Zurich police arrested several suspects including an 11-year old child and seized 5 kilos of heroin. Among those involved were three Turks, two Slovaks and one Iraqi. In a parallel police operation, Zurich police arrested five Dominicans and two Swiss and seized 650 grams of cocaine, Euro 9000.00, and Sfr 3,200.

Again in July, Swiss police reported several operations during which a total of twelve people were arrested and 45 kilogram of heroin seized. The arrests took place in the context of a long investigative procedure by the Federal Attorney General against a group from the Balkan Peninsula.

Still in July, Swiss customs arrested several drug smugglers from Nigeria after they found out that they had swallowed up to 1.2 kilo of cocaine using condoms.

Between July and September 2004, Zurich airport police and customs authorities seized over 68 kilos of narcotics (36 kilos of cocaine and 32 kilos of the narcotic plant “qat”). The narcotics were smuggled into the country in small quantities, carried in the traffickers’ stomachs or luggage, or hidden in their shoe soles, and in shampoo bottles. Those arrested included 20 men and 7 women from 12 different nations, ranging from between 18 and 57 years old.

In summer 2004, the Neuchatel Cantonal police managed to break an important cocaine ring in La Chaux-de-Fonds. The operation, planned for September, was carried out earlier due to the numerous complaints from parents and school officials concerned about the presence of drug dealers and drug abusers in the school areas. Thirty-four individuals from Western Africa were arrested. Sixteen of them did not have identity documents. Several others were identified as refused asylum seekers.

In August 2004, Norway deported a 44-year old drug trafficker to Switzerland following a Swiss international warrant. The man was the head of a drug smuggling network including 19 people in the Bern area. Swiss police believe that the group smuggled in several kilos of cocaine and heroin during the first half of 2002.

On August 5, 2004, the Lausanne police arrested a 32-year old drug trafficker from Guinea. The man is accused of smuggling and selling 5 kilos of cocaine over the last 4 years in the Lausanne area. Part of the money was used to purchase and export various vehicles and goods to Africa. The man was using two apartments rented by African students to store the drugs. In addition, 56 customers “well integrated in the Swiss society” were also arrested.

Following a six-month investigation, ending in October 2004, the Geneva police successfully broke an international cocaine trafficking ring. Fifteen nationals from Guinea are under arrest. About 25 kilogram of cocaine were confiscated during the investigation. The individuals arrested played a major role in supplying street dealers in Geneva. The drugs were produced in Latin America, shipped through Africa and delivered to European capitals, including Paris, Brussels, and Madrid.

On November 23, 2004, a criminal court in Fribourg sentenced a drug smuggler from Bern to a six-year prison sentence for smuggling 20 kilos of heroin from Kosovo to Switzerland. The man, born in Kosovo in 1969, was arrested in June 2002 at the southern Chiasso border post with Italy. Swiss

customs also found in his car \$19,348 in cash. This arrest was part of a wider counternarcotics operation named “Albatros 2” which succeeded in seizing 9 kilos of drug chemicals and arrested a total of 40 people.

During 2003, Swiss border guards reported that the amount of drugs seized at the border was “significant,” with cocaine seizures increasing from 118 to 138 kilogram, and heroin seizures decreasing from 135 to 96 kilogram. Swiss customs also reported that the number of illegal immigrants increased compared to the previous year, and that violence against border police was still a problem. The number of persons handed over to cantonal police also increased from 32,290 in 2002 to 34,063 in 2003.

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. 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. Ratification has been delayed until recently because of the provisions of the failed government bill aimed at decriminalizing marijuana use; because of the failure of this bill the Convention is expected to be ratified in the near future. The EU Schengen agreement being debated in Parliament explicitly requires members to comply with the 1988 UN Drug Convention requirements. Switzerland has signed, but has not yet ratified, the UN Convention Against Transnational Organized Crime, and is a signatory to the UN Convention Against Corruption.

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 with 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.

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 230 kilogram of heroin to severe drug addicts for maintenance programs in 2003, compared to 201 kilogram in 2002. Three-fourths was in ampoules for injection, while the rest was distributed in tablet form. During 2003, 1,262 addicts were enrolled in the heroin prescription program, a slight increase from 1,230 in 2002. Three-quarters of those enrolled were male. The number of slots available in heroin treatment centers also increased by eight to a total of 1364 units. The average level of usage for these centers is now 92 percent (2002: 90 percent). Medical treatment costs approximately \$19,323 per year per person, or \$53 per day. Twenty-five percent of the costs were paid for by the cantons, while 75 percent was paid by the individual’s health insurance. Average time in heroin treatment is 2.86 years. Of the 175 persons who terminated the heroin prescription program, 37.2 percent opted for the methadone-assisted programs, or an abstinence therapy.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. On March 15, 2004 Switzerland and the U.S. joined forces to curb the rise in illegal sales of prescription drugs over the Internet. The two countries called for international action in a resolution presented at the annual session of the UN Commission on Narcotic Drugs in Vienna. The joint resolution states that every country should introduce and enforce laws against the sale of narcotics and psychotropic drugs over the Internet. Swiss Medic, the Swiss Agency for Therapeutic Products, estimates that 4,000 to 8,000 packages containing medicines with narcotic drugs or psychotropic substances come across the border into Switzerland. The latest annual report by the UN's International Narcotics Control Board (INCB) highlighted that Switzerland had seen a large increase in seizures of narcotic drugs bought over the Internet, many of these originating from Pakistan. Pakistani authorities are said to be working with their Swiss counterparts to resolve the problem.

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 will urge Switzerland to use experiences gained in fighting terrorist money laundering to become more proactive in seizing and forfeiting funds from narcotics money laundering. The United States also will monitor Switzerland's 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 narcotics, but it is a major transit country for heroin and opium from Afghanistan. The opium/heroin moves through Tajikistan, onward through Central Asia, and then to Russian and other European markets. 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 relatively small but growing problem. Tajikistan's medical infrastructure is inadequate to address the population's growing need for addiction treatment and rehabilitation. The Tajik Government remained committed to fighting narcotics but is less equipped to handle the myriad social problems that stem from narcotics abuse. However, Tajikistan continued to implement a counternarcotics strategy and coordinated with the UN Office on Drugs and Crime (UNODC), as well as a growing number of bilateral donors. It has also participated in the UN Six Plus Two counternarcotics initiative, which targets against drugs leaving Afghanistan. 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 Nizhniy Pyandzh River crossing, 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, adversely affecting Tajikistan's economic prospects further. 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 narcotics 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 that use such chemicals.

III. Country Actions Against Drugs in 2004

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 that are designed to strengthen Tajikistan's drug control capacity. The DCA aims to centralize the Tajik Government's counternarcotics efforts and support drug treatment and rehabilitation efforts. During 2004, it conducted a number of operations, including several major seizures within Dushanbe itself. The Tajik Government continued to emphasize the importance of counternarcotics law enforcement in its public declarations, regularly declaring the drug trade to be a threat equal to that of international terrorism. The Tajik Government's resources for counternarcotics efforts remain limited, however, and the Government itself is vulnerable to pressure from prominent traffickers, many of whom are in a position to threaten domestic stability if seriously challenged. Although the 350 DCA officers are paid

ten times, on average, a Tajik salary, their specialized training makes them attractive to other organizations, which are in a better financial position than the government and can pay a higher salary. The head of the DCA has repeatedly noted the difficulty in retaining trained personnel.

One encouraging development is the Tajik Government's emphasis on interagency cooperation. Through a two-pronged multi-year UNODC project sponsored by the United States, 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 and better utilizing the indigent country's limited resources.

Accomplishments. The DCA became fully operational in April 2000 and has largely overcome many of its initial difficulties stemming from intra-governmental rivalries. It has recruited and trained a capable, well-regarded staff, and has worked to raise its profile in the country through public outreach efforts. The DCA also has extended its links with international organizations and foreign states while expanding its cooperation with other Tajik security agencies. In this vein, the DCA opened its offices in Moscow, St. Petersburg, Yekaterinburg, and Almaty and plans to open an office in Afghan Badakhshan by the end of 2005. The DCA Office in Kabul has been operating effectively since December 2003. On May 28, an international conference, "Strategy of Coordination of Control Over Drugs and Crime-Prevention in Central Asia," was held in Dushanbe under the aegis of the DCA. In September and November, a two-stage drug-prevention operation, "Channel-2004," was carried out by special services of member nations of the Collective Security Treaty Organization and resulted in detaining 30 drug traffickers and seizing more than 620 kilograms in the territory of the Republic.

Law Enforcement Efforts. During the first ten months of 2004, Tajikistan officials reported seizing 6,776 kilograms of illegal narcotics, including 4,459 kilograms of heroin, 1,706 kilograms of opium, and 567 kilograms of the cannabis group of drugs, and 44 kilograms of synthetic drugs. Heroin seizures decreased slightly when compared with the same time period from the previous year (5.1 metric tons). Tajikistan currently ranks third in the world for heroin seizures. Opium seizures also showed a slight decrease compared to 2003's ten-month total of 1,966 kilograms. This continues the trend of previous years, which demonstrated a shift from trafficking in opium to trafficking in processed heroin. Despite the fact that Tajikistan's drug enforcement structures have gained significant experience in countering drug trafficking, Tajikistan does not possess adequate police powers and resources to fight the problem. The Russian Border Forces (RBF), which have personnel stationed along the Tajik-Afghan border, continued to be responsible for almost two-thirds of the total seizures in country. Both the RBF and Tajik border forces continue to operate as Tajikistan's first and main line of defense against illegal narcotics trafficking. The withdrawal of Russian border troops by the end of 2005 may cause certain difficulties and might negatively impact Tajik drug interdiction efforts. Given low pay and high incentives for corruption, Tajik forces are at times unequal to the task.

Corruption. There is a good deal of public speculation regarding trafficking involvement by government officials. Speculation is targeted equally at prominent figures from both sides of Tajikistan's 1992-97 civil war. While it is impossible to determine how pervasive drug and other forms of corruption are within government circles, there appears to be a disparity when comparing the low salaries paid to government officials against the extravagant lifestyles many top officials appear to 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. There is no direct, verifiable evidence of senior Tajik officials engaging in illicit production or distribution of such drugs or substances. Nevertheless, the lavish lifestyles of some officials do give credence to corruption allegations.

Agreements and Treaties. Tajikistan is a party to the 1988 UN Drug Convention, the 1961 UN Single Convention on Narcotic Drugs, as amended by the 1972 Protocol, and the 1972 UN Convention on Psychotropic Substances. Tajikistan has signed the Central Asian Counter-Narcotics Protocol with the UNODC and neighboring Central Asian countries. Tajikistan is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in persons.

Cultivation/Production. Opium poppies and, to a much lesser extent, cannabis, are cultivated in very limited amounts, most in the northern Aini and Panjakent districts. Law enforcement efforts limited opium cultivation, but cultivation has also been limited because it has been far cheaper and safer to cultivate opium poppies in neighboring Afghanistan. In 2004, there were 228 registered cases of cultivation of plants containing narcotics substances, including 38 cases of opium poppy cultivation. In the course of continuous “Poppy Operation”, more than 4.9 hectares or about 291,137 plants have been eradicated, including 825 poppy plants.

Drug Flow/Transit. The Tajik government estimates that 85 percent of the narcotics produced in Afghanistan is smuggled across the border into Tajikistan’s Shurobod, Moskovskiy, and Pyanzh districts, according to Tajikistan’s statistics. While the Government may be seriously overestimating the percentage of Afghanistan’s drug production that transits Tajikistan (most observers believe the largest single share of Afghan drugs passes through Iran—especially in view of the sharp increase in use of the western/Turkmenistan route—the total volume of drugs transiting Tajikistan is certainly high and growing. One UN estimate put the amount of heroin from Afghanistan going through the country at roughly 80 to 96 tons a year. Hashish from Afghanistan also transits Tajikistan en route to Russian and European markets.

Domestic Programs (Demand Reduction). The DCA continued to expand and develop its initiatives aimed at increasing drug awareness, primarily among school children. The Tajik Government also publicly acknowledged and encouraged the involvement of domestic and international non-governmental organizations (NGOs) in this effort. This year, a youth center in Khorog was added to the Tajik Government’s programs to fight drug use among the youth and other at-risk groups. The Tajiks spent \$11,000 through the “Decrease of Demand For Drugs in Tajikistan And Uzbekistan” Program for the creation of a Rehabilitation Center for drug users in Badakhshan, and another \$5,000 for the construction of sport complex in Khorog; however, the number of young addicts continues to grow. Over 60 percent of Tajikistan’s drug addicts are in the 18-30 age group. The DCA also significantly expanded its public advocacy efforts in mass media outlets.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. Improved security in the region allowed U.S. officials to significantly increase their presence in Tajikistan, thereby creating an opportunity for expansion of bilateral counternarcotics efforts. The USG provided training for a number of Tajik law enforcement officials through the International Law Enforcement Academy in Budapest and Roswell. Eleven officers of the Tajik drug enforcement units participated in the Counternarcotics Training for Central Asian Law Enforcement Officers at Rostov Service Dog Training School in Russia. In addition to these efforts, officials from the U.S. Embassy in Dushanbe and the DEA Tashkent Office regularly met with Tajik counterparts to discuss narcotics control efforts.

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 USG will continue to provide law enforcement training and equipment for protecting the state border and countering drug trafficking. In light of the pullout of Russian border guards from the Tajik-Afghan frontier during 2005, assistance to Tajik interdiction efforts will be particularly important. The USG remains committed to working with the Tajik Government to increase its law enforcement and counternarcotics capabilities. The USG plans to

coordinate closely with European countries, including Russia, to maximize available resources for similar projects.

Turkey

I. Summary

Turkey is a major transit route for Southwest Asian opiates to Europe, and serves as a base for major narcotics traffickers and brokers. Turkish law enforcement organizations focus their efforts on stemming the traffic of drugs and intercepting precursor chemicals. Turkish law enforcement forces cooperate closely with European and U.S. agencies. While most of the heroin trafficked via Turkey is marketed in Western Europe, an increasing amount of heroin and opium also is smuggled from Turkey to the U.S. There is no appreciable cultivation of illicit narcotics in Turkey other than marijuana grown primarily for domestic consumption. There is no diversion from Turkey's licit opium poppy cultivation and pharmaceutical morphine production program. Turkey is a party to the 1988 UN Drug Convention.

II. Status of Country

Turkey is a major transshipment and heroin refining center. Turkey is also a base of operations for international narcotics traffickers and associates trafficking in opium, morphine base, heroin, precursor chemicals and other drugs. The majority of these opiates originate in Afghanistan, and are ultimately trafficked to Western Europe. A smaller but still not insignificant amount of heroin is trafficked to the U.S. via Turkey. Turkish law enforcement forces are strongly committed to disrupting narcotics trafficking. The Turkish National Police (TNP) 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. Opium for pharmaceutical is cultivated and refined in Turkey under strict domestic controls, and in accordance with all international treaty obligations. There is no appreciable illicit drug cultivation in Turkey other than marijuana grown primarily for domestic consumption.

Turkish law enforcement authorities continue to seize large quantities of synthetic drugs that have been manufactured in Northern and Eastern European countries. The majority of the synthetic drug seizures have occurred as the drugs were being shipped through Turkey to other countries in the Middle East.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The 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 flow of Afghan heroin to Western Europe) as well as in other regional efforts.

The Turkish International Academy against Drugs and Organized Crime (TADOC), established under the Turkish National Police (TP), continues to be the key agency leading the fight against drug abuse in Turkey. In 2004, TNP increased the number of drug training and prevention units it previously established in various provinces, to cover most parts of Turkey. These units conducted intensive training programs for parents, teachers and students in these provinces, making a major contribution to the GOT's drug prevention efforts.

Accomplishments. TADOC organized 79 training programs for local and regional law enforcement officers in 2004, mostly on narcotics smuggling and money laundering. The USG provided three of these training programs. A total of 257 foreign officers were trained at TADOC this year, including officers from the Balkans, Central Asia and Afghanistan. Syrian officials received counternarcotics training for the first time at TADOC this year. The UN conducted a drug abuse survey in 6 major cities in Turkey in 2004, which showed that there was no major increase in drug abuse in Turkey in the last couple of years. TADOC's academy director attributed this to the TNP's intensive training and prevention efforts throughout Turkey.

Law Enforcement Efforts. Through 22 December 2004, Turkish law enforcement agencies seized 8.9 tons of heroin, 4.7 tons of morphine base, 10.8 million dosage units of synthetic drugs, 8.9 tons of hashish and 206 kilograms of cocaine. In addition, the GOT law enforcement authorities have made more than 15,187 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 government 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. The Parliamentary Commission on Corruption conducted detailed investigations into one former prime minister and five former ministers. Results of these investigations were sent to the Supreme Court. The court cases for these officials have not yet been finalized. Another important step the GOT took against corruption in 2004 was preparing the Draft Law on Combating Corruption, which is currently on the General Assembly's agenda. The law defines the crimes that fall under corruption, as well as the prosecution procedures for these crimes. The law also calls for periodic training of public sector personnel on work ethics and corruption. Another law the GOT submitted to the Parliament this year, which is still awaiting the Commission's approval, is the law making December 9 Anti-Corruption Day in Turkey.

Agreements and Treaties. Turkey 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. Turkey also is a party to the UN Convention Against Transnational Organized Crime and its three protocols. The U.S. and Turkey cooperate in law enforcement matters under a 1981 treaty on extradition and mutual assistance in legal matters.

Cultivation/Production. Illicit drug cultivation, primarily marijuana, is minor and has no impact on the United States. The Turkish Grain Board strictly controls licit opium poppy cultivation quite successfully, with no apparent diversion into the illicit market.

Drug Flow/Transit. Turkey remains a major route, and storage, production and staging area, for the flow of heroin to Europe. Turkish-based traffickers and brokers operate in conjunction with narcotics 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 2004, 1.5 metric tons of acetic anhydride was seized in, or destined 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.

In 2004, Turkish authorities reported an increase in synthetic drug seizures throughout Turkey. Although Turkish law enforcement has not seen a large increase in synthetic drug manufacturing in

Turkey, Turkish National Police did report one synthetic drug laboratory seizure in Usak, Turkey in December 2004. For fiscal year 2004, a total of 7.7 million dosage units of synthetic drugs, predominantly amphetamine and Ecstasy, were seized in Turkey.

Demand Reduction. While drug abuse remains low in Turkey compared to other countries, the number of addicts reportedly is increasing. Although the Turkish Government is increasingly aware of the need to combat drug abuse, the agencies responsible for drug awareness and treatment remain under-funded. As of 2004, six Alcohol and Substance Abuse Treatment and Education 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. The most recent clinic was opened in Ankara in 2004 and will serve as the countrywide coordinating center for drug and alcohol treatment and education. The Health Ministry has not conducted a drug abuse survey since 1995 due to lack of resources. In 2004, the United Nations coordinated a survey in 6 major cities on drug abuse in Turkey. The survey did not demonstrate any major increase in the number of drug users compared to previous data provided by local NGOs.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives and Programs. Through fiscal year 1999, the U.S. Government extended \$500,000 annually in assistance. While that program has now terminated, during 2004-05 the U.S. Government anticipates spending approximately \$100,000 in previously-obligated 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 on the training and equipment they received from the U.S. and other international law enforcement agencies.

Road Ahead. U.S. policy remains to strengthen Turkey's ability to combat narcotics trafficking, money laundering and financial crimes.

Turkmenistan

I. Summary

Turkmenistan remains a major transshipment route and passage for traffickers seeking to smuggle contraband to Turkish, Russian and European markets from neighboring drug-producing countries. Turkmenistan is not a major producer or source country for illegal drugs or precursor chemicals. Turkmenistan shares a rugged and remote 744-kilometer border with Afghanistan, as well as a 992-kilometer boundary with Iran. Counternarcotics efforts are carried out by the Ministry of National Security (MNB), Ministry of Internal Affairs (MVD), State Customs Service (SC), Border Guards Service (SBS), and Prosecutor General's Office. The State Counter Narcotics Coordination Commission is an inter-departmental body responsible for coordination of the activities of concerned government departments. According to government of Turkmenistan (GOTX) statistics, law enforcement officers seized a total of about 563 kilograms of illegal narcotics in the first six months of 2004. The 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 transit narcotics across Turkmenistan and large-scale seizures are increasingly common. Mounting evidence, together with increased contacts with government officials and non-governmental organizations, strongly suggests that 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, although no cases have been officially reported. 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, 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 efforts at the Turkmen-Uzbek border are primarily focused on interdiction of smuggled commercial goods, thus opening up the possibility of increased drug smuggling by this route. U.S. Embassy officers, visiting Iranian crossing points in 2004, confirm that commercial truck traffic to and from Iran continues to be heavy. Caspian Sea ferryboat traffic from Turkmenistan to Azerbaijan and Russia continues to be an attractive smuggling route. Turkmenistan Airlines operates international flights connecting Ashgabat with Abu Dhabi, Bangkok, Beijing, Birmingham, Dubai, Frankfurt, Istanbul, London, Moscow, New Delhi, Almaty, Kiev, Tashkent and Tehran.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Turkmenistan has a multi-year national plan for counternarcotics activities. The plan began in 2001, and is in effect through 2005. It includes measures to address trafficking, legal reform of counternarcotics laws, treatment and rehabilitation of addicts and expanding international cooperation. During the past year, the president of Turkmenistan acknowledged that drug use and smuggling were a problem in Turkmenistan, and increased pressure on sometimes less-than-efficient law enforcement officials to improve counternarcotics efforts. The president also signed a new law on narcotic drugs, psychotropic substances, precursors and measures to fight their trafficking which made it easier to prosecute drug users and smugglers. The GOTX incorporated recommendations from the

UNODC and created rules to curtail usage and trafficking. The new law includes provisions for prevention and treatment programs.

Law Enforcement Efforts. The GOTX continues to give priority to counternarcotics law enforcement and in 2004 Customs and the Border Guards received equipment from the USG and international organizations. The EXBS program (to improve the capacity to detect smuggled WMD) installed an x-ray machine at the Serhetabad (formerly Gushka) border crossing and delivered spare parts and maintenance to the Point Jackson cutter based at the Turkmenbashi port. Night vision goggles, water trucks and binoculars were also provided to the SBS by EXBS—a U.S. program to improve border surveillance capacity for WMD. State department narcotics assistance supplied the newly created State Forensic Service (SFS), with drug and precursor identification kits and laboratory equipment to support drug interdiction efforts. The SC also purchased eight x-ray machines and installed them at border crossings. Turkmen border forces are moderately effective in detecting and interdicting narcotics and reported a total of 563 kilograms of illegal narcotics seized in the first six months of 2004. 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.

Corruption. Low salaries of Turkmen law enforcement officials, combined with their broad general powers, foster an environment in which corruption occurs. A palpable general distrust of the police by the Turkmen public, fueled by anecdotal evidence of police officers soliciting bribes under the guise of routine traffic stops, suggests a problematic level of corruption in Turkmen law enforcement. Reports linger that senior officials of the GOTX are directly linked to the drug trade, though these reports have not been confirmed. Payments to lower-level officials at border crossing points to facilitate passage of smuggled goods frequently occur. Such arrangements easily could facilitate drug trafficking.

Agreements and Treaties. Turkmenistan is a party to the 1998 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. Turkmenistan is not a significant producer of illegal drugs, although small-scale opium cultivation is thought to occur in remote mountain and desert areas. Each spring the GOTX conducts limited aerial inspections of outlying areas in search of illegal poppy cultivation. Upon discovery opium crops are eradicated by Turkmen law enforcement. Some sources within GOTX law enforcement agencies also report that the cannabis plants are being cultivated for domestic consumption in the country's remote areas.

Drug Flow/Transit. Turkmenistan remains a primary transit corridor for smuggling organizations seeking to transport opium and heroin to markets in Turkey, Russia and Europe, as well as for the shipment of precursor chemicals to Afghanistan. According to GOTX officials, the quantity of drugs intercepted this year along the Afghan border has increased due in part to their efforts, as well as the significant increase in poppy production in Afghanistan. Officially released 2004 data shows some impressive seizures but lack of prior comparable data makes it impossible to determine if these statistics represent a true improvement. GOTX authorities report that a number of Iranian armed smugglers who attempted to cross the border were shot by Turkmenistan law enforcement. They laud this as a success in counternarcotics trafficking. Officials have also pointed to problems with narcotics identification and have gratefully accepted technical training and equipment to allow them to improve their efforts.

Turkmenistan's nearly 1800-kilometer Uzbek frontier presents a formidable challenge to border security forces. In 2004 officials moved to upgrade many ill-equipped border crossing points. GOTX officials have expressed concern to U.S. embassy officers that the Uzbek frontier has increasingly become an attractive alternative for smugglers seeking to circumvent more stringent controls on Turkmenistan's southern borders.

Turkmenistan's two major border control agencies, the SC and the SBS, are significantly handicapped by a systematic lack of adequate resources, facilities and equipment in carrying out their drug enforcement duties. Most Turkmen border crossing points have rudimentary inspection facilities for screening vehicle traffic and lack reliable communications systems. The GOTX has supplied some computers, x-ray equipment, and dogs trained in narcotics detection; however, these efforts were initiated only in 2004 and significant investment in infrastructure, equipment and training is still required by the GOTX. Until meaningful legal and political reforms are initiated in Turkmenistan, it is likely to continue to serve as a major transit route for illegal drugs and precursors.

Domestic Programs/Demand Reduction. Currently, the Ministry of Health operates six drug treatment clinics. Narcotics users receive treatment at these clinics without having to reveal their identity. Regional media outlets have increasingly covered drug-related stories, U.S. and international narcotics treatment? Programs, have highlighted the dangers of drug addiction, and have informing the public about the availability of the state's treatment facilities.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The USG seeks to assist Turkmenistan in updating its law enforcement institutions and body of law to counter more effectively the illegal drug trade. In 2004 the GOTX made significant progress in cooperating with the USG. The GOTX facilitated training of customs, border, scientific and legal personnel throughout 2004. The GOTX's decision to cooperate in regional training and permit border visits to inspect crossing points has opened new opportunities to expand bilateral cooperation.

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 also will 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 2004. Ukraine has adequate counternarcotics legislation. The Government of Ukraine (GOU) continued to take 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 financial 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. 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

Although Ukraine is not a major drug producing country, it 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) and transiting through Russia, the Caucasus and Turkey further into the Western Europe. Some drug traffic routes through Ukraine originate in Latin America and Africa. Ukraine's domestic market is increasingly influenced by drugs trafficked from both Asia and Central and Eastern Europe (Poland, Romania, Baltic Republics). 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, especially on the north-east border with other former Soviet republics. Domestic use of narcotics continues to rise, and the number of drug addicts is increasing. Domestic drug abuse is marked by a growing trend of use of amphetamine-type stimulants (ATS).

III. Country Actions Against Drugs in 2004

Policy Initiatives. While Ukraine has domestic counternarcotics legislation sufficiently flexible to permit adequate counternarcotics enforcement, as part of its long-term counternarcotics strategy (See below) improvements in drug legislation are under consideration. In 2004 the Government of Ukraine continued to implement a comprehensive 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 to be implemented between 2003-2005, and stage two to be implemented between 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) in 2003, and nearly UAH 59 million (\$10.5 million) in 2004.

In Ukraine, counternarcotics enforcement responsibility is shared between the Ministry of Internal Affairs (MIA) with its domestic law enforcement function and the Security Service of Ukraine (SSU), which deals with trans-border aspects of drug traffic. The State Border Guard Service (SBGS) and State Customs Service (SCS) carry out certain drug enforcement functions in their respective field of operation, mainly drug interdiction customs borders.

In 2004 the Government of Ukraine proposed amending the existing counternarcotics legislation to further improve the regulation of licensed licit production and sale of narcotics, psychotropic substances and dual use precursors. The new legislation is currently pending in the Ukrainian Parliament.

Accomplishments. In 2004 Ukraine took initial steps to implement a wide-scale BUMAD (Belarus, Ukraine, Moldova Anti-Drug) Program sponsored by the European Union and designed to decrease drug traffic in these three bordering countries. As part of the BUMAD Program, Ukraine is strengthening its potential to collect, process and disseminate information on drug trafficking on both national and regional levels.

Law Enforcement Efforts. According to official statistics for 2004 (January through November), Ukraine authorities investigated approximately 62,886 narcotics cases, including: 17,119 instances of the sale of narcotics; 178 cases of money laundering; 2,610 drug dealer rings; 224 illegal drug labs. In addition, Ukraine law enforcement seized 24.06 tons of illegal drugs, and 2,884,500 square meters of illegal cannabis and poppy planting were destroyed.

In 2004, the MIA improved the institutional structure of its specialized Drug Enforcement Department (DED). It now consists of two large divisions and a number of operational bureaus. The total number of DED officers has increased by 7 percent over the past year for a total figure of 2,684 persons. In June 2004 the Ministry approved its agency program, which envisages enhancing the professional skills and equipment of its counternarcotics units. The MIA conducted four major nation-wide counternarcotics operations in 2004. In January 2004, the SSU seized approximately 1.7 tons of poppy straw, one of the largest seizures in the past decade. The seized poppy straw could have been used to prepare more than 140,000 doses of concentrated opium, which would have had a "black market" value of approximately \$380,000. In the first half of 2004, 24,481 drug cases were referred to Ukrainian courts or were pending from previous years, of which 16,913 cases were tried resulting in 13,897 convictions.

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 directly with narcotics, although it decreases the overall effectiveness of law enforcement efforts to combat organized crime, a major factor in the narcotics business. In 2004, there were no charges of corruption of public officials relating to drugs. 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 extremely 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 on Drugs and Crime (UNODC). Ukraine also 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 also is a party to the UN Convention against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in women and children, and is a signatory to the UN Convention Against Corruption. 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), many 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 and come into Ukraine mostly from Russia, the Caucasus and Turkey. Shipments are usually destined for Western Europe and arrive by road, rail, or sea, posing a lower risk than shipment by air or mail. Lately, experts noted an increase in heroin traffic from Turkey into Ukraine by sea and further by land across Ukraine's western border into Western Europe. Experts believe that enforcement along traditional Balkan drug traffic routes has improved, and that criminals are looking for additional trafficking channels. The low street price of heroin in countries such as Bulgaria, Macedonia and Serbia apparently supports this assumption. Drug traffic from Asia is increasingly controlled by well-organized international Afghan, Pakistani, and Tajikistani criminal groups, which use citizens of the former Soviet republics as drug couriers. At the same time, the high street price of heroin (\$70 per one gram) in Ukraine in 2004 testified to comparatively effective heroin interdiction efforts of Ukrainian law enforcement agencies. The largest segment of drug flow involves poppy straw and hemp/marijuana, which are the most popular types of drugs in Ukraine. They are usually produced and consumed locally and partially trafficked to Russia. The same types of drugs are also trafficked from Russia into Ukraine. These drugs are cheap and therefore are easily accessible.

The traffic of synthetic drugs and psychotropic substances from Poland and hard medical drugs from Romania and Moldova is growing. Criminal groups of mixed origin (Ukrainians, Polish, Belarusians and Russians), which formed in the 1990s and traditionally stayed away from drug traffic business, are now increasingly taking up this lucrative niche. The price of these drugs is lower than that of heroin and cocaine and therefore is attractive to young drug addicts. Other smuggling routes involve cocaine from Latin America and hashish from Northern and Western Africa. These routes transit Ukraine into Europe. However, the quantity of these drugs is comparatively small.

Another notable aspect of Ukrainian involvement in international drug trafficking is the number of Ukrainian nationals involved in the movement of cocaine from Latin America. While this expensive cocaine does not reach Ukraine, international law enforcement has been wary of Ukrainian sailors and ship captains who recruit themselves to Colombian drug trafficking organizations to transport bulk amounts of cocaine by ship. Some of the largest cocaine seizures off the coast of the United States were from ships manned by Ukrainian sailors.

Domestic Programs (Demand Reduction). Estimates of the number of drug abusers vary widely, up to one million reported by local NGOs in press reports. Drug addicts commit approximately 15,000 criminal offenses annually. Drug addiction is a cause of more than 1,000 deaths every year, according to Ukrainian health authorities. Marijuana and hashish are growing in popularity with young people; but 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 Czech-produced methamphetamines. Hard drugs such as cocaine and heroin are still too expensive for most Ukrainian drug users.

Despite major efforts to combat 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 in developing 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. Officers from the Drug Enforcement Administration, the Department of Treasury, and the Department of Justice have conducted a number of training courses and conferences funded by the Department of State in the areas of drug interdiction, forensic science, money laundering and management training.

The Road Ahead. Trafficking of narcotics from Asia and cocaine from Latin America to European destinations through Ukraine is on the upswing as drug traffickers look for new ways to circumvent West European customs and border controls. Demand reduction and treatment of drug abusers remain challenges requiring close attention. Law enforcement agencies need continued assistance in adopting modern techniques to fight drug trafficking, as well as to enhance interagency and international cooperation.

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 seventh year of a ten-year drug strategy launched in 1998 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 and is being effectively implemented. The UK is party to the 1988 UN Drug Convention.

II. Status of Country

Cannabis remains the most-used illicit drug in the UK; according to Home Office figures for 2002/03 (most recent available), around three million 16-59 year-olds reported using cannabis at least once in the past year. However, heroin and other major drugs remain a serious concern and govern the British government's active domestic and international drug policies.

Overall, the latest official surveys on drug use showed that in 2002/03 about 12 percent of those age 16-59 reported having used an illicit drug in the past year. Class A (i.e. hard) drug use among young people has been broadly stable since 1996 with recent drops in the incidence of use of some individual drugs, such as Ecstasy. 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. 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. Furthermore, drug use among the very young continues to be a problem. An independent study of drug use in 2003 among 11-15 year olds showed that use of any illicit drug was significantly higher in this age group than in the overall average, 21 percent. The study, published in 2004 by the National Centre for Social Research and the National Foundation for Education Research, indicated that, as with other age groups, cannabis was the most frequently used drug. It also reported an increase in the incidence of use of 'magic mushrooms' from 1 to 2 percent between 2002 and 2003, and an increase from 6 to 8 percent in the group reporting use of gas, glue, aerosols, or solvents.

Unofficial figures released in January 2005 from a survey of drug use in Britain by the Independent Drug Monitoring Unit (IDMU), a local NGO, indicate a sharp decline in prices for most major illegal drugs on the UK street market. Over the past ten years, prices of cocaine, heroin, cannabis, and ecstasy have all fallen between 32-70 percent; crack is the only exception, with prices fluctuating around an average of \$47.50 (£25).

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 a significant 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 crime overall.

III. Country Actions Against Drugs in 2004

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 2004, 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 drugs and has four emphases: to help young drug abusers resist drug misuse; 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 proposal 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 reduced the maximum sentence for possession of cannabis from five to two years in prison. There is now a presumption against arrest for adults for possession, though not for young people. Maximum penalties for supplying and dealing remain at 14 years. 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 are currently no plans to change the penalties for Class C offenses.

Arrests for possession of cannabis have fallen 30 percent in 2004, as police are encouraged to focus resources on Class A enforcement. Despite an aggressive government education campaign aimed at cannabis users, some police authorities report a lack of understanding on the part of offenders that the drug remains illegal and that they can be detained or prosecuted for possession or dealing.

Expenditures under the updated overall drug strategy are increasing 21 percent between 2002 and 2005, from \$1.95 billion (£1.026 billion) in 2002 to \$2.47 billion (£1.3 billion) in 2004, and up to \$2.85 billion (£1.5 billion) in 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).

Although fewer in number than other cocaine seizures, the number of crack seizures has increased steadily over the last ten years. Figures for crack offenders have also risen steadily. This trend prompted the UK government in 2002 to introduce a new strategy to target the crack problem, both by attacking suppliers and through developing treatment programs tailored for crack users. Under the National Crack Action Plan, existing crack treatment facilities have been evaluated for effectiveness and new sites have been opened. The government reports it has successfully used the “Antisocial Behavior Act of 2003” to close 150 crack houses in the first nine months of 2004.

Based on statistics showing an increase in drug-related deaths, the government launched a specific action plan to tackle this problem in November 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. Latest statistics indicate that drug-related deaths between 2001 and 2002 dropped 4 percent, to the lowest levels since 1998.

In May 2003, the government launched a \$5.7 million (£3 million) multimedia campaign called “FRANK”, which offers help and advice to anyone who may be affected by drugs. The latest information cites over 650,000 calls to the FRANK help line. The UK now has drug education programs in all schools, supported by a certificate program for teachers, and is reviewing the education packages for effectiveness. The education programs are linked to the FRANK help line services. “Positive Futures,” a sports-based program started in 2000 to specifically target socially vulnerable young people, has served 50,000 young people since its inception 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 54 percent increase of people in drug treatment programs since 1998. An additional \$407 million (£214 million) has been allocated over three years (2002-05) for both community and prison treatment programs. National Health Service statistics show a 50 percent increase in trained drug treatment professionals and a drop in waiting times for treatment from 6-12 weeks to 2-4 weeks since 2002.

Legislation was passed in 2000 under the Criminal Justice and Court Services Act giving 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 bail may be denied or restricted if an offender refuses a test or refuses treatment after a positive test. Testing also is extended to offenders serving community sentences and those on parole. Under the Criminal Justice Interventions Program created in January 2003, now called the Drug Interventions Program, the UK government targeted this testing regime to the 30 areas most affected by drug-related crime; 36 additional areas were added in April 2004, with a 2004/05 budget of \$287.3 million (£151.2 million). In 2004, an average of 5,000 offenders per month were tested for Class A drugs under the program, and 1,500 people per month were sent to treatment. An additional 30 areas will be targeted from April 2005. The overall total budget for three years will reach \$849.3 million (£447 million). The goal for 2008 is to have 1,000 people per week entering treatment.

The Drug Interventions Program is designed to mesh with the existing program of Drug Treatment and Testing Orders (DTTO). DTTO is a community-based sentencing program that authorizes 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 2000, after the pilot program demonstrated that the combination of treatment and random testing significantly reduced illegal drug use and criminal activity of offenders subject to the Order, it was rolled out nationally in England and Wales. 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 January 2003 and September 2004 15,090 DTTOs were issued in England and Wales.

In January 1999, the Home Secretary announced an initiative to reduce smuggling of drugs into prisons, and the government launched a prison service drug rehabilitation program. Counseling, assessment, referral, advice, and treatment (CARAT) services are now available in every prison in England and Wales. The program is linked to another initiative 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 government runs 77 different types of drug rehabilitation program in prisons, including a high-intensity short duration program and plans to expand the number of programs available to 117 by March 2006.

Under the UK's devolved government system, Scotland and Northern Ireland have separately articulated policies and independent judicial systems. However, they have published and implemented similar counternarcotics strategies linked to the goals and policies outlined by the central UK government.

The UK attended the International Conference on Reconstruction for Afghanistan in January of 2002 and pledged to give \$330 million (£200 million) to Afghanistan over four years. Through the Department for International Development (DFID), \$107 million (£65 million) has been given to Afghanistan for humanitarian and reconstruction purposes. (To be updated.)

The UK has taken lead responsibility for coordinating international assistance to Afghanistan to help the Transitional Afghan Government's counternarcotics efforts. Starting with the 2003 crop, the aim is to reduce opium production by 70 percent by 2008 and completely eliminate it by 2013. A combination of measures will be employed, including eradication, improving security and law enforcement capacity, and implementing reconstruction programs to encourage farmers to move away

from poppy cultivation. The UK government announced in December 2004 that it would increase its spending on this initiative from \$133 million to \$190 million (£70 million to £100 million) over the next three years. The UK cooperates very closely with the U.S. and other international donors on these efforts.

In Iran, the UK helps fund a UN counternarcotics program, as well as offering bilateral assistance for drug interdiction efforts. The UN project covers training and equipment primarily to strengthen counternarcotics work on Iran's borders with Afghanistan and Pakistan. British assistance includes direct training and equipment to enhance Iran's exit border with Turkey, filling gaps in the UNODC's Iran project.

Law Enforcement Efforts. The UK gives a high priority to counternarcotics enforcement and 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. The "Proceeds of Crime Act," which took effect in January 2003, has significantly improved the government's ability to track down and recover criminal assets. Official figures indicate that \$159.6 million (£84 million) has been seized under the act to date.

The number of drug seizures rose in 2001 and 2002 by 5 percent in both years (most recent detailed statistics)—131,190 in 2001 and 137,340 in 2002. Cannabis seizures represented 75 percent of all seizures. The number of seizures involving amphetamines, cannabis, and crack rose in 2002 by 2 percent, 9 percent, and 15 percent respectively. Seizures of cocaine, ecstasy, heroin, and LSD fell by 5 percent, 21 percent, 16 percent, and 65 percent respectively. Preliminary figures state that between April 2002 and December 2003, HM Customs seized 26,079 kilograms of cocaine and 11,044 kilograms of heroin and "disrupted" 330 organized crime groups. In the first nine months of 2004, they reported seizing 18,456 kilograms of the two drugs combined "targeted at the United Kingdom" and disrupting 121 organized crime groups.

The number of known drug offenders fell to 102,600 in 2001, before rising to 113,050 in 2002. The majority of these were cannabis offenses. Heroin offenders were the largest group of known Class A drug offenders, accounting for 12 percent of all known offenders in 2001 and 10 percent in 2002. About 90 percent of all persons dealt with in the courts for drug offenses were male. From 1998 to 2002, offenders under the age of 21 have consistently represented about 40 percent of all offenders.

A progress report issued jointly in December 2004 by the Prime Minister's office and the Home Office noted that the UK government plans to launch a special three-month enforcement campaign in January 2005 to focus on crack houses and drug-related gun crime. In the report the UK government pledged to seek new legislation in 2005 to give police and the courts tougher powers to tackle drug dealers and drug-related crime. It also plans to bring together elements of the National Crime Squad, the National Criminal Intelligence Service, and the drug enforcement arm of HM Customs to form the Serious Organized Crime Agency with the goal of further improving enforcement efforts.

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 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 UK extradition statute, which entered into force in January 2004, 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 United States and United Kingdom also have a judicial narcotics agreement and an MLAT relating to the Cayman Islands, which extends to Anguilla, the British Virgin Islands, Montserrat, and the Turks and Caicos Islands. 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 imported from continental Europe, but some are manufactured in the UK in limited amounts. Authorities destroy crops and clandestine facilities as detected. U.S. authorities have been concerned about a growing incidence of production 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 were some instances of trafficking of GBL to the United States in 2003. DEA has had two very significant investigations in which UK nationals were operating websites offering GBL for sale to the U.S. via post. In early 2004, the UK police executed a search warrant on one of these targets, but had to leave a large drum of GBL behind at the suspect’s house, as GBL is not a controlled substance in the UK. Police did seize some individual parcels that were ready to be shipped to the U.S., as they were mislabeled. DEA has asked that urged the UK to control GBL and the UK is active in EU-wide discussions on control of this substance.

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 eventually imported into the UK, although Turkish criminals in the Netherlands and Belgium also channel heroin to the UK. Pakistani traffickers also play a significant part; most of the heroin they import, normally in small amounts by air couriers traveling direct from Pakistan, is destined for British cities where there are large South Asian populations. Caribbean criminals (primarily West Indians or British nationals of West Indian descent) are involved in the supply and distribution of heroin as well as cocaine. Most heroin probably enters the UK through ports in the southeast, although some enters through major UK airports with links to Turkey, Northern Cyprus, and Pakistan.

Hashish comes to the UK primarily from Morocco. Cocaine imports are estimated at 25-40 tons a year and emanate chiefly from Colombia. Supplies of both cocaine and crack cocaine reach the UK market in a variety of ways. Around 75 percent of cocaine is thought to be carried across the Channel from consignments shipped from Colombia to mainland Europe and then brought to the UK concealed in trucks or private cars, or by human couriers or “mules.” Traffickers based in the UK are the organizers of this smuggling.

The Caribbean, chiefly Jamaica, is a major transshipment point to the UK from Colombia. Cocaine comes in both by airfreight and by couriers, normally women, who attempt to conceal internally (i.e., through swallowing in protective bags) up to 0.5 kilogram at a time. A synthetic drug supply originates out of Western and Central Europe: amphetamines, ecstasy, and LSD have been traced to sources in the Netherlands and Poland; some originates in the UK.

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 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 trade routes facilitate the transit of these narcotics to Russia and Europe. There is a growing market for a variety of narcotics and consequently a growing problem with drug addiction and the spread of HIV/AIDS. The Government of Uzbekistan 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 about 1,200 kilograms of illegal narcotics in the first nine months of 2004. Uzbekistan is a party to the 1988 UN Drug Convention, and the government considers the fight against drugs to be a high priority.

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 for destinations in Russia and Europe. Drug seizures in 2004 were up 50 percent from 2003. Precursor chemicals have in the past traveled the same routes in reverse on their way to laboratories in Afghanistan and Pakistan. Effective government eradication programs have eliminated nearly all the illicit production of opium poppies in Uzbekistan.

III. Country Actions Against Drugs in 2004

Policy Initiatives. A decree signed in 2002 to implement a multi-year comprehensive plan to address all aspects of the narcotics problem in Uzbekistan remains in effect through 2005. The plan includes measures to address trafficking, demand reduction, coordination of efforts among law enforcement entities, legal reform of the criminal code, treatment and rehabilitation of addicts, and deepening international cooperation for counternarcotics efforts. The plan also lists specific goals to be accomplished, gives timelines for actions, assigns responsibility to agencies, indicates funding sources, and requires detailed documentation to show progress or completion. The plan assigns tasks to all relevant ministries, the National Security Service, Border Guards, State Customs Committee, National Drug Control Center, Prosecutor's office, oblast and city mayors' offices, mahallas (neighborhoods), Uzbekistan Airways, and others.

For several years, many of these organizations have successfully worked together on the annual project "Operation Black Poppy," which combines intelligence collection, interdiction of smugglers, eradication of cultivation, and demand reduction. The demand reduction efforts have focused on a coordinated community policing effort, in which police officers work with local government and education officials to visit schools and other large institutions to discourage illicit drug use. Uzbekistan has also launched a comprehensive media campaign to combat drug usage and the spread of HIV/AIDS.

In June 2004, the GOU signed a U.S.-proposed amendment to the August 14, 2001 "Agreement on Narcotics Control and Law Enforcement Assistance Between the Government of the United States of America and the Government of the Republic of Uzbekistan." These agreements provide for U.S. assistance to Uzbekistan, and are amended in the years following their first negotiation to increase assistance levels to on going programs or to agree to begin new assistance programs. This agreement established the framework to support projects designated to enhance the capability of Uzbek law enforcement agencies in efforts against narcotics trafficking and organized crime. The amendment

includes provision of technical assistance in investigating and prosecuting narcotics trafficking cases. Implementation of various counternarcotics programs, including a DEA-sponsored investigative unit, judicial and legal reform, and enhancement of border security, continues under two other amendments signed in 2003.

The GOU is interested in the establishment of a Regional Law Enforcement and Counter-Narcotics 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. Uzbekistan also supports the establishment of a regional intelligence body that would promote information exchange among the Central Asian states, Russia and other countries regarding narcotics trafficking and interdiction.

The Uzbek criminal justice system suffers from a lack of modernization/reform, mainly judicial and procedural reform, and standards remain below international norms. The Uzbek criminal justice system is largely inherited from the Soviet Union—the executive branch and Prosecutor General’s Office 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.

Accomplishments. Uzbekistan continues to work toward the goals of the 1988 UN Drug Convention on combating illicit cultivation and production within its borders. The annual “Black Poppy” eradication campaign has virtually eliminated illicit poppy cultivation. In the first nine months of 2004 the operation eradicated 1.7 hectares of illicit drugs.

Efforts to achieve other convention goals are hampered by the lack of effective laws, programs, money, appropriate international agreement, and coordination among law enforcement agencies. The UN Office on Drugs and Crime (UNODC) is continuing its efforts to implement important projects, focusing on improvements in law enforcement, precursor chemical control, and border security.

Law Enforcement Efforts. Preliminary statistics from the National Center for Drug Control show that in the first nine months of 2004, Uzbek law enforcement seized a total of 1,200 kilograms of illicit drugs. Confiscated heroin accounts for approximately 42 percent of that total; opium was 33 percent of the 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 (which now includes the Border Guards) 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 during their normal course of duties). Despite this apparently clear delineation of responsibilities, a lack of operational coordination diminishes the effectiveness of counternarcotics efforts. The National Center for Drug Control was designed to minimize mistrust, rivalry and duplication of effort among the agencies. The Center continues to have difficulty accomplishing this goal.

None of the law enforcement agencies concentrates exclusively on counternarcotics crimes, but there are about 1,500 law enforcement officials in the various agencies charged with counternarcotics activities. The MVD, although it has 800 officers dedicated to counternarcotics, is also the national police force with a full range of law enforcement responsibilities. In addition, the SIU, which became operational in 2003, continues to operate with success. The NSS is the successor to the KGB and includes intelligence and counterespionage in its portfolio and has about 200 officers (including Border Guards) dedicated to counternarcotics efforts. The Customs Committee has about 80 officers working on counternarcotics matters. In 2004, training and equipment were provided to Customs, MVD, NSS, and the Prosecutor’s Office under the bilateral agreements (Letters of Agreement) between the United States and Uzbekistan to provide narcotics-related assistance.

According to National Center reports, most smuggling incidents involve one to two individuals, likely backed by a larger, organized group. Resource constraints, however, have limited the GOU's ability to investigate these cases. In general, information that has been gathered suggests smuggling rings are relatively small, family-run operations, with no single group controlling any region or the whole country. Smuggling rings tend to be located on the border between Uzbekistan and Tajikistan, where family members can cross the border relatively freely. There is also reporting which indicates smuggling activities continue to grow along the Turkmen-Uzbek border.

Lack of money for equipment and training remains the greatest difficulty faced by all Uzbek agencies. Therefore, they rely heavily on international assistance from the UNODC, the U.S., the UK, and other countries to supplement their own thinly funded programs. The European Community and OSCE are beginning to focus more heavily on Uzbekistan and Central Asia. Basic necessities, such as uniforms, footwear, and reliable all-terrain vehicles to replace aging Soviet-era equipment, remain in short supply.

Corruption. The GOU does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. In 2004 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 those convicted. 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.

Agreements and Treaties. Uzbekistan 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 its 1972 Protocol. Uzbekistan is also a party to the UN Convention Against Transnational Organized Crime. Uzbekistan signed the Central Asian Counter-Narcotics Memorandum of Understanding with the UNODC. Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan signed an agreement in September 1999 on cooperation in combating transnational crime, including narcotics trafficking. The five Central Asian countries, as well as Azerbaijan, Georgia, Iran, Pakistan, and Turkey, are members of the Economic Coordination Mechanism supported by the UNODC.

Cultivation/Production. "Operation Black Poppy" has all but eliminated illicit opium poppy cultivation in Uzbekistan. National Center estimates indicate only a miniscule 1.7 hectares of land was used for illegal narcotics cultivation in 2003.

Drug Flow/Transit. Several major transnational trade routes facilitate the transportation of opiates and cannabis from Afghanistan through Uzbekistan 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 as well as on trains coming from Tajikistan.

The National Center and UNODC report that trafficking also continues along traditional smuggling routes and by conventional methods, mainly from Afghanistan into Surkhandarya oblast and from Afghanistan via Tajikistan and Kyrgyz Republic into Uzbekistan. The primary regions in Uzbekistan for the transit of drugs are Tashkent, Termez, Fergana Valley, Samarkand and Syrdarya.

Domestic Programs. According to the National Drug Control Center, there are approximately 19,440 drug addicts in Uzbekistan; however that number is likely closer to between 25,000 and 30,000, according to NGOs working on drug treatment in Uzbekistan.

According to the National Center, 1,932 new addicts were registered in the first half of the year. There are no official estimates for unregistered addicts. However, the number of registered addicts is believed to reflect only 10-15 percent of the actual drug addicts in Uzbekistan. During the last few years, there was an alarming growth in the number of persons who are HIV positive, 3,867 people tested positive in the first 6 months of this year, a 52 percent increase over 2003. This number only

includes people who are brave enough to come forward for testing. Fifty-nine percent of persons infected with HIV/AIDS are drug addicts. Hospitals with drug dependency recovery programs are inadequate to meet the increasing need. The Ministry of Health and National Drug Control Center recognize the need to focus increased attention on the problem but the ministry does not have sufficient funds to move forward. Drug awareness programs are administered through NGOs, schools and the mahalla (neighborhood) support system.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. The goals of the 1998 and 2001 counternarcotics Letters of Agreement between the United States and the Republic of Uzbekistan focus on the prevention of illicit drug activities in and through the territory of Uzbekistan and the need to increase the effectiveness of the fight against the trade in illicit narcotic substances. The Drug Enforcement Administration (DEA) and the Bureau of International Narcotics and Law Enforcement Affairs at the Department of State continued to sponsor a Sensitive Investigation Unit (SIU) in the Ministry of Internal Affairs. The SIU became operational in May 2003 and has been working successfully ever since. It has conducted several undercover and international operations and dramatic increases in seizures during the first 9 months of 2004 are in part due to the work of the unit. The SIU, fully funded by the USG, continues to receive training and equipment from DEA and will be expanded with additional officers in 2005. DEA has also worked with Uzbekistan to establish a regional drug information sharing pilot project, which began with USG funding in October 2004. A U.S.-funded Resident Legal Advisor also works in Uzbekistan to address legal and judicial reform. The Ministry of Foreign Affairs signed an amendment to the 2001 agreement to implement further counternarcotics projects in Uzbekistan in 2004. In 2004, the U.S. Department of Defense appropriated funds for Uzbekistan toward counternarcotics efforts. Under this funding, training and equipment, including two patrol boats delivered to the Border Guard Maritime unit on the Afghan border. Further DOD counternarcotics training is planned for 2005.

Bilateral Cooperation. In addition to the various training and equipment program described above, in 2004 the U.S. Government sponsored U.S. Customs training for Uzbek Border Guard and Customs officials in November 2004. Border Guards units in the Fergana Valley and Uzbek Customs officials received training in narcotics detection methods, and on how to use drug test kits. The U.S. also donated equipment during this training.

The Road Ahead. U.S. in-country advisors will continue to work with all appropriate Uzbek agencies to improve narcotics detection and drug interdiction.

AFRICA AND THE MIDDLE EAST

Angola

I. Summary

Angola is not a country that suffers from significant drug production or drug abuse; however, some cannabis is cultivated and consumed locally. Previously significant transit drug traffic—particularly, cocaine from Brazil to South Africa—is believed to have been largely halted in 2004 because of effective cooperation between Angolan and South African authorities. Angola is party to the 1988 UN Drug Convention. It signed and ratified the Southern African Development Community (SADC) counternarcotics protocol in 2003.

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. Police continued to seize cocaine and cannabis in 2004, although the volume of seizures diminished as transit traffic was more effectively interdicted, and traffickers apparently altered their routes.

III. Country Actions Against Drugs in 2004

Although cases of public corruption connected to narcotics trafficking are rare, one of three counternarcotics officials suspected in the disappearance of cocaine seized in an earlier operation and under arrest in 2003 was convicted in 2004; two other officials arrested in the same case were acquitted.

In 2004, Angola enacted legislation mandating treatment for those convicted of narcotics abuse. Drug rehabilitation centers have been established in Luanda, Lubango, and Benguela. Angola cooperates with South Africa in fighting the flow of cocaine from Angola to South Africa, and South Africa has provided training and equipment to the Angolan police. Angola also cooperates on a regional basis via the South African Development Community (SADC).

Agreement and Treaties. Angola is not a party to any of the UN Drug Conventions. It has signed but has not yet ratified the UN Convention on Transnational Organized Crime and the UN Convention Against Corruption.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. In 2004, 17 Angolan police officers participated in State Department-sponsored regional training course, which included segments on counternarcotics.

The Road Ahead. The U.S. will assist Angola through training of law enforcement at ILEA Gaborone to the degree Angola wishes.

Benin

I. Summary

Though the Government of Benin (GOB) continues to take steps to implement and improve a national drug strategy, it has made only limited progress against illegal drug trafficking. Benin remains a low volume narcotics-producing country. Essentially, only marijuana sold for local consumption is produced in Benin. Nevertheless, Benin remains a transit point for illegal narcotics. Illegal drug trafficking and GOB drug seizures increased only slightly throughout the year. The GOB has developed a national counternarcotics policy and is implementing its national action plan. All narcotics trafficking interdiction efforts are handled through the Police Narcotics Branch, central office, which is relatively well organized, but severely under staffed. Real progress is further hindered by inadequate resources, corruption, lack of training and poor equipment. Benin is a party to the 1988 UN Drug Convention.

II. Status of Country

Benin produces no significant amounts of drugs, but plays a significant role as a transit point for regional traffickers. Small amounts of cannabis are grown for local consumption, but notable increases in production or consumption have not been reported. Benin's porous borders and poorly monitored ports provide African drug traffickers, particularly Nigerians, easy access and transit.

III. Country Actions Against Drugs in 2004

Policy Initiatives. No significant new policies were introduced in 2004, however, the GOB continues to work to address lack of equipment, training and staffing needs. Instead of introducing new policies, the GOB appears to be focusing on refining existing ones. The GOB also appears to be fully supportive of the investigative efforts made by the Police Narcotics Branch, Central Office during 2004.

Accomplishments. The GOB continues to address the ten counternarcotics strategies they identified in their Six Year Plan in 2001. The GOB remains focused on implementing and achieving the goals of the strategies.

Law Enforcement Efforts. The Central Office against Illegal Drug Trafficking (Police Narcotics Branch, Central Office) remains the lead law enforcement agency responsible for the fight against drugs. The Police Narcotics Branch, Central Office is subordinate to the Director General of the National Police, and works directly with Customs, Gendarmes and National Police drug units. Inadequate training, equipment, and human resources continue to hinder Police Narcotics Branch, Central Office's progress in 2004. However, working from information provided by DEA Lagos, Police Narcotics Branch, Central Office Agents made two notable seizures of cocaine in early 2004.

Agreements and Treaties. Benin 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. Benin also is a party to the UN Convention against Transnational Organized Crime and its three protocols.

Corruption. Rumors of corruption, bribery, tampering with evidence and poorly conducted criminal investigations continued to plague law enforcement agencies in 2004. This remains a difficult area to assess, however, due in part to the GOB's resistance to oversight reform.

Cultivation and Production. Cannabis is the only narcotics cultivated or produced in any significant quantity in Benin. No figures for the exact extent of production are available. Cannabis grown in Benin is used for local consumption.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. Benin continues to address the drug transit problem in the region by implementing coordinated counternarcotics measures. Though this remains a very long and difficult process, the USG should continue to engage Benin on complex issues of counternarcotics enforcement, asset forfeiture, and money laundering. Inadequate border and port control measures, and staffing, equipment, and training needs of the Police Narcotics Branch remain the GOB's most obvious impediment to progress in this area. Better training and increased law enforcement resources offer the best prospects for resolution of these problems.

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 presumed levels have not risen in four years. The Anti-Narcotics General Administration (ANGA) is the main counternarcotics organization in Egypt. It is competent and progressive, and cooperates fully with the Drug Enforcement Administration (DEA) office in Cairo. In 2004, a joint DEA-ANGA investigation uncovered a significant MDMA (Ecstasy) laboratory in Alexandria, Egypt, resulting in the arrest of four individuals, and possible indictment of two U.S. citizens. This was the first known occurrence of an MDMA laboratory in the Middle East. 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 primarily destined 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 2004

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. Late in 2004, a joint DEA-ANGA investigation uncovered an MDMA laboratory located in a small apartment building in Alexandria, Egypt. ANGA raided the laboratory, arresting four individuals and seizing chemicals, paste, and equipment. Additionally, Egypt may indict two U.S. citizens for connections to this operation. The MDMA produced from this laboratory would likely have been exported to the European and U.S. market. This was the first known discovery of an MDMA laboratory in Egypt, and according to DEA, the first in the Middle East, and may represent a new trend toward shifting artificial drug labs to the region due to the region’s relatively lax regulation

of commercial chemical products. 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 has amounted to over 3,000,000 Egyptian Pounds (\$485,000). In 2004, ANGA opened a new office dedicated to financial investigations and combating money laundering.

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. Continuing a trend over the past several years, the amount of narcotics seized during 2004 was again higher than that of the previous year. Drug seizures in 2004 included cannabis (80,249 kilograms), hashish (1,868 kilograms), and smaller amounts of heroin, opium, psychotropic drugs, and cocaine. Significant amounts of prescription and "designer" drugs such as Ecstasy (6,194 tablets), amphetamines, and codeine were also seized. During the course of 2004, Egyptian law enforcement officials eradicated 171 hectares of cannabis and 65 hectares opium poppy plants.

Corruption. As a matter of government policy, the Government of Egypt 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. The GOE has strict laws and harsh penalties for government officials convicted of involvement in narcotics trafficking or related activities. However, low-level local police officials involved in narcotics-related activity or corruption have been identified and arrested.

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 is a party to the UN Convention against Transnational Organized Crime and its protocol on trafficking in women and children.

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 14 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. In 2004, a joint DEA-ANGA operation uncovered the first ever MDMA laboratory in Egypt and eliminated it before it reached significant production.

Domestic Programs (Demand Reduction). In 2004, 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, for example, 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. These centers annually receive thousands of requests from addicts for help.

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 2005, the U.S. Government plans to increase its joint operations with ANGA, moving beyond a previously predominant focus on monitoring the problem. This will involve the DEA country office continuing to work closely with ANGA on joint investigations, as well as improving interdiction and eradication techniques and developing additional sources of information on trafficking and production. The U.S. Government also plans to provide additional training in financial investigations, drug interdiction, anticorruption measures, border control operations, and chemical identification and control.

Ghana

I. Summary

Ghana has taken 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 2004, 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 drug trafficking activity. Nigerian traffickers continue to strengthen their presence in Ghana, as Ghana becomes a major transportation hub for them. Trafficking has also fueled increasing domestic drug 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 2004

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 reintegration. The NCB's counternarcotics national strategy, the "National Plan of Action 1999/2008", was never implemented due to lack of funding. However, in 2004, the UN Office of Drugs and Crime (UNODC) financed three demand reduction projects selected from the National Plan of Action: 1) training 110 Ghana Education Service counselors (one per district in the country) on drug abuse prevention; 2) working with the Department of Social Welfare to provide vocational training to those completing drug treatment programs; and 3) producing 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; however, the Attorney General's office has not acted on these proposals.

Accomplishments. Figures from January-September 2004 reveal that quantities of cocaine, heroin and cannabis seized in Ghana increased in 2004. The number of persons arrested for possession of heroin and cocaine also increased in this period, while the number of people arrested with cannabis decreased. Overall, 2004 saw the highest number of drug trafficking arrests on record. The NCB and other law enforcement agencies continued their successful cooperation with U.S. law enforcement agencies in 2004, sharing information, as well as preparing to extradite an American citizen and a Ghanaian citizen to be tried in the United States for narcotics offenses. In January, the Narcotics Control Board and the Ghana Police Service Drug Enforcement Unit, aided by British intelligence, intercepted 588.33 kilograms of cocaine in Tema, Ghana's major port city about 20k from the capital city. The bust was West Africa's largest ever drug bust. All six suspects, five of whom were foreign nationals, were convicted in October and sentenced to significant jail time at hard labor.

The NCB's national drug education efforts continued in schools and churches, heightening citizens' awareness of the fight against narcotics and traffickers. On June 27, the NCB organized an event in Kumasi to highlight drug abuse in Ghana in conjunction with the UN's International Day Against Drug Abuse and Trafficking. At this launch, the UNODC announced that it would assist Ghana in establishing rehabilitation centers for drug addicts, and a pilot project in Accra has since been launched.

In October and November 2004, using Department of State funding, U.S. Department of Justice trainers (ICITAP) conducted a four-week counternarcotics training course in Ghana for thirty officers from the Ghana Narcotics Control Board, Ghana Police Service, Ghana Immigration Service, the Customs and Excise Protective Service, and the Ghana Civil Aviation Authority. The train-the-trainer program, conducted in two 2-week sessions, focused mainly on drug interdiction at air and seaports and was declared highly successful, receiving widespread press coverage.

Law Enforcement Efforts. In 2004, 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. The successful drug operation in January (see above) was an example of such a joint cooperative effort. The NCB continued to work with DHL, UPS, and Federal Express to intercept packages containing narcotics.

The NCB reported a drop in the prices of heroin and cannabis from 2003, while the price of cocaine rose. In 2004, a gram of cocaine sold for cedis 168,350 (\$18.50 at the current exchange rate) compared to cedis 133,350 (\$15.30) in 2003. A cocaine booster sold for cedis 12,000 (\$1.32), while crack cocaine sold for cedis 5,000 (\$.55). A gram of heroin sold for cedis 145,600 (\$16) compared to cedis 173,550 (\$20) in 2003. A heroin booster sold for cedis 10,000 (\$1.10). The price of a small parcel of cannabis in 2004 was approximately cedis 5,000 (\$.55), while a wrapper or joint sold for cedis 1,000 (\$.11). There was a sudden increase in the prices of all narcotics after the January operation (see above), but the prices dropped again soon afterward.

Corruption. Despite the regular 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. For example, in one region of the country, Ashanti, between 2001 and June 2004 only 244 persons were convicted and sentenced of the 667 cases of drug dealers and traffickers reported. The backlog of cases pending trial and the limited resources facing the judiciary remain a problem in controlling drug trafficking in Ghana. The total number of arrests made countrywide between January and September 2004 was 705. The NCB estimates that the Ashanti Region prosecution statistics are better than the national average.

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 September, the NCB was held in contempt of court for withholding the passports of suspects charged with drug trafficking who had been released on bail. The NCB retained the passports while they waited for the Attorney General to file a request not to permit bail, which was ultimately never filed. The NCB eventually had to turn over the passports on a court order. At least one of the suspects in this case, a Dutch national, has since traveled in and out of Ghana while on bail. In contrast to 2003, in 2004 there were no cases of possible evidence tampering. In August 2004, four police officers were arraigned and charged with taking bribes from drug traffickers in October 2001. No further action was taken on these cases in 2004.

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.-UK

Extradition Treaty. Additionally, Ghana is a member of the Economic Community of West African States (ECOWAS) Protocol Agreement, which includes an extradition provision among member states. In 2003, 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 2004, combined NCB and police teams continued to investigate cannabis 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 to an additional 120 farmers that have registered for assistance, although the resources were not available to do so in 2004.

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.

Although there is no hard evidence that drugs transiting Ghana contribute significantly to the supply of drugs to the U.S. market, there are indications that direct shipments to the United States are on the rise. Accra is an increasingly important transshipment point from Africa. In November, two alleged leaders of a drug smuggling ring from Ghana were indicted in Columbus, Ohio for shipping heroin for distribution across central Ohio, indicating a direct flow of illicit narcotics from Ghana into the U.S. Midwest. Direct flights from Accra play an important role in the transshipment of heroin to the U.S. by West African trafficking organizations. Because of safety problems, the U.S. FAA imposed a ban in July 2004 on flights into the U.S. by Ghana's flag carrier, the only provider of direct flights from Ghana to the United States. However, according to the NCB, this did not reduce the drug trafficking from Ghana to the U.S., but rerouted the flow through Europe. 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. The biggest challenge in Ghana, however, are the seaports, as most of the coastal border is unmonitored and entry points are more porous. According to the NCB, the seaports allow greater quantities of narcotics to come through at places where there are weak patrol systems in place.

Domestic Programs. The NCB works with schools, professional training institutions, churches, local governments, and the general public to reduce local drug 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 27, in Kumasi, Ashanti Region. 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 counternarcotics assistance in the form of surveillance and detection equipment, worth \$64,000, 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. Funding provided in FY 2002 for training for the Police and CEPS to create Internal Affairs Units will continue to assist in suppressing corruption and strengthening the capacity of the police to interdict illegal drugs. A four-week, interagency counternarcotics training course, funded by the U.S. in FY 2002 and focused on drug interdiction at Ghana's air and seaports, took place in November 2004.

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 is primarily a transit country for illicit drugs, due to its geographical location between drug producing countries to the north and drug consuming countries to the south and west. Historically, Jordanians themselves have neither consumed nor produced significant quantities of illicit drugs. There have been signs that this trend may be changing. The most notable narcotics-related statistic for 2004 is a nearly 400 percent increase in Captagon (fenethylamine) tablet seizures, the bulk of which Jordanian authorities say were bound for the Gulf States. The drugs of choice among users arrested for drug possession in Jordan have been hashish (80 percent) and heroin (20 percent); The main target group is high school through college-aged students. Cooperation among neighboring countries is ongoing and growing. Jordan is a party to the 1998 UN Drug Convention.

II. Status of Country

Jordan's vast desert borders make it vulnerable to illicit drug smuggling operations. From the perspective of drug use, Jordanian authorities believe that drug consumption among Jordan's youth is not likely to increase sharply.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Due to the threat from continuing usage of hashish and heroin among high school and university-aged individuals, Jordan continues its drug awareness campaign focused at educating young people of the dangers of drug use. In June 2004, a national conference on drugs took place in Amman, in cooperation with the United Nations Office on Drugs and Crime (UNODC), during which issues such as combating drugs, prevention of drug abuse among students, and law enforcement were discussed.

Law Enforcement. Jordan's Police (PSD) maintains an active counternarcotics bureau, which has excellent relations with the U.S. Drug Enforcement Administration through the Nicosia Country Office based in Cyprus. In 2004 the PSD began utilizing x-ray equipment on larger vehicles at two of its border crossings, which has led to some drug seizures. The PSD stated that since 1997, it has worked cooperatively with the military on the Syrian and Iraqi borders to intercept traffickers entering through those areas. Jordan continues to be concerned about heroin use in the more affluent areas of country, as statistics reflect yet another annual increase in heroin seizures. Although seizures of the synthetic amphetamine-type stimulant Captagon are up by nearly 400 percent, the PSD has not noted a significant abuse problem in Jordan. Drugs of this nature are predominantly bound for the Gulf Region. According to the PSD, 85 percent of all illicit drugs entering Jordan are destined for other countries in the region. The majority of Jordan's drug seizures take place at the Jabber-a border crossing point between Jordan and Syria.

Corruption. Jordanian Officials report no narcotics-related corruption or investigations into corruption for the reporting period. There is currently no evidence to suggest that senior level officials are involved in narcotics trafficking.

Agreements and Treaties. Jordan is party to the 1988 UN Drug Convention. Jordan continues to remain committed to existing bilateral agreements providing for counternarcotics cooperation between Syria, Lebanon, Iraq, Saudi Arabia, Turkey, Egypt, Pakistan, Israel, Iran, and Hungary. Jordan has signed but has not yet ratified the UN Convention Against Transnational Organized Crime.

Cultivation and Production. Existing laws prohibit the cultivation and production of narcotics in Jordan. These laws have been effectively enforced.

Drug Flow and Transit. Jordan remains primarily a narcotics transit country. Jordan's primary challenge in stemming the flow of illicit drugs through the country remains its vast and open desert borders. While law enforcement efforts confirm cooperation with its neighbors, the desolate border regions and the various tribes, with a centuries old tradition of smuggling as a principle source of income, make interdiction difficult. None of the narcotics transiting Jordan is believed to be destined for the United States. Jordan has seen only four drug-related cases involving its border with Iraq in 2004.

Domestic Programs. Jordan maintains a robust program of awareness and education, interdiction, and rehabilitation. Education programs predominantly target high school and college-aged kids. Authorities continue to provide educational presentations in schools and universities throughout the country. Jordan also publishes a number of brochures and other materials aimed at educating Jordan's youth. Cartoons aimed at younger children designed to dissuade youngsters from trying drugs are also in the developmental stages, with an expected release timeframe of 2005. Jordan has also improved its rehabilitation programs. With United Nations' assistance, Jordan is modernizing its drug treatment centers and private hospitals. Cultural and religious norms help to control drug use. The PSD works in conjunction with the Ministry of Islamic Affairs, which directs sermons, lessons, and lectures on drug awareness and their effects.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In March 2004, DEA Nicosia and DEA's International Training Section sponsored a regional International Drug Enforcement Seminar in Amman. The DEA also plans to sponsor a one-week Asset Forfeiture and Financial Investigations Seminar in Amman during the month of July 2005.

Bilateral Cooperation. DEA Country Attache in Cyprus and Embassy Amman officials maintain 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. Iran is no longer a major drug producing country. Trafficking routes for opiates from Afghanistan to Russia and beyond, by way of Central Asia, have grown in importance, but the largest single share of opiates leaving Afghanistan still passes through Iran to consumers in Russia and Europe. There are also an estimated 2 million opiate abusers in Iran, with 60 percent reported as addicted to various opiates and 40 percent reported as casual users.

There is overwhelming evidence of Iran's strong commitment to keep drugs leaving Afghanistan from reaching its citizens. As Iran strives to achieve this goal, it also prevents drugs from reaching markets in the West. Three thousand two hundred Iranian law enforcement personnel have died in clashes with heavily armed drug traffickers over the last two decades, and Iran reports that another 25 died in the first half of 2004. Iran spends a significant amount on drug-related expenses, including interdiction efforts and treatment/prevention education. Estimates range from \$250-\$300 million to as much as \$800 million each year, depending on whether treatment and other social costs are included. 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 United Nations Office of Drug Control (UNODC) is working with Iran to modify its laws, train the judiciary, and improve the court system.

II. Status of Country

Iran is a transit country and a major consumer country of opiates and hashish. 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. Iran is also a major opiate consuming country, with the highest share of population abusing opiates in the world. The UNODC estimates that 2.8 percent of the Iranian population over age 15 used opiates in 2001 (latest data available).

III. Country Actions Against Drugs in 2004

Policy Initiatives. Iran is spending at least 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. Police forces engaged in narcotics suppression activities have begun to complain publicly that their budgets are inadequate for their interdiction responsibilities.

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 mud walls, 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 2645 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 Iran's border with Afghanistan and Pakistan. Interdiction efforts by the police and the Revolutionary Guards have resulted in numerous drug seizures. Iranian officials seized 181 metric tons (MT) of opiates (opium equivalent) just during the first six months of 2004. Opiate seizures in 2004 (projected) were on track to exceed those in 2003 by 48 percent. These increases are likely to continue as Afghanistan's largest opium harvest ever moves towards markets in Iran itself, and in the West. Iran is likely to remain the country with the highest volume of opiate seizures in the world.

Iranian opiate seizures in the first six months of 2004 display some interesting trends:

- Unrefined (raw) opium seizures increased sharply;
- Heroin was only 14 percent of all opiates seized, a surprisingly small share of the total;
- The morphine base share of seized drugs was also down from recent years to 39 percent of the total.

One possible explanation for these seizure trends is a return of Iranian addicts to traditional raw opium abuse, after a period when disruptions in supply from Afghanistan forced a switch to heroin. A large share of heroin and almost all of the morphine base transiting Iran is headed for markets in Europe (heroin) or for further refining in Turkey (morphine base).

Hashish seizures in Iran in the first six months of 2004 were on track to exceed seizures registered last year by a wide margin. At slightly more than 49.5 metric tons, only raw, unrefined opium seizures at 85 metric tons exceed hashish seizures in volume.

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 (kg) 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 the first six months of 2004 continued a sharp upward trend, mounting to 196,555. Almost three times more drug abusers were detained than drug traffickers. Iran has executed more than 10,000 narcotics traffickers in the last decade.

Corruption. Although there is no indication that senior government officials aid or abet narcotics traffickers, there are reports of corruption among lower/mid-level law enforcement, which is consistent with the transit of multiple-ton drug shipments across Iran. Punishment of corruption is 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.

Agreements and Treaties. Iran is a party to the 1988 UN Drug Convention; however, its legislation does not bring it completely into compliance with the Convention, particularly in the areas of money laundering and controlled deliveries. 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 and the 1972 Protocol. Iran has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime, and is a signatory to the UN Convention Against Corruption. Iran has shown an increasing desire to cooperate with the international community on counternarcotics matters. Iran is an active participant in the Paris Pact, a group of countries that actively seeks to coordinate efforts to counter opiate smuggling in Southwest Asia, and Iran is scheduled to host an expert round table of this group in 2005.

Cultivation/Production. A 1998 U.S. survey of opium poppy cultivation in Iran and a detailed U.S. 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. Iran is now 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 Baloch 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. The Iranian town of Zahedan is reportedly a center for the opiate trade as it first enters Iran, and then moves westward. Foreign embassy observers report that Iranian interdiction efforts have disrupted smuggling convoys sufficiently to force smugglers to change tactics and emphasize concealment more than they have in the past. 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. Still, many traffickers move drugs in large armed convoys, and are ready for a fight if challenged.

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 represents almost 40 percent of all opiates seized in the first six months of 2004, in Iran, is likely moving towards Turkey, as is some share of the much diminished 14 percent, or so, of opiates moving as heroin. Significant quantities of raw 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 mountains, desert, sparse population along this route make 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 fail 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, as well. 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 ca. 2 million users.

Domestic Programs (Demand Reduction). 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. 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.

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 Paris Pact group, the United States and Iran have worked together productively. Iran nominated the United States to be coordinator of an earlier UN-sponsored coordination effort on narcotics called 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 trafficking point for drugs. The Israeli National Police (INP), however, reports that during the year 2004, 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, cocaine, heroin and LSD. The INP also reports a continuing high demand for Ecstasy in 2004, and a high level of seizure, especially compared with 2003. There was a comparable amount of marijuana seized, and a slight decrease in the amount of hashish seized. The INP reports that the amount of heroin seized remained relatively low as in previous years, although the level of demand is unchanged. The quantity of LSD seized in 2004 far exceeds past years, with the seizure of 55,438 blotters compared to 28,331 blotters in 2003. Widespread use of Ecstasy by Israeli youths is a continuing source of concern to authorities. There was a slight decrease from last year in the number of cases for drug use, trafficking, and possession not for personal use. The number of drug arrests for 2004 is not available. (Note: All data is for the period January through October.) In June 2002, Israel became a party to the 1988 UN Drug Convention. Israel's domestic law is consistent with this 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 Israeli National Police (INP) reports that during the year 2004, the Israeli drug market was 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 and cannabis among Israeli youth, and say that drug use among youth mirrors trends in the West.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, the INP continued its general policy of interdiction at Israel's borders and points of entry because the biggest quantities of drugs cross into Israel from Jordan, Egypt, and Lebanon. Together with the Israeli Anti-Drug Authority (IADA), the INP concentrated specifically on the Jordanian and Egyptian borders, where the majority of heroin, cocaine, and cannabis enter Israel. The INP and the IADA have jointly developed programs to help Israeli youth, and have identified and begun investigating six or seven major families involved in drug trade in Israel.

Law Enforcement Efforts. Israel is not a significant seller, transporter or financier of the drug trade but Israeli citizens abroad in locations such as Denmark, Holland, and Belgium serve as brokers and transporters of Ecstasy to the U.S. and elsewhere. INP reports a high demand for cocaine in Israel and a total of 28.5 kilograms seized in 2004, a figure less than half of that in 2003, and showing a decline for the last two years in a row. In 2004, 14,167 kilograms of marijuana was seized, about the same as in 2003. In 2004, 773 kilograms of hashish were seized, a quantity down slightly from last year, and a decline for two years in a row. The number of Ecstasy tablets seized in 2004 was 214,076, up almost three times the amount seized in 2003. The level of heroin seized in 2004 was 50 kilograms, comparable to 2003, with one seizure of 21 kilograms in December 2004. In 2004, 55,438 LSD blotters were seized in total, almost double the amount of blotters seized in 2003. There was a slight

change from last year in the number of cases reported by the INP. In 2004, the INP reported 12,335 open cases for drug use, 2,561 for drug trafficking, and 6,007 for drug possession not for personal use. Israel destroyed 528 illicit labs in 2004, compared with none in 2003. The figures for drug arrests in 2004 are not available. In 2004, authorities seized \$6.6 million in illegal drug related assets and cash.

Corruption. In April 2004, Israel arrested and indicted Golan Segev, a former Energy Minister under Yitzhak Rabin, when he left a bag with 25,000 Ecstasy pills in a locker at the Amsterdam airport on his way back to Israel. As a matter of government policy, the Government of Israel 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. Israel does not have specific legislation for public corruption related to narcotics.

Agreements and Treaties. Israel 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. A customs mutual assistance agreement and a mutual legal assistance treaty are also in force between Israel and the U.S. In December 2000, Israel signed the UN Convention against Transnational Organized Crime and is in the process of passing the necessary changes to Israeli law. Israel is a party to the European Convention on Mutual Legal Assistance in Criminal Matters. Israel is one of 36 parties to the COE European Treaty on Extradition and has separate extradition treaties with several other countries, including the U.S. Under the Israeli extradition law, nationality is no longer a basis for denying extradition. However, 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. on drug-related charges in 2004. Israel also arrested Zeev Rosenstein, an Israeli underworld figure accused of smuggling large quantities of MDMA from Europe to the U.S., on November 8, 2004, and extradition proceedings are ongoing.

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. Israel also works with Germany and Holland to interdict the flow of Ecstasy, and with Turkey to interdict the flow of heroin, and with South American countries to interdict the flow of cocaine.

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 the Arab sector, as well as youths, students, backpackers, new immigrants, and others. The IADA 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 the skills to combat effectively the use of drugs within their units. There is an ongoing public awareness campaign aimed at parents and designed to focus their attention on knowing their children's whereabouts and activities. The IADA also concentrates on human resources development, including the development of a professional infrastructure, and 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. The INP participates in demand reduction initiatives by

lecturing at schools at all levels above 10 years of age and in the army about the impact of drugs on the body and mind.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. DEA officials characterize cooperation between the DEA and the INP as outstanding. All DEA investigations related to Israel are coordinated through the DEA Nicosia Country Office.

Road Ahead. The DEA regional office in Nicosia, Cyprus, 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. Israel began its four-year-term as a member of the Commission on Narcotic Drugs (CND) in January 2004.

Kenya

I. Summary

Kenya is a transit country for heroin and hashish, mostly bound from Southwest Asia for Europe and North America. Heroin transiting Kenya has markedly increased in quality in recent years and is destined increasingly for North America, even as the overall transit volume continued to decline. 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 and imported from neighboring countries for the illegal domestic market. There is a small, and believed to be growing, domestic 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 due to rampant corruption among customs officials, police, and members of the judiciary. The three-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. In November, Kenya hosted the 16th Operational Meeting of Regional Anti-Narcotics Units and Directors of the Criminal Investigations Division. This working group—composed of ANU and CID representatives from Tanzania, Rwanda, Ethiopia, Uganda, and Kenya as well as observers from Interpol, DEA, the UK’s Drug Liaison Office—shares narcotics-related intelligence, arrest data, and information on emerging trends in order to enhance cross-border counternarcotics efforts. Although government officials profess strong support for counternarcotics efforts, the overall program suffers from a lack of resources, which also 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 a significant transit country and a minor producer of narcotics. Heroin and hashish transiting Kenya, believed to have a relatively small impact on the United States, continued to register a decline from their 2001 peak. Cannabis or marijuana is produced in commercial quantities for the domestic market. There is no evidence of any significant impact on the United States. Kenya remains a transit country for small quantities of cocaine and other drugs destined for Southern African and Western European consumers. In general, these drugs originate from outside of Africa. Kenya’s sea and air transportation infrastructure, and a network of commercial and family ties among long-term ethnic South Asian merchants living in Kenya, help explain why Kenya is a significant transit country for Southwest Asian heroin. In 2000, officials noted a dramatic shift from low-purity brown heroin to higher-purity white heroin, and believe that the higher-purity product is destined principally for the United States. This trend continued in 2004. Although it is impossible to quantify exactly, officials now believe that the United States is at least as significant as Europe as a destination for heroin transiting Kenya. In recent years, Kenya has been an important transit point for Southwest Asian cannabis resin (hashish), and police made several multi-ton hashish seizures. Cocaine seizures are down sharply in the past three years. Kenya does not produce significant quantities of precursor chemicals.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The 2001 National Drug Control Master Plan continues to languish within an inter-agency committee chaired by the nation's solicitor-general.

Counternarcotics agencies, notably the Anti-Narcotics Unit (ANU) within the Kenyan Police Service, continue to depend on the 1994 Narcotics Act for enforcement measures and interdiction guidelines. Most believe that the ten year-old Act is sufficient to sustain current interdiction efforts, but note the Act's major area of weakness remains its capacity to combat 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 use. Additionally, the plan summarizes policies, defines priorities and apportions responsibilities for drug control to various agencies.

The National Campaign Against Drug Abuse (NACADA), a quasi-governmental organization, was given parliamentary recognition and saw its mandates renewed, although its budget remains negligible. Kenyan authorities improved internal information sharing and operational coordination between various government agencies, airlines and other entities over the course of 2004 to complement regional cooperation efforts bolstered by the 2001 East African Community protocol on combating drug trafficking. 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.

Kenya has no crop substitution or alternative development initiatives for progressive elimination of the cultivation of narcotics crops. The ANU remains the focus of Kenyan counternarcotics efforts.

Accomplishments. The ANU has sustained a successful track record in securing convictions since beginning its program of judicial outreach in 2002. Many ANU officers have undergone training, much of it through the UNODC and bilateral programs sponsored by the U.S., German, British, Japanese and other governments. The ANU and the Kenyan Customs Service now have a cadre of officers proficient in profiling and searching suspected drug couriers and containers at airports and seaports. 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. Seaport profiling has proven difficult. Despite the official estimate that eighty percent of the narcotics trafficking through Kenya originates on international sea vessels, personnel turnover at the ports is high and corruption rampant. Resource and staffing inadequacies undercut the sustainability of most training programs, undermining their effectiveness and impact. A high degree of corruption continues to thwart the success of long-term port security training. The ANU has trained two officers in maritime narcotics interdiction; however, the ANU is unlikely to possess boats with which to conduct such operations until 2005. 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. The ANU continues to pass information to Interpol and the DEA on a regular basis. Following a 2002 joint investigation, 2003 saw the first-ever extradition to the United States from Kenya of accused members of a major U.S.-bound drug smuggling ring. The ANU and Attorney General's Office assisted the U.S. government in this case.

Law Enforcement Efforts. Kenya seized 11.6 kilograms of heroin in 2004—nearly a two percent decrease from the quantities seized in 2003 (all statistics on drug seizures in this section reflect the period from January to November 2004) and arrested 72 people on heroin-related charges. 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. Kenyan authorities seized 188,988 kilograms of cannabis in 2004 and arrested 3,292 suspects. Officials believe Kenyan coastal waters and ports are major transit points for the shipment of hashish from Pakistan to Europe and North America.

The number of individuals arrested and seizures for cocaine trafficking continued to be low in 2004. However, ANU intercepted the largest cocaine shipment ever seized in Kenya on December 14. Police seized two cocaine shipments totaling 954 kilograms. A joint investigation involving the Criminal Investigations Division, Anti-Narcotics Unit, Special Crime Prevention Unit and the General Service Unit of the police raided a warehouse in Nairobi, seizing 253 kilograms of cocaine sealed in a refrigerated container. Another team off the coast of Malindi intercepted an outbound cargo vessel, in which 701 kilograms of cocaine were concealed in two 40-foot shipping containers carrying bananas purportedly from Colombia and Venezuela. ANU speculates the drugs were destined for the Netherlands, shipped under the guise of industrial roofing tiles.

Historically, cocaine seized in Kenya is believed to originate from Brazil and Colombia; its abuse and local availability is not widespread. ANU officials involved in the most recent investigation believe it highlights an emerging trend of traffickers using Kenya as a "re-packing point" for drugs destined to Europe and elsewhere. In this case, the drugs, upon arrival in Nairobi through smaller courier deliveries, were opened, re-packaged and wrapped in plastic wrapping papers before being shipped by road to the Port of Mombasa. Once the shipment arrived in Mombasa, the drugs were initially shipped out to sea in small boats and then transferred to larger cargo vessels.

Despite two successful, highly-publicized targeted raids of 14 farms along Mt. Kenya in 2001 and 2002 that collectively destroyed 460,991.179 kilograms of cannabis, ANU saw an increase in this crop during targeted raids (successful and unsuccessful) in 2004.

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. The British High Commission has been so frustrated by information leaks related to key narcotics seizures that it has ceased training Kenyan customs officials. In 2003, the ANU estimated that a majority of the 200 officers lost to attrition over the previous five years were dismissed as a result of being compromised. Police frequently complain that the courts are ineffective in handling counternarcotics cases, which is likely 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. In 2003, 10 judges were dismissed on corruption-related charges, and 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. Despite Kenya's strict narcotics laws that encompass most forms of narcotics-related corruption, unconfirmed reports continue linking public officials with narcotics trafficking in the East African region. Employees working at the airport continue to be involved with narcotics traffickers. In April,

two Kenya Airways pursers were arrested coming off planes carrying 2.29 kilograms and 3.6 kilograms of heroin in cosmetics cases believed to have originated in Lahore, Pakistan.

Agreements and Treaties. Kenya is a party to the 1988 UN Drug Convention, which it implemented in 1994 with the enactment of the Narcotic Drugs and Psychotropic Substances Control Act. Kenya is also a party to the 1961 UN Single Convention and its 1972 Protocol and the 1971 UN Convention on Psychotropic Substances. Kenya also is a party to the UN Convention Against Transnational Organized Crime and the UN Convention Against Corruption. The 1931 U.S.-UK Extradition Treaty remains in force between the United States and Kenya through a 1965 exchange of notes.

Cultivation and Production. A significant number of Kenyan farmers illegally grow cannabis 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 found large cannabis crops in an area of Mount Kenya where crops were previously destroyed by the ANU in 2002. Dangerous weather conditions and poorly maintained helicopters prevented ANU from successfully seizing crops from this location. No aerial eradication efforts were undertaken during the year.

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 profiling measures and enhanced counternarcotics efforts, ANU officials believe traffickers are finding Jomo Kenyatta International Airport (JKIA) an increasingly difficult exit point for East African drugs. ANU officials continued to interrupt couriers transiting a newly-created route through the Kenyan-Ugandan border at Malaba. This first-ever use of this land route in November demonstrates, in the minds of ANU officials, that traffickers have noted the increase in security and narcotics checks at JKIA. South Asians and East Africans remain active couriers, the majority of whom are women. ANU continues to track an emerging trend of Western and Eastern European heroin couriers transiting Kenya to Europe and North America. Once in Kenya, heroin is typically delivered to agents of West African crime syndicates.

There is evidence that poor policing along the East African coast makes this region attractive to maritime smugglers. (Kenya's neighbor, Somalia, has a long coastline and no functioning government.) Despite the fact local, regional, and international counternarcotics officials have increased attention paid to the maritime transport of narcotics, ANU interdiction capabilities remain nonexistent. Kenya has no functioning maritime interdiction resource. Six officers are assigned to the southern port of Mombasa for profiling purposes only, and the two officers who have been trained in maritime interdiction have no boats from which to operate. There was one maritime heroin seizure in 2004.

Postal and commercial courier services are also used for narcotics shipments through Kenya. In the past, Kenya has been a transit country for methaqualone (Mandrax) en route from India to South Africa. From 1997-2001, there were no methaqualone (Mandrax) seizures in Kenya. However, this changed in 2001 when 52,103 Mandrax tablets were intercepted and seven suspects arrested. In 2003, one person was arrested transporting 10,000 Mandrax tablets. ANU remains concerned that a new, clandestine Mandrax factory may have resumed operations in Kenya. In 2004 ANU arrested an individual in Nairobi carrying 5,000 tablets of the drug.

Officials have never identified any clandestine airstrips in Kenya used for drug deliveries and believe that no such airstrips exist.

Domestic Programs. Kenya has made some progress in efforts to institute programs for demand reduction. In addition to alcohol, illegal cannabis and legal khat are the domestic drugs of choice.

Heroin abuse is limited generally to members of the economic elite and a slightly broader range of users on the coast. Academics and rehabilitation clinic staff argue that heroin use in Nairobi and along the coast has grown exponentially since 2003. UNODC is exploring funding for a baseline study of the current heroin use trend level. Solvent abuse is widespread (and highly visible) among street children in Nairobi and other urban centers. There are no reliable statistics on domestic consumption of illicit narcotics.

Demand reduction efforts have largely been limited to publicity campaigns sponsored by private donors and a UNODC project to bring counternarcotics education into the schools. In 2001, however, the Government of Kenya appointed a National Coordinator for its Campaign Against Drug Abuse to initiate national public education programs on drugs. There are no special government rehabilitation or drug abuse treatment facilities, but some churches and non-governmental organizations provide limited rehabilitation and treatment programs for solvent-addicted street children.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. The principal U.S. counternarcotics objective in Kenya is to interdict the flow of narcotics to the United States. The U.S. seeks to accomplish this objective through law enforcement cooperation, the encouragement of a strong Kenyan government commitment to narcotics interdiction and strengthening Kenyan counternarcotics and overall judicial capabilities.

Bilateral Cooperation. There was a modest expansion of USG bilateral cooperation with Kenya and surrounding countries on counternarcotics matters in 2004. The USG provided funding to facilitate the 16th Operational Regional Counter-Narcotics Conference and has pledged funding to support the Spring 2005 conference as well. Counternarcotics training opportunities, sniffer dogs, cars, and equipment offers have also been given to the counternarcotics unit in the 2003-2004 period. The U.S. also provided the ANU with computers and related equipment and has financed several DEA courses. The United States remains active in the Mini-Dublin Group, which has responsibility for coordinating counternarcotics assistance from several Western donors.

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 U.S. 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 reported success against illicit poppy and cannabis crops for 2004. While the government claimed extensive crop destruction, other observers said that the threat of destruction made crop destruction unnecessary, since farmers sharply curtailed plantings. In any case, no significant illicit drug production took place during 2004 in Lebanon. Nevertheless, illicit crop cultivation is likely to continue to remain an option to local farmers due to an increasingly difficult economic climate and a lack of investment in alternative crops.

If government crop destruction claims are to be believed, cultivation of illicit crops increased slightly from 2003 to 2004. There is practically no illicit drug refining in Lebanon, and no production, trading or transit of precursor chemicals. Drug trafficking across the Lebanese-Syrian border has diminished substantially as a result of Lebanese and Syrian efforts to deter smuggling activity. The government continued its ongoing drug reduction efforts through public service messages and awareness campaigns. Lebanon is a party to the 1988 UN Drug Convention.

II. Status of Country

The deteriorating economic situation in Lebanon and the lack of investment in alternative crops continues to make illicit crop cultivation appealing to local farmers in the Bekka' Valley in eastern Lebanon. Government crop eradication operations have put some pressure on the amount of land farmers dedicated to illicit crops, based on the fear that investment in cultivation and labor would all be for naught if the crop is destroyed before harvest. The government tried to capitalize on this fear by continuing a counternarcotics campaign to discourage new planting.

According to the Internal Security Forces (ISF), approximately 68,000 square meters of poppy and 13,089,000 square meters of cannabis were eradicated in 2004. The Judiciary Police—the law enforcement agency tasked with counternarcotics responsibilities—claimed to have accomplished complete eradication in 2004.

At least five types of drugs are available in Lebanon: hashish, heroin, cocaine, methamphetamine, and other synthetics, such as MDMA (Ecstasy). Hashish and heroin are reported to be rare, due to the destruction of local crops; small quantities of cocaine arrive in Lebanon to meet very modest local demand; and the government reported increased interest in synthetic drugs.

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 significant amounts. South American cocaine is smuggled into Lebanon primarily via air and sea routes either directly or from Europe, Jordan, and Syria. 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 in 2003, very small quantities of cocaine were smuggled into Lebanon in 2003, as compared to an average of approximately 500 kilograms 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 the vigilance of the Syrian and Lebanese governments. Small amounts of precursor chemicals, however, shipped from Lebanon to Turkey via Syria, were previously diverted for illicit use.

Legislation passed in 1998 authorized seizure of assets if a drug trafficking nexus is established in court proceedings.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The Ministry of Interior again made counternarcotics a top priority. Notably, the Judicial Police made arrests in 2004 for narcotics-related offenses for the first time in over 35 years. The government also continued its public awareness advertising campaigns to discourage drug use, and this year took their message to university campuses. The Ministry of Interior sent counternarcotics messages on mobile phones. 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” were distributed to NGOs participating in the drug awareness and drug abuse reduction campaigns.

Accomplishments. In 2004, the Government of Lebanon continued cannabis and poppy eradication. A reliable local expert and director of an agricultural research center reported that the government’s zero-tolerance policy has been a great success. Demand reduction campaigns were also on going and pervasive. The Government of Lebanon received from the UN Office on Drugs and Crime (UNODC) and the United Nations Development Program (UNDP) a \$362,000 grant for “the development and implementation of a national action plan on drug demand reduction in Lebanon” from 2004-2006.

Law Enforcement Efforts. The ISF reported seizures of 900 kilograms of hashish, and significantly lesser quantities of other illicit drugs. In 2004, Police arrested 960 persons for drug abuse, 847 for dealing in narcotics, and 142 for distribution of narcotics. Smaller numbers of arrests were registered for planting, smuggling, and transporting illegal narcotics. The total number of persons arrested in 2004 for drug related crimes was 1,949, including the arrest in June of one of the major drug dealers in Lebanon. Abou Ali Sadek el-Masri was apprehended in his home in the Bekka’ Valley in a joint operation carried out by the ISF and the army.

Corruption. Corruption remains endemic in Lebanon up to the senior levels of government, but none of the corruption is reported to be connected with drug production or trafficking or the protection of persons who deal in illicit drugs. 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. ISF members 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. Lebanon has signed, but has not yet ratified the UN Convention Against Transnational Organized Crime.

Cultivation and Production. There are conflicting reports on cultivation of illicit crops. Statistics from the Judicial Police this year show that 68,000 square meters of poppy and 13,089,000 square meters of cannabis were eradicated during 2004. However, a respected agricultural research center reported that, in fact, there were no eradications of illicit crops because farmers did not plant illicit crops. According to the director of the center, farmers have been thoroughly intimidated by police efforts to eradicate illicit crops. Knowing that the crops will be destroyed, and given the poor economic climate, farmers are loath to invest in that which they believe will be destroyed.

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 virtual sealing of the border. The primary route for smuggling hashish from Lebanon during 2004 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 hashish from Lebanon

to Europe are more and more difficult for smugglers due to increased seashore patrols and airport control. The ISF asserts that no hashish has been smuggled into the United States.

Domestic Programs (Demand Reduction). Lebanese leaders recognize 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 abuse treatment, prevention, awareness, assistance to substance users and their families, in addition to setting up a national action plan. The government has been engaged in the establishment of this council since 2001; however, the NCD has not yet been formed.

There are several detoxification programs, but the only entity in Lebanon that offers a comprehensive drug rehabilitation program is Oum al-Nour (ON), a Beirut-based NGO. The Government of Lebanon, through the Ministry of Social Affairs and the Ministry of Public Health, provided 36 percent of ON's \$1,000,000 budget in 2004 budget. ON estimates that the age of the average drug addict in Lebanon has been decreasing since the end of the country's civil war in 1990, with pre-college and college-age youth now being the most vulnerable. In 2004, 60 percent of ON's clients were under 24, compared to 5 percent for the same age group in 1990. ON statistics, based on their patient base, indicate that the most commonly abused illicit substance is heroin, but use of "designer" drugs such as methamphetamine and ecstasy is increasing.

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 yearlong residential program for hard-core addicts, and sometimes operate above nominal capacity. The centers provide detoxification, psychiatric, spiritual, and social programs without the use of substitution products. A new section, funded by USAID, was built in one of the men's centers and became operational in September. The new section, which can accommodate 12 to 15 patients, has taken in 21 patients since September. ON does not offer outpatient care for individuals whose addictions do not warrant hospitalization.

ON also engages in drug prevention activities such as distributing educational materials on college campuses and promoting drug awareness among the population through advertisements and education programs. The organization also has a research office and a center for statistical studies.

Another drug rehabilitation center for men opened in Zahleh in the Bekka' Valley in coordination with the Saint Charles Hospital and the Ministry of Health. The center can accommodate up to 16 patients. The center's team of psychiatrists, clinical psychologists and social workers also does clinical training for hospital staff.

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 last year in downtown Beirut. The center is currently treating some 20 outpatients.

Other associations that fight drugs are: Jeunesse Anti-Drogue (JAD), which is primarily committed to drug awareness but also provides medical treatment and psychological rehabilitation on an outpatient basis; Jeunesse Contre la Drogue (JCD), which raises awareness of substance abuse and AIDS, and helps users get proper treatment and rehabilitation; and Association Justice et Misericorde (AJEM), which was established to assist prisoners. 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 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 inappropriate use of licit medications is on the rise in prisons, and that the use of Ecstasy is

uncommon. Data from treatment/rehabilitation centers, however, showed that Ecstasy and abuse of licit opiates are on the rise. Data gathered from street substance users showed that abuse of codeine and other licit medications is on the rise, and additionally, the young population is increasingly inhaling thinner.

IV. U.S. Policy Initiatives and Programs

U.S. Policy Initiatives. In meetings with Lebanese officials, U.S. officials continued to stress the need for diligence in preventing the production and transportation of narcotics, and the need for a comprehensive development program for the Bekka' Valley that would provide the impoverished residents with alternate sources of income. The USG also stressed the importance of anticorruption efforts.

Bilateral Cooperation. USAID, in close cooperation with the Embassy, continued 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 assisted U.S. and local NGOs working with villages to promote the substitution of illicit crops with legitimate, economically viable ones. USAID also helped increase the receiving capacity of one of Oum el Nour's rehabilitation centers (see paragraph above on Domestic Programs). In 2003, State Department counternarcotics assistance funded a narcotics demand reduction program administered by a Beirut-based NGO, the Justice and Mercy Association (AJEM). The project was designed to create a drug treatment facility in Roumieh prison to provide treatment and social rehabilitation for drug addicted prisoners incarcerated there. The State Department also funded a second project aimed at expanding receiving and treatment capacity at Oum el Nour centers.

The Road Ahead. Given the close involvement of Lebanese and Syrian officials in the battle against illicit narcotics, 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 either eradicated or prevented, through threat of eradication, all illicit cultivation during 2004. 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.

Morocco

I. Summary

Morocco continues to be a major producer and exporter of cannabis. It produced an estimated 47,400 metric tons of cannabis in 2003, providing for potential cannabis resin (hashish) production of 3,080 metric tons, according to a joint study released in late 2003 by the United Nations Office on Drugs and Crime (UNODC) and Morocco's Agency for the Promotion and the Economic and Social Development of the Northern Prefectures and Provinces of the Kingdom (APDN). A Moroccan government (GOM) study examining production levels for 2004 is still underway. Evidence continues to indicate the United States is not a major recipient of drugs from Morocco. According to the UNODC report, an estimated 134,000 hectares of land were used to cultivate cannabis in 2003, greatly surpassing the GOM's earlier estimates of a growing area covering a total of 15,000-20,000 hectares. The UNODC study also states that approximately 800,000 Moroccans (2.7 percent of the country's 2002 population) were involved in cannabis cultivation. Morocco's efforts to combat cannabis cultivation are made more difficult by limited short-term economic alternatives for those involved in its production. 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 Moroccan cannabis resin generates approximately \$12 billion a year. Independent estimates indicate that the returns from cannabis cultivation range from \$16,400-\$29,800 per hectare (little of which goes to the grower himself), 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 like heroin and cocaine, cannabis remains the most widely used illicit drug in Morocco. Although there is no substantial evidence of widespread trafficking in heroin or cocaine, press reports suggest Latin American cocaine traffickers may have started using well-established cannabis smuggling routes to move cocaine into Europe.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In May, the Interior Ministry announced the government was drafting a "new integrated plan" to fight drug trafficking and was considering revitalizing the National Commission of the Struggle Against Drugs. The new plan will gradually reduce the areas in which cannabis is grown, intensify border controls, expand regional and international cooperation in training, and include an aggressive public awareness campaign. The GOM's partnership with the UNODC in conducting the 2003 cannabis survey reflects the GOM's most significant effort to compile accurate and comprehensive data about narcotics production.

Throughout the 1980's, the GOM worked in conjunction with the UN to devise 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 encourage cultivation of alternative agricultural products included providing goats for dairy farming, apple trees, and small bee-keeping

initiatives. This effort also included paved roads, modern irrigation networks, and health and veterinary clinics. In the 1990's, the GOM has continued its focus on development alternatives in Morocco's northern provinces through the work of APDN and the Tangier Mediterranean Special Agency (TMSA). In June 2003, TMSA oversaw the groundbreaking of the centerpiece of its northern development program, the Tanger-MED port, which is set to become Morocco's primary maritime gateway to the world.

Accomplishments. In September, Morocco and France agreed to reinforce bilateral counternarcotics cooperation by deploying liaison officers to Tangiers and France. Morocco has legislation providing the maximum allowable prison sentence for drug offenses to 30 years, as well as fines for narcotics violations ranging from \$20,000-\$80,000. Ten years imprisonment remains the typical sentence for major drug traffickers arrested in Morocco. The Ministry of Justice has drawn up a draft law to further strengthen drug trafficking sentences.

Law Enforcement Efforts. In May, the Criminal Court of Tetouan sentenced convicted drug trafficker Mounir Erramach to 20 years in prison for drug trafficking and related charges and fined him \$375 million for customs and criminal violations. The court also handed down sentences ranging from one month in jail to life imprisonment to 26 other defendants in the case, including a rival drug kingpin who is still at large. The Court of Appeals of Tetouan upheld in December the majority of these sentences, including those of the two lead defendants, but reduced the sentences of four defendants and acquitted three others. In February, the GOM dismantled a small-scale crack cocaine smuggling network in Marrakech, leading to the seizure of 70 grams of the drug and the sentencing of 22 individuals to prison terms varying from one month to six years.

As part of a 1992 counternarcotics initiative, 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 information developed by the observation posts. None of these efforts, however, has changed the underlying reality of extensive cannabis cultivation and trafficking in northern Morocco.

Corruption. Investigations into charges of alleged "abuse of power, corruption, embezzlement of public funds, drug trafficking," and violations of professional confidentiality by senior police officers and customs officials, as well as magistrates, court clerks, and other local government officials linked to the Erramach case, were still underway in December. Despite enforcement efforts in this case, corruption, at some level, is likely to play a role in Morocco's continuing trafficking of cannabis products.

Agreements and Treaties. The U.S. and Morocco cooperate in judicial matters through a convention on mutual legal assistance. 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, as amended by the 1972 Protocol amending the Single Convention. 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, west to the coastal city of Larache, and east toward Al Hoceima. According to the UNODC report, small farmers in the northern Rif region grow most cannabis, where an estimated 27 percent of arable land is dedicated to its cultivation. Production also occurs 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 and historical dependence on cannabis in the northern region, eradication is only feasible if accompanied by a well-designed development strategy involving reform of local government and a highly subsidized crop substitution program. Moroccan officials have indicated that crop substitution programs thus far appear to have made little headway in providing economic alternatives to cannabis production. 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 monoculture 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 bound for Spain travel via fishing vessels and private yachts. Shipments of up to two tons increasingly are being confiscated on smaller "zodiac" speedboats that reportedly are capable of making roundtrips to Spain in one hour. Smugglers also continue to ship cannabis via truck and car through the Spanish enclaves of Ceuta and Melilla, and the Moroccan port of Tangiers, crossing the Straits of Gibraltar by ferry. According to the UNODC, Spain still accounts for the world's largest portion of cannabis resin seizures (57 percent of global seizures and 75 percent of European seizures in 2001). The Moroccan press reported that some 800 tons of Moroccan cannabis resin were seized in Spain in 2004. Given its proximity to Morocco, Spain is a key transfer point for Europe-bound Moroccan cannabis resin.

Domestic Programs. The GOM is concerned about signs of an increase in domestic heroin and cocaine use, but does not aggressively promote reduction in domestic demand for these drugs or for cannabis. It has established a program to train the staffs of psychiatric hospitals in the treatment of drug addiction. In partnership with UNODC, the Ministry of Health is exploring the relationship between drug use and HIV/AIDS infection in Morocco. Moroccan civil society and some schools are active in promoting counternarcotics use campaigns.

IV. U.S. Policy Initiatives and Programs

U.S. 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.

Bilateral Cooperation. According to customs officials in northern Morocco, USG-funded border security training and equipment contributed directly to the dismantling of 37 smuggling and trafficking operations in the Nador region in 2003.

Road Ahead. The United States will continue to monitor the narcotics situation in Morocco, cooperate with the GOM in its counternarcotics efforts, and, together with the EU, provide law enforcement training, intelligence, and other support where possible.

Mozambique

I. Summary

Mozambique is a transit country for illegal drugs such as hashish, herbal cannabis, cocaine, mandrax (methaqualone), and heroin consumed in Europe and South Africa. Some hashish shipments passing through Mozambique may also 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. 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), 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. The U.S., the UN Office on Drugs and Crime (UNODC), and other donors have established cooperation programs to improve training of drug control officials and provide better interdiction and laboratory equipment. Despite these efforts, drug trafficking interdiction performance has not improved in the past year. Corruption in the police and judiciary continues to hamper counternarcotics efforts, but Mozambican public prosecutors did level formal charges against high-ranking police officers involved in drug trafficking in 2004. 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 as a drug-transit country has grown rapidly. 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. Drugs cultivated in Southeast Asia then typically transit India/Pakistan and later Tanzania, before arriving by small ship or, occasionally, overland to Mozambique. Traffickers are most commonly of Tanzanian or Pakistani origin. Increasing amounts of cocaine from the Andean region are sent with couriers on international flights from Brazil to Mozambique, sometimes via Lisbon, before being transported overland to South Africa. Mozambique has become a favored point of disembarkation because of its lax airport security control. Drug traffickers have recruited many young women in Maputo to work as couriers to and from Brazil. Mozambique is not a producer of precursor chemicals.

III. Country Actions Against Drugs in 2004

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. Police and border officials did make some drug seizures in the latter part of the year, particularly cocaine from Brazil and hashish from Southwest Asia. 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 operates in Maputo and reports to the Chief of the Criminal Investigation Police. With assistance from the UNODC, drug detection equipment was

installed at border posts, ports, and airports in 2002 and 2003. In the past year, 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 2004 include:

- Two separate maritime seizures of hashish by Inhambane police, one weighing 40 tons and the other 12 tons. In each case, the traffickers were Pakistani citizens transporting hashish in relatively small boats. In one case, the boat had shipwrecked.
- The October seizure at Maputo airport of over two kilograms of cocaine, carried by a young Mozambican woman arriving directly from Brazil.
- The December arrest at Beira airport of a young Mozambican woman arriving from Brazil with 38 capsules containing cocaine.
- The January arrest at Maputo airport of three women, Mozambican and South African, who were carrying 90 capsules of cocaine from Brazil to Maputo via Lisbon.
- The December seizure of over five tons of hashish, reportedly from the Philippines, in Beira. One Mozambican man was arrested, and the case has been referred to the anticorruption unit of the attorney general's office for further investigation.

With the exception of the two suspects recently apprehended in separate cases in Beira, it is not clear whether any of the suspects mentioned are incarcerated at this time. Local newspapers have printed articles about Mozambican women who were detained at Maputo airport for carrying drugs from Brazil in 2003 or 2004, but subsequently released without facing formal charges.

Corruption. Corruption is pervasive in Mozambique. Mozambique is, however, for the first time in many years prosecuting high-ranking police officials charged with drug trafficking offenses. In December 2004, the Inhambane provincial prosecutor filed formal charges against four officers, including the director of the provincial criminal investigative police and the director of the provincial riot police. These officers are charged with selling the proceeds of a large Pakistani shipment of hashish that had shipwrecked in 2000, and had been held in storage by provincial police since then. The officers had been incarcerated in 2003, but formal charges were made one year later. Media sources reported in early 2004 that two Beira police officers were fired for alleged involvement in drug trafficking, but were not charged. As official policy, Mozambique seeks to enforce its laws against narcotics trafficking, but as noted above, confronts difficulties in doing so regularly.

Agreements and Treaties. Mozambique 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. Mozambique has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption.

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 the most common method of production.

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, mostly in the coastal areas in northern Cabo Delgado province, but also in Nampula, Sofala, and Inhambane provinces.

The Maputo corridor border crossing at Ressano Garcia/Lebombo is an important transit point. Hashish and heroin are also shipped on to Europe, and 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 trafficked by drug couriers from Colombia and Brazil to Mozambique, sometimes through Lisbon, for onward shipment to South Africa. In addition, 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; the program includes plays and lectures in schools, churches, and other places where youths gather. It has provided the material to a number of local NGOs for use in their drug education programs. The Sofala provincial GCPCD office has created a community volunteer educational program. Due to limited funding, program initiatives were limited to Maputo and Beira. The Mozambican Office for the Prevention and Fight Against Drugs (GCPCD) has received some support for community policing and demand reduction from bilateral donors, including the German government. 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 sponsors Mozambican law enforcement officials and prosecutors to attend 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 (INL) provides support to the attorney general’s anticorruption unit and the police sciences academy (ACIPOL) near Maputo. The funds have provided 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. With USAID assistance, the anticorruption unit was able to open fully equipped offices in Beira and Nampula in 2004, expanding operations that were formerly based only out of Maputo.

The Road Ahead. The U.S. will continue working to upgrade facilities at ACIPOL, using INL funds in 2005 to develop a training laboratory that will include drug, fingerprint, document, and photo facilities. The criminal investigative police will also use the facility for its own drug investigation activities. U.S. assistance fund support of the anticorruption unit will continue in 2005. The U.S. is also devising a strategy with the GRM to develop a stronger border control program.

Namibia

I. Summary.

While occasionally used as a drug transit point, Namibia is not a major drug producer or exporter. The year 2004 saw an increase in drug seizures in Namibia, including record single seizures of marijuana (301 kilograms) and cocaine (21 kilograms). 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 is not a party to the 1988 UN Drug Convention.

II. Status of Country.

Namibia is not a significant producer of drugs or precursor chemicals. No drug production facilities were discovered in Namibia in 2004. 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, inadequate screening equipment, a lack of training and varying levels of motivation among working-level customs and immigration officers at Namibia's land border posts all prevent adequate container inspection and interception of contraband. Inconsistently applied immigration controls also make Namibia an attractive transit point for Africans en route to Latin America for illicit purposes, as evidenced by the September 2004 discovery of a smuggling ring that specialized in the movement of Tanzanians to Brazil via Namibia.

III. Country Actions Against Drugs in 2004

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 1988 UN Drug 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.

Namibia's Parliament passed two bills designed to combat organized crime, trafficking, and terrorism in 2004, but the required implementing regulations for this legislation have yet to be drafted. Three additional initiatives are still pending parliamentary action. Once fully implemented, the new legislation will allow for asset forfeiture and other narcotics-related prosecution tools.

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 (SARPPCO). 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 discussed.

Corruption. No incidents of narcotics-related public corruption were reported in 2004. To our knowledge, neither the Office of the Ombudsman nor any other anticorruption entity in Namibia is currently investigating narcotics-related public corruption.

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 U.S.-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. Namibia also is a party to the UN Convention Against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children, and to the UN Convention Against Corruption.

Domestic Programs (Demand Reduction). Drug treatment programs are available from private clinics, and to a lesser extent from public facilities. The vast majority 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

Policy Initiatives. 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, and both the DLEU and the Namibian Police Special Branch were extremely cooperative in the September 2004 alien smuggling investigation (see part II above).

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 major transit route for illicit trafficking of narcotic drugs. There is evidence that narcotics transiting Nigerian ports and borders reaches the United States, but the quantities are modest in comparison to the impact of narcotics trafficked by ethnic Nigerian criminals operating trafficking rings based outside of Nigeria, and thereby beyond much of the enforcement reach of the Nigerian government. However, Nigeria does not produce any of the narcotic drugs its nationals traffic, except marijuana. Cannabis/marijuana is grown domestically in Nigeria and is trafficked to the neighboring West African countries from where it is further trafficked to Europe. There is a small, but increasing local narcotics market. Nigeria's National Drug Law Enforcement Agency (NDLEA) is strongly committed to interdicting the movement of through Nigeria of illegal narcotics and reducing abuse by Nigerians. NDLEA has grown in experience and professional competence and their counternarcotics efforts have prevented a growing share of Nigerian-trafficked drugs from reaching markets in other countries. Nigeria is a party to the 1988 UN Drug Convention.

II. Status of Country

Nigeria is not a major producer of narcotic drugs, but it is a major drug-transit hub. Heroin and cocaine transit Nigeria on their way to neighboring countries, Southern Africa, Europe and increasingly to the United States. In addition, Nigerian organized criminals are a major factor in the worldwide drug trade, especially in the trafficking of cocaine. Most drugs trafficked to and through Nigeria originate outside Africa. Drug interdiction is the sole responsibility of the NDLEA. Heroin and cocaine seizures have dominated the NDLEA activities at the Murtala Mohamed International Airport in Lagos. There was a major seizure of 30 kilograms of cocaine at the Benin-Nigerian border in December. The quantities of marijuana seized and number of arrests relating to marijuana indicate that trade in, and local consumption of, marijuana has been on the increase in 2004. On the whole there has been an increase in narcotic drugs business despite government efforts to combat illegal trafficking.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The assistance relationship between USG and Nigerian agencies is generally good. Training programs, technical assistance and equipment donations have continued, especially to the NDLEA Academy in Jos, Plateau State. Other counterpart agencies include the Economic and Financial Crime Commission (EFCC) and the National Police Force (NPF), though in the case of the NPF, there have been some difficulties coordinating efforts to improve training at the Police Academy.

Accomplishments. In 2004, NDLEA commenced a systematic implementation of all anti-money laundering legislation. Five commercial banks have been investigated and prosecuted for aiding and abetting money laundering. NDLEA also intensified its bank inspection operations at other Nigerian financial institutions.

Law Enforcement Efforts. In 2004, by the end of October, NDLEA seized 51,022 kilograms of cannabis, 92.2 kilograms of cocaine, 53.3 kilograms of heroin and 198.1 kilograms of psychotropic substances. In the same period, the agency arrested 3,067 drug traffickers and over 98 percent of them were successfully prosecuted. The seizures were concentrated at airports, seaports and border posts. NDLEA continued to develop its capacity to conduct complex investigations and get arrests and convictions of narcotics kingpins.

Corruption. Corruption is fully entrenched in Nigerian society and still remains a significant barrier to effective narcotics enforcement. It is systemic and society tends to condone it. The socio-economic conditions in Nigeria seem to be the root cause. There is widespread unemployment and the salaries of civil servants are low. In addition, the government often fails to pay salaries on time. Law enforcement officers are most affected by this failure. The Independent Corrupt Practices and Other Related Offences Commission (ICPC) is empowered to receive and investigate reports of corruption and where justifiable, prosecute the offenders. It is also empowered to educate the public against bribery, corruption and other related offences. In 2004, the commission endeavored to execute its duties despite the problems it faced. ICPC has investigated and is in the process of prosecuting high profile Nigerian government officials. These include judges, commissioners, permanent secretaries and ministers. A proposed constitutional amendment would remove the immunity of state governors from prosecution for corruption and other crimes. ICPC now has 12 qualified and motivated prosecutors and is recruiting more private-sector prosecutors to replace its current police prosecutors. The Commission is scheduled to receive assistance from a Resident U.S. Legal Advisor (RLA). This project is scheduled to commence in March 2005 for an initial six months.

Agreements and Treaties. Nigeria is 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 is a party to the UN Convention against Transnational Organized Crime and its protocols on migrant smuggling and trafficking in women and children. Nigeria is a signatory to the UN Convention Against Corruption. The U.S. and Nigeria cooperate in matters of extradition and judicial assistance through the 1931 U.S.-UK Extradition Treaty, which applies to Nigeria, and the U.S.-Nigeria MLAT, which entered into force in 2003.

Cultivation/Production. Marijuana/Cannabis is grown all over Nigeria, but cultivation is heaviest in the central and northern states of the country. It is also grown in large quantities in Ondo and Delta states. Its market is concentrated in West Africa and Europe. None is known to have found its way to the United States. NDLEA destroyed more than 200,000 hectares of marijuana in 2004.

Drug Flow/Transit. Nigeria remains a conduit for heroin and cocaine from Asia and South America destined for South Africa, Europe, and to a lesser degree, North America, including the U.S. Interdiction is mainly at the Murtala Mohamed International Airport in Lagos where NDLEA conducts 100 percent searches on both passengers and luggage. This has led to a change of routes by traffickers. Port Harcourt Airport, currently being used by British Airways, has been identified as a new narcotics smuggling route in Nigeria. Many observers suspect that seaports are important entry points because of the laxity of security at Nigeria's ports.

Domestic Programs (Demand Reduction). Drug abuse is on the rise in Nigeria. This is a result of the availability of imported drugs on the local market in Nigeria's large cities. Domestic cultivation and abuse of marijuana is also still a big problem. Treatment is not generally available.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. NDLEA is making continued strides, improving its interdiction efforts at Nigerian ports of entry, and working on its capacity to conduct sophisticated investigations successfully. The U.S., through State-Department narcotics assistance, is a significant factor in helping NDLEA to improve its interdiction performance.

The Road Ahead. The future of U.S. assistance to the Nigerian Police Force (NPF) is under review. The NPF has not been very cooperative in its dealings with the U.S. Government. This has been manifested in its failure to follow a new recruit curriculum and a mid-level in-service training program that were designed by Department of Justice advisors to the Nigerian Police Force. The remaining agencies receiving U.S. assistance (NDLEA, ICPC, and EFCC) have shown that they are committed to

their work and there are indicators that they are now more effective on the ground. Continuing assistance to these agencies is planned and under discussion.

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. 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. During 2004, the Saudi Government executed a number of people for narcotics-related offenses. Saudi Arabia maintains a network of overseas drug enforcement liaison offices and state-of-the-art detection and training programs to combat trafficking. While Saudi officials are determined in their counternarcotics efforts, drug trafficking and abuse is a growing problem. Since the Saudi government provides no statistics on drug consumption, interdiction, and trafficking, it is difficult to substantiate this assessment with hard data. However, anecdotal evidence suggests that Saudi Arabia's relatively affluent population, large numbers of idle youth, and high profit margins on smuggled narcotics make the country an attractive target for drug traffickers and dealers.

The Saudi Government undertakes widespread counternarcotics educational campaigns in the media, health institutes, and schools. The Narcotics Police are currently collaborating with the Presidency of Youth Welfare to produce a film for schoolchildren to educate them about the dangers of illegal drugs. Government efforts to treat drug abuse are aimed solely at Saudi nationals, who are remanded to one of the nation's four drug treatment centers in Riyadh, Jeddah, Dammam and Qassim. There are no separate facilities for Saudi women, and expatriate substance abusers are jailed and summarily deported. Health officials confirm anecdotal reports of an increase in drug abuse, but note that most addictions are not severe due to the scarcity of available narcotics and their diluted form. Heroin and hashish are the most heavily-consumed substances, but Saudi officials report that cocaine and amphetamines are also in demand. Paint/glue inhalation and abuse of prescription drugs is also reported.

III. Country Actions Against Drugs in 2004

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.

Accomplishments/Law Enforcement Efforts. Saudi and U.S. drug enforcement officials regularly exchange information on narcotics cases. Drug seizures, arrests, prosecutions and consumption trends are not matters of public record, although reports of drug seizures by Saudi officials appear

occasionally in local newspapers. Saudi interdiction efforts tend to focus more on individual carriers than on follow-on operations designed to identify drug distributors and regional networks.

Corruption. There is 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. Saudi Arabia 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 its 1972 Protocol. Saudi Arabia has signed, but has not yet ratified, the UN Convention on Transnational Organized Crime.

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

Bilateral Cooperation. Saudi officials actively seek and participate in U.S.-Sponsored training programs and are receptive to enhanced official contacts with DEA.

Road Ahead. The U.S. will continue to explore opportunities for additional bilateral training and cooperation.

Senegal

I. Summary

Counternarcotics elements of the Senegalese Government remain concerned about the production and trafficking of cannabis, and to a lesser degree, hashish. Small quantities of cocaine and heroin are seized on an infrequent basis. Senegal's attempts to implement a national plan of action against drug abuse and trafficking have yet to get off the ground due to lack of funding. Senegalese authorities have been active in pursuing bilateral cooperation against international traffickers, including signing mutual assistance agreements with France and the UK. Education and strict enforcement of drug laws remain cornerstones of Senegal's counternarcotics goals, but are sometimes not achieved because of resource constraints, and other strident priorities, for example poverty alleviation. 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 at the center of the cannabis trade. In 2004, the peace process in the Casamance continued between the Government and the leaders of the failed independence movement, with more rebels deciding to lay down their arms to pursue legitimate economic activity. However, it is generally acknowledged that some of the rebels have turned to the cannabis trade as a source of income. Police are reluctant to undertake greater enforcement efforts against cannabis cultivation in the Casamance for fear of hampering further peace negotiations. Government troops have temporarily driven some 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 under-funded and undermanned, allowing the illegal cannabis trade to continue unabated. Cannabis produced in the Casamance finds its way to Dakar, the capital city, and has a regional market in Africa, but it is not exported significantly outside of Africa.

III. Country Actions Against Drugs in 2004

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.

Accomplishments. The amount of hard drugs seized by police in Senegal is small by international standards. Due to weak enforcement efforts and inadequate record keeping, it is impossible to assess accurately the country's real drug problem. Police lack the training and equipment to detect drug smuggling, as evidenced by a nationwide absence of drug-sniffing canines. Senegal has in the past undertaken few cannabis eradication efforts. Meetings have been organized, though, with island populations—the Casamance region is swampy and low-lying and there are many islands—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. During 2004, no significant changes were made on the law enforcement front. Traffickers and their organizations are subject to asset seizures, imprisonment, and permanent

exclusion from Senegal if convicted. However, the relatively low priority the GOS places on counternarcotics enforcement is underscored by the Minister of the Interior's statement that "the fight against drugs should be understood as a problem of development," while stressing the urgency of attacking the underlying cause: poverty.

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.

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. The airport authority's efforts to attain FAA Category One certification have resulted in the tightening of security procedures and more thorough passenger luggage screening. Presumably, this has had the positive outcome of discouraging drug trafficking through the International Airport. Conversely, there is no consistent monitoring of containers at the port of Dakar.

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. In 2004, the National Commission against Non-Transparency, Corruption, and Misappropriation of Funds, an autonomous investigative panel, was created. The efficacy of the commission's efforts remains to be seen. The GOS does not, as a matter of government policy, encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior GOS officials engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Senegal has several bilateral agreements with neighboring countries to combat narcotics trafficking, and has signed mutual legal assistance agreements with the United Kingdom and France in efforts to combat narcotics trafficking. Senegal is also a party to the Economic Community of West African States (ECOWAS) protocol agreement, which includes an extradition provision. 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 also is a party to the UN Convention Against Transnational Organized Crime and its protocols against migrant smuggling and trafficking in women and children, and is a signatory to the UN Convention Against Corruption.

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. Efforts to eradicate cannabis cultivation are hampered by the civil conflict in the Casamance region.

Drug Flow/Transit. According to the Chief of the Narcotics Police, the trend in the amount of illicit drugs transited through Senegal is increasing. The Narcotics Police are monitoring the transshipment of hashish and cocaine through Senegal. The U.S. is not a destination point for these drugs.

Domestic Programs. There is no comprehensive GOS policy for systematic destruction of domestic cannabis or prevention of transshipment of harder drugs. Enforcement efforts are sporadic and uncoordinated.

NGOs, such as the Observatoire Geostrategique des Drogues et de la Deviance (OGDD), have taken the lead in public education efforts. OGDD continued a program that began in 2001. The first phase involved a campaign of information targeted at cannabis cultivators, arguing that the land had greater potential if it were used for other purposes than drugs, that drugs were bad for the environment and

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. Funding constraints, however, have impeded implementation of this part of the program. Other associations for the prevention of drug abuse are in the process of elaborating a program of drug prevention under the auspices of the International Committee for the Fight Against Drugs, which is managed by the Ministry of the Interior.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. 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 is in the fourth year of continued training to the technicians at the National Drug Laboratory that was founded with basic drug analysis equipment and training provided by INL.

The Road Ahead. The USG will continue to work closely with the Senegalese government to improve the capacity of its narcotics law enforcement officers to investigate and prosecute narcotics crimes.

South Africa

I. Summary

South Africa is committed to fighting domestic and international drug trafficking, production, and abuse. The country is an important transit area for cocaine (from South America) and heroin (from the Far East) primarily destined for Southern African and European markets. South Africa is a large producer of cannabis—the world’s fourth largest, according to Peter Gastrow of the South African Institute for Strategic Studies—most of which is consumed in the Southern African region. It also may be the world’s largest consumer of mandrax, a variant of methaqualone, an amphetamine-type stimulant. 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 2003/04 there were 341 organized criminal syndicates (gangs) active in all of South Africa. At least 98 are known to be involved in drug trafficking (and the police claim to have infiltrated most of them). Most of those syndicates are foreign: primarily Nigerian, followed by the Pakistani and Indian syndicates. Chinese Triads are also present. The Prevention of Organized Crime Act (POCA, 1988), particularly its asset forfeiture section, has become a useful tool for law enforcement. 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 were accompanied by the increased use of its territory for the transshipment of contraband of all kinds, including narcotics. An overloaded criminal justice system, straining hard just to deal with “street crime,” makes South Africa a tempting target for international organized crime groups of all types. South Africa has the most developed transportation, communications and banking systems in Sub-Saharan Africa. The country’s modern telecommunications systems—particularly cell telephones—and 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. The sanctions busting practices so prevalent in the apartheid era have continued under a different guise: instead of the embargoed items, drugs and other illicit items are now smuggled into and out of South Africa. Narcotics trade has become 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 is both an importer and an exporter of drugs (produced on its own territory). The South African Government is making steady progress dealing with this situation.

Despite the progress made, South Africa has become the origin, the transit point or the terminus of many major drug smuggling routes. Cannabis, for instance, is cultivated in South Africa, imported from neighboring countries (Swaziland, Lesotho, Mozambique, Zimbabwe), exported to some of the neighboring countries (e.g. Namibia) and Europe (mainly Holland, UK) and, of course, consumed in South Africa. LSD is imported from Holland. Methamphetamine is manufactured in South Africa for local consumption. Both heroin and cocaine are imported into South Africa (from Asia and Latin America respectively), and also exported to Europe, Australia and even the U.S. and Canada. Cocaine from Bolivia and Peru goes through Colombia to Brazil and Argentina, then to South Africa via Portugal or Angola or directly to Johannesburg. To stop some of this trafficking, South Africa needs, in addition to its own efforts, increased international cooperation and assistance.

Although South Africa continues to rank among the world’s largest producers of cannabis, this production does not have a significant effect on the U.S. In terms of use of narcotics, heroin is a

particularly dangerous new trend among South Africans (who traditionally used “dagga”, the local name for marijuana only). The “club drugs” remain a problem among some of the more well-to-do youth, but alcohol remained the dominant substance of abuse (according to SA Community Epidemiology/SACENDU reports).

South Africa is becoming a larger producer of synthetic drugs, mainly mandrax, with precursor chemicals smuggled in and labs established domestically. As in 2003, a number of large labs were dismantled in 2004, including in the Pretoria area. Police reported that because of this crackdown, labs were increasingly established on farms, making it more difficult for the police to find and destroy them.

III. Country Actions Against Drugs in 2004

Policy Initiatives. Combating the use of, the production of, and the trafficking in illicit narcotics is an important component of the anticrime agenda of the South African Government (SAG). As a practical matter, however, the SAG tends to target its limited anticrime resources on serious, violent and domestic crime. South Africa has one of the world’s highest rates of murder and rape. The porous borders are crossed daily by criminals trafficking in all sorts of contraband, including 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 those challenges. The Narcotics Bureau (SANAB) was integrated into the police organized crime units in 2003. There is also a Central Drug Authority. Other SAG agencies involved in counternarcotics efforts include, to a lesser or a greater degree, the Home Affairs Department (DHA), the National Prosecuting Authority (NPA) and its Directorate of Special Operations (DSO, or more popularly known as “The Scorpions”), the Customs Service (SARS), and the Border Police (a part of SAPS). The U.S. helped in the training of the DSO. The Border Police have 53 land border posts, 10 air-border posts and 9 sea-border posts. Intelligence organizations and the port and airport authorities also have a role in identifying and suppressing drug trafficking.

Accomplishments. In 2004, the SAG and the law enforcement agencies met the goals and objectives of the 1988 UN Drug Convention and the National Anti-Drug Strategy through arrests, seizures of drugs, spraying cannabis, dismantling labs, controlling precursor chemicals, extraditing criminals and seizing assets. The courts used the Prevention of Criminal Activity Act successfully and the Financial Intelligence Center Act gave more credibility to the anti-money laundering efforts. The Financial Intelligence Center has grown into a viable center to identify and analyze most suspicious financial transactions, which will ultimately also help the fight against drug trafficking.

The number of detected drug-related crimes, according to the SAPS Report, grew in 2004 to 135.1 per 100,000 of population (from 118.4 in the previous year). There were 376 arrests. About 90 percent of those crimes are presented to courts. The conviction rate is about 70 percent (i.e. relatively high).

The SAPS reorganization appears to be having a positive effect in this area. The organized crime units around the country have expanded the base of counternarcotics police action. Some of those units have shown very good results, especially in major cities.

Education of the public at large about the dangers of drug addiction remains a high priority for the government. Two major campaigns took place in 2004: 1) the SAPS organized visits and counternarcotics lectures in more than 25,000 schools; and 2) the National Awareness Program, sponsored by the United Nations Office for Drug Control and Crime (UNODC), the Department of Safety and Security and the Central Drug Authority—and originally launched in Cape Town in 2003—brought facts on drugs and their dangers to young people, students and others, under the slogan “Ke Moja” (“No Thanks, I’m Fine!”).

Certain successes have been achieved within the correctional system as well, mainly through efforts of NGOs. In South African prisons, up to 70 percent of inmates are drug users (with an even higher percentage among those awaiting trial), according to NGO contacts. Among the main rehabilitation programs organizers is KHULISA, an NGO partly funded by State Department narcotics assistance. "Peer" counselors, trained by KHULISA within the prison system, continue to organize counternarcotics lectures and seminars for inmates. Some of the government-employed prison officials have also received basic training in this area.

The South African government pursued two major anticrime initiatives in 2004. The first was the confiscation of illegal arms, initiated on April 1, 2003, and continued until the end of September 2004. About 26,000 unregistered weapons (and 1.6 million pieces of illegal ammunition) were seized during this effort. In addition, almost 6,000 people were arrested for possession of illegal weapons. In May 2004, President Mbeki announced his new government's "War On Poverty and Crime" in which Joint Task Forces were formed and targeted on the most serious crimes in the country, with the stated objective of apprehending the 200 most important criminals in South Africa.

Law Enforcement Efforts. Some observers have called 2004 "the most successful year in South African drug enforcement history." SAG authorities, on occasion working closely with other nations to include the U.S., achieved tremendous success: the total street value of drugs seized by various law enforcement agencies during the previous 18 months was almost \$1 billion. The South African Police Service (SAPS) Annual Report (covering the fiscal year from April 1, 2003, to March 31, 2004, and published in August) shows a high level of seizures of illicit drugs. The figures do not include seizures by the special "Scorpion" unit.

Mandrax seizures rose sharply this year in South Africa and in China because excellent police work and good international cooperation cracked a major mandrax smuggling operation.

Additional successes were reported in the press. On August 16, 2004, "Pretoria News" announced the world's biggest mandrax seizure. The Kwazulu-Natal (KZN) Scorpions' office, together with the Durban police (SAPS), at the Port of Durban seized an estimated six tons of pure methaqualone powder, used to manufacture mandrax tablets. About 18 million tablets could have been produced with this quantity of methaqualone, worth about \$166 million. The consignment was hidden among barrels of paint powder shipped from China to Mozambique (via Durban). According to Bulelani Ngcuka, then the National Director of Public Prosecutions, this operation was one of three in about 18 months involving shipments from China. This seizure was not included in published SAPS seizures, as the special "Scorpion" Unit was involved.

In early July, the Scorpions were reported to have seized four tons of uncut cocaine in a Johannesburg suburb, after a shootout with suspected members of a Chinese syndicate. Cocaine powder was found in 200 boxes, mandrax in 20 boxes. The value of the seized drugs was estimated at \$116.3 million.

A few cases of cocaine smuggling were discovered at the Johannesburg Airport. In early June, about three kilograms of cocaine worth about \$216,000 were seized from a Gambian citizen arriving from Sao Paulo. Two Uruguayan women, arriving from Buenos Aires were also arrested in connection with this smuggling operation. The police service also detected, seized and dismantled some 44 clandestine laboratories (in Gauteng province only) that were producing methamphetamines and other man-made drugs.

The Border Control Police, having received training from UNODC (financially supported in part by the U.S.) on seaport security operations, has also contributed to seizures of mandrax, cocaine and other illicit drugs. SARS has successfully upgraded its technology at border points, thus contributing to the overall effort in suppressing the drug trade during the last two years. SARS and the DHA have also sent representatives to the USG sponsored training at ILEA-Botswana on land border interdiction.

Corruption. About 10.5 percent of all offenses reported against police officers are classified as corruption in diverse forms—according to the latest Internal Complaints Division (ICD) Report. Accusations of police corruption are frequent—although the experience of enforcement officers working from the U.S. Embassy is that many of the failures and lapses by the police can be attributed as much to a lack of training and poor morale. Credible evidence of narcotics-related corruption among South African law enforcement officials has not been brought to light, although many suspect such corruption exists. Some suspect that the reported quantities of seized drugs are lower than actual seizures, and that the difference finds its way back out on the street. Some amount of corruption 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, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Convention as amended by the 1972 Protocol. South Africa is also a party to the UN Convention against Transnational Organized Crime and its three protocols. 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 of South Africa, particularly the Eastern Cape and Kwa-Zulu Natal provinces. It also grows wild and is cultivated in neighboring Swaziland and Lesotho. It is possible to have three cannabis crops a year in 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. Some estimates are that 20,000 to 30,000 hectares of SA arable land are used to grow cannabis, although most observers estimate the area dedicated to illicit cannabis to be about 1500-2000 hectares. Although the police force, with some success, sprays cannabis in South Africa, Swaziland, and Lesotho, illicit street prices never seem to rise—an indication of uninterrupted supply.

Mandrax, amphetamine and methamphetamine are also produced in South Africa for domestic consumption. Among South Africans, “dagga” and mandrax are the traditional drugs of choice; in more recent years, there has been rising interest in domestically produced ATS and imported heroin.

Drug flow/Transit. Significant amounts of cocaine reach South Africa from South America. While there are no exact statistics available, cocaine is constantly available on the local illicit market. The amounts seized oscillate between 78.4 kilogram in 1993 and 635.9 kilogram in 1998. This year's seizure of 30 kilogram is lower than the level of last year's (210 kilogram), but higher than the levels of 4 other recent years. Cocaine is mainly imported by Nigerian syndicates—or the people who work for them—from South America. South Africa, once a country of transshipment, has become a country with its own market. The consumption of cocaine, both powder and crystalline (“crack”), is on the increase.

Heroin is smuggled into South Africa from Southeast and Southwest Asia, with some moving on to the U.S. and Europe. Thus South Africa is also a country of transshipment of heroin. According to a UN study, however, most heroin trafficked into South Africa is intended for domestic consumption. Consumption of heroin among South African youth has increased with the advent of smokable heroin. South Africans do not like injectable drugs of any kind, although there are cases of people injecting heroin. An additional risk in terms of intravenous drug abuse is, of course, HIV/AIDS, a major health issue in South Africa.

South Africans also import “dagga” from Swaziland and Lesotho, considering it to be of higher quality than the domestic version. Abuse of methaqualone (Mandrax) and other ATS tablets is on the rise too, especially among urban youth. Even Ecstasy finds its way into townships, according to a new study.

Diverted precursor chemicals, produced locally and imported into South Africa, are also growing problems. Many drug liaison officers, as well as South African Police Service officers, 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. Nigerian, Pakistani, Indian, Colombian, Venezuelan, and Chinese syndicates are all taking advantage of South Africa, which, in addition to "weak enforcement," has excellent financial, transportation, and communications facilities.

Traffickers of Nigerian origin may be the most organized of organized crime groups operating in South Africa. Using South Africa as their base for world-wide operations, they are involved in virtually every aspect of drug trafficking.

Domestic Programs. South Africa has had a long history of mandrax and "dagga" (cannabis) 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. SAG treatment facilities and non-government drug rehabilitation agencies have seen their allotments for treatment cut the last four to five years. There are many people seeking treatment who are unable to register with any program, and those who manage to enter a rehabilitation program find that available services are constrained by lack of resources.

IV. U.S. Policy Initiatives and Programs.

Policy Initiatives. U.S. law enforcement officers from the DEA, FBI, DHS (Customs/Immigration), the Secret Service and the State Department successfully cooperate with their South African counterparts. The U.S. also urges the SAG to strengthen its legislation and its law enforcement system and thus become able to prosecute more sophisticated organized criminal activities, including drug trafficking. The Scorpions, with U.S. training, have targeted organized crime and high-profile crime of all sorts. Some training has also been provided to the national police, the metropolitan police forces of Johannesburg and Tshwane, the Special Investigating Unit, the Department of Home Affairs, the Customs and Revenue Service, and others.

The Road Ahead. Bilateral links between the United States and South African law enforcement communities are in the interest of both countries and even closer cooperation is needed. Assistance from the U.S. and other donors is essential to help develop the law enforcement system in South Africa.

Swaziland

Swaziland is an important transit country for drug trafficking within Southern Africa, and also a significant marijuana producer. In 2004, 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.

Swaziland produces high-quality marijuana (known locally as dagga), a certain amount of which is grown for export. In 2004, authorities seized Swazi marijuana destined for the U.S., UK, Europe, and Japan, but not in quantities sufficient to have a major effect. The Royal Swaziland Police Service (RSPS) does its best to eradicate marijuana crops and combat trafficking. Weak legislation and poor resources, however, 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 for possession. Furthermore, because prosecution for listed narcotic 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. Swaziland 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 its 1972 Protocol. Swaziland has also signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Though there have been arrests of Anti-Drug Unit officers in the past, corruption in general 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 2004, the Syrian government continued to give a high priority to, and devote significant resources to combating the drug trade. Although drug seizures increased measurably, domestic usage was negligible. Thus, Syria remains an important transit country. Jordan and the Gulf States remain 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 region and to Europe. Syria is a transit country for hashish, cocaine, and heroin, particularly from Turkey, but also from Lebanon. Syria is a transit country for Captagon (fenethylline), a synthetic amphetamine-type stimulant, entering Turkey destined for Gulf Countries.

After almost a decade of essentially no illicit drug production (Opium poppy or commercial quantities of marijuana), in 2001, the production of both hashish (cannabis) and opium poppy escalated. Lebanon and Syria are not considered as important source countries for hashish and opium. A very effective eradication program in the Biqa' Valley by Lebanese and Syrian authorities from 2002 to 2004, sharply reduced the amounts of cannabis and opium cultivated in the valley. Both Syrian and Lebanese authorities expressed concerns that the international community has not fulfilled its promise to provide alternative crop substitutes for the farmers to cultivate in the Biqa' Valley. The authorities fear that due to a lack of alternative crops and economic opportunities, farmers may go back to cultivating cannabis and opium in the Biqa' on a larger scale. Syria occupies Lebanon, and thus Syria is an important factor in Lebanese affairs.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2002 Syria upgraded the Counternarcotics Unit from a branch to a directorate of the Interior Ministry. The government also opened regional counternarcotics offices in Aleppo province, covering the Turkish border, and in Homs province, to monitor the Lebanese border, and eventually plans to open offices in every province, although no additional offices were opened in 2004.

In 2002 Syrian authorities prepared a draft decree, with an expected release date of early 2003, that was to provide financial incentives of up to several million Syrian pounds (1SP = \$51.50) to anyone providing information about drug trafficking and/or cultivation in Syria. The draft decree was not enacted in 2004 because of a lack of funding and there is no expectation that there will be sufficient funding to do so in 2005.

Accomplishments. In 2004, hashish, opium, and heroin seizures decreased, and there was a slight increase in cocaine seizures. Arrests and convictions for drug related offenses also increased. Within Syria, the Syrian authorities confiscated 40 kilograms of cocaine, 2 kilograms of opium, 563

kilograms of hashish, and 2.0 million Captagon pills. Syrian authorities reported the arrest of 3,677 individuals on narcotics-related charges in 2,540 narcotics-related cases in 2004.

In 2004, Lebanese authorities reported that over 130,014 square meters of cannabis fields were eradicated in the Biqa' as a result of cooperation between Syrian and Lebanese authorities. Key border stations were staffed with personnel and specialized dogs trained in detecting concealed drugs.

Law Enforcement Efforts. Syrian officials characterized cooperation on drug issues with neighboring Saudi Arabia, Jordan, and Lebanon as "excellent." Syria has legislation, which provides for seizure of assets financed by profits from the drug trade. The government has used this legislation to seize assets.

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 2004; information was not provided on whether any investigations were conducted.

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. Syria and the U.S. do not have a counternarcotics agreement, nor is there an extradition treaty between the two countries.

Cultivation/Production. The government of the Syrian Arab Republic (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. Syrian officials estimate that in 2004, the overall flow of narcotics transiting Syria and destined for other countries in the region was approximately the same as in 2003. 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 capturing shipments of hashish and cocaine transiting through Syria to Europe and other countries in the region, of opium transiting from Pakistan and Afghanistan through Syria to Turkey, and of Captagon pills transiting from Turkey through Syria to Saudi Arabia.

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 Syrian government's counternarcotics strategy, which is coordinated by the Ministry of the Interior, uses the media to educate the public on the dangers of drug use, and drug awareness is also part of the national curriculum for schoolchildren. The Ministry also conducts awareness campaigns through university student unions and trade unions.

IV. U.S. Policy Initiatives and Programs

Policy Initiatives. In meetings with Syrian officials, DEA officials continue 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. DEA officials based in Nicosia maintain an ongoing dialogue with Syrian authorities in the Counternarcotics Directorate. In February, DEA officials based in Nicosia and Syrian Anti-Narcotics Department coordinated efforts, which led to the seizure of 18.8 kilograms of cocaine at Damascus Airport. 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 continue to encourage Syria to improve its counternarcotics cooperation with neighboring countries. The U.S. will also encourage Syrian officials to continue their work with their Lebanese counterparts to ensure that drug production in Lebanon remains at low levels; to find and destroy drug processing laboratories in those areas where Syrian forces are present; and to work to minimize the involvement of Syrian officials in drug trafficking.

Tanzania

I. Summary

Tanzania is located along trafficking routes linking Asia and the Middle East to South Africa, Europe and, to a lesser extent, 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, cocaine and heroin, is gradually increasing, especially among younger, more affluent people and in tourist areas. Tanzanian institutions 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 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 there.

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 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 seaports at Dar es Salaam and Zanzibar, as well as smaller ports like Tanga and Mtwara.

It is widely believed that traffickers conduct a significant amount of narcotics smuggling off-shore in small "dhow" boats that never stop in ports. Anecdotal evidence suggests surveillance at the airports has improved, which may have the effect of driving trafficking to minor ports and unofficial entry points. During the year, there were reports of "mules" carrying hard drugs into and out of Tanzania. An increasing trend is the use of Tanzanian land borders to enter neighboring countries, especially Kenya and Malawi, to catch international and regional flights.

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 2004, the Ministry of Home Affairs (on behalf of the counternarcotics unit of the police force) submitted suggestions for amending counternarcotics legislation to increase penalties and revise asset seizure laws. These suggestions have not yet been acted on. 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. Police have escalated cannabis

eradication efforts, seizing or destroying over 733,000 kilograms in 2003, according to the latest figures available and up from 110,000 kilograms in 2002.

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 individual "mule-carriers" and are not effective at limiting narcotics trafficking. While increasing the number of smugglers apprehended, Tanzanian law enforcement has not been able to translate small seizures into the prosecution of top leaders of organized rings.

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 effectiveness in each nation's narcotics control efforts.

According to the Criminal Investigative Police, a total 1,727 grams of cocaine and 4,071 grams of heroin were seized in 2003. Also, in that year, 733,222 kilograms of locally grown cannabis sativa were seized in an effort to eradicate cannabis plantations throughout the country. From January through June 2004, police seized 10,650 grams of heroin (in 170 separate cases), 620 grams of cocaine (in three separate cases), and 500 grams of Mandrax (in one case). Over 230,000 kilograms of cannabis were destroyed in the same period.

Corruption. Neither the government nor senior officials encourage or facilitate the production or distribution of illicit drugs; however, 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. There is no specific provision of the anticorruption laws regarding narcotics related cases, and few corruption cases are prosecuted. Many believe that corruption in the courts leads to light sentencing of convicted narcotics offenders. Prosecutors complain that many "swallowers" arrested at ports of entry will plead "not guilty" at first until there has been time to pay off the magistrate. Once confident of the magistrate's help, the suspect changes his plea to guilty, and the magistrate sentences with fines only.

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. Tanzania also participates in the Southern Africa Regional Police Chiefs Cooperation (SARPCO), which has led to at least one joint counternarcotics operation in Tanzania. The 1931 U.S.-UK 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 on production 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 efforts to establish domestic production. Most other illegal drugs in 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 forging 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. An increasing number of Tanzanians are being recruited for trafficking. In a nine-month period in 2004, twenty-four Tanzanians were arrested abroad (most in East Africa, Europe, and Pakistan) for smuggling. Recently, Tanzanian smugglers have been arrested coming into Tanzania through the land borders with Kenya and Malawi, after having arrived at international airports from Brazil, Pakistan or the United Arab Emirates. They are thought to have planned to “unload” the drugs so another mule could smuggle them to Europe or the U.S. This trend suggests a growing local trafficking organization.

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 Prime Minister’s Office manages a very small demand reduction program, and the police have a public sensitization program. Generally, addicts are either arrested or placed in psychiatry wards of public hospitals.

IV. U.S. Policy Initiatives and Programs

Bilateral Cooperation. U.S. policy initiatives and programs for addressing narcotics problems in Tanzania focus 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 2004, however, the drug trade, particularly of hard drugs, 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 its long, porous borders. In April 2004, Togo began formal consultations with the European Union and as a result of efforts made by Togo to address EU concerns, the EU has agreed to resume limited, conditional aid to Togo. 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 in 2004. 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 (cocaine) and Afghanistan (heroin).

In 2004 Togolese authorities seized 5 grams of heroin valued at \$1,500 and 491 kilograms of cocaine valued at \$5,892,000. The majority of the cocaine seized (412 kilos) occurred when French authorities intercepted a vessel at sea and escorted it to Lome. 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 Nigerians. Togolese buy small amounts for sale to expatriates living in Lome. From January to December 2004, 68 people, of whom 47 were Togolese, were arrested for drug distribution (44 men and 3 women). During the same period, 58 people were tried for narcotics-related offenses. Traffickers find it easy to traverse Togo's long and relatively porous borders. 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 2004

Policy Initiatives. In 2003 a plan to counternarcotics trade was developed under the auspices of the Narcotics Control Coordinating Committee (CNAD). In March 2004 a new Central Office Against Drugs and Money Laundering was created. This Central Office is responsible for investigating and arresting all persons involved in drug related crimes. This office has approximately twenty gendarmes and ten police personnel to conduct investigations and enforcement operations. Security agencies report all drug-related matters to the Director of the Central Office. The Director of the Central Office, in turn, is directly responsible to the Minister of Interior. The National Anti-Drug Committee has been incorporated into the new Central Office. An Idea Bank has been created among Togo, Benin and Ghana to facilitate counternarcotics operations in the sub-region. While Ghana and Togo regularly contribute to the bank, Benin has yet to play an active role.

Law Enforcement Efforts. The number of arrests increased somewhat in 2004. 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 Government of Togo (GOT) faces in apprehending drug distributors are the government's lack of computer technology, lack of communications and coordination, and mutual distrust among the three agencies responsible for drug law enforcement. While all agencies are required to report narcotics related crimes to the Central Office Against Drugs and Money Laundering, in practice there is no effective reporting, record keeping or cross-agency communication process.

Corruption. The Anti-Corruption Commission (ACC) made no drug-related arrests of government officials. 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, the 1971 UN Convention on Psychotropic Substances, and the 1961 UN Single Narcotics Convention as amended by its 1972 Protocol. Togo cooperates with other members of ECOWAS (Economic Community of West African States) regarding law enforcement issues. Togo is a party to 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 enforcement officials suspect some cross border distribution by small-scale dealers.

Drug Flow/Transit. There are sizeable expatriate Nigerian and Liberian populations involved in the drug trade in Togo, 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 USG is to help the GOT combat the international trafficking of drugs. The USG seeks to help the GOT in improving its ability to interdict illicit narcotics entering Togo and to prosecute those traffickers who are caught. The USG did not provide the GOT with material or training assistance in 2004. 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. With the assistance of the regional Drug Enforcement Agency representative based in Lagos, the USG will continue to look for ways to provide counternarcotics trafficking training to Togolese law enforcement personnel.

Tunisia

I. Summary

Tunisia is not a significant drug producing country nor is it a drug transshipment country. Tunisia is not involved in the production, trading and transit of drug precursor chemicals. The government has an active youth demand reduction education program and encourages NGOs' counternarcotics educational activities. During 2004, the government started enforcement of a new money laundering law, created a new department within the Ministry of Interior to root out corruption among police and customs officers, started building the region's first drug rehabilitation center for addicts and continued to punish drug dealers and consumers with maximum sentences as provided under the law. Tunisia is a party to the 1988 UN Drug Convention, and its domestic law contains provisions mandated by the Convention.

II. Status of Country

Tunisia is not a drug producing country and does not produce drug precursor chemicals. The government claims to have totally eradicated cannabis cultivation. However in previous years, there were unconfirmed reports of continued illicit cannabis cultivation in northern Tunisia. Before independence, cannabis cultivation for local use was legal. Tunisia is not a significant drug transshipment country; individual smugglers carry small amounts of hashish from Morocco and Algeria to Europe. Most drugs that enter the country from Algeria or Morocco are for local consumption. The government does not publish figures for narcotics consumption. However, Tunisian media reports on a daily basis on drug-related crimes for warning and prevention. NGOs active in the field report drug consumption is limited, but has increased in recent years, primarily in high schools, universities, and tourist resorts.

III. Country Actions Against Drugs in 2004

Policy Initiatives. On March 17, 2004, the GOT appointed a magistrate to head a newly created inspection department for police and customs officers. The department included in its mandate investigation of narcotics-related corruption. Tunisia has inter-ministerial committees to oversee drug control matters, but lacks a comprehensive counternarcotics master plan. Tunisia enacted a comprehensive penal code and other laws related to drug enforcement in 1992 and updated in 2003; these laws bring Tunisia into conformity with the 1988 UN Drug Convention. Tunisia has adequate legal and law enforcement measures in place to accomplish the 1988 UN Drug Convention objectives.

Accomplishments. The Government of Tunisia (GOT) gives a high priority to counternarcotics law enforcement. Tunisian law contains provisions mandated by the 1998 UN Drug Convention. Tunisia does not have an applicable bilateral narcotics agreement with the USG but is part of narcotics-related multilateral bodies. Tunisian media routinely report on drug seizures (mostly hashish), arrests of drug abusers, and convictions of traffickers. Hard drugs remain difficult to find or buy in Tunisia.

Law Enforcement Efforts. The agency with primary responsibility for counternarcotics law enforcement is the "Surete Nationale." Tunisian authorities did not make publicly available comprehensive information on counternarcotics law enforcement. Media increasingly report on law enforcement efforts. Based on publicly available sources, Tunisia averages 20 seizures annually totaling approximately 580 kilogram of narcotics. Sentences for narcotics cases are a combination of prison time and a fine, depending on the amount and type of drug. The most severe punishment is

reserved for drug traffickers, who can receive 10 to 20 years plus a fine of 20,000 to 100,000 dinars (\$16,300 to \$81,300).

For example, the media reported on the following cases during the month of December 2004: Customs officials interdicted four foreigners with 30 kilogram of heroin; Police arrested 11 drug sellers and users and sized 110 grams of drugs (Tunisian courts sentenced them to six years in prison and a fine of 5,000 dinars, equivalent to \$4,700; Tunisian courts sentenced two Tunisian traffickers from the Algerian border area to 28 years in prison; prison guards confiscated 130 psychotropic pills smuggled into prison; local police in a Tunis suburb arrested five for drug use.

Corruption. Tunisia has taken legal and law enforcement measures to prevent and punish public corruption, including corruption committed by senior government officials. In 2004, the Ministry of Interior established a special department to address corruption by police and customs officers. A special magistrate with investigative power heads the new department. To minimize corruption in the customs service, the government routinely transfers regional customs officials and reassigns senior national-level customs officers. As a matter of government policy, the Government of Tunisia and its senior officials do not engage in, 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. During 2004, Tunisia had no publicized cases of public narcotics-related corruption.

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 its protocols against migrant smuggling and trafficking in women and children.

Cultivation/Production. There are no current, confirmed reports of cultivation of cannabis. In previous years, some cannabis was reportedly grown in insignificant amounts in northern Tunisia.

Drug Flow/Transit. Tunisia is not a major drug transshipment country. There are regular reports of individual hashish smugglers from Morocco and Algeria who transit Tunisia en route to Europe. An unsubstantiated report indicated increasing transit of heroin from Libya through Tunisia to Europe. There are no reports of synthetic drugs trafficked through Tunisia in 2004.

Domestic Programs (Demand Reduction). Tunisia has no official numbers on drug abuse; however, an informal estimate indicates that Tunisia has roughly two thousand drug abusers, primarily school dropouts and jailed drug users. Tunisian officials reported a rising trend of abuse of illicit drugs, including: cannabis, heroin, cocaine, and volatile substances. The majority of Tunisian drug users consume a form of cannabis.

The GOT conducts drug education programs in schools and encourages NGOs to conduct complementary educational programs. Tunisia's Ministry of Health has yet to develop a comprehensive rehabilitation policy. Addicts are generally imprisoned and currently receive little rehabilitation assistance. In 2005, the government will start construction on the first specialized substance abuse rehabilitation center and halfway house for drug addicts in Tunisia.

IV. U.S. Policy Initiatives and Programs

Bilateral cooperation. DOD Headquarters European Command provided \$322,600 in humanitarian aid for construction of the Sfax rehabilitation center.

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.

Uganda

I. Summary

Uganda is not a major hub for narcotics trafficking. Nevertheless, there are some reports that certain prominent local businessmen may be involved in organized international money laundering schemes, possibly related to narcotics trafficking. Government of Uganda (GOU) authorities have detected and confiscated heroin, cocaine, and cannabis transiting the Entebbe Airport and along the border with Kenya. The only drug known to be produced in Uganda is cannabis. Uganda has signed the 1988 UN Drug Convention, but has not yet ratified it, and become a party.

II. Status of Country

Drug production and trading within Uganda is not significant. Uganda offers more potential as a transit route (Entebbe Airport and porous borders).

III. Country Actions Against Drugs in 2004

Policy Initiatives. In 1999, the GOU introduced new legislation for a national Uganda Narcotics-Drug Bill, which has yet to gain Parliamentary approval. If adopted, drug law in Uganda would address border areas, introduce seizure of property, increase fines, toughen sentencing guidelines, and increase penalties for repeat offenders.

Law Enforcement Efforts. The GOU has fewer than 100 law enforcement personnel devoted to counternarcotics activities throughout the country. Limited manpower and resources have forced the GOU to concentrate its focus on Entebbe Airport as a transit point. Although the focus is at Entebbe, the GOU also sends forces to participate in cannabis eradication campaigns in certain areas.

Asset Seizure is not a legal option presently. The police report that they seized 6.5 kilogram of heroin in four cases. Marijuana seizures were more than ten metric tons.

Corruption. Corruption is a huge problem that affects most aspects of the Government of Uganda. Although no example exists in the area of counternarcotics, it is reasonable to believe that corruption plays the same role there that it does in the other areas of Ugandan government administration.

The GOU does not encourage or facilitate illicit production or distribution of narcotic or psychotropic drugs or other controlled substances, or the laundering of proceeds from illegal drug transactions. No senior GOU officials engage in, encourage, or facilitate the illicit production or distribution of such drugs or substances, or the laundering of proceeds from illegal drug transactions.

Agreements and Treaties. Uganda has signed the 1988 UN Drug Convention, but has not yet ratified it, and become a party.

The GOU is a party to multilateral agreement with Government of Tanzania (GOT) and Government of Kenya (GOK) known as “the Protocol on Combating Narcotic Drugs in East Africa” whereby these three countries share law enforcement intelligence amongst themselves so as to better interdict and arrest drug traffickers. The GOU also has a Memo of Understanding (MOU) with the Government of Nigeria (GON) to share law-enforcement intelligence.

Drug Flow/Transit. The GOU is primarily concerned with heroin transit through Entebbe Airport, raw cannabis transport into Kenya and processed cannabis transit from Kenya. The United States is not the destination for narcotics transiting Uganda. Uganda Police Anti-Narcotics Unit statistics show a decrease in heroin seizures since 2001, which could suggest either police successes or that narcotics

traffickers have become better at concealment. While detection of illicit goods is a possibility at Entebbe Airport, it is exceedingly difficult along Uganda's porous borders.

Domestic Programs (Demand Reduction). Demand reduction is not addressed in a national or uniform manner. Although heroin addiction and cannabis use is of concern to the GOU and local law enforcement, concern for the impact of other social ills, leaves the concept of demand reduction unfunded and neglected by the GOU.

IV. U.S. Policy Initiatives and Programs

Road Ahead. The U.S. Government continues to engage with the Ugandan Government on a variety of law-enforcement issues. U.S narcotics assistance has been supporting a multi-year up-grade in Uganda's police forensics lab, and a police outreach program designed to bring a police presence to isolated Ugandan villages.

United Arab Emirates

I. Summary

Although not a narcotics-producing country, 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. Most seizures have been of hashish. There are several other factors that render the UAE a waystation, including its proximity to major drug cultivation regions in Southwest Asia and a long (700 kilometers) coastline. High volumes of shipping render UAE ports vulnerable to exploitation by narcotics traffickers.

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 believed to be a transshipment point for illegal narcotics from the drug-cultivating regions of southwest Asia, to Europe, to Africa and, and less significantly, to the United States. Western Europe is the principal market for these drugs, and Africa is becoming an increasingly prominent secondary market. Factors that contribute to the role of the UAE as a transshipment point 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", where transshipped cargo are not subject to inspection, as are other goods that enter the country.

In the first half of 2004, Abu Dhabi Police reported that drug crimes increased 5 percent over 2003, with more than 800 drug-related crimes, of which more than 100 involved drug smuggling.

III. Country Actions Against Drugs in 2004

Policy Initiatives. The UAE continued in 2004 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 for illegal drugs through educational campaigns, enforcing harsh penalties, and rehabilitating drug addicts. 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, of course, determine whether the drug-taking occurred in the UAE or abroad.

In November, the UAE announced the establishment of a UN sub-office on Drugs and Crimes. The UAE government funded the estimated \$3 million dollar cost of the office and contributed an additional \$50,000 to the UN counternarcotics program. The sub-office will operate under the Cairo-based UN regional Office on Drugs and Crime, and will be responsible for coordinating national counternarcotics strategies and integrating the strategies into the UN's comprehensive global program.

Law Enforcement Efforts. Counternarcotics agencies have been active in 4,774 cases from 1999 to September 2004 involving 7,611 suspected drug dealers. During this same time period, officials seized

more than 18,700 kilogram of hashish, 400 kilogram of heroin, and 100 kilogram of opium, a street value of more than \$25 million dollars.

In 2003, the UAE Ministry of Interior established a countrywide law enforcement 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 June, an Omani policeman was sentenced to life imprisonment for possessing and smuggling drugs over the land border. In December, an Asian woman was sentenced to death for drug dealing, although she is appealing the verdict.

Several other high-profile seizures in 2004 indicate that UAE authorities continue to take seriously their responsibility to interdict drug smuggling and distribution. In July, federal authorities seized 203 kilogram of hashish in a Pakistani ship destined for Saudi Arabia and docked at Khor Fakkan Port. In a separate operation, the federal authorities seized more than 50 kilogram of heroin en route to Kuwait. Local authorities are also working to further secure land borders, with Abu Dhabi Police seizing more than 600 kilogram of hashish transiting the UAE from Oman to Saudi Arabia.

The UAE is cooperating more with other countries to stop trafficking gangs. Cooperation has resulted in arrests in several countries, including Saudi Arabia, Oman, Yemen, Pakistan, Iran, Australia, Canada, and Holland. Cooperation has also resulted in the arrests of drug gangs in 12 cases with neighboring Oman, Saudi Arabia, and Kuwait. 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.

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. 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 Africa 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. 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. In December 2004, the UAE signed the Container Security Initiative, which will result in the tightening and expansion of cargo-reporting requirements. Customs officials and inspectors received specialized training on ferreting out prohibited items from U.S. DHS and Commerce's Bureau of Industry and Security in 2004. UAE authorities also received training on seaport interdiction and global transshipment this year. 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). A 2003 UAE 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. While the data is a few years old, trends reported are still likely to be reflective of current societal patterns.

The focus of the UAE'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 and severe prison sentences imposed on individuals convicted of drug offenses effectively deter 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, 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.

IV. U.S. Policy Initiatives and Programs

The Road Ahead. The USG will continue to support the UAE's efforts to devise and employ bilateral/ multilateral strategies against illicit narcotics trafficking, border/export control and money laundering. The USG and UAE are starting discussions on MLAT and extradition treaties, 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.



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

International Narcotics Control Strategy Report

Volume II
Money Laundering
and Financial Crimes

March 2005

[*This text has been revised since its original posting to the website;
see version as [released to Congress](#).]

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Common Abbreviations

AML	Anti-Money Laundering
APG	Asia/Pacific Group on Money Laundering
ARS	Alternative Remittance System
CFATF	Caribbean Financial Action Task Force
CTF	Counter-Terrorist Financing
CTR	Currency Transaction Report
DEA	Drug Enforcement Administration
DHS	Department of Homeland Security
DOJ	Department of Justice
DOS	Department of State
EAG	Eurasian Group to Combat Money Laundering and Terrorist Financing
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FBI	Federal Bureau of Investigation
FinCEN	Financial Crimes Enforcement Network
FIU	Financial Intelligence Unit
GAFISUD	Financial Action Task Force Against Money Laundering In South America
GIABA	Inter-Governmental Action Group against Money Laundering
IBC	International Business Company
IFI	International Financial Institution
IMF	International Monetary Fund
INCSR	International Narcotics Control Strategy Report
INL	Bureau for International Narcotics and Law Enforcement Affairs
IRS	Internal Revenue Service
IRS-CID	Internal Revenue Service, Criminal Investigative Division
MENAFATF	Middle Eastern and Northern African Financial Action Task Force
MLAT	Mutual Legal Assistance Treaty
MOU	Memorandum of Understanding
NCCT	Non-Cooperative Countries or Territories
OAS	Organization of American States
OAS/CICAD	OAS Inter-American Drug Abuse Control Commission
OFC	Offshore Financial Center
SAR	Suspicious Activity Report
STR	Suspicious Transaction Report
UN Drug Convention	1988 United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances
UNGPMML	United Nations Global Program against Money Laundering
UNODC	United Nations Office for Drug Control and Crime Prevention
UNSCR	United Nations Security Council Resolution
USAID	Agency for International Development
USG	United States Government

MONEY LAUNDERING AND FINANCIAL CRIMES

The 2005 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; Treasury's 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 2005 INCSR is the nineteenth 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 2005 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 2004

Antigua and Barbuda, Australia, Austria, Bahamas, Belize, Bosnia and Herzegovina, Brazil, Burma, Cambodia, 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, 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

Following the money as a way of combating crime and terrorism continues to require nimble action by authorities to keep pace with the alternative methods of operations criminals and terrorists seek to employ to acquire and move their funds. The closer we looked at banks, the faster the money seemed to shift to non-traditional money movers—gem and jewelry dealers, real estate, charities, and attorneys or other intermediaries. As these entities were brought under the purview of anti-money laundering laws and regulations, the money moved further underground—to alternative remittance systems such as hawala, trade or commodity based systems, or to cash couriers. In 2004, we came to more fully understand the workings of those methods and to realize that we must concentrate increasingly on the workings of these hard-to-detect systems. The challenges presented by the use of these methods are influencing the responses of authorities worldwide with regard to setting of standards, training, institution building, data collection, and investigations.

The use of these underground systems reflects the strides the international community has made since 9/11 in intensifying its efforts to develop coordinated, targeted actions to thwart money laundering and terrorist financing. By the end of 2004, important gains had been made across all fronts. Stronger international anti-money laundering and counterterrorist financing standards focused on banks and financial intermediaries were 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 vulnerabilities. Twenty-six additional countries criminalized terrorist financing in 2004, bringing the total number of countries that have criminalized terrorist financing to 113. As of December 2004, there were 94 financial intelligence units in the Egmont Group, an increase of ten new members in the past year. Intelligence 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.

Because criminals or terrorists cannot now move or acquire funds through formal channels as easily as they did before, they are seeking alternative laundering and financing methods to undermine international efforts and overcome the law enforcement and regulatory obstacles placed in their paths. Evidence of this search can be seen as investigation after investigation reveals the increasingly important role of “alternative remittance systems”—hawalas, the black market peso exchange, various charitable organizations, and trade-based money laundering—in facilitating transnational crime and terrorism. Charities are typically not subject to adequate oversight or regulation and have been cited in several transnational terrorist financing investigations as the intermediaries through which funds are moved. Trade-based money laundering, often based simply on the alteration of shipping documents or invoices, is frequently undetected unless jurisdictions work together to share information and compare

documentation. Couriers are devising new ways to conceal currency and easily transportable high-value items such as gems to carry them across borders. Our efforts in the next few years must be geared toward fully understanding these mechanisms and developing tools to prevent their use.

The Financial Action Task Force (FATF) continued to provide critical guidance on the development of comprehensive regimes to attack the full range of financial crime. The FATF added a ninth Special Recommendation on Terrorist Financing, addressing the problem of cash couriers. It also continued its efforts to clarify and refine these Special Recommendations by publishing interpretive notes and best practices guidelines to help regulators, enforcers, financial institutions and others better understand and implement the most technical Recommendations. The FATF also continued to work closely with the IMF and World Bank to develop a common methodology to incorporate FATF's Recommendations into the financial sector reviews all three entities undertake. The FATF-style regional bodies worked throughout the year to adopt the Recommendations in line with their particular regional requirements. The FATF welcomed two new FATF-style regional bodies in 2004, the Eurasian Group, with six members including Russia and China, and the Middle Eastern North African Group, with 14 members. The addition of these two new groups brings the total number of countries participating in the FATF-initiated process to more than 150.

The FATF sustained the behavior-changing pressure of its Non-cooperative Countries and Territories (NCCT) process. Of the 23 jurisdictions the FATF has designated as NCCTs over the past six years, only six remained on the list as of the end of 2004. The threat of countermeasures has motivated countries to improve their compliance, and the provision of assistance from major donors has helped countries pass legislation and establish anti-money laundering and counterterrorist financing regimes that meet international standards.

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. The U.S. State Department is funding most of this interagency effort and is coordinating and leading the 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, the most vulnerable of countries. Assistance is being provided to 22 of these priority countries. The program takes a systemic and comprehensive approach, with assistance delivered in both sequential and parallel stages to help countries do the following: put in place anti-money laundering/counterterrorist financing laws that include measures to block and freeze assets and comply with the FATF's Special Recommendations; establish a regulatory scheme to oversee the financial sector; provide law enforcement agencies, prosecutors and judges with the training and skills to successfully investigate and prosecute financial crime; and create a Financial Intelligence Unit (FIU) capable of collecting, analyzing and disseminating reports of suspicious transactions and other intelligence to both help develop cases domestically and share information internationally through FIUs in other countries as part of transnational investigations.

Not all of the assistance is provided bilaterally. 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 counterterrorist 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 counterterrorism training centers around the world. These and other broad-based training initiatives allowed the U.S. to provide some form of anti-money laundering or counterterrorist financing assistance to over 120 countries in 2004.

International efforts to identify, block, and freeze terrorist assets persisted in 2004; however, the task is growing more challenging as terrorists move away from the formal financial sector and into informal and underground systems to protect their funds. Evidence of this movement is reflected in the U.S. Treasury report that, in 2004, some \$9 million worth of terrorist assets worldwide were blocked. Since the concentrated effort began shortly after September 11, 2001, 45 countries have blocked a total of approximately \$147 million.

A movement away from the formal financial sector is a major factor in the slower pace of asset freezes in 2004. Terrorist organizations appear to be making more use of couriers to carry currency, gems and other easily transportable, high-value items; traditional, ethnic-based alternative remittance systems; and 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 for its Special Recommendations dealing with charities, cash couriers and the blocking and freezing of assets. Indeed, at its 2004 annual typologies exercise, which addressed such issues as money laundering trends and best practices in the areas of law enforcement and regulation, the FATF focused on alternative remittance systems, particularly the challenge of tracking and monitoring funds when they are moved in areas that depend on cash economies and in systems with no formal accounting or record keeping infrastructure.

Important substantive strides were made with regard to international burden sharing. The proliferation of attacks around the world brought the threat of terrorism home to more and more countries and underscored the fact that no one country has the sole ability or responsibility to meet the entire challenge. U.S. technical experts are particularly stretched because of their frequent need to undertake, nearly simultaneously, assessment, training, and investigative missions. We have worked particularly closely with the United Kingdom, Australia, Japan, the UN Global Programme against Money Laundering, the OAS, the Asia Development Bank, the IMF and the World Bank on regional and country-specific projects as a way of sharing resources. Efforts to identify priorities and coordinate assistance by the major donor countries took a step forward at the June 2003 G-8 Summit with the establishment of the Counter-Terrorism Action Group (CTAG). The CTAG members have demonstrated a willingness and ability to provide counterterrorism assistance. The CTAG has partnered with the FATF, providing that organization with a list of countries to which CTAG members are interested in providing counterterrorist financing assistance, so that the FATF could assess their counterterrorist financing technical assistance needs. The FATF delivered those assessments to the CTAG in 2004, and the donors are now beginning to follow through with coordinated, cost-saving counterterrorism technical assistance programs.

As we look beyond the accomplishments of 2004, we see that our task to combat money laundering and terrorist financing is ongoing. There remain significant challenges in keeping abreast of the new methods and systems criminals and terrorists use to hide and move their money. 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 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 and are used to settle accounts without involving the formal financial sector, such as gold and precious gems, the TTUs would get to the heart of much of the alternative remittance challenge and help expose criminals, terrorists, and their associates and assets to punitive and deterrent enforcement

action. Brazil, Panama and the Philippines have expressed interest in TTUs and are working with the Department of Homeland Security to move this effort forward.

Sustained efforts will be essential to realizing further progress against money laundering and terrorist financing. Such progress will continue to require strong and creative leadership from the United States. But we have help. The international community is increasingly willing 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 countries.

After the terrorist attacks of September 11, 2001, the United States and its allies launched a global war on terror focused on five fronts: diplomatic, financial, military, intelligence, and law enforcement. The United States and the global community quickly recognized the critical role that combating terrorist financing should play in the overall global effort against terrorism.

Money Laundering and Terrorist Financing: Differences and Similarities

Most crime is committed for financial gain. The primary motivation for terrorism, however, is not financial; rather, terrorist groups usually seek 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 non-profit entities. In fact, a significant portion of terrorists' funding comes from contributors, some who know the intended purpose of their contributions and some who do not. 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 relatively few funds into the hands of terrorist cells and their members in order to carry out their objectives. 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. 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.

Because of these larger organizational costs, terrorists often finance their terrorism efforts with a portion of the proceeds gained from traditional crimes such as kidnapping for ransom, narcotics trafficking, extortion, credit card fraud, counterfeiting, and smuggling. 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.

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.

In addition to the continued use of 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 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 accounts. These systems are also commonly used by large numbers of expatriates to remit funds to families abroad.

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 method 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, the Middle East, and most recently Europe, since the mid-1970s. Many of these banks are not subject to the anti-money laundering regulations and controls normally imposed on secular commercial banks. While they 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.

Combating Money Laundering and Terrorist Financing: An Integrated Approach

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

Money Laundering and Financial Crimes

terrorist financing are conducted, and also some counter efforts that are unique to each activity, there are no appreciable differences in terms of capacity building through training and technical assistance.

The U.S. has developed an “anti-money laundering/counterterrorist financing” (AML/CTF) strategy based on three pillars:

- Development of capacity-building programs aimed at reinforcing the institutions of our foreign allies to combat money laundering and terrorist financing. Capacity building is the linchpin of the strategy because of its forward-looking and preventative approach that focuses on enhancing countries’ capabilities to safeguard their financial systems from abuse by criminals and terrorist financiers.
- The use of traditional and non-traditional law enforcement techniques and intelligence operations aimed at identifying criminals and terrorist financiers and their networks in order to disrupt and dismantle their organizations. Such efforts include investigations, diplomatic actions, criminal prosecutions, designations and other actions designed to identify, nullify, and disrupt the flow of terrorist financing and those who make such crimes possible. In order to achieve ultimate results, the intelligence community, law enforcement and the diplomatic corps must assert a concerted proactive approach that develops and exploits investigative leads, employs advanced law enforcement techniques and increases cooperation between financial investigators and prosecutors.
- Participation in global efforts to deter terrorist financing by publicly naming, shaming, and blocking the assets, financial transactions, and property of terrorist groups and their supporters. Under United Nations Security Council Resolutions (UNSCR) 1333 and 1373 all member states have an obligation to identify terrorist assets and freeze them without delay. UNSCR 1267 and related resolutions require blocking actions against the financial resources, travel, and access to arms of specific individuals and entities linked to Usama bin Ladin, Al-Qaida, or the Taliban, as well as measures to deprive terrorists and their supporters of access to the financial system.

Integrating Efforts

The U.S. has found that combining these pillars into an integrated strategy is the most effective approach to tackle the challenges of money laundering and terrorist financing. Only by integrating our AML/CTF efforts in a cooperative way, both domestically and internationally, can we continue our common goal of detecting, deterring, and dismantling global terrorist networks.

While well-established mechanisms of interagency cooperation to fight money laundering have existed for a number of years, in order to more quickly effect this integration within the U.S. Government for terrorist financing, the President established a Policy Coordination Committee (PCC) under the auspices of the National Security Council to ensure the proper coordination of counterterrorist financing activities and information sharing among all agencies. The PCC coordinates and integrates the efforts of the disparate entities and focuses them on collectively pursuing terrorists and their financiers. Other countries have also taken a similar approach at integrating AML/CTF efforts either through a coordinating ministry, national anti-money laundering council, or counterterrorist center.

Many governments have used specialized task forces to integrate successfully domestic operations aimed at combating money laundering and/or terrorist financing. These task forces typically include FIU personnel, financial investigators, central bank employees, and prosecutors. Indeed, the USG, based on its experience in training its counterparts around the world, is increasingly employing cross

training (e.g., select financial regulators taking part in financial investigative courses for law enforcement) as a means of encouraging practical integration of AML/CTF efforts.

Internationally, governments are recognizing the need to integrate their efforts more closely in order to implement new international standards designed to counter money laundering activity and the collection and movement of terrorists' funds. Effective integration will increase as members of the Financial Action Task Force (FATF) and FATF-style regional bodies implement the new Special Recommendation on Terrorist Financing, Special Recommendation IX (SR IX), which is intended to ensure that terrorists and other criminals can not finance their activities or launder the proceeds of their crimes through physical cross-border transportation of currency and negotiable bearer instruments. Implementing SR IX on Cash Couriers will require unprecedented cooperation among border, customs, law enforcement, and FIU authorities both domestically and internationally.

International organizations and bodies, as well, are increasing coordination of their AML/CTF efforts. For example, there is now unprecedented cooperation between the FATF and the IMF and World Bank. The FATF and these international financial institutions have adopted a joint methodology to evaluate AML/CTF regimes and are cooperating in their respective on-site assessment programs.

The FATF and the G-8 Counter-Terrorist Action Group (CTAG) are also engaging in a cooperative effort to build CTF capacity by integrating FATF training and technical assistance reports with efforts by CTAG to coordinate donor assistance. Other organizations, such as the United Nations, the Egmont Group of FIUs, the FATF style regional bodies, and regional organizations, such as the Organization of American States, are also increasing their cooperative efforts.

Trade Transparency Units

For the past several decades, the United States has championed the concept of financial transparency in the formal financial sector, particularly banks, and most recently non-bank financial institutions. Working primarily with the Financial Action Task Force (FATF) and the FATF-style regional bodies, and exerting bi-lateral and regional leadership globally, the United States has helped create internationally recognized anti-money laundering programs, policies, and standards.

However, as entities in the formal financial sector are brought under the purview of anti-money laundering laws and regulations and illicit funds move further underground, we come to more fully understand the threats posed by financial flows outside the recognized formal financial sectors. Alternative remittance systems are able to bypass, in whole or part, regulations designed to make money laundering and financial crimes more transparent. Although there are a variety of alternative remittance systems, they all have one thing in common; they are dependent to various degrees on the misuse of international trade to transfer value.

Trade-based systems act as a kind of parallel method of transferring money and value around the world. The 2003 and 2004 editions of the INCSR have profiled the use and growing recognition of "trade-based" money laundering. Systems such as hawala, the black market peso exchange, and the use of commodities such as gold and diamonds are not captured by current financial reporting requirements. These systems pose tremendous challenges for law enforcement around the world. Moreover, many of these alternative remittance systems are indigenous and ethnic-based, making them even more difficult for U.S. investigators to understand, penetrate, and target. As the United States and other countries worldwide tighten financial regulation and reporting for the formal and even informal financial sectors, the use of trade-based money laundering and alternative remittance systems will assuredly grow. As in the past, when the United States advanced global financial transparency, today it is likewise essential that we work to establish an international mechanism capable of detecting

Money Laundering and Financial Crimes

trading anomalies that could point to fraudulent value transfer, money laundering, terrorist financing, and other financial crimes.

Customs and law enforcement experience has shown the best way to analyze and investigate suspect trade-based activity is to have systems in place that can monitor specific imports and exports to and from given countries. In fact, the former U.S. Customs Service (now the Bureau of Immigration and Customs Enforcement (ICE), in the Department of Homeland Security) pioneered this approach through its creation of a computer system that uses U.S. trade data, examines suspect anomalies, and identifies likely targets of investigation.

However, using U.S. data alone has its limitations. To maximize effectiveness, analysts need to compare corresponding trade data from other countries. If country X exports goods to country Y, in theory country X's export records regarding price, quantity, and general description should match (with some recognized variables) the corresponding import records of country Y. However, the analysis becomes increasingly complex if the trade goods are transshipped from country X to Y via Z. An additional challenge occurs for U.S. law enforcement when suspect trade does not enter into the commerce of the United States.

There is a growing worldwide recognition of entrenched patterns of trade fraud. For example, the Kimberley Process was created—in part—due to findings that conflict diamonds from non-diamond producing West African countries were being exported into Belgium. U.S. Customs has used this same technique of examining trade anomalies to combat the Colombia black market peso exchange, to examine suspect gold shipments from non-gold producing countries in the Caribbean, and to examine transshipped textiles from the Middle East. In these instances, Customs was able to match U.S. trade data with cooperating countries' trade data and look for suspicious indicators. In the case of Colombia, the examination of the trade data revealed the link between the drug cartels and the country's largest insurgency—the FARC.

Every country around the world collects the desired trade data. All countries have customs services and all countries impose tariffs and duties for revenue purposes. In fact, lesser-developed countries are dependent on customs duties to generate revenue. Although there are some differences in the way trade data is gathered and warehoused, disparate customs services worldwide are adopting uniform norms and standards. There is presently enough commonality among systems that specific and targeted trade transactions can be compared and examined for indications of customs fraud and other crimes using software pioneered by the former U.S. Customs and further refined by Department of Homeland Security's Bureau of Immigration and Customs Enforcement (DHS/ICE).

Borrowing from the successful Financial Intelligence Unit (FIU) model that examines suspect financial transactions, over the last two years the United States has studied the feasibility of establishing a prototype Trade Transparency Unit (TTU) that will collect and analyze suspect trade data and then disseminate findings for appropriate enforcement action. The objective is a new investigative tool to combat previously entrenched trade-based alternative remittance systems and customs fraud that eventually could result in a worldwide TTU network somewhat analogous to the Egmont Group of Financial Intelligence Units.

ICE, in cooperation with the U.S. Departments of State and Treasury, has begun a Trade Transparency Unit initiative. This initiative is designed to protect the integrity and security of the U.S. economy by targeting and eliminating systemic vulnerabilities in commercial trade and the financial and transportation sectors susceptible to exploitation by criminal and terrorist organizations. Under the auspices of trade transparency, ICE will form partnerships with participating foreign governments to establish a network of TTUs. The United States and foreign governments will create dedicated enforcement units to detect discrepancies or anomalies in international trade data, which may be indicative of trade-based money laundering or other criminal activities. TTUs will support investigations and prosecutions related to trade-based money laundering, the illegal movement of

criminal proceeds across international borders, alternative remittance systems, terrorist financing, and other financial and trade crimes.

To assist the proposed TTUs, ICE has developed an analytical database called “Data Analysis and Research for Trade Transparency” (DARTT), which is designed to detect and track money laundering, contraband smuggling and trade fraud. DARTT is an outgrowth of earlier analytical systems, which the former U.S. Customs Service and ICE had successfully used to detect trade-based money laundering and fraud. DARTT will allow investigators to identify discrepancies in trade and financial transactions, facilitating the dissemination of investigative referrals to field entities.

Under Plan Colombia, ICE formed the first TTU with the Government of Colombia. In furtherance of this trade transparency initiative, ICE is actively working with the Colombian TTU on several Black Market Peso Exchange (BMPE) investigations and has already demonstrated the links between the BMPE and the FARC. ICE has taken specific steps to improve the organizational infrastructure of DIAN, the Colombian customs and tax authority. These steps include a Mutual Assistance Agreement, which provides the framework for ICE and DIAN to share trade information. ICE has several initiatives incorporated into Plan Colombia targeting BMPE schemes. Dedicated funds have been allocated to temporarily assign agents and analysts in Colombia to assist DIAN in analyzing BMPE data to develop leads for ICE field offices. Additionally, computers and equipment have been purchased for DIAN to track imports/exports data. There are promising indications that the pioneering work of TTU development will begin to show specific results in 2005. Several countries have approached ICE to participate in the Trade Transparency Unit initiative. These countries include Brazil, Paraguay, Argentina, Panama, India and the Philippines. Additionally, the concept of Trade Transparency Units has been presented to several Eastern and Central European countries. The regionalization of TTUs will ultimately provide for the open exchange of trade data among participating countries and will play an increasingly important role in the global effort to thwart money laundering, international organized crime and terrorism.

Law Enforcement Cases

Trade-Based Money Laundering

Money Laundering via Gold Smuggling

In August 2001, the ICE Boston office received information that narcotics traffickers were laundering drug proceeds through the smuggling of gold, which they had disguised as other commodities. ICE officers used the Data Analysis and Research for Trade Transparency (DARTT) database to corroborate the information and provide additional leads. The scheme centered on gold refineries located in the Northeastern United States. Investigators determined that narcotics traffickers were using a number of overvaluation schemes to move the gold into and out of the U.S. Overvaluation schemes, which are common in trade-based money laundering, allow a launderer to send excess funds overseas, while providing documents to conceal the nature of the criminal activity. On several occasions, the traffickers sent lead bars plated with gold to the refinery. Nevertheless, they invoiced these shipments as pure gold bullion. The false invoices allowed the launderers to send payments overseas for the “gold”, which greatly exceeded the shipments’ true values. In another variation of the overvaluation scheme, the traffickers shipped a commodity described as “slag,” which they invoiced at a very low value, to the U.S. refinery. This commodity was actually refinery waste mixed with pure gold. When the U.S. refinery received the slag, it melted the waste material down and extracted the gold, which constituted most of the weight and nearly all of the value of the shipment. The process resulted in a substantial transfer of value into the U.S. Finally, the traffickers also imported

commodities that they described as finished jewelry parts. In fact, these items were crude pieces that cost very little to manufacture, although their gold content was high. This method allowed the launderers to file fraudulent tax credit claims under the export laws of various South American countries, many of which provide tax credits for exporting a manufactured product. In August 2004, one U.S. refiner pleaded guilty to money laundering charges. The corporation received five years probation, a \$2.25 million fine and had to forfeit \$425,000.

Smuggling Freon and Tax Evasion: Businessman Laundered Profits through Panamanian Accounts and Shell Corporations

In a joint investigation with the Environmental Protection Agency, the IRS-CID convicted a businessman of conspiracy to commit money laundering and to evade excise taxes on the sale of illegally imported freon. The businessman and his accomplices filed phony paperwork to conceal the sales of the freon to customers in south Florida. They also created and used domestic and foreign shell corporations and related bank accounts to conceal the proceeds of the illegal sales. The businessman laundered more than \$8 million in proceeds from the illicit sales by use of wire transfers through Panamanian corporations and bank accounts. He also diverted corporate income—disguised as loans—into bank accounts in Panama for the personal benefit of his co-conspirators. As a result of the scheme, between January 1993 and June 1994, the businessman evaded approximately \$6.2 million in excise taxes and also helped his co-conspirators allegedly to evade additional individual and corporate income taxes on the profits from the freon sales. The businessman received 17 years in prison, a \$20.3 million fine, and had to pay restitution to the IRS in the amount of \$6.5 million.

Black Market Peso Investigation Nabbed Prominent Colombian Businessman

In May 2004, authorities in the United States, Colombia, Canada, and the United Kingdom announced the dismantling of a massive network that used the Black Market Peso Exchange (BMPE) system to launder millions of dollars in drug proceeds. Dubbed “Operation White Dollar”, the two-year multinational investigation targeted the BMPE system from the peso brokers dealing directly with narcotics traffickers down to the Colombian companies and individuals who facilitate the system by purchasing dollars. Operation White Dollar led to the indictment of 34 individuals and companies in Colombia, the United States, and Canada. The U.S. indictment charged that the 34 defendants included: “First-tier peso brokers”, those who make contacts directly with narcotics-trafficking organizations; “ Second-tier peso brokers”, those who concentrate on arranging for the pickup of street-level cash narcotics proceeds and the placing of those funds into the banking system; and “Third-tier peso brokers”, those who make contracts directly with Colombian dollar purchasers. In addition to the indictments against the 34 individuals, a prominent Colombian industrialist, who repeatedly purchased millions of dollars in the BMPE system over a period of years, agreed to forfeit to the United States \$20 million constituting the dollars that he purchased from the indicted peso brokers. This investigation also involved the issuance of warrants authorizing the seizure of over \$1 million from more than 20 separate bank accounts.

Commodity Overvaluation to Hide Tax Fraud

In 1989, ICE agents began investigating a firm in Los Angeles on suspicion of overvaluing imports. ICE used DARTT to identify forty commodities that the company imported, all at values well in excess of world market prices. For instance, the company declared a value of \$99 per kilogram for licorice root, when the common value of imports was \$0.99 per kilogram. The investigation revealed that the company had intentionally over-deposited customs duties, in an effort to conceal the crime of tax evasion. The scheme allowed the company to transfer \$98 offshore for each kilogram of licorice root imported (for which it was actually paying fair market value of about \$0.99). The firm paid duty

on the higher value to conceal the scheme, resulting in the over-deposit. In 1997, a federal court convicted two officers of the company for tax fraud and money laundering, and sentenced them to incarceration and supervised release, respectively. The company was fined \$500,000. The firm and its officers paid approximately \$6.3 million to the U.S. Customs Service for customs violations, and paid over \$93 million to the IRS as a settlement for civil tax liability.

Bulk Cash Movements

Smuggling Drug Cash from U.S. to Mexico: Operation Money Clip

In October 2004, DEA announced the dismantling of an international money laundering and drug trafficking organization that resulted in the arrest of 83 defendants and the seizures of over \$4.4 million in cash, 2,526 kilograms of cocaine, 74 pounds of crystallized methamphetamine (known as “Ice”), 2.8 pounds of methamphetamine, over 40,000 pounds of marijuana, and 1 kilogram of heroin. The investigation, called “Operation Money Clip,” began in October 2003 when a sheriff’s officer in Kimble County, Texas seized \$2.2 million in cash in a routine traffic stop. Acting on a DEA directive to focus investigations on the abilities, methods, and routes used to smuggle large amounts of currency from the United States to the narcotics source countries, DEA was able to expand the case to 43 investigations spanning the nation. The investigation targeted a Mexican-based poly-drug-trafficking organization with ties to the Mexican drug-trafficking “Federation of Traffickers.” DEA agents in 25 cities found that the organization allegedly laundered as much as \$200 million from various rural and urban American cities to Mexican targets over approximately two years. The ensuing investigation established that this organization allegedly distributed approximately 500 kilograms of cocaine, 200 pounds of methamphetamine, 20 kilograms of heroin, and 10,000 pounds of marijuana per month in that same period. In addition to transporting the money physically across the border, the traffickers laundered the illicit funds through remitter services, businesses, and foreign bank accounts. The network reached to metropolitan areas of Chicago, Atlanta, New York, and Los Angeles, and rural sections in Virginia, Pennsylvania, Iowa, South Carolina, and North Carolina.

Politically Exposed Persons and Money Laundering

Money Laundering and Political Corruption: Prosecution of Former Ukrainian Prime Minister

On June 3, 2004, a federal jury found former Ukrainian Prime Minister Pavel Lazarenko guilty of seven counts of money laundering and 22 other related charges, including wire fraud and interstate transportation of stolen property. Lazarenko, who was arrested in 1999 just three years after he became prime minister of the Ukraine, left a complex trail of money transfers, deposits, and withdrawals over three continents that investigators were able to piece together. Among other things, Lazarenko and his associates obtained a controlling interest in a bank located in Antigua and Barbuda, and transferred millions of dollars in criminal proceeds through correspondent accounts in the United States to these accounts in Antigua. In 2000, a federal grand jury indicted Lazarenko with laundering money through these correspondent accounts in the United States. The prosecution is the result of a six-year investigation led by agents of the Federal Bureau of Investigation and Internal Revenue Service. Although post-trial motions and, therefore, final conviction remain pending, the prosecution and jury verdict demonstrate the U.S. commitment to prosecute transnational crime, as well as the reach of U.S. money laundering laws. If ultimately convicted, Lazarenko would be the first foreign head of state to be convicted for laundering the proceeds of foreign crimes via U.S. banks, and only the second head of state, along with Manuel Noriega, to be prosecuted in the United States. The U.S. is seeking criminal

forfeiture of all property involved in the money laundering offenses. In May 2004, the Department of Justice filed a civil forfeiture complaint in the U.S. District Court for the District of Columbia, seeking forfeiture of foreign proceeds and instrumentalities of the criminal conduct of Mr. Lazarenko and his associates. Among other things, the complaint alleges that Mr. Lazarenko and his associates repeatedly used the U.S. financial system in violation of U.S. law both in the generation of illegal proceeds and in an effort to launder them. The funds identified for civil forfeiture include more than \$145 million in U.S. currency located in Guernsey, and more than \$87.1 million in U.S. currency located in Antigua and Barbuda.

Asset Forfeiture and Foreign Official Corruption: Repatriation of Funds to Peru and Nicaragua

In 2004, the United States repatriated funds to Peru and Nicaragua, in conjunction with investigations and forfeiture actions involving foreign official corruption. In August 2004, the United States repatriated \$20.2 million to the Government of Peru, representing 100 percent of the net assets forfeited in two Department of Justice civil forfeiture actions filed in connection with an FBI investigation into fraud, corruption and money laundering committed by former Peruvian intelligence chief Vladimiro Montesinos, his associate Victor Alberto Venero-Garrido, and other associates of the government of former Peruvian President Alberto Fujimori. The funds were transferred in accordance with an agreement entered into between the United States and Peru at the 2004 Special Summit of the Americas that provides for transparency as well as special consideration for the compensation of victims and support for Peruvian anticorruption efforts. This financial investigation also contributed to the successful apprehension of Montesinos in Venezuela and the successful repatriation of additional funds to Peru, including more than \$14 million voluntarily repatriated by Venero. In December 2004, the Treasury Department transferred \$2.7 million to the Government of Nicaragua, representing 100 percent of the net assets forfeited in a Department of Justice civil forfeiture action filed in conjunction with a Department of Homeland Security/Immigration and Customs Enforcement investigation related to the criminal conduct of Byron Jerez, former Nicaraguan Director of Taxation and associate of former President Aleman. Pursuant to the agreement authorizing the transfer of these funds, almost all of the funds will be utilized for education projects, with \$100,000 going to support anticorruption efforts of the Nicaraguan Prosecutor General's Office. These cases exemplify the effective use of asset forfeiture and financial investigations to combat transnational money laundering and demonstrate the commitment of the United States to finding, seizing, forfeiting and recovering the proceeds of foreign official corruption on behalf of other countries.

Terrorist Financing

Fronting for Hamas: the Holy Land Foundation

In July 2004, federal prosecutors in Dallas charged seven principals of the Holy Land Foundation for Relief & Development (HLF), on 42 counts, including conspiracy and IEEPA violations for dealing in the property of a Specially Designated Global Terrorist (SDGT) organization; providing material support to a SDGT; money laundering; and filing false tax returns. The HLF was the largest Muslim charity in the United States until the U.S. government declared it a SDGT organization after federal investigators determined that it had raised millions of dollars for HAMAS over a 13-year period. HLF received start-up assistance from Mousa Abu Marzook, a leader of Hamas and a specially designated terrorist (SDT), and has ties to INFOCOM Corporation, an Internet service provider and computer exporter. Federal prosecutors indicted both Marzook and INFOCOM on IEEPA and money laundering charges in August 2003.

Oregon Charitable Organization Supported Chechen Terrorists

In February 2004, federal officials blocked the assets of and searched all properties purchased on behalf of the Al Haramain Foundation's (AHF) branch in Oregon. A joint task force of IRS-CID, FBI, and ICE officers executed the orders on the basis of an affidavit that alleged the AHF had violated currency and monetary instrument reporting requirements, tax laws, and other money laundering related offenses. Moreover, individuals connected with AHF in Oregon appear to have concealed the movement of funds to Chechnya. Russian officials have indicated that the Chechen mujahideen have received substantial funding from Islamic charities and non-governmental organizations. The allegations arose around a particular transaction in which funds were wired from a foreign country, through a bank in London, to AHF in Oregon. Documents related to this wire transfer indicate that the donor intended the funds to be used to support efforts of "Muslim brothers in Chechnya." AHF founder Al-Aqil assured the donor that the money would be used to "help end the Chechen crisis." After this wire transfer, an individual traveled from Saudi Arabia to the U.S. and obtained the wired funds in the form of traveler's checks and a cashier's check. The cashier's check included a notation: "Donations for Chichani Refugees." The individual then left the country without declaring he was taking out over \$100,000 in traveler's checks. AHF employees then attempted to conceal this transaction, including omitting it from tax returns and mischaracterizing the use of the funds. They failed to provide information on the transaction to the accountant who prepared the organization's tax returns. In fact, the AHF employees told the accountant that all the funds went to purchase a prayer house in Springfield, Missouri, furnished the accountant with documentation that overstated the purchase price of the property. In addition, officers of the charity characterized other portions of the funds—\$21,000—as reimbursements rather than as contribution income and funds distributed to Chechnya.

Narcoterrorism: Arms for the FARC

In April 2004, ICE agents arrested Carlos Enrique Gamarra-Murillo, a Colombian national, on charges of trying to provide material support to a designated foreign terrorist organization, attempting to export defense weapons without a license, conspiracy to distribute cocaine, and possession of machine guns. In a meeting with undercover officers in July 2003 in Florida, he provided a shopping list of weapons that he wanted to buy, including 16 assault rifles, 60 machine guns, grenade launchers, and grenades. He also expressed interest in buying "Stinger" anti-aircraft missiles. Undercover ICE agents later lured him back to Florida again in April 2004 under the ruse of arranging the sell of almost \$4 million dollars worth of weapons for the FARC. Before being arrested, Gamarra produced \$92,000 as a down payment for the weapons and arranged for their delivery to a clandestine airstrip in Venezuela. The remainder of the payment was to be made in cash and cocaine.

Human Trafficking and Related Cases and Money Laundering

Adoption Agency Used Cambodian Children in Immigration Fraud and Money Laundering Scheme

In November 2004, a federal judge in Seattle, Washington sentenced Lauryn Galindo for conspiracy to commit U.S. Immigration visa fraud, conspiracy to launder money, and structuring financial transactions. In a joint investigation, IRS-CID and ICE investigators had focused on Galindo, who admitted she organized a scheme whereby some Cambodian children were taken from their families and represented on immigration forms as orphans. Along with her sister, Galindo ran Seattle

International Adoptions (SIA), the largest agency in the United States handling the adoption of Cambodian children. While the agency billed itself as humanitarian in focus, it turned out that some of the children had been taken from their mothers for a small payment, and some of their visas had been obtained through fraud. During the investigation, agents traveled to Cambodia and determined that all of the children being adopted through SIA had “unknown” placed on the U.S. visa applications for the names of the birth parents of the children. Officers also determined from interviewing some of those children that they had lived with their families until being brought to an orphanage and processed out for adoption. Some of the U.S. parents actually met the “orphan’s” birthparents, and gave them money at Galindo’s direction. Many of them thought at the time that they were giving money to the child’s caretaker, but later learned that the recipients were in fact their biological parents. ICE agents also found out subsequently that many other children did not qualify under the U.S. definition of “orphan” and, therefore, were not immediately available to be adopted. In addition, there were instances when a baby whose paperwork had been processed became too ill, died, or was rejected by the U.S. parent coming to adopt. In several instances “switches” occurred where a new baby was provided and just assumed the ID of the other child and then entered the U.S. under the other child’s biographical information. Money given to Galindo was used as “grease” to move adoptions along. Galindo had U.S. parents wire money to Cambodia to be used for this purpose, although the parents were told it was an orphanage donation. Cambodian officials have levied charges against individuals in Cambodia who were complicit in the scheme.

Hawala Dealer Arrested for Facilitating Alien Smuggling Ring

In a recent case, federal officers arrested Gunvant Shah, a hawaladar based in New Jersey and Boston, on the following charges: sending money by way of exchange to promote alien smuggling; operating an illegal banking entity; structuring money order purchases; conspiracy and tax fraud. By using phone taps to intercept telephone calls and faxed items between Shah and his co-conspirators, investigators discovered that the men funneled alien smuggling fees through legitimate companies’ bank accounts and into foreign countries, thereby evading any countries reporting requirements. Shah typically sent money to India through direct hawala transfers or via packages of monetary instruments to other hawaladars, Zakhir and Piyush Patel, who in turn utilized legitimate businesses such as Jack Filled Trading, CNA Metals, and A.R.Y. International, to transfer money overseas. Authorities seized several of these packages, which confirmed that in 1997 and 1998, Shah received large sums of cash, cashier’s checks, money orders, and personal checks connected to the alien smuggling activity. Moreover, officers learned that Shah and his associates also structured money order purchases—they bought high volumes of U.S. Postal Money Orders in limited amounts to avoid currency transaction reporting requirements. Investigators reviewed the records of Zakhir Patels’ money transmittal business and discovered that from March to November 1998 Patel received approximately \$2.9 million from Shah. From February to October 1998, Zakhir Patel wired approximately \$1.5 million to the bank account of A.R.Y. International in New York. Supported by his own ledgers, Piyush Patel admitted that he received between \$200,000 and \$500,000 per month from Shah between February and November 1998, or about \$2.5 million.

Money Laundering and Forced Prostitution

In a recent case, Immigration and Customs Enforcement (ICE) officers investigated a family-run smuggling organization that smuggled Mexican women into the United States and forced them into prostitution. Two brothers, both Mexican nationals, supervised a ring that smuggled the women into Arizona and then moved them to New Jersey. The ring offered several of the women legitimate employment to lure them into the United States, but later coerced them into prostitution. The smugglers kept all proceeds earned by the women through prostitution. The criminal organization used the same individuals who transported the women to New Jersey to remit the profits earned from

prostitution back to Mexico. The two sisters in the family also sent some of the prostitution profits via wire transfers to Mexico. Other members of the ring used the profits to purchase real estate, using the names of other family members to help hide the identities of the smugglers.

Fraud and Money Laundering

Australian Investor Fraud Scheme

In a recent case, a federal jury convicted Geoffrey Chris Clement for fraud and money laundering violations and a federal court sentenced him to serve 13 years in prison. Clement falsely represented to prospective investors in Australia that he had the ability to make high yield, low risk investments through a company controlled by him, which was organized under the laws of the Isle of Man and the United Kingdom. Clement offered investors a return of four to eight percent per month on their investment in what he referred to as a “High Asset Management Program” or HAMP in Europe. The investors borrowed money to invest by obtaining five loans from the Bank of New Zealand in Perth, Western Australia. As part of the scheme, Clement and his agent provided collateral for the loans in the form of a company named the Australia Queensland Treasury Corporation (AQTC), which proved to be insufficient to cover the outstanding loans. Clement and his agent also offered United States Treasury bills as collateral, whose values were also not enough to cover the outstanding loans. As part of the fraud, Clement directed funds to be wire transferred from England to the United States, as well as from the United States to Australia. The victims lost an estimated \$5 million as a result of this scheme. Working jointly with the FBI, IRS-CID used complex financial investigative techniques to track the wire transfers and uncovered the fraudulent scheme. Based on the funds identified in the investigation, the court ordered Clement to pay restitution to the victims totaling \$3.9 million.

Tax Evasion Scheme Uses Antigua Offshore Bank

IRS-CID conducted an investigation of Albert Carter of Provo, Utah who was convicted of tax crimes after agents uncovered a scheme that Carter devised to defraud investors of their money through an investment program, often referred to as a “doubling program”. Even though Carter had gross income in excess of \$215,000 and owed federal taxes in excess of \$75,000, Carter not only failed to file his tax return, but also committed acts of tax evasion, including the use of a VISA card account from an offshore bank to pay personal expenses, the transfer of money to the VISA card account, and the transfer of records reflecting income and expenses offshore. Carter was “managing director” of Allied International Resources (AIR) and represented the company as having offices in Utah and Antigua. During this time, Carter devised what turned out to be a non-existent prime bank instrument investment scheme to defraud investors of their money through an investment program involving the international trading of bank debentures. Carter and his associates solicited approximately \$3 million from investors for the “doubling program.” Through letters mailed to investors, Carter represented that the investment was for a 12-month term, was protected by a guarantee against loss for 108 percent of the investment, and was backed by a trust fund of over five times the amount that AIR was obligated to pay out. The letter represented that an investor could expect 200 percent of the investment at the annual anniversary date. Carter represented to his clients that the international trading of bank debentures is a privileged and highly lucrative profit source for participating banks and, as a result, these opportunities are not made known to the public. He also claimed that the proposed investment is “safer than Certificates of Deposit at your local bank.” Carter sent another letter to investors eleven months after their investment had been made, which misrepresented that the initial investment had “dramatically increased” to an amount equal to twice the initial investment. The second letter misled investors into believing that the program was generating a return for them when, in fact, no return had been received by AIR. Carter admitted he did not inform investors that investor funds brought in

through the program would be used to pay off other investors—essentially a Ponzi scheme—and also used to pay his personal expenses and the operating expenses of AIR. He used about \$1,200,000 of investor funds to repay other investors.

Internet Gambling

IRS-CID seizes millions in offshore gaming investigation involving Antigua and Belize

In a recent case, IRS-CID charged a large-scale offshore gaming operation with money laundering. Peter Mowad and John Reyes were partners in “Carib”, an offshore Sports Book and Casino that operated in Antigua, Belize and in the United States. Since 1993, Mowad and his associates accepted wagers on sporting events from bettors located in the United States using the Internet or other telephone communications. Mowad, or associates acting under his control, while physically located in Antigua or Belize, knowingly accepted wagers in interstate and foreign commerce from persons physically located in states within the U.S. where sports gambling is prohibited. As part of his unlawful scheme, Mowad and his associates established a Florida corporation to supply the offshore gaming business with equipment and supplies necessary to operate. Mowad and his associates accepted millions of dollars in wagers every year and advertised Carib via direct mailings, sports publications and on the Internet. The illegal activity generated millions of dollars in income. Mowad used his position as a principal of the business to divert millions of dollars from the business to his own financial benefit. Mowad arranged these transactions by writing checks or transferring funds by wire, or by directing subordinate employees to do so, from Carib’s various business bank accounts to accounts that were owned and controlled either by Mowad or his family members. IRS-CID seized over \$2.6 million held by Mowad or for his benefit in accounts at the International Bank of Miami.

Bilateral Activities

Training and Technical Assistance

During 2004, a number of U.S. law enforcement and regulatory agencies provided training and technical assistance on money laundering countermeasures and financial investigations to their 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, terrorist financing, 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 designed to develop or enhance the capacity of a selected group of more than two dozen countries whose financial sectors have been used to finance terrorism. As is the case with the more than 100 other countries to which INL-funded training was delivered in 2004, the capacity to thwart the funding of terrorism is dependent on the development of a robust anti-money laundering regime. Supported by and in coordination with the State Department, the Department of Justice, Department of Homeland Security, Treasury Department component agencies, the Board of Governors of the Federal Reserve System, the Federal Deposit

Insurance Corporation, and various non-governmental organizations offered law enforcement, regulatory and criminal justice programs worldwide. This integrated approach includes assistance with the drafting of legislation and regulations that comport with international standards, the training of law enforcement, the judiciary and bank regulators, as well as the development of financial intelligence units capable of collecting, analyzing and disseminating financial information to foreign analogs.

Nearly every federal law enforcement agency assisted in this effort by providing basic and advanced training courses in all aspects of financial criminal investigation. Likewise, every bank regulatory agency participated in providing advanced anti-money laundering/counterterrorist financing training to supervisory entities. In addition, INL made funds available for intermittent posting of legal and 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 to combat money laundering.

INL and the Government of the United Kingdom continued to fund the Caribbean Anti-Money Laundering Programme (CALP). INL contributed \$600,000 to the CALP in 2004. The objectives of the highly successful, now-concluded CALP were to reduce the laundering of the proceeds of all serious crime by facilitating the prevention, investigation, and prosecution of money laundering. CALP also developed 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 2004, INL reserved \$900,000 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 Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).

In 2004, INL also funded the \$2 million terrorist finance component of the President's East Africa Counter-Terrorist Initiative. INL continues to provide significant financial support for many of the anti-money laundering bodies around the globe. During 2004, INL support was furnished to the Financial Action Task Force on Money Laundering (FATF), the international standard setting organization. INL continued to be the sole U.S. Government financial supporter of the FATF-style regional bodies (FSRBs) including the Asia/Pacific Group on Money Laundering (APG), the Council of Europe's MONEYVAL, the Caribbean Financial Action Task Force (CFATF), the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and the South American Financial Action Task Force, Grupo de Accion Financiera de Sudamerica Contra el Lavado de Activos (GAFISUD). 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. This allows for an extensive dialogue and exchange of information. This approach has been used successfully in Asia, Central and South America, Russia, the Newly 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.

International Law Enforcement Academies (ILEAs)

The mission of the regional ILEAs has been to support emerging democracies, help protect U.S. interests through international cooperation, and 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 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 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 the 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 program, a series of specialized training courses and regional seminars tailored to region-specific needs and emerging global threats, 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 program. Lastly, topics of the Regional Seminars include transnational crimes, financial crimes, and counterterrorism.

The United States has amended the money laundering portion of the Core program 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 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 (DOJ), Homeland Security (DHS) and Treasury, and with foreign governments to implement the ILEA programs. To date, the combined ILEAs have trained over 13,000 officials from 68 countries in Africa, Asia, Europe and Latin America. The ILEA budget averages approximately \$16-17 million annually.

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 in a variety of subjects, such as counterterrorism, anticorruption, 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 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/Federal Law Enforcement Training Center). 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 one Senior Executive program and eight to ten specialized courses-lasting one to two weeks-in a variety of criminal justice topics. The principal objectives of the ILEA are 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/Bureau of Customs and Border Protection (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, Kyrgyz Republic, 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, United Kingdom, Netherlands, 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 America and the Caribbean. ILEA Roswell trains approximately 400 students annually. In January 2005, INL attended the groundbreaking ceremony for a new building for the Roswell ILEA.

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 important initiative to counter money laundering on a global basis, the FRB is a regular participant in the U.S. delegation to the Financial Action Task Force.

On another important front to combat money laundering, FRB staff conducts training and provides technical assistance to banking supervisors and law enforcement officials on anti-money laundering and counterterrorist financing tactics throughout the world. Programs for Mexico, Israel, Switzerland, Hungary, the United Arab Emirates, China, Kazakhstan, and Jamaica were provided in 2004.

In addition to its international training programs, the FRB presented training courses to U.S. law enforcement agencies, including the Internal Revenue Service, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, the Department of Homeland Security's Bureau for Immigration and Customs Enforcement, and the Drug Enforcement Administration as well as at the Federal Law Enforcement Training Center.

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Drug Enforcement Administration (DEA)

The International Training Section of the DEA conducts its International Asset Forfeiture and Money Laundering courses in concert with the Department of Justice (DOJ). In 2004, a total of 235 participants from Australia, Philippines, Belgium, Trinidad and Tobago, Austria and Tajikistan received this training. A wide range of DEA international courses contain training elements relating to countering money laundering and other financial crimes. The DEA training division also provides training at the International Law Enforcement Academies in Bangkok, Budapest and Gaborone.

The basic course curriculum, which was conducted in Tajikistan, Philippines, Austria and Belgium, 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.

A new advanced course was added in 2004 in Australia and included money laundering investigative techniques, tracing the origin of financial assets, international banking and money laundering, Internet/cyber banking, asset forfeiture and financial investigations, and international issues in money laundering and forfeiture.

Federal Bureau of Investigation (FBI)

In 2004, Special Agents of the FBI continued extensive training in various regions of the world, covering basic and more advanced courses in terrorism financing and money laundering, financial fraud, 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 government banking regulators and private sector banking officials.

Students worldwide participated in FBI training, in several instances in concert with the U. S. Internal Revenue Service (IRS). Training was provided to the countries of Indonesia, Jordan, Venezuela,

Philippines, Kazakhstan, Bosnia, Pakistan, Saudi Arabia, Morocco, Brazil, Turkey, Nigeria, Ghana, Thailand, Romania and Latvia. In addition, 36 law enforcement officials from 17 Latin American countries traveled to the FBI Academy, 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)

In 2004, the FDIC continued to work 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 and is working to double the number of participants available to assist in future missions.

Periodically, FDIC staff meets with supervisory and law enforcement representatives from various countries to discuss anti-money laundering (AML) 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 2004, such presentations were given to representatives from the Netherlands, Romania and Georgia.

In March 2004, the FDIC responded to a request from the Department of the Treasury to provide comments on a draft anti-money laundering/counterterrorist financing law for Iraq. This draft law was adopted by the Coalition Provisional Authority and implemented into law.

The FDIC responded to a request to participate in an assessment of the Romanian government's suspicious transaction reporting process and a review of the country's AML laws and regulations. The FDIC participated with FinCEN in this review.

The FDIC participated on an interagency Financial Systems Assessment Team to Morocco in January 2004. The group reviewed the country's proposed AML law and provided information in the areas of customer identification programs, financial intelligence units and the monitoring of non-bank financial institutions.

The FDIC also provided staff to participate in three conferences and training sessions. The first conference was held in Buenos Aires, Argentina, with financial intelligence unit representatives from Argentina, Brazil, Paraguay and the United States. The FDIC discussed the role of the financial regulator in providing information to the financial intelligence units. The second training session was held in Abu Dhabi, United Arab Emirates. The purpose of the seminar was to provide guidance to Asian countries that are presently developing their own anti-money laundering policies and procedures. Twenty-nine representatives from Afghanistan, Bangladesh, India, Maldives, Pakistan, Sri Lanka, and the United Arab Emirates attended the three-day conference. The third training session was held in Bangkok, Thailand, and was sponsored by DOJ/OPDAT. The conference was titled "Safeguarding Charities from Abuse." Representatives from Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand, the United Kingdom, the United States and the Asia/Pacific Group on Money Laundering attended the three-day session.

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 foreign nations seeking to improve their capabilities to combat money laundering, terrorist financing, and other financial crimes. FinCEN's particular focus is the creation and improvement of FIUs—a valuable component of a country's anti-

Money Laundering and Financial Crimes

money laundering (AML) regime. FinCEN's international training program has two components: (1) instruction and presentations to a broad range of government officials, financial regulators, law enforcement officers, and others, on the subjects of money laundering and financial crime and on FinCEN's mission and operation; and (2) training regarding FIU operations and analysis via personnel exchanges. Much of FinCEN's work involves strengthening existing FIUs and the channels of communication used to share information to support anti-money laundering investigations. Participation in personnel exchanges (from the foreign FIU to FinCEN and vice versa), delegation visits to foreign FIUs, and regional and operational workshops are just a few examples of FinCEN activities designed to assist/support FIUs.

For those FIUs that are fully operational, FinCEN's goal is to assist the unit in increasing effectiveness, improving information sharing capabilities, and better understanding the phenomena of money laundering and terrorist financing. As a member of the Egmont Group of FIUs, FinCEN works closely with other member FIUs to provide training and technical assistance to countries and jurisdictions interested in establishing their own FIUs and having those units become candidates for membership in the Egmont Group.

During 2004, FinCEN conducted training courses, both independently and with other agencies including the Federal Bureau of Investigation and the Treasury Department's Office of Technical Assistance (OTA). Occasionally, FinCEN's training and technical assistance programming is developed jointly with these other agencies in order to address specific needs of the jurisdiction/country receiving assistance. In 2004, FinCEN conducted several training programs abroad to maximize participation by foreign FIUs.

Over the last twelve months, in an effort to reinforce the sharing of information among established FIUs, FinCEN conducted personnel exchanges and other training with a number of Egmont Group members and non-members. Examples include Argentina, Brazil, Paraguay, Thailand, Russia, Qatar, Romania, Guatemala, Italy, Spain and Turkey. Such training offers the opportunity for FIU personnel to see first-hand how another FIU operates. It is hoped that the participants in these exchanges will share ideas, innovations, and insights that will lead to improvements in such areas as analysis, information flow, and information security at their home FIUs.

Analysis training typically consists of a group of analysts from a country's FIU spending one to two weeks at FinCEN. Occasionally, FinCEN will conduct these training sessions abroad. FinCEN's analysis training program provides foreign analysts with basic skills in critical thinking and analysis; data collection; report writing; database research; 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, and terrorist financing and money laundering trends and typologies provide analysts with broader knowledge and a better understanding of the topic of money laundering. Finally, analysts gain an extensive knowledge of the U.S. AML regime by meeting with representatives from other Federal agencies involved in the fight against money laundering and terrorist financing. These include the Justice Department's Asset Forfeiture and Money Laundering Section, the State Department's Bureau of International Narcotics and Law Enforcement Affairs and Office of the Coordinator for Counter-Terrorism, the Internal Revenue Service's Criminal Investigation Division and the Homeland Security Department's Bureau of Immigration and Customs Enforcement.

In 2004, in support of the State Department's "3+1" initiative designed to address security challenges in South America's tri-border region, FinCEN designed and managed an FIU Conference in Buenos Aires, Argentina. This conference, co-hosted by Argentina's FIU, focused on strengthening information sharing among the FIUs of the "3+1" partners: Argentina, Brazil, and Paraguay. FinCEN provided training to two members of the Thailand FIU's IT staff on "data mining" software used for information analysis. FinCEN also partnered with Treasury/OTA and FINTRAC (Canada's FIU) to

provide IT training for staff from the Philippines FIU, the Anti-Money Laundering Council. FinCEN also partnered with OTA to coordinate training in Argentina, Peru, Paraguay, and Russia. In 2004, efforts continued to better understand the role of, and collaborate with international organizations involved in providing anti-money laundering/counterterrorist financing training and technical assistance. Over the last year, FinCEN has significantly increased its coordination with organizations such as the Organization of American States, the International Monetary Fund and the World Bank.

In 2004, FinCEN hosted representatives from over 60 countries. These visits focused on topics such as money laundering trends and patterns, the Bank Secrecy Act, USA PATRIOT Act, communications systems and databases, case processing, and the goals and mission of FinCEN. Representatives from foreign financial and law enforcement sectors generally spend one to two days at FinCEN learning about money laundering, the U.S. AML regime and reporting requirements, the national and international roles of a financial intelligence unit, and various other topics. During 2004, this type of orientation was offered to officials from a number of countries including Kuwait, Taiwan, Mauritius, Canada, Italy, Spain, and Nigeria.

Internal Revenue Service (IRS)

In 2004, the IRS Criminal Investigative Division (IRS-CID) increased its involvement in international training efforts designed to help share expertise needed to detect and dismantle money laundering organizations and the proliferation of terrorist organizations that facilitate terrorist financing activities. IRS-CID provided significant contributions through agency and multi-agency technical assistance programs to foreign law enforcement agencies during the past fiscal year. Training included instruction in financial investigative techniques, combating money laundering and combating transnational terrorism.

IRS-CID is one of the participating agencies to provide support to the International Law Enforcement Academies (ILEA) at Bangkok, Budapest and Gaborone. This is accomplished by providing training in Financial Investigative Techniques/Money Laundering and Anti-Terrorism Financing. In Fiscal Year 04, IRS-CID provided a class coordinator to the ILEA program in Gaborone to share experience and expertise in financial investigative matters with the participants. In furtherance of this commitment, IRS-CID has a special agent detailed as one of the Deputy Directors at the ILEA in Bangkok, Thailand. IRS-CID also serves as coordinator of the annual Complex Financial Investigations course, which is provided to senior, mid-level, and first-line law enforcement supervisors, inspectors, investigators, prosecutors and customs officers from Brunei, Cambodia, Hong Kong, Indonesia, Laos, Macau, Malaysia, People's Republic of China, Philippines, Singapore, Thailand, and Vietnam.

In the ongoing efforts to facilitate the creation of ILEA South America, IRS-CID conducted assessments and curriculum studies to assist in building a course that would be most beneficial to South American countries. IRS-CID assigned a Supervisory Academy Instructor to serve as a member of the ILEA-South America board, which will help formulate the curriculum and assist in identifying the permanent site to host the new ILEA facility.

IRS-CID completed an assignment as a Criminal Investigations Division (CID) Advisor to the Board of Inland Revenue (BIR), Government of Trinidad and Tobago as part of an agreement with IRS' Tax Administration Advisory Services (TAAS) project for technical assistance and guidance as it relates to the creation of a law enforcement unit attached to BIR. Through our CID representative's efforts, the unit is now in operation and actively working criminal tax cases.

IRS-CID conducted a one-week Advanced Money Laundering/Financial Investigative Techniques course in Spindlerov Mlyn, Czech Republic. The participants were financial investigators, supervisors and prosecutors from the Ministry of the Interior. Their responsibilities are to investigate serious

economic crimes. IRS-CID presented a two-week Advanced Financial Investigative Techniques course to investigative officers and supervisors of the Inland Revenue Board of Malaysia and investigators of the Malaysian Securities Commission and Ministry of Finance. This course presented the participants with an opportunity to work a case from the development of potential criminal information through conducting the investigation, preparing reports for recommendation of charges and preparing for trial.

IRS-CID delivered a one-week Money Laundering/Anti-Terrorist Financing course in Solenice, Czech Republic. The participants were all financial investigators, supervisors and prosecutors from the Ministry of the Interior who investigate serious economic crimes. A one-week Money Laundering and Anti-Terrorist Financing course was presented in Rarotonga, Cook Islands. The Solicitor General and all heads of the ministries participated in this training. A one-week Money Laundering and Anti-Terrorist Financing course was presented to senior law enforcement officials from the various fraud and narcotics law enforcement agencies in Cairo, Egypt.

IRS-CID assisted the Office of Overseas Prosecutorial Development Assistance and Training (OPDAT) in a one-week conference on Complex Financial Investigations in Corruption Cases in Tulcea, Romania. The participants were prosecutors, judges and governmental officials from Romania who were involved in investigating and prosecuting money laundering, tax evasion, fraud and public corruption. A one-week course in Combating Money Laundering was presented to Thailand's Anti-Money Laundering Organization (AMLO) in Bangkok, Thailand. A four-day Anti-Terrorist Financing course was held in Kuala Lumpur, Malaysia for investigators and prosecutors from Malaysia, Thailand, Indonesia, the Philippines, and Brunei.

IRS-CID has assisted the Federal Bureau of Investigation (FBI) in developing and delivering a one-week and an eight-day Anti-Money Laundering and Anti-Terrorism Financing course. The course was successfully delivered to participants in Indonesia, Jordan, Philippines, Brazil, Qatar, Malaysia, Kazakhstan, and Venezuela. A one-week course was delivered in Washington, D.C. to Pakistanis and in ILEA Budapest to Bosnians. Participants in the class were investigators, prosecutors, and Judges from the Financial Intelligence Unit, Central Bank, Securities and Exchange Commission, Insurance Commission, Department of Finance, Department of Justice, and the Drug Enforcement Agency.

IRS-CID is a member of the Anti-Terrorism Financing Task Force that recently met to discuss the development of a one-week Anti-Terrorism Financing Course to be presented at ILEA Budapest. The Department of State (DOS) funded DOS Anti-Terrorism Assistance (ATA) to provide training relating to counterterrorism financing to countries at the ILEAs. As part of this initiative, ATA asked IRS-CID to participate in the training. A pilot two-week course was successfully presented at ILEA Budapest. The participating countries were Romania, Turkey and Hungary.

Office of the Comptroller of the Currency (OCC)

The OCC conducted and sponsored a number of anti-money laundering (AML) training initiatives for foreign banking supervisors during 2004.

In February 2004, the OCC sponsored a three-day Anti-Money Laundering workshop in Belize through the International Monetary Fund. The session focused on Anti-Money Laundering bank supervision and best practices. Material was incorporated from the revised FATF Forty Recommendations, the Basel Committee's Customer Due Diligence paper, and other reference material including the OCC's handbook on AML. There were approximately 30 examiners in attendance.

In February 2004, the OCC participated with FinCEN in an Egmont Group FIU assessment of the Philippines' Anti-Money Laundering Council (AMLC). The assessment focused on legislative, regulatory, IT, and law enforcement capabilities within the scope of the Philippine FIU.

In March 2004, the OCC sponsored an Anti-Money Laundering/Anti Terrorist Financing School in Washington, D.C. The school was designed specifically for foreign banking supervisors to increase their knowledge of money laundering and terrorist financing activities and of how these acts are perpetrated. The course provided a basic overview of AML examination techniques, tools, and case studies. Twenty-three banking supervisors from the following countries were in attendance: Cayman Islands, Guatemala, Indonesia, Japan, Luxembourg, Netherlands, Nigeria, Pakistan, Panama, Philippines, Romania, Turkey, United Kingdom, and Singapore. The course was videotaped, and the OCC and World Bank are jointly working to produce a video that can be distributed in 2005 as a training tool for banking supervisors around the world.

In June 2004, through the Association of Banking Supervisors of America (ABSA), the OCC presented the Anti-Money Laundering/Anti-Terrorist Financing School in Chile. At this session, there were 25 banking supervisors from the following countries: Chile, Guatemala, Honduras, Mexico, Nicaragua, and Peru.

Overseas Prosecutorial Development Assistance and Training & the Asset Forfeiture and Money Laundering Section (OPDAT and AFMLS)

Training and Technical Assistance

OPDAT is the office within the Justice Department responsible for assessing, designing and implementing training and technical assistance programs for criminal justice sector counterparts overseas. OPDAT draws upon components within the Department, such as AFMLS, to provide programmatic expertise and to develop good partners abroad.

In 2004, OPDAT provided training in the areas outlined below. In addition to programs that are tailored to each country's needs, OPDAT also provides long term, in-country assistance through Resident Legal Advisors (RLAs). RLAs are U.S. federal prosecutors who provide in-country 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, judges, police and other investigative or court officials. AFMLS, however, is the lead Justice section that provides countries with technical assistance in the drafting of money laundering and asset forfeiture statutes compliant with international standards.

Money Laundering/Asset Forfeiture

During 2004, the Justice Department's OPDAT and AFMLS continued to provide training to foreign prosecutors, judges and law enforcement, and assistance in drafting anti-money laundering statutes compliant with international standards. The assistance provided by OPDAT and AFMLS enhances 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 technical assistance varies depending on the specific needs of the participants, but topics addressed in 2004 included developments in money laundering legislation and investigations, complying with international standards for an anti-money laundering/counterterrorist 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 2004, officials in Panama, Thailand, South Africa, Malaysia, Bosnia,

Uzbekistan, Bangladesh, and Russia attended in-depth sessions on money laundering and international asset forfeiture. In 2004, OPDAT's RLA in Kosovo worked with the UN as Chief of the Special Information and Operations Unit at the DOJ/UN Administrative Mission in Kosovo to help implement a new money laundering law.

On February 3-6, 2004, AFMLS co-sponsored an international forfeiture conference with the National Prosecuting Authority of the Government of South Africa and tackled the sensitive subject of "Forfeiting the Proceeds of Public Corruption." Representatives from ten African countries, in addition to South Africa, participated in this conference, including Botswana, Kenya, Uganda, Tanzania, Nigeria, Zambia, Mozambique, Lesotho, Swaziland, and Mauritius.

Participants in the February conference consisted of prosecutors, senior police officials, judges/magistrates, and even a member of Parliament. Through interactive presentations and panel discussions, participants actively articulated their countries' concerns about and experience with public corruption, as well as their practical experience in forfeiture and obtaining mutual legal assistance from other countries. In addition to a more general discussion of forfeiture legislation, forfeiture best practices, and mutual legal assistance procedures, this year's conference also concentrated on some of the particular difficulties inherent in carrying out a complex financial fraud investigation into corruption, ranging from putting together an investigative team, financial tracing, and identifying beneficial owners to dealing with particular challenges in investigating corruption in different sectors.

From October 19-21, 2004, AFMLS sponsored a seminar entitled "Forfeiting the Proceeds of Human Trafficking" in Prague, Czech Republic. OPDAT funded all of the country delegations and worked closely with AFMLS to coordinate this event. Prosecutors and legislators from Albania, Bosnia, Bulgaria, Croatia, Czech Republic, Kosovo, Macedonia, Romania, and Serbia & Montenegro attended the seminar. The primary goal of this conference was to strengthen international cooperation in forfeiting the proceeds of alien smuggling and human trafficking. This seminar also provided a forum to exchange information on improving national forfeiture and anti-money laundering systems and on achieving greater cooperation in combating transnational financial crime. In Azerbaijan in 2004, OPDAT and AFMLS experts provided guidance to the drafters in crafting a new anti-money laundering/counterterrorist financing law that complies with Council of Europe and FATF standards. The government expects to enact the draft law in 2005.

Also in 2004, OPDAT assisted with the creation of a specialized unit at the Georgian Prosecutor's Office to handle money laundering and terrorist financing cases. With OPDAT support, in December 2003, FBI polygraphers vetted the prosecutors, investigators and support staff who are permanently assigned to this unit. Throughout 2004, the new unit received ongoing assistance from OPDAT and the RLA in developing cases under Georgia's new FATF-compliant money laundering law; two major investigations are now underway.

As part of Plan Colombia, in 2004, 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 2004, OPDAT organized a number of programs for foreign officials 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 addition in 2004, OPDAT's Intermittent Legal Advisor (ILA) assisted 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 Center, supported indigenous research and conducted training seminars on economic crimes and organized crime.

OPDAT RLAs continued 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/Anticorruption

OPDAT placed two prosecutors overseas to provide technical assistance on a long-term basis specifically on corruption cases. Moreover, OPDAT deployed an ILA to Nigeria in 2004 to support its relatively new anticorruption commission. Also in May 2004, OPDAT placed the first RLA dedicated to anticorruption issues in Managua, Nicaragua. In September 2004, he provided assistance to the Nicaraguan Attorney General's Office on corruption cases. In January 2005, he conducted a program for 50 Nicaraguan prosecutors and police on the techniques and tools involved in preparing and bringing corruption cases to trial in an accusatory criminal justice system. Although Nicaragua switched over from an inquisitorial criminal justice system in 2002, it is still in the process of training prosecutors, investigators, and judges in the trial advocacy skills needed to implement the new criminal procedure code.

In March 2004, OPDAT conducted a technical assistance program for Uruguayan prosecutors and investigators to improve their investigative and prosecutorial ability to combat public corruption. In October 2004, OPDAT conducted a Caribbean-regional workshop on investigating and prosecuting corruption. It provided substantive technical assistance and promoted collaboration among prosecutors and investigators in the Caribbean. Prosecutors and investigators from Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Trinidad and Tobago, St. Lucia, St. Vincent and the Grenadines, and Suriname attended the workshop.

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 Counter-Terrorism 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 2004, OPDAT assigned overseas the second RLA supported by the Interagency Working Group on Terrorist Financing. Working in a country where terrorist cells may exist or where there is suspected terrorist financing, RLAs focus on money laundering and financial crimes and developing counterterrorism legislation that 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 December 2004, OPDAT sent a counterterrorism RLA to Kenya to work on financial crimes and money laundering issues and, in general, to bolster the capacity of the prosecutor's office and assist

the Kenyans in establishing a Financial Intelligence Unit. In 2004, the RLA in Paraguay, now in his second year, organized conferences to finalize a draft anti-money laundering law, including a meeting with representatives from the UN Counter Terrorism Center in New York and the UN Office of Drugs and Crime, Terrorism Prevention Branch, in Vienna. The final draft law has been presented to the Paraguayan legislature, which will consider it in February 2005. In 2005, OPDAT will place RLAs in Abu Dhabi, Egypt, Morocco, Bangladesh, Indonesia, and Pakistan. OPDAT will also assign ILAs to Malaysia and Turkey.

In April 2004, OPDAT conducted a regional conference on terrorist financing for Southeast Asia. Law enforcement officers, prosecutors, and financial sector officials from Thailand, Philippines, Indonesia and Malaysia participated in the event.

In December 2004, OPDAT organized a regional conference in Thailand, bringing together officials from Indonesia, the Philippines and Malaysia, to discuss Safeguarding Charities from Abuse by Terrorists. The conference focused on typologies where charitable organizations either wittingly or unwittingly support terrorism, as well as the methods of criminalizing, investigating and prosecuting such acts, the regulation of charities, and practical means for “red-flagging” suspicious activities. Presenters included representatives of the United Kingdom Charity Commission, the nongovernmental organization, Save the Children, officials from the Asia/Pacific Group on Money Laundering, and representatives from the Departments of Justice, State and Treasury, including the Internal Revenue Service. Following the conference the four governments requested follow-up bilateral assistance.

AFMLS provides technical assistance directly in connection with legislative drafting on all matters involving money laundering, asset forfeiture and the financing of terrorism. During 2004, AFMLS provided such assistance to 16 countries and actively participated in the drafting of 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 and the G-8 working groups on corruption and asset sharing. In 2004, AFMLS provided technical assistance to Afghanistan, Albania, Azerbaijan, Bangladesh, Brazil, Pakistan, Indonesia, Iraq, Kenya, Philippines, Paraguay, Sri Lanka, the Republic of Korea, Thailand, Turkey, and Uzbekistan.

During 2004, AFMLS and OPDAT participated in four Financial Systems Assessment Teams (FSAT) led by the Department of State’s Coordinator for Counter-Terrorism Office and the Bureau for International Narcotics and Law Enforcement Affairs. These teams traveled to Morocco and Nigeria to determine 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)

Treasury’s OTA is located within the Treasury Department’s 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, financial enforcement reforms related to money laundering and other financial crimes. The program receives funding from the State Department’s Bureau for International Narcotics and Law Enforcement Affairs (INL), USAID country missions, and direct appropriations from the U.S. Congress.

In 2004, advisors provided assistance to the governments of Albania, Armenia, Azerbaijan, Bulgaria, Chile, China, Colombia, El Salvador, Ethiopia, Georgia, Honduras, Hungary, Kazakhstan, Macedonia, Moldova, Mongolia, Montenegro, Morocco, Panama, Paraguay, the Philippines, Poland, Peru, Romania, Russia, Ukraine, Sri Lanka and the Maldives, Tanzania, Thailand, Uganda, Ukraine, Serbia,

Venezuela, Zambia, Senegal, Lesotho, Kenya, Tunisia, Burkina Faso, Haiti and the Eastern Caribbean countries.

Training

OTA conducted several assessments of anti-money laundering regimes in 2004, 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 2004, such assessments were carried out in Mexico, Colombia, Costa Rica, Venezuela, Ethiopia, Mongolia, Kazakhstan, the Philippines, Sri Lanka and the Maldives, Ethiopia, Kenya, Lesotho, Albania, Romania, and Bulgaria.

OTA provided a variety of training in a number of countries around the world. In Africa, OTA specialists provided a course on anti-money laundering and the countering of the financing of terrorism to the African Development Bank in Tunis, Tunisia, and held a series of awareness-raising seminars on money laundering and terrorist financing for officials of the government of Burkina Faso. In Europe: the OTA team in Bulgaria conducted financial investigation training programs including financial profiling; Romanian examiners and banks were trained in mortgage practices to manage the credit risk arising from the dramatic expansion of the mortgage market in Romania; in Armenia, OTA conducted a "train-the-trainer" program on auditing techniques for concerned officials; and in Montenegro, anti-money laundering seminars were conducted for Customs Administration, Securities Commission, Central Bank and Tax Administration, bank and non-bank institutions. In the Americas, OTA training included a course on anti-money laundering concepts and FIUs to Salvadoran and Honduran officials, a course on anticorruption to Honduran investigators, on-the-job training on suspicious activity detection for financial analysts in Paraguay, and a course on how to probe tax evasion cases for Paraguayan analysts, prosecutors and investigators. It also included a course on anticorruption practices for high-level executives, investigators and prosecutors, and a course on anti-money laundering and terrorist financing for judges in Peru. OTA has sent a team to Haiti to assist in the creation of a Haitian Financial Crimes Task Force and to continue mentoring investigators on a monthly basis. In China, OTA has partnered with the Financial Crimes Enforcement Network (FinCEN) and the Treasury's Office of Terrorism and Financial Intelligence (TFI) to assess China's need for an effective anti-money laundering regime. In Kazakhstan, OTA partnered with the Federal Law Enforcement Training Center (FLETC) to conduct the "Senior Executive Seminar" in Astana and Almaty in June 2004 to inform Kazakh officials of the nature and international requirements of an effective anti-money laundering and counterterrorist financing program, and what constitutes an effective financial intelligence unit

Support for Financial Intelligence Units

OTA also continued its training and technical support for the refinement and establishment of Financial Intelligence Units (FIUs) in various regions of the world. In Paraguay, OTA provided expert advice to the Paraguayan FIU. It also co-funded with OAS/CICAD and INL the procurement of software and hardware for the FIU, and two other Paraguayan entities that deal with anti-money laundering. In Montenegro, OTA experts undertook a variety of initiatives to help the country establish an FIU and make it operational. Similar assistance was provided to the Russian FIU. In Ukraine, OTA continued efforts to help streamline the national FIU and assisted Ukraine in developing a strategy for meaningful engagement with international money laundering control organizations and specific foreign enforcement and financial intelligence agencies. In Central America, additional training and technical assistance was provided to FIUs in Honduras, El Salvador, Panama and Venezuela.

Resident Advisors

OTA resident 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 Peru, Paraguay, Albania, the Philippines, Ukraine, Zambia and Romania. OTA no longer has a resident advisor in Thailand, but continues to provide intermittent technical assistance to the Thai Department of Special Investigation. OTA has placed a second Resident Advisor for the Caribbean with a focus on bank regulatory compliance. OTA finalized arrangements this year for the placement of a resident advisor in Dakar, Senegal. This advisor will work closely with the government of Senegal as well as other countries in the West Africa region to facilitate further development of GIABA, the FATF-style regional body for western African nations.

Treaties and Agreements

Treaties

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 signed by the United States but not yet brought into force with the European Union and the following countries: Colombia, Germany, 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.

Agreements

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 FIUs to facilitate the exchange of information between FinCEN and the respective country's FIU. FinCEN has an MOU or an exchange of letters with the FIUs in Argentina, Australia, Belgium, Canada, France, Guatemala, Italy, Japan, Netherlands, Netherlands Antilles, Panama, Poland, Russia, Singapore, Slovenia, South Korea, 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 2004, the international asset sharing program, administered by the Department of Justice, shared \$226,178,903 with foreign governments that cooperated and assisted in the investigations. In 2004, the Department of Justice transferred \$44,451,370 in forfeited proceeds to: Antigua-Barbuda (\$614,656), Colombia (\$13,322,028), Jordan (\$238,774), Peru (\$20,275,912) and the United Kingdom (\$10,000,000). Prior recipients of shared assets 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 Fiscal Year (FY) 1994 through FY 2004, the international asset-sharing program administered by the Department of Treasury shared \$27,408,032 with foreign governments which cooperated and assisted in successful forfeiture investigations. In FY 2004, the Department of Treasury transferred forfeited proceeds to: Australia (\$1,407,190), Canada (\$1,323,167), Netherlands (\$25,834) and Switzerland (\$2,168). Prior recipients of shared assets include: Aruba, Australia, the Bahamas, Cayman Islands, Canada, China, 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.

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; by December 31, 2004, 132 countries had become parties to the Convention.

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, 59 countries had become parties to the Convention and by December 31, 2004, 94 countries had become parties.

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 anticorruption 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. As of December 2, 2004, 26 countries had become parties to the Convention.

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, the 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 nine FATF

Special Recommendations on Terrorist Financing, are widely acknowledged as the international standards in these areas.

The 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, the FATF collaborates with various other international organizations, including several FATF-style regional bodies.

The FATF members include 31 jurisdictions and two regional organizations. The 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, the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and the United States are members of the FATF.

Non-Cooperative Countries and Territories (NCCT) Exercise

In 2000, the FATF published its first list of jurisdictions deemed to be non-cooperative 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 on-site visits, and attaches particular importance to reforms in the areas of criminal law, financial supervision, customer identification, suspicious activity reporting, and international co-operation. 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 infrastructure, the filing and utilization of suspicious transaction reports, examinations of financial institutions, and the conduct of money laundering investigations, is considered.

During 2004, the FATF removed Egypt, Guatemala and Ukraine from its list of non-cooperative jurisdictions. At the close of 2004, six jurisdictions remained on the FATF's NCCT list: Burma, Cook Islands, Indonesia, Nauru, Nigeria, and Philippines. (Cook Islands, Indonesia, and the Philippines were removed in February 2005.)

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 and again in 2003, the FATF embarked on a review of the FATF Forty

Recommendations to ensure that they were current. The most recent effort was concluded in June 2003, when the FATF released its latest revised Forty Recommendations.

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. in October 2001, the FATF adopted eight Special Recommendations on Terrorist Financing. These Special Recommendations now represent the international standard in this area.

The FATF membership completed self-assessments against the Special Recommendations, and the FATF called upon all countries and jurisdictions to take part in a similar exercise. During 2004, recognizing the growing importance of the use of bulk cash smuggling to move terrorist funds, the FATF added Special Recommendation (SR) IX, Cash Couriers, to address the cross-border transportation of currency and bearer negotiable instruments. The FATF also provided additional interpretation and guidance with respect to its recommendations on terrorist financing. Included in this effort was the issuance of interpretive notes on cash couriers and on countries' obligations to criminalize terrorist financing (SRs II and IX).

The FATF continues to work with jurisdictions that lack appropriate measures to combat terrorist financing. At the October 2003 Plenary, the FATF launched an assessment initiative in collaboration with the G-8's Counter Terrorism Action Group (CTAG). At the request of CTAG, the FATF began 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 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), 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. The IMF and World Bank are now including such assessments 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 Special Recommendations on Terrorist Financing.

In 2004, the FATF, in cooperation with the IFIs, completed revising the comprehensive assessment methodology. The revised methodology was adopted by the FATF membership, and the IMF and World Bank Executive Boards agreed to use it to assess member compliance with AML/CTF principles.

The FATF 2004 Typologies Exercise

The FATF conducted its annual typologies exercise (December 6-8, 2004), in Moscow, Russia to examine current and emerging methods, trends, and patterns in money laundering and terrorist financing, and to consider effective countermeasures. For the first time, the FATF invited a FATF style regional body, MONEYVAL, to co-chair the typologies exercise. The 2004 typologies exercise focused upon money laundering vulnerabilities in the insurance sector, human trafficking, and alternative remittance systems, and their relationships to terrorist financing.

FATF-Style Regional Bodies (FSRBs)

The FATF-style regional bodies (FSRBs), which are all observers of the 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 the FATF. The groups use peer pressure and mutual evaluations of member jurisdictions to encourage their laws' and practices' consistency with the 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. In 2004, two new groups were established—the Eurasian Group on Combating Money Laundering and Financing of Terrorism and the Middle Eastern Northern Africa Financial Action Task Force. The formation of these new groups leaves the Central Africa region as the only geographic region lacking a FSRB.

Asia/Pacific Group on Money Laundering

In 2004, the Asia/Pacific Group on Money Laundering (APG) welcomed two new members—Cambodia and Mongolia—and is now comprised of 28 nations from South Asia, Southeast Asia, East Asia and the South Pacific. They include Australia, Bangladesh, Brunei Darussalam, Cambodia, Chinese Taipei, Cook Islands, Fiji Islands, Hong Kong China, India, Indonesia, Japan, Korea (Republic of), Macau China, Malaysia, Marshall Islands, Mongolia, Nepal, New Zealand, Niue, Pakistan, Palau, Philippines, Samoa, Singapore, Sri Lanka, Thailand, United States and Vanuatu. There are also 11 observer jurisdictions and 16 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 counterterrorist financing efforts.

Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF) continues to advance its anti-money laundering initiatives within the Caribbean basin. The CFATF's 30 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. Additionally, there are seven Cooperating and Supporting Nations (COSUNs) and 14 observer organizations.

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 and the FATF Special Recommendations on Terrorist Financing, 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 participate in the activities of the body.

Council of Europe MONEYVAL

MONEYVAL generally includes within its membership those Council of Europe member states that are not members of the FATF. MONEYVAL has 27 members: 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.

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 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.

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 14 member countries are Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The United States, United Kingdom, Commonwealth Secretariat, United Nations and World Bank serve as cooperating nations and organizations.

ESAAMLG coordinates with other international organizations that study emerging regional typologies, develop institutional and human resource capacities, and coordinate technical assistance to accomplish its mission to implement the FATF Forty Recommendations to combat money laundering in the region.

Eurasian Group on Combating Money Laundering and Financing of Terrorism

The Memorandum of Understanding establishing the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) was signed on October 6, 2004 by six member states: Belarus, China, Kazakhstan, Kyrgyz Republic, Russia and Tajikistan. Seven jurisdictions and nine international organizations were admitted as observers.

The EAG held its inaugural plenary on December 8, 2004 in Moscow, Russia. The Secretariat was officially formed, an Executive Secretary named and a 2005 work plan adopted. The primary goals of the EAG are to provide assistance to members in implementation of the FATF Recommendations; to analyze regional trends in money laundering and terrorist financing; and, to promote cooperation

within the region and coordinate technical assistance and programs with international organizations, working groups and interested jurisdictions.

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, France, and the United States participate as cooperating and supporting countries (PACOs). The Inter-American Development Bank, the International Monetary Fund, the United Nations Office for Drug Control and Crime Prevention, the Egmont Group, and the World Bank are observers to GAFISUD. 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 and the FATF Nine Special Recommendations on Terrorist Financing. GAFISUD's mission also includes member self-assessment and mutual evaluation programs. A permanent Secretariat has been established in Buenos Aires, Argentina, and Uruguay has offered a training center as a permanent training venue for GAFISUD. GAFISUD has adopted an Action Plan to Counter Terrorism. GAFISUD has also endorsed the revised AML/CTF Methodology for assessing compliance with the FATF Recommendations and is using the Methodology in conducting its second round of mutual evaluations, which commenced in September 2004.

Middle East and North African Financial Action Task Force

The Middle East North Africa Financial Action Task Force (MENAFATF) was launched at a meeting of ministers and high-level representatives in Bahrain, on November 29, 2004 and held its inaugural plenary the following day. The 14 founding members of the group are Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates and Yemen. An initial work-plan has been drafted for the group.

Inter-Governmental Action Group Against Money Laundering

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. GIABA is a nascent organization that has not met since 2002, although in 2004 efforts were being made to revive the group.

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 was designed as a four-year project to assist the 21 Caribbean Basin member countries of CARIFORUM (the representative organization for Caribbean countries) to develop their anti-money laundering procedures. In actuality, the CALP ran for five years, terminating in December 2004.

The two primary objectives of the CALP were:

- 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 Programme consisted of three separate, yet interlinked, sub-programs:

Legal/Judicial

After conducting worldwide research of anti-money laundering laws, regulations and working practices, the legal/judicial advisor made appropriate recommendations to the respective member countries to ensure they have the necessary legal structures in place to combat money laundering. Countries with very limited facilities were also provided legislative drafting assistance. Training was given to prosecutors, magistrates and judges. Awareness training also was 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 the 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 was developed to train staff at all levels within such organizations to identify suspicious financial activity and unusual business transactions. Staff members were made aware of the legal requirements and protection in their respective countries. Particular targets were 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 responsibilities, so a “train the trainer” theme was encouraged in an effort to ensure that this aspect of training is sustainable.

Law Enforcement

The Law Enforcement expert was 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, was developed in association with Caribbean law enforcement training establishments. The objective was for such establishments to continue training once the CALP ended. A further objective of this sub-program was to encourage all member countries to form their own Financial Intelligence Units (FIUs), with staff trained to liaise with the financial sector, analyze 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 were 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 cases to completion. As a consequence, most investigators, prosecutors and judges had no experience with such cases.

The CALP's major thrust 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. As of June 2003, this objective was accomplished.

Throughout its life, the CALP undertook a variety of regulatory, law enforcement and legal/judicial training initiatives in accordance with its 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 Drug Law Enforcement Training Center (REDTRAC), and the Regional Police Training School in Barbados has taken over the Advanced Investigators Training courses. Moreover, "train the trainer" initiatives in the financial sector have been amplified with the updating and distribution of the 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.

The holistic approach undertaken by the CALP proved to be very successful. The combination of training and mentoring, using resident advisors, allowed for consistent assistance to the regional jurisdictions on a timely basis and helped to effect the sustainability of the individual regimes. The design of the CALP will serve as a model for future regional programs.

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 2004, 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 anti-money laundering/counterterrorism 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 2004, 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 July and October 2004 and developed modifications to the model money laundering legislation, which were approved by the 36th session of the CICAD Plenary. The new legislative guidelines include language on the autonomy of the offense, special investigative techniques and measures for effective asset forfeiture. At the two meetings, the money laundering group also reviewed a variety of case studies from the Hemisphere involving, for example, the use of remittance services and exchange houses by money launderers and international cooperation in transnational investigations and forfeiture matters.

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, conducting effective financial investigations, and recovering financial and other assets diverted through 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 Colombia, Chile and Uruguay in 2004, and are still ongoing in Brazil. Similarly, the first stage course work on financial investigations was completed. It focused on investigating the assets of criminal organizations and was provided to law enforcement officials from Argentina, Bolivia, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela. The second stage is still ongoing. In Uruguay, CICAD, IDB and the South American Financial Action Task Force (GAFISUD) co-sponsored a seminar for Attorneys, Notaries Public and Accountants focused on raising awareness among professionals who have an obligation to prevent and report money laundering.

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 2004, activities included evaluation of strategic plans for the various FIUs, development of training modules based upon local circumstances, and execution of specific technical assistance in Bolivia, Argentina, Peru and Venezuela. Upon its request, Colombia is being included in the project.

CICAD participated in a variety of meetings and conferences in 2004, focused on money laundering and financial crimes. These included conferences sponsored by the Colombian FIU and the UN Global Programme Against Money Laundering; two CFATF meetings in Trinidad and Tobago and Panama; the Andean Seminar on Money Laundering and Drug Trafficking in Bogotá, Colombia; and GAFISUD meetings in Buenos Aires and Lima. At the invitation of the UN Global Programme Against Money Laundering, the head of CICAD's Anti-Money Laundering Unit participated in the drafting of the UN, World Bank and IMF Model Law at sessions in Vienna, Brussels and Washington.

In other activity in 2004, CICAD advised Paraguay on the technical design of its FIU and provided equipment to the agency, and published an international assessment of the judiciary's participation in enforcing anti-money laundering laws.

The Egmont Group of Financial Intelligence Units

An important component of the international community's approach to combating money laundering and terrorist financing is the global network of financial intelligence units (FIUs). An FIU is a centralized unit formed by a nation or jurisdiction to detect criminal activity, and ensure adherence to laws against financial crimes, including terrorist financing and money laundering. Since 1995, 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 94 recognized members of the Egmont Group. The following FIUs joined the Egmont Group in 2004: Belize, Cook Islands, Egypt, Georgia, Gibraltar, Grenada, Indonesia, Macedonia, St. Kitts & Nevis, and Ukraine. 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 87 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 Egmont 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 five working groups (Legal, Operational, Training/Communications, Information Technology (IT), 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. 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 Operational Working Group 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 detecting financial activity generated from efforts to procure, transport, or produce weapons of mass destruction (WMD). The fifth and newest working group, the IT Working Group, was established in 2004 at the Egmont Group Plenary in Guernsey. The IT Working Group is designed to promote collaboration and information sharing on IT matters among the Egmont membership. Egmont's leadership is confident this new working group will increase the efficiency in the allocation of resources and technical assistance regarding IT systems.

In 2004, the Egmont Group continued its efforts to educate the public about its important programs and its role in the global fight against financial crimes via the Egmont web site (www.egmontgroup.org), which has been on-line since September 2003. Over the past year, a significant amount of general public documents and information about upcoming meetings of the Egmont Group has been placed on the public site and the site continues to serve as an effective forum for public dialogue on the functions and operations of FIUs.

As of December 2004, the members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Cook Islands, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, Egypt, El Salvador, Estonia, Finland, France, Georgia, Germany, Gibraltar, Greece, Grenada, Guatemala, Guernsey, Hong Kong, Hungary, Iceland, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Macedonia, 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. Kitts & Nevis, St. Vincent & the Grenadines, Sweden, Switzerland, Taiwan, Thailand, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Vanuatu and Venezuela.

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 the 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 Nine 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. Australia, New Zealand and Samoa criminalized terrorist financing prior to 2004. In 2004, the Cook Islands and Nauru did so.

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, and since 9-11, terrorist financing. 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 and terrorist financing. These now include the United Nations Convention against Trafficking in Narcotics and Psychotropic Substances (the Vienna Convention), the United Nations Convention for the Suppression of the Financing of Terrorism, the United Nations Convention against Transnational Organized Crime (the Palermo Convention), and the United Nations Convention against Corruption. The 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 and the funding of terrorism.

Since 2001, the GPML has broadened this work to help Member States counter the financing of terrorism. The GPML now incorporates a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2004, the 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 2004 included the extensive development of its global computer-based training (CBT) initiative. The initiative, based in Bangkok, provided 12 hours of interactive AML/CTF training for global delivery in 2004. Delivery in the Pacific Region includes training to several thousand officials, including law enforcement, legal, and financial personnel, in seven jurisdictions, including Fiji, the Cook Islands and Vanuatu. In the first half of 2004, the GPML produced a French-language version for use in French-speaking Africa, and elsewhere. The pilot was completed in July 2004 in Dakar, Senegal.

In 2004, GPML assigned a staff member to the UNODC Regional Centre, East Asia and the Pacific (RCEAP) in Bangkok to establish and implement the Programme's CBT strategy. During the year, the staff member piloted and implemented CBT for the GPML in multiple locations throughout Africa, Asia, and the Pacific, and assisted in the development of new products.

In October 2004, the GPML produced AML/CFT versions of the CBT in both Spanish and Russian. The GPML entered into a partnership with OAS-CICAD for joint delivery of the Spanish version in Latin America. 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 the GPML's global technical assistance operations.

The GPML provided technical assistance and training to more than 50 countries and jurisdictions throughout the world in 2004. The UN mentor based in the Pacific region, a joint initiative with the Commonwealth Secretariat, the Pacific Islands Forum Secretariat (PIFS) and the United States, gave technical assistance directed towards improving financial investigations to a number of offshore financial center jurisdictions at high risk for abuse by money launderers, including the Cook Islands, Marshall Islands, Fiji, and Vanuatu. He also organized a successful series of workshops on financial investigations, in partnership with PIFS. In August, Fiji made the largest ever drug seizure in the Southern Hemisphere, with the GPML mentor's technical assistance in financial investigations playing a key role in the operation.

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. The mentor also participates with U.S. interagency training teams in providing assistance to the President's East Africa Counter-Terrorism Initiative. In collaboration with the World Bank, the GPML also placed a regional mentor for Central Asia in Almaty, Kazakhstan. At the national level, a GPML mentor began work in the financial intelligence unit of the Government of the Philippines. Mentors and experts also gave support to the development of the legal, administrative, analytical and international co-operation capacity of other national governments. In addition, the GPML assisted in legislative drafting for many countries, including Kyrgyz Republic, 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 2004, the 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. The 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.

The GPML's Mentor Programme has key advantages over more traditional forms of 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.

The 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 2004, the GPML also continued its support of the Egmont Group of FIUs, co-organizing the Egmont Group/GPML Training Workshop for FIU personnel and hosting, with the Egmont Group, a workshop on FIU strategic analysis.

In response to countries' concerns about the difficulties of implementing AML/CTF policies in cash-based economies, and the prevalence in some regions of cash couriers, the GPML organized an informal expert working group entitled: Back to Basics: Targeting Proceeds of Crime in Cash Economies. The group met for the first time in Vienna to work out approaches to identifying, seizing and confiscating criminal proceeds in countries where use of the formal financial system is minimal. The outcome of the deliberations will form the basis of technical assistance planning and delivery options for such countries.

The 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 that is available only to public officials. The 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 national and international measures, conventions and legislation.

Major Money Laundering Countries

Every year, U.S. officials from agencies with anti-money laundering responsibilities meet to assess the money laundering situations in 200 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 2004 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, terrorist financing is 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 non-bank financial institutions.
- Lack of or inadequate “know your client” requirements to open accounts or conduct financial transactions, including the permitted use of anonymous, nominee, numbered or trustee accounts.
- No requirement to disclose the beneficial owner of an account or the true beneficiary of a transaction.
- Lack of effective monitoring of cross-border currency movements.
- No reporting requirements for large cash transactions.
- No requirement to maintain financial records over a specific period of time.
- No mandatory requirement to report suspicious transactions or a pattern of inconsistent reporting under a voluntary system; lack of uniform guidelines for identifying suspicious transactions.
- Use of bearer monetary instruments.
- Well-established non-bank financial systems, especially where regulation, supervision, and monitoring are absent or lax.
- Patterns of evasion of exchange controls by legitimate businesses.
- Ease of incorporation, in particular where ownership can be held through nominees or bearer shares, or where off-the-shelf corporations can be acquired.
- No central reporting unit for receiving, analyzing and disseminating to the competent authorities information on large value, suspicious or unusual financial transactions that might identify possible money laundering activity.
- Lack of or weak bank regulatory controls, or failure to adopt or adhere to Basel Committee’s “Core Principles for Effective Banking Supervision”, especially in jurisdictions where the monetary or bank supervisory authority is understaffed, 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, 2004

Jurisdiction moving from the Primary Concern Column to the Concern Column: Nauru

Jurisdictions moving from the Concern Column to the Primary Concern Column: Belize and Cambodia

Jurisdictions moving from the Other Column to the Concern Column: Uzbekistan

The following countries were added to the Money Laundering & Financial Crimes report this year and are included in the “Other” Column: Cape Verde, Equatorial Guinea, Iraq, and Mauritania. Comoros was also added to the INCSR this year and is included in the “Concern” Column.

In the Country/Jurisdiction Table on the following page, “major money laundering countries” that are in the “jurisdictions of primary concern” column 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	Qatar	Algeria	Lithuania
Australia	Spain	Albania	Romania	Andorra	Macedonia
Austria	Switzerland	Argentina	Samoa	Angola	Madagascar
Bahamas	Taiwan	Aruba	Saudi Arabia	Anguilla	Malawi
Belize	Thailand	Bahrain	Serbia and Montenegro	Armenia	Maldives
Bosnia and Herzegovina	Turkey	Bangladesh	Seychelles	Azerbaijan	Mali
Brazil	Ukraine	Barbados	Sierra Leone	Benin	Malta
Burma	United Arab Emirates	Belarus	Slovakia	Bermuda	Marshall Islands
Cambodia	United Kingdom	Belgium	South Africa	Botswana	Mauritania
Canada	USA	Bolivia	St. Kitts & Nevis	Brunei	Mauritius
Cayman Islands	Uruguay	British Virgin Islands	St. Lucia	Burkina Faso	Micronesia FS
China, People Rep	Venezuela	Bulgaria	St. Vincent	Burundi	Moldova
Colombia		Chile	Syria	Cameroon	Mongolia
Costa Rica		Comoros	Tanzania	Cape Verde	Montserrat
Cyprus		Cook Islands	Turks and Caicos	Central African Republic	Mozambique
Dominican Republic		Cote d'Ivoire	Uzbekistan	Chad	Namibia
France		Czech Rep	Vanuatu	Congo, Dem Rep of	Nepal
Germany		Dominica	Vietnam	Congo, Rep of	New Zealand
Greece		Ecuador	Yemen	Croatia	Niger
Guernsey		Egypt		Cuba	Niue
Haiti		El Salvador		Denmark	Norway
Hong Kong		Gibraltar		Djibouti	Oman
Hungary		Grenada		East Timor	Papua New Guinea
India		Guatemala		Equatorial Guinea	Rwanda
Indonesia		Honduras		Eritrea	San Marino
Isle of Man		Iran		Estonia	Sao Tome & Principe
Israel		Ireland		Ethiopia	Senegal
Italy		Jamaica		Fiji	Slovenia
Japan		Jordan		Finland	Solomon Islands
Jersey		Kenya		Gabon	Sri Lanka
Latvia		Korea, North		Gambia	Suriname
Lebanon		Korea, South		Georgia	Swaziland
Liechtenstein		Kuwait		Ghana	Sweden
Luxembourg		Malaysia		Guinea	Tajikistan
Macau		Monaco		Guinea-Bissau	Togo
Mexico		Morocco		Guyana	Tonga
Netherlands		Nauru		Iceland	Trinidad and Tobago
Nigeria		Netherlands Antilles		Iraq	Tunisia
Pakistan		Nicaragua		Kazakhstan	Turkmenistan
Panama		Palau		Kyrgyz Republic	Uganda
Paraguay		Peru		Laos	Zambia
Philippines		Poland		Lesotho	Zimbabwe
Russia		Portugal		Liberia	

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, 2004 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.

Glossary of Terms

1. “Criminalized Drug Money Laundering”: The jurisdiction has enacted laws criminalizing the offense of money laundering related to drug trafficking.
2. “Criminalized Beyond Drugs”: The jurisdiction has extended anti-money laundering statutes and regulations to include 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; “P” signifies permissible 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 non-bank financial institutions to meet the same customer identification standards and adhere to the same reporting requirements that it imposes on banks.

13. “Know Your Customer”: By law, the jurisdiction requires financial institutions to identify and verify their customers identity using reliable independent source documents, identify beneficial ownership and control, and conduct ongoing due diligence and scrutiny.
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.

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 Convention
Government/Jurisdiction																
Afghanistan	Y	Y	N	Y	M	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Albania	Y	Y	Y	Y	M	Y	Y	N	Y	N	Y	Y	N	Y	Y	Y
Algeria	N	N	N	N	M	N	N	N	N	Y	N	N	N	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 ¹	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	Y	Y	N	Y	Y	N	Y
Aruba	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	Y	Y	Y	Y
Bahamas	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Bahrain	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	N	Y
Bangladesh	Y	Y	N	Y	M	N	N	N	N	N	Y	N	Y	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	Y
Belgium	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Belize	Y	Y	Y	Y	M	Y	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	Y

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Money Laundering and Financial Crimes

Actions by Governments	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 Convention
Bermuda ¹	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	Y	N	Y	N	Y	Y	Y	Y
Botswana	Y	Y	Y	Y	M	N	Y	Y	Y	N	Y	N	Y	Y	N	Y
Brazil	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
British Virgin Islands ¹	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	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	Y	Y	M	N	Y	N	N	N	Y	Y	Y	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
Cape Verde	Y	Y		Y	M	N	Y	N			Y			Y	N	Y
Cayman Islands ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	N
Chad	Y	Y	Y	Y	M	N	Y	N	N	Y	N	N	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	Y	M	N	Y	N	Y	Y	Y	N	N	Y	Y	N
Colombia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Comoros	Y	Y	N	Y	M	N	Y			Y	Y	Y	Y	Y	Y	Y
Congo (Dem. Republic)	Y	Y	Y	Y	M	N	Y	N	N	N	N	Y	Y	N	Y	N
Congo (Republic)	Y	Y	Y	Y	M	N	N	N	N	N	Y	Y	Y	Y	Y	N

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

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 Convention	
Cook Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	N	Y	Y	
Costa Rica	Y	Y	Y	Y	M	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	N	Y	
Croatia	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Cuba	Y	Y	N	N	P	N	Y	N	N	Y	N	N	Y	Y	Y	
Cyprus	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Czech Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	
Denmark	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Djibouti	Y	Y	Y	Y	M	N	N	N	Y	N	Y	Y	Y	Y	N	
Dominica	Y	Y	N	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	Y	Y	
Dominican Republic	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	N	N	
East Timor	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	Y	N	Y	
Egypt	Y	Y	N	Y	M	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	N	Y	
Equatorial Guinea	N	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	
Eritrea	N	N	Y	Y	N	N	N	N	Y	N	N	N	Y	N	N	
Estonia	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	
Ethiopia	N	N	Y	Y	M	N	N	N	N	N	N	N	Y	N	N	
Fiji	Y	Y	N	Y	M	N	Y	N	Y	Y	Y	N	Y	N	N	
Finland	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	
France	Y	Y	Y	Y	M	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	
Gambia	Y	Y	N	Y	M	N	Y	N	N	N	N	N	Y	Y	N	
Georgia	Y	Y	Y	Y	M	Y	N	N	N	N	Y	Y	N	Y	Y	
Germany	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	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 Convention
Ghana	Y	Y	N	Y	N	N	Y	N	Y	Y	Y	Y	N	Y	N	Y
Gibraltar ¹	Y	Y	Y	Y	M	Y	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	Y	Y
Grenada	Y	Y	N	Y	M	Y	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 ¹	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Guinea	Y	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	Y
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	Y	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	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Iran	N	N	N	N	N	N	N	N	N	N	Y	N	N	Y	N	N
Iraq	Y	Y	N	Y	M	N	Y	N	N	Y	N	Y	Y	Y	Y	N
Ireland	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	N
Isle of Man ¹	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

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Actions by Governments	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 Convention
Japan	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Jersey ¹	Y	Y	N	Y	M	Y	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Jordan	Y	Y	N	Y	M	N	N	Y	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	Y
Kosovo ²	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	N	N	N
Kuwait	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	N	N
Kyrgyz Republic	N	N	N	N	P	N	Y	N	N	N	N	N	Y	Y	N	Y
Laos	N	N	N	N	N	N	N	N	N	N	N	N	N	Y	N	N
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	Y	N	Y	Y	Y	Y	Y	N
Lesotho	N	N	Y	Y	M	N	N	N	Y	N	Y	N	Y	Y	N	Y
Liberia	Y	Y	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	Y	N	Y	Y	Y	Y	Y	Y	Y	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	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Madagascar	Y	Y	N	Y	N	N	Y	N		N	Y	Y	Y	Y	N	Y
Malawi	N	N	Y	Y	P	N	N	N		N	N	N	N	Y	N	Y

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

² Kosovo is under the supervision of the UN and is not a sovereign state.

Money Laundering and Financial Crimes

Actions by Governments	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 Convention
Malaysia	Y	Y	N	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	Y	N
Maldives	Y	N	N	N	M	N	Y	N		N		N	N	Y	Y	Y
Mali	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	N	Y	Y	Y
Malta	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Marshall Islands	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	Y	N	Y	Y
Mauritania	Y	N	Y	N	N	N	Y	N	Y	N	Y	N	N	Y	N	Y
Mauritius	Y	Y	N	Y	M	Y	Y	N	Y	N	Y	Y	Y	Y	Y	Y
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	Y	Y	N	Y
Moldova	Y	Y	Y	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	Y	N	N	N	N	N	Y	Y	N	Y
Montenegro	Y	Y	Y	Y	M	N	Y	N	Y	N	Y	N	Y	Y	N	Y
Montserrat ¹	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	Y	Y	N
Morocco	N	N	N	Y	M	N	N	N	N	Y	Y	N	Y	Y	Y	Y
Mozambique	Y	Y	Y	Y	M	N	Y	Y	N	Y	Y	Y	Y	Y	N	Y
Namibia	Y	Y	Y	Y	M	N	N	N	N	N	N	Y	N	Y	N	N
Nauru	Y	Y	N	Y	M	N	Y	Y	Y	N	Y	Y	Y	N	Y	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

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Actions by Governments	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 Convention
Niger	Y	Y	Y	N	M	N	Y	N	Y	N	N	Y	N	Y	N	Y
Nigeria	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	Y	Y	Y	Y	Y
Niue ¹	Y	Y	N	Y	M	N	Y	N	Y	N	Y	Y	Y	N	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	N	Y	N	Y	Y	Y	Y	N	N
Pakistan	Y	N	N	Y	M	N	Y	N	N	N	Y	M	Y	N	Y	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	N	N	Y	Y	Y	Y	N	Y	N	Y
Peru	Y	Y	Y	Y	M	N	Y	Y	Y	Y	Y	Y	Y	Y	Y	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	Y	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	Y	N	N	N	N	Y	N	Y
Samoa	Y	Y	N	Y	M	N	Y	Y	Y	Y	Y	Y	Y	N	Y	Y
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	Y	Y	Y	M	N	Y	N	Y	N	Y	Y	Y	Y	Y	Y
Serbia	Y	Y	Y	Y	M	Y	N	Y	Y	N	Y	Y	Y	Y	N	Y

¹ Niueans are citizens of New Zealand; Niue is not a member of the UN.

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 Convention
Seychelles	Y	Y	N	Y	M	N	Y	N		N	Y	Y	Y	Y	Y	Y
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	Y	Y
Solomon Islands	Y	Y	N	Y	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	Y	Y	Y	Y
St Kitts & Nevis	Y	Y	Y	Y	M	Y	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	N	Y	Y	Y
Suriname	Y	Y	N	Y	M	N	Y	N	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	Y	Y	N	Y	N	N	Y	N	N	N	Y	N	N	Y	N	N
Taiwan ¹	Y	Y	Y	Y	M	Y	Y	Y	Y	Y	Y	Y	Y	N	N	N
Tajikistan	Y	Y	N	N	N	N	N	N	N	Y	Y	N	N	Y	Y	Y
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	Y
Togo	Y	N	Y	Y	N	N	Y	N	Y	N	Y	N	Y	Y	Y	Y
Tonga	Y	Y	Y	Y	M	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

¹ Taiwan is not a member of the UN.

Actions by Governments	Criminalized Drug Money Laundering															
	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 Convention
Tunisia	Y	Y	Y	Y	P	N	Y	N	N	Y	N	N	Y	Y	Y	Y
Turkey	Y	Y	Y	Y	M	Y	Y	N	Y	Y	Y	Y	Y	Y	N	Y
Turkmenistan	Y	Y	N	N	N	N	Y	N	Y	Y	Y	N	N	Y	Y	Y
Turks & Caicos ¹	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	Y	N	N	N	Y	Y	Y	Y
Ukraine	Y	Y	Y	Y	M	Y	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	Y	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	Y	Y	Y	Y	Y	Y	Y
Uzbekistan	Y	Y	Y	Y	M	N	Y	N	Y	Y	Y	N	Y	Y	Y	Y
Vanuatu	Y	Y	Y	Y	M	Y	Y	Y	Y	N	Y	Y	N	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	M	N	Y	N	N	Y	Y	N	N	Y	N	Y
Yemen	Y	Y	N	Y	M	N	N	N	N	N	Y	Y	Y	Y	N	N
Zambia	Y	Y	N	Y	M	N	Y	N	Y	N	Y	N	N	Y	N	N
Zimbabwe	Y	Y	N	Y	M	N	Y	N	N	Y	N	N	N	Y	Y	N

¹ The UK extended its application of the 1988 Convention and the UK Terrorism Order 2001 to Anguilla, Bermuda, the British Virgin Islands, the Cayman Islands, Montserrat, the Turks and Caicos, Isle of Man, Bailiwick of Jersey, and Guernsey. The International Convention for the Suppression of the Financing of Terrorism has not yet been so extended.

Country Reports

[*This text has been revised since its original posting; see version as [released to Congress](#).]

Afghanistan

While Afghanistan is not a regional financial or banking center, its informal financial and credit system is extremely robust in scope and scale. Afghanistan is a major drug transit and drug producing country. Afghanistan recently passed anti-money laundering and terrorist financing legislation, and many efforts are being made to strengthen police and customs forces. However, there remain few resources and little expertise to combat financial crimes, or to produce meaningful financial intelligence. The most fundamental obstacles continue to be legal, cultural and historical factors that many times conflict with more Western-style proposed reforms to the financial sector generally.

In early 2004, the Central Bank of Afghanistan, Da Afghanistan Bank (DAB), worked in collaboration with the International Monetary Fund (IMF) and the United Nations Office on Drugs and Crime (UNODC) to establish the legislative framework for anti-money laundering and the suppression of the financing of terrorism. Although Afghanistan was unable to meet its initial commitment to enact both pieces of legislation by September 30, 2004, they were both finalized and signed into law by late October. In addition, the Government of Afghanistan (GOA) has now become a party to all relevant UN Conventions and protocols relating to the financing of terrorism and laundering of funds and other proceeds of crimes, which include the International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Illicit Traffic in Narcotics and Psychotropic Substances.

The Central Bank claims that both the Anti-Money Laundering (AML) and Proceeds of Crime and Combating the Financing of Terrorism laws incorporate provisions for complying with the international standards set forth by the Financial Action Task Force (FATF), meet or exceed international standards, and principally address the criminalization of money laundering and the financing of terrorism, customer due diligence, the establishment of a Financial Intelligence Unit (FIU), international cooperation, extradition, and the freezing and confiscation of funds. In fact, the AML law also includes provisions to address cross-border currency reporting, and establishes authorities to seize and confiscate monies found to be undeclared or falsely declared, or determined to be transferred for illicit purposes. However, the capability to enforce these provisions is nearly non-existent, and furthermore, these provisions are largely unknown in many parts of the country.

Under the new AML law, an FIU must be established and function as a semi-autonomous unit within DAB. Additionally, banks are required to report suspicious transactions and all cash transactions as prescribed by DAB to the FIU, which has the legal authority to freeze assets for up to 7 days. The FIU then directs cases to the Government Prosecutor's office within the Ministry of Justice, which will assign it to the appropriate court. The Department of Financial Supervision is coordinating the development of the FIU, which was originally planned for completion in January 2005. However, a number of key issues remain that must be considered before the FIU can be developed in an effective manner.

At present, there exist three recently re-licensed state-owned banks, four foreign banks, and three additional domestic banks. With the possible exception of the foreign banks, no banks are equipped with the knowledge or technical capacity to produce financial intelligence, and many are looking to both the Central Bank and the Ministry of Finance to provide training on the requirements set forth by the newly passed anti-money Laundering legislation, to include: customer due diligence/know your customer provisions (KYC), record keeping, currency transaction reporting (CTRs), suspicious transaction reporting (STRs), and the establishment of internal AML/CFT controls. There seems to be a lack of knowledge on the part of DAB as to the compliance capabilities of banks other than those

that are state-owned. The majority of their efforts have been devoted to re-licensing efforts, basic training and staffing.

The Ministry of Interior and the Government/Public Prosecutions Office are the primary enforcement authorities, although neither is able to conduct financial investigations, and both lack the training necessary to follow potential leads generated by an FIU, whether within Afghanistan or from international sources. Pursuant to the Central Bank law, there are plans for the development of a Financial Services Tribunal, which will be dedicated to prosecuting cases for a myriad of financial crimes, although there is a need for significant training for prosecutors and judges before this Tribunal can be effectively stood up. At present, all financial fraud cases are being forwarded to the Kabul High Court, where there has been little or no activity in the last two years. The process to prosecute and adjudicate cases is long and cumbersome, and significantly underdeveloped. A resident legal advisor to train prosecutors and judges has recently been placed in Kabul to help develop these mechanisms.

The majority of the money laundering in Afghanistan is linked to the trade of narcotics. Afghanistan accounts for a large majority of the world's opium production and in 2004 its internal production of opium increased. Opium gum itself is often used as a currency, especially for rural farmers, and it is used as a storehouse or bank of value in prime production areas. It is estimated that over 60 percent of Afghanistan's GDP is derived directly from narcotics activities, and proceeds generated from the drug trade have reportedly fueled a growing 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 by production labs, more of which are being established within Afghanistan's borders. The heroin is then often broken into small shipments and smuggled across porous borders for resale abroad. Payment for the narcotics outside the country is facilitated through a variety of means, including through conventional trade and the hawala system (money exchange dealers). The narcotics themselves are often used as tradable goods and as a means of exchange for foodstuffs, vegetable oils, electronics, and other goods between Afghanistan and neighboring Pakistan. Many of these 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.

The Supervision Department within the DAB is newly formed as of the end of 2003, and is broken into four divisions: Licensing, General Supervision (which includes on-site and off-site supervision), Special Supervision (which deals with special cases of enforcement and liquidation), and Regulation. The Department remains poorly staffed and struggles to find the appropriate talent. The Department is charged with administering the AML and CFT legislation, conducting audits, licensing new institutions, overseeing money exchange and money services businesses, and liaising with the commercial banking sector generally.

Afghanistan is dominated by the hawala system, which provides a range of financial and non-financial business services in local, regional, and international markets. Financial activities include money exchange transactions, funds transfers, micro and trade finance, as well as deposit-taking activities. While the hawala network may not provide financial intermediation services in the strict technical use of the term in the formal banking system, i.e., deposit-taking for lending purposes based on the assessment, underwriting, and pricing of risk(s), its robust and widespread use throughout Afghanistan should not be overlooked—given the extent of the service offering, extremely low cost, and greater efficiency than most formal systems world-wide.

In April 2004, Afghanistan issued new regulations for the licensing of money exchange dealers and hawaladars, and required them to submit quarterly transaction reports. Regulations differ for money exchange dealers vs. money services businesses, with more stringent requirements placed on the latter. New regulations also require Money Service Businesses to take appropriate measures to prevent money laundering and terrorist financing, including the submission of suspicious transaction reports to

the FIU. DAB branch managers have been trained on re-licensing, but to date, only one entity-Western Union-has received a license. The DAB is phasing in this process, and has little communication with the exchange dealers themselves, many of whom see the new regulations as overly strict, requiring burdensome capital requirements and fees for agents in each province. The DAB is struggling with administering the new requirements, and lacks the support of enforcement authorities from the Ministry Interior, among others.

There are a little over 300 known exchange dealers in Kabul, with 100-300 additional dealers in each province. These dealers are organized into unions in each province, and maintain a number of agent-principle and partner relationships with other dealers throughout the country and internationally. Contrary to some understanding, their record keeping and accounting activities are quite robust, extremely efficient, and take note of: currencies traded, international pricing, deposit balances, debits and credits with other dealers, lending, cash on hand, etc.

Border security continues to be a major issue throughout Afghanistan. At present there are 21 gateways that have come under federal control, utilizing international donor assistance as well as local and international forces. However much of the border areas continue to be un-policed and therefore susceptible to illicit cross-border trafficking and trade-based money laundering. Many regional warlords also continue to control the international borders in their provincial areas, causing major security risks. Customs authorities, with the help of outside assistance, have made significant strides, but much work remains to be done. Customs collection has also dramatically improved, but there continues to be significant leakage and corruption, as well as trade-based fraud, including false and under-invoicing. Thorough cargo inspections are currently not conducted at any gateway.

Under the Law on Combating the Financing of Terrorism, any nonprofit organization that wishes to collect, receive, grant, or transfer funds and property must be entered in the registry with the Ministry of Auqaf (Islamic Affairs). All non-profit organizations are subject to a due diligence process which includes an assessment of accounting, record keeping, and other activities. However, the capacity for the Ministry to conduct such examinations is near non-existent, and the reality is that any organization applying for registration is granted one. Furthermore, because no adequate enforcement authority exists, many organizations operating under a “tax-exempt” non-profit status in Afghanistan go completely unregistered, and nefarious activities are suspected of a number of organizations.

While the Government of Afghanistan has made significant strides in strengthening overall AML/CFT efforts, much work remains: empowering the informal hawala system through effective regulation; enabling bank and non-bank financial institutions to produce adequate financial intelligence; developing an FIU; bolstering financial investigative capabilities; and, training prosecutors and judges on money laundering and other financial crimes. These efforts must be conducted in tandem, while at the same time combating the overwhelming narcotics trade. A concerted effort on the part of donor states and Afghan authorities would empower rural farmers through effective alternative livelihoods programs, by dismantling the logistical and financial infrastructure that facilitates the opium economy generally.

Albania

As a transit country for trafficking in narcotics, arms, contraband, and humans, Albania remains at significant risk for money laundering. Major sources of criminal proceeds are drug-related crimes, robberies, customs offenses, exploitation of prostitution, trafficking in weapons and automobiles and theft through abuse of office. Tax crime and fraud appear relatively often, as well. 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. 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. Approximately 80 percent of all economic transactions are still carried out in cash, thereby making it difficult for the police to conduct money laundering investigations. Electronic and ATM transactions are relatively low, but are growing rapidly as more banks introduce this technology. According to the Bank of Albania, the Central Bank, 26 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. Until 2004, the Government of Albania (GOA) paid its own civil servants in cash, but a growing number of institutions are using electronic pay systems. All Central Government institutions are now required to convert to electronic pay systems by the end of 2005.

There are 16 banks, but only seven of them are considered to be major players in the system. In late 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 to lure people away from cash circulation.

Albania criminalized all forms of money laundering through Article 287 of the Albanian Criminal Code of 1995 and Law No. 8610 "On the Prevention of Money Laundering" passed in 2000. The laws set forth an "all crimes" definition for the offense of money laundering. However, an issue of concern is the fact that the Albanian court system requires a prior or simultaneous conviction for the predicate crime before an indictment for money laundering can be issued. Albanian law also has no specific laws pertaining to corporate criminal liability. Officials, however state that legal entities can be punished for money laundering under Article 45 of the Criminal Code as well as under Article 14 of Law No. 8610.

In June 2003, Parliament approved Law No. 9084, which strengthened 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 that of the European Union (EU) and bringing it into line with EU and international conventions. Under the revised Criminal Code many powers were expanded and improved upon. The definition of money laundering was revised, the establishment of anonymous accounts was outlawed, and the confiscation of accounts was permitted. Currently, no law criminalizes negligence by financial institutions in money laundering cases.

Law No. 8610 requires financial institutions to report all cross-border 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. Financial institutions have no legal obligation to identify customers prior to opening an account. Although, in practice, all banks have internal rules mandating customer identification, Law No. 8610 only requires customer identification prior to conducting transactions exceeding 2 million Albanian leke (approximately \$20,000) or when there is a suspicion of money laundering. Law 9084 mandates identification of beneficial owners. The Bank of Albania has established a task force to confirm banks' compliance with customer verification rules.

Banking groups initially objected to implementation of some aspects of the law, especially with regard to what they see as onerous reporting requirements. Originally, financial institutions were required to complete a 61-question form for all transactions, including bank-to-bank transfers, exceeding \$200,000. Subsequent modifications to the form, however, have somewhat reduced this reporting burden. In addition, financial institutions that submit reports are required to do so within 72 hours.

Money Laundering and Financial Crimes

Banks, bureaux de change, casinos, tax and customs authorities, accountants, postal services, insurance companies, and travel agencies are obligated entities for threshold reporting.

Law No. 8610 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. In 2004, ACCML received 58 reports, seven of which were forwarded to the prosecutor's office for further action.

Law 9084 clarifies and improves the role of the ACCML and increases its responsibility. 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 ACCML and the General Prosecutor's Office, while creating an FIU oversight mechanism to ensure it fulfills, but does not exceed, its responsibilities and authority. Previously, coordination against money laundering and terrorist financing among agencies was sporadic.

There have been seven prosecutions 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 fourteen prosecutions, ten are pending in the courts and four have yet to be brought to trial. Given the high number of drug-trafficking and fraud-related cases in Albania, the number of money laundering prosecutions is still relatively low. This is largely due to the fact that the Albanian police force still does not have a central database, and investigators lack much-needed training in modern financial investigation techniques.

Through Law 9084, the Code of Criminal Procedure vastly improves the Albanian confiscation regime. Prior to 2004, Albanian law did not allow for asset forfeiture without a court decision. In 2004, Albania passed legislation that made the freezing and seizure of assets much easier. First, Albania passed a comprehensive antimafia law, Law No. 9284, which contains strong asset seizure and forfeiture provisions, subjecting to seizure the assets of suspected persons and their families and close associates. The law also places on the defendant the burden to prove a legitimate source of funding for seized assets. In the past three years the GOA has seized \$3.34 million in liquid criminal and terrorist assets, and about \$2.5 million in real estate (\$1 million in 2004), although some estimates of value are much higher. These seizures were mostly related to actions against terrorist financiers. In 2004, approximately \$2.5 million in cash related to both criminal and terrorist activities was seized.

Law 9084 criminalizes the financing of terrorism, mandating strong penalties for any actions or organizations linked with terrorism. Until 2004, the GOA used its anti-money laundering law to freeze the assets of individuals and organizations on the UN Security Council lists of designated terrorists or terrorist entities. In 2004, Law No. 9258, "On Measures Against Terrorist Financing," was enacted, permitting the GOA to administratively seize assets of any terrorist designated pursuant to Security Council resolutions, as well as pursuant to certain bilateral or multilateral requests. The Ministry of Finance has already implemented this law.

Although the GOA has not passed specific legislation addressing alternative remittance systems or charitable organizations, officials state that such informal transactions are covered under recent laws. 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 ACCML has the ability to enter into bilateral or multilateral information sharing agreements on its own authority and continues to cooperate with its counterparts, signing memoranda of understanding

(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. The GOA is also 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. In December 2003, Albania 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 ACCML became a member of the Egmont Group in July 2003.

The Government of Albania has taken important steps to enhance its anti-money laundering/counterterrorist financing regime, however, additional improvements can still be made. Albania should incorporate into its anti-money laundering legislation specific provisions regarding corporate criminal liability, customer identification procedures and the adequate oversight of money remitters and charities. Albania should also amend its laws to allow authorities to obtain an indictment for money laundering without a prior conviction of a predicate offense. A central police database should be created in order to assist law enforcement in the investigation of financial crimes. Training in advanced financial investigation techniques should be provided to police investigators.

Algeria

Algeria is not a regional financial center or an offshore financial center. The extent of money laundering through formal financial institutions is thought 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 to 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 Executive Order 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.

In 2004, Algeria introduced a draft law titled "Law for the Prevention and the Fight Against Money Laundering and Terrorism Financing." This legislation was approved by the administration's Council of Ministers and was in the process of being reviewed by the National Assembly at the end 2004. The National Assembly and Senate enacted the legislation on January 5, 2005. The new law seeks to bring Algerian law into conformity with international standards and conventions. Reportedly, it covers the prevention and detection of money laundering and terrorism financing, institutional and judicial international cooperation, and penal provisions.

According to the new legislation, banks and financial institutions are required to know, record and report the identity of customers and the origin and destination of funds. These institutions must maintain confidential reports of suspicious transactions. Banks must maintain customer records for at least 5 years after the date of the last transaction. Significant authority is given to a banking commission operating under the authority of the Bank of Algeria (the central bank) to supervise banks and financial institutions and to inform the CTRF of suspicious or complex transactions.

Money Laundering and Financial Crimes

Bank and professional secrecy rules do not apply to the bank commission, judicial authorities and the CTRF. Under the proposed legislation, the permitted 72-hour period for freezing assets on the basis of suspicious activity can be extended only with judicial authorization.

Money laundering controls in previous laws have applied to “intermediary,” non-banking financial institutions. Once implemented, the new legislation will extend money laundering controls to apply to specific, non-banking financial professions, including lawyers, accountants, stockbroker and precious metal dealers.

The Ministry of Justice is expected to create a pool of judges who are expert in financial matters. Algeria plans to establish a coordinating committee involving the Ministry of Justice, the Ministry of Finance, and the local police to fight against financial crimes.

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 became a member of the nascent Middle East and North Africa Financial Action Task Force in November 2004.

Algeria should develop implementing regulations for the new money laundering law and create the appropriate commissions and committees necessary for its successful implementation.

Andorra

Andorra is a very small country with just six banks. However, 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.

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 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, so 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 establish 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. 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.

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. Also 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 and provides training in recognizing questionable transactions; as a result, banks have become more cooperative with UPB as well. The most recent figures available reflect that in 2003, UPB received 34 STRs.

In 2003, Andorra was able to obtain its 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 five 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. In July 2004, the Spanish and the Andorran police uncovered a drug trafficking network involving more than 20 people, the majority of them Spanish nationals. Drugs were seized in Spain and Andorra's UPB froze a 14 million Euro bank account held in Andorra. The case is still under investigation.

The police work closely with the FIU, and the law 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 assistance, 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 but not yet ratified the European Convention on Mutual Legal Assistance. Andorra 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.

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 in 2003. Despite its progress and cooperation concerning money laundering, the OECD continues to cite Andorra 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 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. The laundering of funds derived from high-level corruption is a concern, as is the poorly controlled trade in diamonds and the potential use of diamonds as a vehicle for money laundering. It is possible that links exist between the informal diamond trade and international criminal organizations. Angola is participating in the "Kimberley Process," an international certification scheme designed 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 currently has no comprehensive laws, regulations, or other procedures to detect money laundering and financial crime, although some such crimes are addressed through other provisions of the criminal code. For example, Angola's counternarcotics laws criminalize money laundering related to narcotics-trafficking. There is a draft law to reform the banking sector that contains provisions against money laundering that are consistent with international standards. The Government of Angola expects the law to pass in early 2005. The Central Bank of Angola has the authority to freeze assets, but Angola does not presently have an effective system for identifying, tracing, or seizing assets.

Angola is party 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. It has ratified the African Union Anti-Terrorist, Anti-Mercenary, and Money-Laundering Accord.

Angola should pass its pending legislation and criminalize money laundering (beyond drug offenses) and terrorist financing. It should establish a financial intelligence unit. It should then move to implement the legislation. It should become a party to both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. It should enhance controls over the diamond trade and increase its efforts to combat official corruption.

Anguilla

Anguilla is a United Kingdom (UK) overseas territory with a population of approximately 12,871. 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 the ability to register companies online and the use of bearer shares make Anguilla vulnerable to money laundering.

Anguilla has four domestic banks, two of which also conduct offshore banking. The Eastern Caribbean Central Bank (ECCB) supervises the four domestic banks. The ECCB completed on-site anti-money laundering inspections during 2002 at three domestic banks. The fourth bank's on-site inspection is scheduled for early 2005. Two domestic banks have licenses to conduct offshore banking. The ECCB signed a memorandum of understanding with the Governor of Anguilla to regulate the offshore activities of these two domestic banks. Under the Trust Companies and Offshore Banking Act the Governor has the authority to revoke or suspend an offshore bank license for non-compliance.

As of 2003, the offshore sector also includes approximately 3,041 international business companies (IBCs), 128 limited liability companies, seven 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, 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. It was reported in 2003 that legislation was being drafted to immobilize bearer shares; however, no updated information on this draft legislation has been provided.

In November 2003, the Financial Services Commission Act was passed. The Act creates the Financial Services Commission (FSC) as an autonomous regulatory agency that assumed most of the Financial Services Department supervisory authority. The FSC became operational February 2, 2004. The board consists of a director, deputy director, junior regulator, and an office manager. The Act empowers the FSC 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 Act also empowers the FSC to "monitor compliance by regulated persons with the Anti-Money Laundering Regulations of 2000 and such other Acts, Regulations, Guidelines, or Codes relating to money laundering or the financing of terrorism as may be prescribed." Anguilla has approximately 20 registered insurance companies. Under the new Insurance Act enacted in 2004, the FSC supervises all insurance intermediaries.

A National Committee on Drugs and Money Laundering was formed to act as the catalyst for Anguilla's anti-money laundering/counterterrorist financing efforts. This Committee proposed Customs Declaration Forms to detect and monitor cross-border transportation of cash or bearer instruments in excess of U.S. \$10,000. The proposal is currently before the Comptroller of Customs.

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, receives suspicious transaction reports (STRs) and is 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.

The Government of Anguilla is a developing financial services jurisdiction and 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. Particularly in light of its online registration capabilities, Anguilla must ensure that its oversight and supervision of its offshore center is adequate. Anguilla should also strengthen the MLRA's ability to receive and analyze STRs by providing sufficient resources and training to the unit. Anguilla should criminalize 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 to both 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.

The Money Laundering (Prevention) Act (MLPA) of 1996 is the operative legislation addressing money laundering. The MLPA is currently being amended to broaden the definition of supervised financial institutions to cover non-banking institutions.

In 2000, the Government of Antigua and Barbuda (GOAB) amended the International Business Corporations Act of 1982 (IBCA). This was done in order to remove 1998 amendments that had given the International Financial Sector Regulatory Authority (IFSRA) responsibility to both market and regulate the offshore sector, as well as permitting 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 2002, the IFSRA was replaced by a new entity, the Financial Services Regulatory Commission (FSRC). The Director of IFSRA was 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 14,500, with 5,000 active in 2004. 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 16 licensed offshore banks in operation. Of these, however, several may not meet international physical presence standards.

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.

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 ONDCP's relationship with the Royal Antigua and Barbuda Police Force, Customs, Immigration, and the Antigua and Barbuda Defense Force. Through November 2004, the ONDCP had received 29 suspicious activity reports, down from 47 in 2003.

A training program and information kit on anti-money laundering for magistrates and other judicial officers was developed, and training was conducted in 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 five domestic casinos, which are required to incorporate as domestic corporations. Internet gaming operations are required to incorporate as IBCs; official sources indicate there are 35 such entities. The GOAB receives approximately \$2.8 million per year from license fees and other charges related to the Internet gaming industry. In 2001, the GOAB adopted 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 to 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 entities are sent to the ONDCP and FSRC. Reportedly, they are receiving approximately four per week. The FSRC and DOG have issued Internet Gaming Technical Standards and guidelines.

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 United States. The GOAB contends that the United States is in violation of the WTO General Agreement on Trade in Services, because the United States prohibits residents from engaging in Internet gaming and betting services, and prohibits credit card companies and banks from facilitating the transactions. In 2004, the WTO ruled in favor of the GOAB. The United States has appealed the decision to the WTO, and it is under review. The GOAB has stated that U.S. mutual legal assistance treaty (MLAT) requests for information on cases involving Internet gaming will not be honored, as Internet gaming is not illegal in A&B.

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 on money laundering charges. Approximately \$3.4 million has been frozen in A&B in connection with the case.

In October 2001, Antigua enacted the Prevention of Terrorism Act, which empowers the ONDCP 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. The GOAB circulates lists of terrorists and terrorist entities to all financial institutions in A&B. 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. An extradition request related to a fraud and money laundering investigation remains pending under the treaty. 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 2004, 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 United States. Despite its own civil forfeiture laws, currently GOAB can only provide forfeiture assistance in criminal forfeiture cases. The GOAB has frozen approximately \$6 million in A&B financial institutions as a result of U.S. requests and has 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 still pending in the United States and other countries. In 2004, the GOAB received \$680,000 from asset sharing revenues with the United States.

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 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 Government of Antigua and Barbuda should continue its international cooperation, and rigorously implement and enforce all provisions of its anti-money laundering legislation. Antigua and Barbuda should take the necessary legislative and regulatory steps to ensure its gambling sector is properly covered by anti-money laundering legislation and is strictly supervised. Additionally, Antigua and Barbuda should vigorously enforce its anti-money laundering laws by actively prosecuting money laundering and asset forfeiture cases. Antigua and Barbuda should ensure that all offshore banks licensed there 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 four years may have reduced the opportunities for money laundering through the banking system. However, transactions conducted through non-bank

sectors and professions, such as the insurance industry; financial advisors; accountants; notaries; trusts; and companies, real or shell, remain viable mechanisms to launder illicit funds.

In 2004, the GOA continued 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 Superintendence 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. The UIF has forwarded 48 suspected cases of money laundering to prosecutors for review as of December 2004, some of which could result in prosecutions during 2005.

In 2004, the UIF extended the requirement to report suspicious or unusual transactions to include accountants and notary publics. Previous resolutions issued by the UIF in 2003 had extended this requirement to include the following entities: the Central Bank, CNV, and SSN; the tax authority (Administracion Federal de Ingresos Publicos 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; and postal money transmitters. The resolutions provide guidelines for identifying suspicious or unusual transactions, and require the reporting of those whose value exceeds 50,000 pesos (approximately \$17,000). 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.

The Central Bank requires by resolution that all banks maintain a database of all transactions exceeding 10,000 Argentine pesos (approximately \$3,400). This data is submitted on a periodic basis to the BCRA. Some banks make this information available to the UIF on request, others do not, citing financial secrecy laws. In 2004, the UIF began receiving all suspicious transaction reports directly from obligated entities. Previously, due to continued budget constraints, only suspicious transactions over 500,000 Argentine pesos (approximately \$170,000) were reported directly to the UIF, while transactions below 500,000 Argentine pesos went 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 \$3,400). 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. A law (Law 22.415/25.821) that would have provided for the immediate fine of 25 percent of the undeclared amount, and for the seizure and forfeiture of the remaining undeclared currency and/or monetary instruments, passed the Argentine Congress in 2003, but was vetoed by the President due to alleged conflicts with Argentina's commitments to MERCOSUR (Common Market of the Southern Cone). 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. Law 25.246 provides that proceeds of assets forfeited under this law can also be used to fund the UIF.

The Financial Action Task Force (FATF) conducted a mutual evaluation of Argentina in October 2003. The mutual evaluation report was accepted at the FATF plenary in June 2004 and at the plenary

meetings of the Financial Action Task Force for South America (GAFISUD) in July 2004. While the evaluation of Argentina showed the UIF to be functioning satisfactorily, some weaknesses in Argentina's current anti-money laundering and terrorist financing legislation were identified. Although Law 25.246 of 2000 expanded the number of predicate offenses for money laundering beyond narcotics-related offenses and created the UIF, there have been only two money laundering convictions in Argentina since money laundering was first criminalized in 1989. Under strict interpretation of the law, a prior conviction for the predicate offense is required in order to obtain a conviction for money laundering.

The strict interpretation of the secrecy provisions of Law 25.246 also inhibits the UIF's ability to request additional information from obligated entities. Although Law 25.246 provides that the UIF is able to request information from obligated entities if this information is deemed useful to the UIF in carrying out its functions, the same law applies strict "banking, fiscal, and professional" confidentiality provisions and requires court orders to request information not directly related to a suspicious transaction report. Several government authorities, such as AFIP (the tax authority, which is responsible for overseeing the customs agency and dealing with tax fraud and other economic crimes) and the Central Bank have been uncooperative in responding to the UIF's requests for assistance. From the time the UIF began receiving reports (November 2002) until the time when the evaluation was carried out (October 2003), the UIF had requested additional information from the AFIP in 153 cases (40 percent of which were with regard to suspicious transaction reports sent to the UIF from the AFIP itself) and from the Central Bank in 130 cases. The secrecy law has been lifted in only one case.

An amendment to Law 25.246 has been drafted that will prohibit obligated entities from invoking secrecy as a reason for refusing to comply with UIF requests; however, the draft law has not yet been passed. Another impediment to Argentina's anti-money laundering regime is that, under Argentine law, only transactions (or a series of related transactions) involving over 50,000 pesos can constitute money laundering. Transactions of less than this amount constitute concealment ("encubrimiento"), a lesser offense. GAFISUD has criticized the setting of the amount at 50,000 pesos when the international standard is \$10,000.

Terrorism and terrorist acts are not specifically criminalized under Argentine law. Because these acts are not autonomous offenses, terrorist financing is not a predicate offense for money laundering. 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 new law will incorporate into the Argentine Penal Code a penalty of 10 to 20 years for taking part in, or cooperating with, or assisting in, the formation, maintenance, or financing of a terrorist group.

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. This legislation had not yet been passed at the end of 2004. However, the Central Bank of Argentina has issued Circular B-6986, instructing financial institutions to identify and freeze the funds and financial assets of the individuals and entities listed by the U.S. Government (USG) as possibly engaged in acts of terrorism. Although no assets have been frozen, the Central Bank continues to monitor the financial institutions.

The GOA remains active in multilateral counternarcotics and international anti-money laundering organizations. It is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, the FATF, and GAFISUD. In 2004, the GOA held the presidency of GAFISUD; GAFISUD's Secretariat is based in

Buenos Aires. The GOA is a party to the 1988 UN Drug Convention, and has signed, but not yet ratified, the following conventions: the UN International Convention for the Suppression of the Financing of Terrorism, the OAS Inter-American Convention on Terrorism, the UN Convention against Transnational Organized Crime, and the UN Convention Against Corruption. Argentina is a member of the Egmont Group and participates in the “3 Plus 1” Counter-Terrorism Dialogue between the United States and the Tri-border Area countries (Argentina, Brazil and Paraguay). The GOA and the USG have a Mutual Legal Assistance Treaty that entered into force in 1993, and an extradition treaty that entered into force in 2000.

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. However, several legislative and regulatory changes would significantly improve the anti-money laundering/counterterrorism finance regime in Argentina. Argentina should pass domestic legislation that criminalizes the financing of terrorism, as well as ratifying both the OAS Convention on Terrorism and the UN International Convention for the Suppression of the Financing of Terrorism. To comply with the latest FATF recommendation on the regulation of bulk money transactions, Argentina also will need to review the legislation vetoed in 2003 to find a way to regulate such transactions consistent with its MERCOSUR obligations.

Disputes over information sharing between the Unidad de Inteligencia Financiera, the Central Bank, and the tax agency, the Agencia Federal de Ingresos Publicos, also need to be resolved for anti-money laundering efforts to succeed. In doing so, the Government of Argentina will need to balance the concerns of the Unidad de Inteligencia Financiera and judicial authorities for quick and efficient access to such information in aid of legitimate investigations of suspected money laundering, and the need to stringently protect that information from disclosure or use for other purposes, which remains a major concern of the financial sector. 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 Unidad de Inteligencia Financiera to carry out its mission.

Armenia

Armenia is not a major financial center. Armenia has no offshore banks and few non-banking financial institutions. Nevertheless, 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, 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. The large number of diaspora Armenians and those temporarily working abroad helps explain the large volume of money transfers and remittances into Armenia, mostly sent through the banking system. There are also about 30 casinos on the outskirts of Yerevan that will be subject to the new anti-money laundering regime that the Government plans to implement in 2005.

The Government of Armenia (GOA) has made great progress in 2004 in bringing legislation and structural capacity up to international standards in the area of money laundering and terrorist finance. On December 14, 2004, the National Assembly adopted a comprehensive anti-money laundering law, “The Law on Fighting Legalization of Illegally Received Income and Terrorist Financing.” This legislation consolidates old laws into a single piece of legislation, adds new regulatory structures, and specifically criminalizes money laundering and the financing of terrorism. The law was submitted to President Kocharian on December 22, 2004, and will take effect approximately two months after

signature. The new law is part of an anti-money laundering and counterterrorism financing package with which the GOA seeks to meet the recommendations of the Council of Europe (MONEYVAL), UNSCR 1373 requirements and the FATF Forty Recommendations. In addition to the new law, the comprehensive package includes amendments to 12 existing laws and the Criminal Code, affecting banking, credit and non-profit organizations, insurance, and gaming.

The new law designates the Central Bank of Armenia (CBA) as the single authorized body to coordinate anti-money laundering and counterterrorist financing activities in the country. The CBA is working to develop a series of implementing regulations (aiming to have them take effect by June 2005) and plans to set up a financial intelligence unit (FIU) by March 2005. The implementing regulations include the charter regulating CBA activities and defining CBA's, the FIU's and other reporting entities' mandates and the relationships among them. The law creates a single FIU, housed within the CBA, with authority to collect and analyze data from banks, non-banking financial institutions, and non-profit organizations, as well as gambling enterprises. The law requires financial institutions to report any non-real estate transaction of more than 20 million Armenian dram (\$40,000), real estate transactions of more than 50 million dram (\$100,000) and any single money transfer of more than five million dram (\$10,000). The law also requires state registration authorities to report any business purchase exceeding 30 million dram (\$60,000) in a sole proprietorship and 40 million dram (\$80,000) for other types of companies. Failure to comply with any CBA requirement will subject the commercial bank to civil liability. The law also will give financial institutions immunity from civil liability for cooperating with investigations.

Not all institutions covered by the law will have to report directly to the FIU. Casinos and insurance companies will still report directly to their regulator in the Ministry of Finance, which will pass on any suspicious information to the FIU. It is unclear in the proposed law what authority the FIU will have to inspect these institutions directly. Individuals must declare cash in excess of \$10,000 they transport into or out of the country to the Customs service, which will then transmit these records to the FIU. The FIU envisaged by the proposed law will not be a law enforcement agency. The law provides for the FIU to transfer active cases to the Procurator General's office for prosecution. According to the CBA, there are currently five open investigations based on suspicious financial transactions.

The GOA has sought American cooperation concerning information about specific transfers between Armenian and American banks in one of its money laundering investigations.

Financing of terrorism has been criminalized. The CBA has circulated to all banks lists of those named on the UNSCR 1267 sanctions list as associated with terrorist organizations and has instructed the banks to freeze their accounts. There have been no matches as of December 2004.

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, the UN Convention on Mutual Assistance in Criminal Matters, the UN Convention against Transnational Organized Crime, and the European Convention on Mutual Assistance in Criminal Matters. During 2004, Armenia became party to 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.

Armenia should continue to strive to create a comprehensive anti-money laundering/counterterrorist financing regime. The Government of Armenia should fully enact and implement its new law and ensure its new financial intelligence unit (FIU) will have the authority and powers necessary to meet its responsibilities.

Aruba

Aruba is an autonomous, largely self-governing Caribbean island within the Kingdom of the Netherlands. As a transit country for narcotics-trafficking, Aruba is both attractive and vulnerable to money launderers.

Aruba has a relatively small international financial services sector. As of November 30, 2004, there were 5,526 limited liability companies, of which 493 were offshore limited liability companies or Aruba Offshore Companies. In addition, there are about 4,014 offshore tax-exempt companies referred to as Aruba Exempt Companies, which mainly serve as vehicles for tax minimization, corporate revenue routing, asset protection, asset management, and finance and are almost completely exempt from disclosure of financial condition and beneficial owners. Both types of companies can issue bearer shares.

There are also 11 casinos, 12 credit institutions, four commercial and two offshore banks, two mortgage banks, an investment bank and a finance company. The island also has two credit unions, six registered money transmitters, two exempted U.S. money transmitters (Money Gram and Western Union), eight insurance companies, 14 general insurance companies, two captive insurance companies, and 11 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. In 2002, the Government of Aruba (GOA) initiated a new fiscal framework that contains a dividend tax and imputation credits.

There are two methods widely used for international tax planning in Aruba, the Naamloze Vennootschap (NV) or limited liability company, a low-tax entity with a 35 percent profit tax, and the Aruba Exempt Company (AEC). A local director, usually a trust company, must represent offshore NVs; a legal representative that must be a trust company represents AECs. AECs pay an annual registration fee of approximately \$280, and must have 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. Due to the commitment Aruba made to the OECD, the incorporation of low tax offshore limited liability companies was halted in July 2003. The existing offshore limited liability companies are grandfathered until 2007/2008. In furtherance of this commitment, AECs are to be abolished or modified by the end of 2005.

Following the July 4, 2000, parliamentary approval of the State Ordinance Free Zones Aruba, in July 2001 the Parliament unanimously approved the designation of the Free Zone Aruba NV 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 at the CFATF Ministerial Council in October 2001. Free Zone Aruba NV is continuing the process of implementing and auditing the standards that have been developed.

The anti-money laundering legislation in Aruba extends to all crimes, including tax offenses, in which the underlying offense must have a potential penalty of more than four years imprisonment. In most cases, money laundering is incorporated into the investigation as the underlying offense. All financial and non-financial institutions are obligated to report unusual transactions to Aruba's financial

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intelligence unit, the Meldpunt Ongebruikelijke Transacties (MOT). On July 1, 2001, a State Ordinance was issued that extends reporting and identification requirements to casinos and insurance companies, and also authorizes onsite inspections. The MOT is required to inspect all casinos, banks, money remitters, and insurance companies. In 2002, authorized staffing for MOT was increased from six to 12. During 2004, all the vacancies at the MOT were filled. The MOT shares information with other national government departments. On April 2, 2003, MOT signed an information exchange agreement with the Aruba Tax Office, which is in effect and being implemented. MOT is not linked electronically to the police or prosecutor's office.

The State Ordinance on the Supervision of Insurance Business (SOSIB) and the Implementation Ordinance on SOSIB bring insurance companies under the supervision of Centrale Bank van Aruba, the Central Bank, and require those established after July 1, 2001, to obtain a license from the Central Bank. Effective February 19, 2002, life insurance companies and insurance intermediaries are required to report suspicious transactions. The State Ordinance on the Supervision of Money-Transfer Companies became effective August 12, 2003, and places money transfer companies under the supervision of the Central Bank. Quarterly reporting requirements became effective in 2004. A State Ordinance on the supervision of trust companies, which will designate the Central Bank as the supervisory authority, is being drafted.

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.

During 2003, 10 persons were accused of money laundering. Initially eight were convicted under the State Ordinance penalizing money laundering, but the convictions were overturned on appeal. The other two were not prosecuted for money laundering under this ordinance.

Aruba signed a multilateral directive with Colombia, Panama, the United States, and Venezuela to establish an international working group to fight money laundering that occurs through the Black Market Peso Exchange (BMPE). The final set of recommendations on the BMPE was signed on March 14, 2002. The working group developed policy options and recommendations to enforce actions that will prevent, detect, and prosecute money laundering through the BMPE. The GOA is in the process of implementing the recommendations.

Through the Netherlands, Aruba participates in the 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. The local FATF committee reviewed the GOA anti-money laundering legislation and proposed, in accordance with the FATF Special Recommendations on Terrorist Financing, amendments to existing legislation, and introduction of new laws. In 2004, the Penal Code of Aruba was modified to criminalize terrorism, the financing of terrorism, and related criminal acts. Aruba is in compliance with seven of the Special Recommendations. Aruba will introduce the Sanctions Ordinance to become fully compliant with the Special Recommendations. As part of its commitment to combat the financing of terrorism, the GOA formed a separate 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 Tax Information Exchange Agreement with the United States, which was signed in November 2003, became effective in September 2004. The MOT is a member of the Egmont Group, and is authorized by law to share information with members of the Egmont Group through a memorandum of understanding.

The Government of Aruba 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. Aruba should immobilize bearer shares under its fiscal framework and should enact its long-pending ordinance addressing the supervision of trust companies.

Australia

Australia is one of the key centers for capital markets 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 2004. The market capitalization of domestic equities listed on the Australian Stock Exchange as of October 2004 was \$700 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 three years have seen a noticeable increase in activities investigated by Australian law enforcement agencies that relate directly to offenses committed overseas.

Australia criminalized money laundering related to serious crimes with the enactment of the Proceeds of Crime Act 1987. This legislation also contained provisions to assist investigations and prosecution in the form of production orders, search warrants, and monitoring orders. It has now been replaced by two acts that came into force on January 1, 2003 (although proceedings that began prior to that date under the 1987 law will continue under that law). The Proceeds of Crime Act 2002 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 is intended to implement 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 offense.

The second law, the Proceeds of Crime (Consequential Amendments and Transitional Provisions) Act 2002, 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 activity 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 that 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 non-banking 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 Act 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), and international funds transfers equivalent to or exceeding Australian \$10,000. The FTR Act also obliges any person causing an international movement of currency of Australian \$10,000 (or a foreign currency equivalent) or more, into or out of Australia, either in person, as a passenger, by post or courier to make a report of that transfer.

FTR Act reporting also applies to non-bank financial institutions such as money exchangers; money remitters; stockbrokers; casinos and other gambling institutions; bookmakers; insurance companies; insurance intermediaries; finance companies; finance intermediaries; trustees or managers of unit trusts; issuers, sellers, and redeemers of travelers checks; bullion sellers; and other financial services licensees. Solicitors (lawyers) also are required to report significant cash transactions. Accountants do not have any FTR Act obligations. However, they do have an obligation under a self-regulatory industry standard not to be involved in money laundering transactions. The FTR Act also provides the GOA broad powers to seize, declare forfeit, or otherwise deny to persons the benefit of unlawful activity. It further creates a national Confiscated Assets Account from which the GOA may transfer assets to other governments.

The Australian Transaction and Reports Analysis Centre (AUSTRAC), Australia's Financial Intelligence Unit (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. In June 2004, the Australian Taxation Office reported that more than AU \$75 million in assessments and penalties were directly attributed to the use of AUSTRAC intelligence, and that there were more than 1,700 investigations collectively reported by law enforcement agencies that involved the use of AUSTRAC's intelligence. For the year ending June 2004, AUSTRAC received 11,484 suspicious transaction reports, an increase of 42.5 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 is intended to implement the UN International Convention for the Suppression of the Financing of Terrorism. The GOA froze three accounts related to an entity listed on the UNSCR 1267 Sanction Committee's consolidated list, the International Sikh Youth Federation, in September 2002. There have been no prosecutions or arrests under this legislation. The Security Legislation Amendment (Terrorism) Act 2002 created new criminal offenses for receiving funds from, or making funds available to, a terrorist organization. There are several investigations currently under way and the GOA is pursuing one prosecution related to the receipt of funds from a terrorist organization.

The SFTA amendments to the FTR Act were a significant milestone in the enhancement of AUSTRAC's international efforts. These amendments gave the Director of AUSTRAC the right to establish agreements with international counterparts to directly exchange intelligence, spontaneously and upon request. A review of the FTR Act is currently being undertaken to improve procedures, implement international best practices, and address further aspects of terrorist financing, including alternative remittance systems.

AUSTRAC has expanded its involvement in the fight against financial crimes by signing agreements for using AUSTRAC's financial transaction data with Centrelink (an Australian public assistance agency) and the Child Support Agency. The GOA believes that the welfare policies will greatly benefit from the availability of AUSTRAC data, and it is anticipated that early results will help reduce welfare fraud and related criminal conduct. The information available to Centrelink officers will relate specifically to significant cash transaction reports, international currency transfer reports, suspect transaction reports, and international funds transfer instructions.

The Internet-based Anti-Money Laundering Electronic Learning Application (AML E-Learning), launched in 2004, has assisted AUSTRAC's ongoing industry education program. The goal of this program is to assist those in the private sector, government agencies, and the public, domestically and internationally, to understand the broader issues within Australia's anti-money laundering environment. The AML E-learning application provides education on a variety of issues including the process of money laundering, terrorist financing, and the role of AUSTRAC. This comprehensive application is currently being market-tested with industry and the formal launch of the application will occur early in the new financial year.

AUSTRAC's work in a range of committees and working groups in the international Egmont Group of financial intelligence units and with the Asia/Pacific Group on Money Laundering has become a larger part of its international activities this year. 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 on a long-term technical assistance program to help 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. AUSTRAC is exploring similar assistance to other regional FIUs, with \$7.8 million in funding over the next four years under the Southeast Asia Counter-Terrorism Technical Assistance and Training Package AUSTRAC has provided training and other technical assistance to developing FIUs in its region..

In 2004, AUSTRAC received more than 10.7 million reports from cash dealers, solicitors, and members of the general public through its electronic data delivery system (EDDSWeb system). 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 increase both the volume of FTR intelligence available to partner agencies and the speed with which those agencies can access that intelligence. AUSTRAC believes the increase reflects its ongoing public awareness of suspicious transaction reporting requirements and procedures.

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 and terrorist financing 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 35 countries. Memoranda of understanding (MOUs) have been signed with Argentina, the Bahamas, Belgium, Canada, Colombia, Cook Islands, Croatia, Cyprus, Denmark, France, Estonia, Guernsey, Indonesia, Ireland, Isle of Man, Israel, Italy, Korea, Lebanon, Malaysia, Mauritius, the Netherlands, New Zealand, Poland, Portugal, Singapore, Slovakia, Slovenia, Spain, South Africa, Thailand, the United Kingdom, the United States, Vanuatu, and Venezuela. In September 1999, a Mutual Legal Assistance Treaty between Australia and the United States entered into force.

AUSTRAC's director is a Co-Vice Chair of the Egmont Committee, a sub-group of the heads of FIUs, and was re-elected this year to that role and to the role as head of the Oceania regional group, which currently comprises the five Oceania region members of the Egmont Group-Australia, Cook Islands, Marshall Islands, New Zealand, and Vanuatu.

Australia is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, the 1988 UN Drug Convention, the UN Convention for the

Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime and its protocol on migrant smuggling.

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, Australia's Minister of Justice announced that the government would proceed with a fundamental legislative overhaul to implement fully the FATF's revised Forty Recommendations and address further aspects of terrorist financing, including alternative remittance systems. The new standards will oblige Australia to expand customer due diligence to requirements for financial institutions and will extend anti-money laundering obligations to non-financial 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 officials expect the government to propose legislative revisions to implement the FATF Forty Recommendations in 2005.

The Government of Australia should implement financial transaction reporting by accountants and reporting of suspect transaction reports by solicitors. Australia should also implement a registration or licensing system for alternative remittance agents or non-profit organizations. Australia should also continue its leadership role in emphasizing money laundering/terrorist finance issues and trends within the Asia Pacific region and its commitment to providing training and technical assistance to the Asia/Pacific region.

Austria

Austria is not an important regional financial center, offshore tax haven, or banking center. There is no hard evidence that Austria is a major money laundering country; however, like any highly developed financial marketplace, Austria's financial and non-financial institutions are vulnerable to money laundering. The Austrian Interior Ministry's crime statistics show mixed developments regarding financial crime in Austria in 2003, with a significant increase in serious fraud. The percentage of undetected organized crime is believed to be enormous, with much of it coming from the former Soviet Union. Organized crime is involved in money laundering in connection with narcotics-trafficking and trafficking in persons, but apparently not in connection with contraband smuggling. Money laundering occurs within the Austrian banking system as well as in nonbank financial institutions and businesses. 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 increasingly to use money transmitters and informal money transfer systems to launder money.

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.

Amendments to the Customs Procedures Act and the Tax Crimes Act, effective May 1, 2004, address the problem of cash couriers and international transportation of illegal-source currency and monetary instruments. Austrian customs authorities do not automatically screen all persons entering Austria for cash or monetary instruments. However, if asked, anyone carrying more than 15,000 euros must declare the funds and provide information on their source and use. Spot checks for currency at border crossings will continue. Customs has new authority to seize suspect cash at the border.

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. The Insurance Act of 1997 includes similar regulations for 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, financial institutions have adopted tighter identification procedures, requiring all customers appearing in person to present an official photo ID. These procedures also apply to trustees of accounts, who are now required to disclose the identity of the account beneficiary. However, the 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 Financial Action Task Force (FATF) and the European Union (EU) criticized the Government of Austria (GOA) for permitting anonymous numbered passbook savings accounts. The Austrians temporarily “grandfathered” existing accounts, but they have now nearly all been closed. 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 of 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.”

The 2003 Amendments to the Austrian Gambling Act, the Business Code, and the Austrian laws governing lawyers, notaries, and accounting professionals, introduce money laundering regulations regarding identification, record keeping, and reporting of suspicious transactions for dealers in high-value goods such as precious stones or metals, or works of art; auctioneers; real estate agents; casinos and dealers; lawyers; notaries; certified public accountants; and auditors.

Since 2002, the AFIU, the central repository of suspicious transaction reports, has been a section of the Austrian Interior Ministry’s Bundeskriminalamt (Federal Criminal Intelligence Service). During the first eleven months of 2004, the AFIU received 330 suspicious transaction reports from banks, and fielded 165 requests for information from Interpol and 85 from the Egmont Group. This represents a marked increase from the 288 suspicious transactions reported by banks in 2003, which led to seven convictions for money laundering. In 2002, 215 suspicious transactions were reported, also resulting in seven 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 that in 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. While in previous years there had been little evidence of enforcement as law enforcement units tend to be understaffed, in the first eleven months of 2004, Austrian courts froze

assets worth 25.4 million euros, under instructions from the AFIU. This is significantly more than the 2.2 million euros in assets frozen by the courts in 2003, and the 8.1 million euros frozen in 2002.

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 terrorist financing, forfeiture regulations cover funds collected or held available for terrorist 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 names of individuals and entities included on the UNSCR 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 the course of trying to establish evidence, only two accounts were designated for seizure. Both later turned out to be cases of mistaken identity.

Since January 1, 2004, money remittance businesses require a banking license from the Financial Market Authority (FMA) and are subject to supervision. Informal remittance systems like hawala 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 non-profit entities as conduits for terrorist financing. The 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 law is very similar to its predecessor, but it calls for record keeping and auditing on the part of non-profit entities. The Vereinsgesetz regulates the establishment of associations, bylaws, organization, management, association register, appointment of auditors, and detailed accounting requirements. The Ministry of Interior’s responsibility is limited to approving the establishment of associations, regardless of the purpose of the association, unless it violates legal regulations.

There are no regular or routine checks made on associations established in Austria. Only in case of complaints will the Interior Ministry start investigations and, in case of serious violations of laws, it may officially prohibit the association from operating. The GOA has implemented the FATF’s Special Recommendations on Terrorist Financing, except for certain aspects of the recommendation regarding non-profit organizations. With regard to the recommendation on wire transfers, the GOA is waiting for an EU regulation, which is expected to be released in 2005 and will be immediately and directly applicable in Austria.

Austria has not enacted legislation that provides for sharing forfeited narcotics-related assets with other governments. However, the mutual legal assistance treaties (MLATs) can be used as an alternative vehicle to achieve equitable distribution of forfeited assets. Work on a bilateral instrument

pursuant to the U.S.-EU Mutual Legal Assistance Agreement, with the effect of supplementing 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, is in the final stages.

The GOA has been extremely cooperative with U.S. law enforcement investigations. The Austrian FMA and the New York State Banking Department are negotiating a bilateral agreement regarding bank supervision information exchange (including on-site examinations in the host country). 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 nine other EU members (France, Germany, Italy, Netherlands, United Kingdom, the Czech Republic, Hungary, Slovakia, and Slovenia).

The International Monetary Fund's spring 2004 Financial System Stability Assessment (FSAP) states that Austria has made significant progress in the past few years in bringing its anti-money laundering and counterterrorism financing regime into compliance with international standards. The FSAP notes that the overall legal and institutional framework currently in place is comprehensive and that Austria has achieved a good level of compliance with the FATF Recommendations. The FMA has created an internal Task Force on Money Laundering, and in following up on suggestions for further improvements, started to publish on its homepage circulars with additional guidance for banks and other financial institutions on fighting money laundering and terrorist financing.

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. Austria ratified the UN Convention against Transnational Organized Crime on September 23, 2004, and 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 and the EU. The AFIU is a member of the Egmont Group.

The Government of Austria 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 terrorist financing transactions. The AFIU and law enforcement should be provided with sufficient resources to adequately perform their functions. AFIU and other government personnel should be protected against damage claims because of delays in completing suspicious transactions. Additionally, Austria should adequately regulate its charitable and non-profit 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 money laundering activity, 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.

It is reported that Azerbaijan is currently drafting comprehensive anti-money laundering legislation. 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 some money laundering activities. In November 2001, Azerbaijan established a threshold sum of \$50,000 for reporting to its Customs agency currency transfers from abroad. Funds transfers abroad by individuals in excess of \$10,000 must have approval of the National Bank of Azerbaijan (NBA).

Money Laundering and Financial Crimes

In May 2003, the GOAJ established an inter-ministerial experts group responsible for drafting anti-money laundering and counterterrorist finance legislation. As of December 2004, the experts group, led by the NBA, has prepared draft 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. In August 2004, the NBA established an internal anti-money laundering working group to work with local commercial banks.

In March 2004, the GOAJ enacted a comprehensive new Law on Banks that provides for improved “fit and proper” criteria for bank administrators and improved supervision of commercial banks. In November 2004, the NBA prohibited capital investments in banks operating in Azerbaijan by entities and individuals that are registered in any of the six countries on the FATF list of Non-Cooperative Countries and Territories.

The new Law on Banks prohibits numbered accounts, although existing numbered accounts are allowed to continue until their terms expire. 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. In October 2004, the NBA instructed commercial banks to establish internal procedures to identify every operation and client throughout the transaction process. Also in 2004, the NBA issued new rules on corporate management for all commercial banks.

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, but the Code does not address terrorist fundraising. Another deficiency is that the law provides only for personal liability and does not include criminal liability for entities involved in terrorist financing. The NBA distributes the lists of individuals and entities designated pursuant to U.S. Executive Order 13224 and pursuant to UNSCRs 1267 and 1390. As of 2003, the NBA had 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 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. In November 2001, Azerbaijan ratified the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime. In February 2004, Azerbaijan signed the UN Convention against Corruption. 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 Government of Azerbaijan (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. Azerbaijan should amend current terrorist finance legislation to criminalize terrorist fundraising and establish criminal liability for legal entities. Additionally, Azerbaijan 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 par with the Bahamian dollar. Money laundering in the Bahamas falls into two main categories, financial fraud and that related to the proceeds of cocaine and marijuana trafficking.

According to the Royal Bahamas Police Force (RBPF), money laundering methods range from the purchase of real estate, large vehicles, and jewelry to the processing of money through a complex national or international web of legitimate businesses and shell companies. However, in the case of drug-trafficking crimes, the illicit proceeds usually take the form of cash or are quickly converted into cash. Amendments to and implementation of anti-money laundering laws since 2000 have hindered launderers' ability to deposit large sums of cash. As a result, a new trend has developed of storing extremely large quantities of cash in security vaults at properties deemed to be safe houses.

The Bahamas has two 24-hour casinos in Nassau and one in Freeport/Lucaya, and a fourth is scheduled to open in 2005 as part of a new resort in Georgetown. 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 are prohibited from gambling in the casinos.

The International Business Companies Act 2000 eliminates anonymous ownership of IBCs by prohibiting bearer shares and imposing know your customer (KYC) requirements. As a result, the Bahamas has become less attractive to both potential and existing IBC owners. The Central Bank of the Bahamas Act 2000 gives 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 Executive Order 13224. Key features of the Act include: provisions upgrading banking supervision, establishment of a Financial Intelligence Unit (FIU); introduction of licensing of financial and corporate service providers, the removal of bearer shares from IBCs' shareholding structures, and the granting of permission for Bahamians to own IBCs.

The number of banks and trusts declined from 301 in 2003 to 270 as of September 2004. This was due to the Central Bank's requirement that "managed banks" (those without a physical presence but which are represented 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.

During 2004, the Government of the Commonwealth of the Bahamas (GCOB) continued to implement legislative reforms that strengthen its anti-money laundering regime and make it less vulnerable to exploitation by money launderers and other financial criminals. Since being removed from the Financial Action Task Force (FATF) list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering, the Bahamas has been working to implement legislative and regulatory reforms to fulfill international obligations. The FATF has expressed satisfaction with the

progress achieved by the Bahamas in addressing mutual legal assistance requests from member countries but continues to express concerns over regulatory requests. The FATF continues to monitor the progress the Bahamas is making in implementing its anti-money laundering regime.

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 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 who conduct 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 contribute 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 longstanding, 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 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, did not pursue a possible appeal to the Judicial Committee of the Privy Council in London.

During 2004, the FIU received over 100 suspicious transaction reports, of which, approximately 14 were passed to the police. The eight-member 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 investigating suspicious transaction reports received from the FIU, all reports of money laundering received from law enforcement agencies or the public, and matters of large cash seizures. It also investigates local drug-traffickers and other serious crime offenders, to determine whether they benefited from their criminal conduct.

In November 2004, the Anti-Terrorism Act was passed by Parliament and assented to by the Governor General to implement the provisions of the UN International Convention for the Suppression of the Financing of Terrorism. The Attorney General's office conducted a series of public meetings with representatives from legislature and civil society, and members of public service, to garner support and educate the public on the nature of the Act. In addition to formally criminalizing terrorism and making it a predicate crime for money laundering, the law provides for the seizure and confiscation of terrorist assets, reporting of suspicious transactions related to terrorist financing, and strengthening of existing mechanisms for international cooperation in this regard. This law places the Bahamas in compliance with international standards related to terrorist financing.

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. The seized items are in the custody of the GCOB. Some are in the process of confiscation while some remain uncontested. There are currently over 20 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 United States. However, defendants can appeal a magistrate's decision in a 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 agreements with the United Kingdom and Canada. The Attorney General's Office for International Affairs manages multilateral information exchange requests. The Central Bank of the Bahamas Act 2000 expands the powers of the Central Bank to enable it to respond to requests for information from overseas regulatory authorities. The Bahamas FIU has signed several memoranda of understanding with other FIUs for the exchange of information. 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 those of the Bahamian FIU.

In December 2004, the Bahamas signed an agreement for future information exchange with the U.S. Securities and Exchange Commission to ensure that requests can be completed in an efficient and timely manner. 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 the level of its responses to international requests for assistance.

On October 2, 2001, the Bahamas signed, but has not yet ratified, 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 and is a member of the Offshore Group of Banking Supervisors. The Bahamas is a member of the Caribbean Financial Action Task Force and was Chair in 2003. The FIU is a member of the Egmont Group.

The Government of the Commonwealth of the Bahamas 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 Bahamas should provide adequate resources to its law enforcement and prosecutorial/judicial personnel to ensure that 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 most of its neighbors, oil accounts for only 25 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: 367 diverse financial institutions, including 187 banks, of which 51 are offshore banking units (OBUs); 37 investment banks; and 25 commercial banks, of which 17 are foreign owned. In addition, there are 29 representative offices of international banks, 21 moneychangers and money brokers, and several other investment institutions, including 84 insurance companies. The vast network of Bahrain's 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 an 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 Bahraini 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 financial sector regulator, issued regulations requiring financial institutions to file suspicious transaction reports (STRs), to maintain records for a period of five years, and to provide ready access for law enforcement officials to account information. 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 current requirement for filing STRs has no minimum threshold. Additionally, in early 2005, the BMA is preparing to establish a secure online website that banks and other financial institutions can use to file STRs.

The law also provides for the formation of an interagency committee to oversee Bahrain's anti-money laundering regime. Accordingly, in June 2001, the 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, Commerce, Labor and Social Affairs, and Foreign Affairs. The law further provides additional powers of confiscation, and allows for better international cooperation.

In addition, the law provides for the creation of the Anti-Money Laundering Unit (AMLU) as Bahrain's financial intelligence unit (FIU). The AMLU, which is housed in the Ministry of Interior, 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. The AMLU became a member of 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, moneychangers, insurance firms, real estate agents, gold dealers, financial intermediaries, and attorneys. Financial institutions must also file STRs with the BMA, which supervises these institutions. Non-financial institutions are required under a Ministry of Commerce (MOC) directive to also file STRs with that ministry. The BMA analyzes the STRs, of which it receives copies, as part of its scrutiny of compliance by financial institutions with anti-money laundering and combating terrorist financing (AML/CFT) regulations, but it does not independently investigate the STRs (responsibility for investigation rests with the AMLU). The BMA may assist the AMLU with its investigations, where special banking expertise is required.

In 2003, the MOC published new anti-money laundering guidelines, which govern all non-financial institutions. The MOC system of requiring dual STR reporting to both it and the AMLU mirrors the BMA's system. Good cooperation exists between MOC, BMA, and AMLU, with all three agencies describing the double filing of STRs as a backup system. The AMLU and BMA's compliance units analyze the STRs and work together on identifying weaknesses or criminal activity, but it is the AMLU that must conduct the actual investigation and forward cases of money laundering and terrorist financing to the Office of Public Prosecutor. From January through December 2004, the AMLU has received and investigated 121 STRs, ten of which have been forwarded to the courts and awaiting verdicts.

There are 51 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 the domestic banking sector. They are subject to the same regulations, on-site examination procedures, and external audit and regulatory reporting obligations.

However, Bahrain's Commercial Companies Law (Legislative Decree 21 of 2001) does not permit the registration of offshore companies or international business companies (IBCs). All companies must be resident and maintain their headquarters and operations in Bahrain. Capital requirements vary, depending on the legal form of company, but in all cases the amount of capital required must be sufficient for the nature of the activity to be undertaken. In the case of financial services companies licensed by BMA, various minimum and risk-based capital requirements are also applied (in addition to a variety of other prudential requirements), in line with international standards of Basel Committee's "Core Principles for Effective Banking Supervision."

In March 2004, Bahrain issued a Legislative Decree ratifying the Convention against Transnational Organized Crime. In June 2004, Bahrain published two Legislative Decrees ratifying the UN International Convention for the Suppression of the Financing of Terrorism, and the UN International Convention for the Suppression of Terrorist Bombings. In January 2002, the BMA issued a circular implementing the Financial Action Task Force (FATF) Special Eight Recommendations on Terrorist Financing as part of the BMA's AML regulations, and subsequently froze two accounts designated by the UNSCR 1267 Sanctions Committee and one account listed under U.S. Executive Order 13224. In early 2005, the BMA plans to issue a circular to implement the newest FATF special recommendation (#9) on cash couriers.

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. In addition, all BMA licensees are required to include details of the 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 the 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 BMA's anti-money laundering regulations, as well as the exact amount of transfers. During 2004, the BMA consulted with the industry on changes to its existing AML/CFT regulations, to reflect revisions by the FATF to its Forty plus Nine Recommendations. Revised and updated BMA regulations are expected in early 2005.

Legislative Decree No. 21 of 1989 governs the licensing of non-profit organizations. The Ministry of Labor and Social Affairs (MLSA) is responsible for licensing and supervising charitable organizations in Bahrain. (In January 2005, a cabinet reshuffle split the MLSA into the Ministry of Labor and the Ministry of Social Affairs (MSA), with the MSA keeping the charities portfolio.) In February 2004, as part of its efforts to strengthen the regulatory environment and fight potential terrorist financing, MLSA issued a Ministerial Order regulating the collection of donated funds through charities and their eventual distribution, to help confirm the charities' humanitarian objectives. The regulations are aimed at tracking money that is entering and leaving the country. These regulations require organizations to keep records of sources and uses of financial resources, organizational structure, and membership. Charitable societies are also required to deposit their funds with banks located in Bahrain and may have only one account in one bank. The MLSA has the right to inspect records of the societies to insure their compliance with the laws. Banks must report to the BMA any transaction by a charitable institution that exceeds 20,000 dinars (around \$41,000). MLSA has the right to inspect records of the societies to insure their compliance with the law.

The GOB is contemplating the establishment a special court to try financial crimes, and judges are undergoing special training to handle such crimes.

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 28 Islamic banks and financial institutions. Given the large share of such institutions in Bahrain's banking community, the BMA has developed 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.

In November 2004, Bahrain hosted the inaugural meeting of the Middle East and North Africa Financial Action Task Force (MENAFATF), which decided to place its Secretariat in Bahrain's capital city of Manama. An initial planning meeting was held in Manama in January 2004, and the FATF unanimously endorsed the MENAFATF proposal in July 2004. Bahrain's leadership was instrumental in establishing and hosting this entity. As a FATF-styled regional body, it will promote best practices on AML/CFT issues, conduct mutual evaluations of its members against the FATF standards, and work with its members to comply with international standards and measures. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of their financial sectors. The selection of Bahrain to host of the Secretariat of MENAFATF further demonstrates its commitment to combat financial crimes.

Bahrain has demonstrated a commitment to establish a strong anti-money laundering and terrorist financing regime and appears determined to engage its large financial sector in this effort. The government should follow through by aggressively enforcing its laws and regulations and developing and prosecuting anti-money laundering cases. The Anti-Money Laundering Unit should continue with its efforts to gain the necessary expertise in tracking suspicious transactions and in initiating and pursuing investigations in anti-money laundering and counterterrorist financing cases.

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 counter valuation in hawala transactions.

An estimated \$1 billion dollars worth of dutiable goods is smuggled every year from India into Bangladesh. A comparatively small amount of goods is smuggled out of the country into India. Instead, hard currency and other assets flow out of Bangladesh to support the smuggling networks. Corruption is a major area of concern in Bangladesh. The non-convertibility of the local currency (the taka) coupled with intense scrutiny on foreign currency transactions in formal financial institutions also contribute to the popularity of both hawala and black market money exchanges. 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), which 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 the 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 the 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, although this is changing, especially in head offices. Accounting procedures used by the 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, nor does it have “safe harbor” provisions protecting reporting individuals.

Bangladesh does not have a Financial Intelligence Unit (FIU). However, the Money Laundering Prevention Department of Bangladesh Bank acts as a de facto FIU and has authority to seize assets. The Bangladesh Bank has received 148 suspicious transaction reports since the MLPA was passed in 2002, of which 134 were resolved without further action. The remaining 14 reports are under investigation. The Bureau of Anti-Corruption, which prosecuted cases under the MLPA, was pursuing 17 cases in 2004. These cases were transferred to the Anti-Corruption Commission, which officially came into existence in November 2004, where they remain pending. Police responsible for Zia International Airport have an additional 22 cases under the MLPA pending with the courts.

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 UNSCR 1267 Sanctions Committee’s Consolidated List and identified an empty account of another entity. In 2004, following investigation of the accounts of an entity listed on the UNSCR 1267 consolidated list, Bangladesh Bank fined two local banks for failure to comply with Bangladesh Bank regulatory directives. Bangladesh has not signed the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Bangladesh is a party to the 1988 UN Drug Convention, and is a member of the Asia/Pacific Group on Money Laundering.

In 2004, the Bangladesh Bank issued “Guidance Notes on Prevention of Money Laundering” and designated effective anti-money laundering compliance programs as a “core risk” subject to the annual bank supervision process of the Bangladesh Bank. Banks are required to have an anti-money laundering compliance unit in their head office and a designated anti-money laundering compliance officer in each bank branch. The Bangladesh Bank conducts training programs for compliance officers based on the guidance notes. Bangladesh Bank has identified weaknesses in the existing MLPA as an impediment to effective enforcement of the MLPA. Bangladesh has established a task force, which includes Bangladesh Bank officials, to recommend changes to the MLPA.

The Government of Bangladesh should criminalize terrorist financing. It should also create a centralized FIU to receive suspicious transaction reports and disseminate information to law enforcement. It should sign and ratify the UN International Conventions for the Suppression of the Financing of Terrorism and against Transnational Organized Crime. 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. The MPLA task force's recommendations should be considered, and appropriate changes should be made to aid in enforcement of the MPLA.

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 legislation.

As of November 2004, the Barbados domestic sector consists of six banks, two merchant banks, 38 credit unions and one money remitter. The offshore sector includes 4,635 international business companies (IBCs), 413 exempt insurance companies, and 53 offshore banks, which are all regulated and supervised by the Central Bank. The Central Bank has estimated that there is approximately \$32 billion worth of assets in Barbados' offshore banks. Barbados has no Foreign Sales Corporations (FSCs) and no free trade zones.

The GOB initially criminalized 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, 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 establish internal auditing and compliance procedures. Financial institutions must also report suspicious transactions to the Anti-Money Laundering Authority (AMLA). The AMLA was established in August 2000 to supervise financial institutions' compliance with the MLPCA and issue training requirements and regulations for financial institutions.

The 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 under the supervision of the AMLA, and therefore 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. To enhance due diligence efforts, the 2001 International Business (Miscellaneous Provisions) Act requires the provision of more information than was previously provided with IBC license applications or renewals.

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 Ministry of Finance issues banking licenses after the Central Bank receives and reviews applications, and recommends applicants for licensing. 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 2002 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). 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 requirements. 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 December 2004, the FIU had received 55 SARs. The FIU forwards information to the Financial Crimes Investigation Unit of the police if it has reasonable grounds to suspect money laundering. The FIU continues to share information and has a very close working relationship with U.S. law enforcement.

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 United States and the GOB ratified amendments to their bilateral tax treaty in 2004. 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 (MLAT) and an Extradition Treaty between the United States 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. 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.

Barbados is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Barbados has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Although the Government of Barbados has strengthened anti-money laundering legislation, Barbados must steadfastly enforce the laws and regulations it has adopted. Barbados should be more aggressive in conducting examinations of the financial sector and maintaining strict control over vetting and licensing of offshore entities. There were a disproportionate number of financial institutions to the number of SARs reported in 2004. Barbados should ensure adequate supervision of non-governmental organizations and charities. Barbados should work to improve information sharing between regulatory and enforcement agencies. Additionally, Barbados should continue to provide adequate resources to its law enforcement and prosecutorial personnel, to ensure Mutual Legal Assistance Treaty requests are efficiently processed. Barbados should continue to take steps to bolster its ability to prosecute anti-money laundering cases.

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 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. Shadow incomes from offshore companies, filtered through small local businesses, constitute a significant portion of foreign investment. 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, which they often do.

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 non-drug 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.

In January 2005 Lukashenko signed a decree on the regulation of the gambling sector. The owners of gambling businesses will be subject to stricter tax regulations. Gamblers will have to produce a passport or other identification in order to receive a money prize, a provision intended to combat money laundering.

The measures described in the AML Law apply to all entities able to conduct financial transactions in Belarus. Such entities include bank and non-bank credit and financial 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 AML Law does not ascribe specific areas of responsibility to each agency, nor does it provide a mechanism through which the AML activities should be coordinated.

The Belarusian banking sector consists of 31 banks. Within this number, 26 have foreign investors. Of those 26 banks, seven are foreign institutions (registered as foreign legal entities in Belarus) and 11 have more than 50 percent of their shares owned by foreign companies. 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. On August 24, 2004, the U.S. Treasury Department designated the privately owned Infobank a financial institution of “primary money laundering concern” under Section 311 of the USA PATRIOT Act. Infobank is a national commercial bank licensed by the National Bank of the Republic of Belarus to engage in foreign trade including foreign exchange transactions and bank operations in gems and precious metals. In issuing its proposed notice of rulemaking FinCEN determined that Infobank was well positioned to coordinate illicit activities using its subsidiary and network of affiliated entities to launder the proceeds of those activities directly through its banking operations. FinCEN has reason to believe that Infobank actively laundered funds for the former Iraqi regime of Saddam Hussein; specifically, that Infobank laundered funds illegally paid to the former regime in order to obtain contracts to purchase Iraqi oil in violation of the United Nations sanctions and programs. FinCEN also has reason to believe that one of Infobank’s subsidiaries entered into contracts for the provision of humanitarian goods to Iraq with inflated values for the goods, and that the funds from the inflated values or illegal surcharges were either returned to the Iraqi government in violation of UN Oil-for-Food (OFF) program or were used to purchase weapons or finance military training through Infobank or its subsidiary. Belarusian authorities and Infobank deny that Infobank undertook these activities.

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 above 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 the person on whose behalf the transaction is being placed; disclose information about the beneficiary of a transaction; the account information 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. The law provides a “safe harbor” for banks and other financial institutions that provide otherwise confidential transaction data to investigating authorities, provided 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. Russia has 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 of terrorism 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' AML 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 Counter Terrorism Committee, the GOB refers to its AML legislation as a measure to combat terrorist finance. Despite the belief by the GOB that its terrorism legislation covers terrorist financing, the GOB is working to draft amendments to its AML Law so that it will specifically cover anti-money laundering and counterterrorist financing (AML/CTF). The draft amendment gives Belarus' FIU the powers it needs for receiving, analyzing, and distributing reports on suspicious transactions. On the other hand, the AML/CTF draft still needs improvement. The last available draft does not appear to be completely consistent with all of the FATF recommendations.

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 issued a directive prohibiting all transactions with accounts belonging to terrorists, terrorist organizations and associated persons. This directive also outlines a process for circulating to banks the list of individuals and entities included on the UNSCR 1267 Sanctions Committee's consolidated list. The National Bank is required to disseminate to banks the updates to the consolidated list and other information related to terrorist finance as it is received from the Ministry of Foreign Affairs. The directive gives banks the authority to freeze transactions in the accounts of terrorists, terrorist organizations and associated persons. Belarus has not identified any assets as belonging to individuals or entities included on the UNSCR 1267 Sanctions Committee's consolidated list.

Belarus has signed bilateral treaties on law enforcement cooperation with Bulgaria, Lithuania, the 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 October, Belarus joined the newly organized Eurasian Regional Group Against Money Laundering. In June 2003, Belarus ratified the UN Convention against Transnational Organized Crime. Belarus is a party to the 1988 UN Drug Convention and nine of the twelve conventions on counterterrorism. In September 2004, Belarus acceded to the UN International Convention for the Suppression of the Financing of Terrorism. In an additional positive step, Belarus signed the UN Convention against Corruption in April 2004.

The Government of Belarus has taken initial steps to construct an anti-money laundering/counterterrorist financing regime. Belarus should continue to enhance and implement its current legislation and should amend its anti-money laundering law in order to meet the revised FATF Recommendations. Belarus should provide adequate resources to enable its designated Financial Intelligence Unit (FIU) to operate efficiently and should establish a mechanism to improve the coordination between agencies responsible for enforcing anti-money laundering measures. Belarus should clarify whether its current AML Law covers terrorist financing, and if not, should specifically criminalize the financing of terrorism. Belarus should take action to ensure that Infobank is not conducting wittingly participating in or supporting illegal activity.

Belgium

Despite Belgium's development of a comprehensive, formalized anti-money laundering regime, issues of concern still exist. Money launderers often use notaries or buy property in an effort to create front or "dummy companies". Selling property below market value, making significant investments on behalf of foreign nationals with no connections to Belgium, making client property transactions with values disproportionate to the socioeconomic status of the client and creating a large number of companies in a short timeframe are also common methods utilized by money launderers. There also 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 anti-money laundering regulations.

With strong legislative and oversight provisions in place in the formal financial sector, Belgian officials note that criminals are increasingly turning to the informal financial sector to conduct illegal activities. The strong presence of the diamond trade within Belgium leaves the nation vulnerable to money laundering. Ninety percent of crude diamonds and 50 percent of cut diamonds pass through Belgium. Authorities have transmitted a number of cases to the Public Prosecutor relating to diamonds, and they are examining the sector closely in cooperation with local police and diamond industry officials. Additionally, the Kimberley certification process (a joint government, international diamond industry, and civil society initiative designed to stem the flow of illicit diamonds) has helped to introduce some much-needed transparency into the global diamond trade. The Government of Belgium (GOB) recognizes the particular importance of the diamond industry, as well as the potential vulnerabilities it presents to the financial sector. As such, it has distributed typologies outlining its experiences in pursuing money laundering cases involving the diamond trade, especially those involving the trafficking of African conflict diamonds.

Another growing problem, according to government officials, is the proliferation of illegal underground banking activities. In 2004, Belgian police raided a number of "phone shops"—small businesses where customers can make inexpensive phone calls and access the Internet. In some phone shops, authorities uncovered money laundering operations and hawala-type banking activities. Authorities believe that approximately 5,000-6,000 phone shops are operating in Belgium; only 1,500 of these shops are formally licensed.

Belgium is also one of the few European countries that permit the issuance of bearer bonds ("titres au porteur"), which are widely used to transfer wealth between generations and to avoid taxes. Belgian authorities are planning legislation that will end issuance of bearer bonds by 2007. Such legislation, however, has not yet been introduced. Belgium also has no reporting requirements on cross-border currency movements. According to Belgian officials, stronger controls of cross-border currency movements will be part of the Third EU Anti-Money Laundering Directive, which authorities expect to be implemented in early 2006.

Money laundering in Belgium is illegal through the Law of January 11, 1993, On Preventing Use of the Financial System for Purposes of Money Laundering. It is criminalized by Article 505 of the Penal Code, which sets penalties of up to five years' imprisonment for money laundering. The law also mandates reporting of suspicious transactions by financial institutions and provided for a Financial Intelligence Unit (FIU), the CTIF-CFI, to receive, process, and analyze the reports. In January 2004, Belgian domestic legislation implementing the Second EU Anti-Money Laundering Directive entered into force, broadening the scope of money laundering predicate offenses beyond drug-trafficking, and to include the financing of terrorist acts or organizations.

Under the Law of January 11, 1993, entities with reporting obligations must submit to the FIU transactions and information involving individuals or legal entities domiciled, registered, or established in a country or territory subject to the FATF countermeasures. The GOB passed a law on May 3, 2002, giving Belgium the authority to invoke countermeasures against countries and territories declared non-cooperative by the FATF. Belgium places appropriate restrictions on any state deemed

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non-cooperative. The FIU regularly submits lists of FATF-designated non-cooperative countries to financial institutions.

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, the term “casinos” includes any establishment that conducts casino-like gambling activities. In 2004, Belgium’s leading financial institutions implemented automated procedures allowing authorities to detect suspicious transactions more readily. The January 2004 legislation also imposes reporting requirements on lawyers and prohibits cash payments exceeding 15,000 euros (\$19,500) or 10 percent of the total purchase price for goods and real property. An association of Belgian lawyers has appealed the law to Belgium’s highest court, where a decision is expected in 2005.

Belgian financial institutions are required to comply with “know your customer” principles, regardless of the transaction amount. Further, institutions must 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 (\$13,000). Records of suspicious transactions that are required to be reported to the FIU must be kept 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. Financial institutions or other entities with reporting requirements are liable for illegal activities occurring under their control. Failure to comply with the anti-money laundering legislation, including failure to report, is punishable by a fine of up to 1.25 million euros (\$1.625 million).

The financial sector cooperates actively with the Federal Police as well as with the CTIF-CFI, to guard against illegal activity. No civil, penal, or disciplinary actions can be taken against institutions, or their employees or representatives, for reporting such transactions in good faith. Legislation also exists to protect witnesses, including bank employees, who report suspicions of money laundering or who come forward with information about money laundering crimes. Belgian officials have imposed sanctions on institutions or individuals that knowingly permitted illegal activities to occur.

Since its founding in 1993, the CTIF-CFI has received 83,156 disclosures and has transmitted more than 5,764 cases to the Public Prosecutor aggregating 11.1 million euros (\$14.43 million). Belgium’s FIU and Federal Police both transmit suspected money laundering cases to the Public Prosecutor. In 2003, the FIU transmitted 783 cases (a 24 percent decrease from 2002) to the Public Prosecutor. A majority of the notifications generating these cases resulted from disclosures made by banks and foreign exchange offices, with only 4.5 percent of notifications originating from non-financial institutions.

In 2003, the Federal Police transmitted 431 cases to the Public Prosecutor. The Federal Police utilize a number of tactics to uncover money laundering operations, including investigating significant capital injections into businesses, examining suspicious real estate transactions, and conducting random searches at all international airports. Since 1993, when Belgium criminalized money laundering, predicate charges have shifted away from trafficking of narcotics and goods and services, and more toward tax and financial fraud. In 2003, principal predicate charges were tax fraud (19.7 percent of offenses); narcotics-trafficking (19 percent); illicit trafficking in goods and merchandise, namely automobiles, alcohol, and tobacco (17.4 percent); trafficking in human beings (11 percent); organized crime (9.9 percent); financial fraud (7.8 percent); and exploitation of prostitution (5.4 percent). Terrorism was the predicate offense in 13 cases (1.6 percent) of the total. Government officials believe that the statistics for 2004 will have a similar breakdown.

Belgian courts have convicted 867 individuals for money laundering, who have received combined total sentences of 1,739 years and combined total fines of 22.66 million euros (\$30 million). Belgian

authorities have confiscated more than 474 million euros (\$616 million) connected with money laundering crimes.

Under Belgium's 1993 (and 2004 amended), anti-money laundering law, accounts can be frozen on a case-by-case basis if there is sufficient evidence that a money laundering crime has been committed. Banks must submit to the FIU a written report regarding any transaction of any amount that they suspect may be linked to money laundering. The FIU has the legal authority to suspend a transaction for a period of up to two working days, in order to complete its analysis. If criminal evidence exists, the FIU forwards the case to the Public Prosecutor.

In January 2004, the Belgian Legislature passed domestic legislation implementing the EU Council's Framework Decision on Combating Terrorism, which criminalizes terrorist acts and material support (including financial support) for terrorist acts, allowing judicial freezes on terrorist assets. Belgian authorities issue asset freeze orders for individuals and entities designated by the UNSCR 1267 Sanctions Committee and/or the EU Clearinghouse. Belgium lacks the legislation to administratively freeze terrorist assets, absent a judicial order or UN or EU designation. In 2004, the Federal Police created a Terrorist Financing unit within their Economic Crimes department. Since 1993, the FIU has transmitted a total of 82 cases related to terrorism to the Public Prosecutor-76 of them since September 11, 2001.

Belgium is a party to the 1988 UN Drug Convention, and in August 2004, the GOB ratified the UN Convention against Transnational Organized Crime. Belgium has signed, but not yet ratified, the UN Convention against Corruption and the UN International Convention for the Suppression of the Financing of Terrorism. In 2004, Belgium and the United States signed bilateral instruments implementing the extradition treaty and Mutual Legal Assistance Treaty, pursuant to the 2003 U.S.-EU Agreements on these subjects. The GOB exchanges information with other countries through international treaties. Belgium is a member of the FATF and the European Union. The FIU is active among its European colleagues in sharing information, and is a member of the Egmont Group. The CTIF-CFI heads the secretariat of the Egmont Group from 2005 to 2006.

With the January 2004 legislation, Belgium has a strong anti-money laundering regime. The Government of Belgium should continue to exert vigilance with regard to uncovering, investigating, and prosecuting illegal banking operations related to its diamond sector, which also has potential to be used as means to finance terrorism. Similar attention should be paid to the informal financial sector and non-bank financial institutions. Belgium should also eliminate bearer bonds and should institute more stringent reporting requirements for cross-border currency movements.

Belize

Belize is not a major regional financial center. In an attempt to diversify Belize's economic activities, authorities have encouraged the growth of offshore financial activities and have pegged the Belizean dollar to the U.S. dollar. Belize now offers financial and corporate services to nonresidents. Presently, there are eight licensed offshore banks, approximately 35,205 registered international business companies (IBCs), one licensed offshore insurance company and one mutual fund company operating in Belize. The number of offshore trusts operating from within Belize cannot be readily determined and there are also a number of undisclosed Internet gaming sites operating from within Belize. These gaming sites are currently unregulated. Currently there are no offshore casinos operating from within Belize. Belizean officials suspect that money laundering occurs primarily within the country's offshore financial sector. However, there are indications that local *casas de cambios* have facilitated the laundering of the proceeds from illegal activities. Money laundering, primarily related to narcotics-trafficking and contraband smuggling, also occurs through banks operating in Belize. Criminal proceeds laundered in Belize are derived primarily from foreign criminal activities. There is no evidence to indicate that money laundering proceeds are primarily controlled by local drug-trafficking

organizations, organized criminals or terrorist groups. Indications are that there is a significant black market for smuggled goods in Belize. However, there is no evidence to indicate that the smuggled goods are significantly funded by narcotic proceeds. With the exception of check forgery, Belize is not experiencing any significant increase in financial crimes.

There is one free trade zone presently operating in Belize, at the border with Mexico. Commercial Free Zone (CFZ) businesses are allowed to conduct business within the confines of the CFZ provided the Commercial Free Zone Management Agency (CFZMA) has approved them. All merchandise, articles, or other goods entering the CFZ for commercial purposes are exempted from the national customs regime. However, any trade with the national customs territory of Belize is subject to the national Customs and Excise law. The CFZMA is the supervisory authority of the free zone. The CFZMA, in collaboration with the Customs Department and the Central Bank of Belize, monitors the operations of CFZ business activities. The Commercial Free Zone Act, Chapter 278 of the Laws of Belize, prescribes the establishment, functioning, and responsibilities of the CFZMA. There is no indication that the CFZ is being used in trade-based money laundering schemes or by the financiers of terrorism.

The Money Laundering (Prevention) Act (MLPA), in force since 1996, criminalizes money laundering related to many serious crimes, including drug-trafficking, forgery, terrorism, blackmail, arms trafficking, kidnapping, fraud, illegal deposit taking, false accounting, counterfeiting, extortion, robbery, and theft. Additional legislation has been enacted to discourage individuals from engaging in money laundering, and there have been some arrests. Despite this, the effectiveness of the anti-money laundering regime in Belize remains unclear.

Offshore banks, international business companies and trusts are authorized to operate from within Belize, although shell banks are prohibited within the jurisdiction. The Offshore Banking Act, 1996 governs activities of Belize's offshore banks. The Central Bank of Belize, the same agency that regulates domestic banks, regulates offshore banks. The banking regulations governing offshore banks are different from the domestic banking regulations in terms of capital requirement. Banks are not permitted to issue bearer shares. Nevertheless, all licensed financial institutions in Belize (onshore and offshore) are governed by the same anti-money laundering legislation and must adhere to the same anti-money laundering requirements. To legally operate from within Belize all offshore banks must be licensed. 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 and that the proposed bank's capital is adequate and its business plan sound. The legislation governing the licensing of offshore banks does not permit directors to act in a nominee (anonymous) capacity.

The International Business Companies Act of 1990 and its 1995 and 1999 amendments govern the operation of IBCs. The 1999 amendment to the Act allows IBCs to operate as banks and insurance companies. The International Financial Services Commission regulates the rest of the offshore sector. All IBCs must be registered. Registered agents of IBCs must satisfy the International Financial Services Commission that they conduct due diligence background checks before IBCs are allowed to register. Although IBCs are allowed to issue bearer shares, the registered agents of such companies, must know the identity of the beneficial owners of the bearer shares. In addition, registered agents must satisfy certain criteria to obtain licenses in order to perform offshore services. Belize's legislation on IBCs allows for the appointment of nominee directors. The legislation for trust companies, the Belize Trust Act, 1992, is not as stringent as the legislation for other offshore financial services and does not preclude the appointment of nominee trustees.

The Central Bank issued Supporting Regulations and Guidance Notes in 1998. Licensed banks and financial institutions are required to "know their customers." Furthermore, banks and financial institutions are required to monitor their customer activity and report any suspicious transaction to the Financial Intelligence Unit (FIU). Banks and financial institutions must maintain records of all

banking and financing transactions for at least five years. Money laundering controls are applicable to non-bank financial institutions such as exchange houses, insurance companies, lawyers, and accountants. An important exception is that of casinos. Financial institution employees are exempted from civil, criminal, or administrative liability for cooperating with regulators and law enforcement authorities in investigating money laundering or other financial crimes.

Belize does not have any bank secrecy legislation that prevents disclosure of client and ownership information. There is no impediment to prevent authorities from obtaining information pertaining to financial crimes. Also, the reporting of all cross-border currency movement is mandatory. All individuals entering or departing Belize with more than BZ \$10,000 (\$5,000) in cash or negotiable instruments, are required to file a declaration with the authorities at the Customs, the Central Bank and the FIU.

There are deficiencies in the investigation process and the gathering of evidence to link assets to money laundering related offences. The establishment of the FIU is expected to address those deficiencies. In 2004 individuals associated with Target Data Processing Limited were arrested on money laundering charges.

Belize criminalized terrorist financing via amendments to its anti-money laundering legislation (The Money Laundering (Prevention) (Amendment) Act, 2002). Belizean Authorities have circulated to all banks and financial institutions in Belize the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. There are no indications that charitable and/or non-profit entities in Belize have acted as conduits for the financing of terrorist activities. Consequently, the country has not taken any measures to prevent the misuse of charitable and non-profit entities from aiding in the financing of terrorist activities. Belizean authorities have attempted to prevent money laundering via casas de cambios and to regulate the informal market for the U.S. dollar through licensing. This is recognized as a vulnerability that needs to be addressed.

Belizean law makes no distinctions between civil and criminal forfeitures. All forfeitures resulting from money laundering are treated as criminal forfeitures. The banking community cooperates fully with enforcement efforts to trace funds and seize assets. The FIU and the Belize Police Department are the entities responsible for tracing, seizing, and freezing assets. Currently, Belize's legislation is silent on the length of time assets can be frozen. With prior court approval, Belizean authorities have the power to identify, freeze, and seize terrorist finance or money laundering related assets. This includes vehicles, vessels, aircraft, and other means of transportation or communication. It would also include any property, tangible or intangible, which may be related to money laundering or is shown to be from the proceeds of money laundering, including legitimate businesses. There are no limitations to the kinds of property that may be seized, and all seized items become the property of the Government of Belize. However, Law enforcement lacks the resources necessary to trace and seize assets. The authorities are considering the enactment of a Proceeds of Crime law, which will address the seizure or forfeiture of assets of narcotics-traffickers, financiers of terrorism, or organized crime. The Belize Police Department reported that during the past year, the dollar amount of assets forfeited and/or seized amounted to \$16,664,850, and increase over the \$5,024,175 of assets forfeited and/or seized in 2003.

No laws have been enacted specifically for the sharing of assets seized in relation to narcotics or other serious crimes, including the financing of terrorism. However, the Government of Belize has entered into a bilateral treaty with the United States for the sharing of seized assets from serious crimes and actively cooperates with the efforts of foreign governments to trace or seize assets relating to financial crimes. The Belizean authorities have indicated to the Guatemalan Government their intention of signing a Memorandum of Understanding to enhance asset tracing and seizure.

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Belize has signed a Mutual Legal Assistance Treaty, which provides for mutual legal assistance in criminal matters with the United States. Amendments to the MLPA preclude the necessity of a Mutual Legal Assistance Treaty for exchanging information or providing judicial and legal assistance in matters pertaining to money laundering and other financial crimes to authorities of other jurisdictions. The FIU has cooperated with the United States Department of Justice, FinCEN, FBI, Internal Revenue Service, Drug Enforcement Administration Agency and the Food and Drug Administration.

Belize 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. Belize is also a member of the Organization of American States (OAS) and the Egmont Group.

The Government of Belize should increase resources to law enforcement and should provide adequate training to those responsible for enforcing both Belize's anti-money laundering/counterterrorist financing laws and its asset forfeiture regime. Belize should take steps to address the vulnerabilities in its supervision of its offshore sector, particularly the lack of supervision of the gaming sector, including Internet gaming facilities. Belize should immobilize bearer shares and mandate suspicious activity reporting for the offshore financial sector.

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 along with substantial fines. The law requires that all financial institutions report transactions above a certain threshold, but does not specify to whom these transactions should be reported. As a result, compliance with this provision of the Beninese law is very low. Cross-border currency reporting requirements also exist, but are not enforced.

The GOB has the legal authority to seize narcotics-related assets, but as of December 2004, no seizures had been made. Law enforcement authorities lack the training and resources to investigate money laundering cases. No links exist between the banking sector and the authorities to allow the tracking of large deposits.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Action Group against Money Laundering (GIABA) based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS states, including Benin. The GOB has not participated in additional training since that time.

Benin 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.

Benin should criminalize terrorist financing and money laundering related to all serious crimes. The Government of Benin also should develop and implement a viable anti-money laundering/counterterrorist financing regime that comports with international standards.

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 counterterrorist 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 part of its voluntary review program. The final report has not yet been released.

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 they pertain to financial institutions, 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 review thoroughly 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 will propose a number of technical amendments to the PCA in early 2005. Additionally, the NAMLC continues to meet with different industry sectors to update the guidance notes to reflect new FATF recommendations. Implementation of the updated guidance notes is expected to coincide with the implementation of the amended PCA and related regulations.

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 with respect to the proceeds of certain listed serious offenses. Amendments in 2000, effective June 1, 2001, expanded the scope of the legislation to cover the proceeds of all indictable offenses. The Criminal Code Amendment Act 2004, passed in July 2004, creates the offenses of insider trading and market manipulation in securities markets. Fines up to \$100,000 and prison terms of five years are in place for market manipulation and up to \$175,000 and seven years jail time for insider trading. These provisions are in addition to existing regulations of the Bermuda Stock Exchange (BSX) that prohibit members from insider trading and market manipulation, on penalty of expulsion from the BSX.

The GOB expects to introduce legislation in early 2005 to detect/monitor cross-border transportation of cash and monetary instruments and to include gatekeepers as covered entities under its anti-money laundering laws.

In December 2002, Parliament passed the Bermuda Monetary Authority Amendment Act 2002, expanding the list of BMA objectives to include action to assist with the detection and prevention of financial crime. This legislation provides clear authority for 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 the provisions of relevant UN Security Council counterterrorism resolutions, the act—among other provisions—prescribes the manner by which the finance minister may delegate to the BMA the power to block accounts.

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 enacted the updated Investment Business Act 2003 in the winter of 2003, with an effective date for most of its provisions of January 30, 2004. The Investment Business Act 2003 enhances the

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regulatory powers of the BMA by updating and clarifying the provisions for regulating investment business. 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.

Another mandate of the BMA is the licensing and supervision of deposit-taking institutions, including the worldwide operations of Bermudan 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 found it necessary 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 for trust service providers. 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 2005 session of Parliament, with an implementation date late in that year. 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.

Insurance companies are covered by the PCA to the extent that they are judged susceptible to the risk of money laundering abuse. The Insurance Act 2004 was re-introduced in the House of Assembly in late 2004. In addition to making technical amendments, the act, if adopted, would authorize the BMA to issue guidance to the insurance industry from time to time, provisions that are consistent with the IMF report.

International business forms the backbone of Bermuda's economy. The BMA reviews all proposals to incorporate companies and set up partnerships and also vets beneficial owners. As of June 30, 2004, records indicate that 13,261 international businesses were registered in Bermuda, compared to 2,958 local companies. Of the international businesses, the majority is considered "exempted," meaning that they are exempted from Bermuda laws that apply to local entities, including those restricting the portion that can be owned by non-Bermudans. International companies include 12,151 exempted companies, 546 exempted partnerships, 545 nonresident international companies (incorporated elsewhere to do business in Bermuda), and 19 nonresident insurance companies. As of December 2003, there were 1,682 insurance companies. At the close of 2003, there were 1,321 mutual fund companies and 221 unit trusts in Bermuda. Offshore banking is not permitted in Bermuda. There are no free trade zones in Bermuda.

The majority of Bermuda's exempt companies are shell companies with no physical presence on the island. Local directors (generally a local lawyer and secretary) are designated to manage corporate affairs in Bermuda. The owners and controllers are vetted by the BMA before exempted companies can be established or any shares transferred between nonresidents. The register of members is open to public inspection.

The GOB regulates offshore companies and domestic companies equally from a prudential standpoint. The difference between the two is the ownership restriction. Domestic companies, which must be at least 60 percent Owned-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 normally 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 Bermuda Police Service's Financial Investigation Unit (FIU) serves as the island's financial intelligence unit, which is responsible for the criminal aspects of financial crime, including criminal tax investigations. 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 Western Union. In 2001, 2,827 SARs were filed with the FIU, decreasing to 2,570 in 2002, 275 in 2003 and 139 through November 2004. In 2001, there were two arrests for money laundering; in 2002, eight arrests representing three cases; and in 2003, six arrests. The island's first and only money laundering conviction was prosecuted in 2004. Involving \$136,000, the conviction resulted in an 18-month suspended sentence due to mitigating circumstances.

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 person 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 person 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.

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There were no confiscation orders in 2000, 2002, or 2003, and only one in 2001 for approximately \$62,000. Through November 2004, the GOB issued two confiscation orders, for a total amount of \$52,335. Forfeitures under the Misuse of Drugs Act are holding steady, with six forfeitures amounting to \$18,122 in the first eleven months of 2004 compared to the \$13,908 forfeited in three separate 2003 cases. Cash seized in 2004 under PCA detention orders exceeded \$56,600, a drop from the \$173,000 seized in 2003. In 2004 three restraint orders continue against assets in three separate cases 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 2005 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.

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. The BMA Amendment (No. 3) Act 2004 clarifies the power of the BMA to cooperate with other overseas authorities. Its passage follows challenges in Bermuda courts on a specific case in which the BMA was assisting the U.S. Securities and Exchange Commission. Other Bermuda laws also authorize the sharing of information with overseas regulators: the Banks and Deposit Companies Act 1999, the Trusts (Regulation of Trust Business) Act 2001 and the Investment Business Act 2003.

In December 2004 the Parliament passed "The Anti-Terrorism (Financial and Other Measures) Act 2004." The Act, which must now be considered by the Senate, would criminalize terrorist financing and provides the framework to ensure implementation of the FATF Special Recommendations on Terrorist Financing. It creates specific offenses relating to the raising, use or possession of funds for purposes of terrorism, imposes a duty to report suspicious activity and provides for the forfeiture of terrorist cash. The effect will be to parallel the provisions already in place under the PCA for money laundering and the proceeds of other serious crimes. Financial institutions were given the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224 (on terrorist financing) and the UN 1267 Sanctions Committee consolidated list, but no matches were found.

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 island is, however, subject by extension to the UK Terrorism (United Nations Measures) (Overseas Territories) Order 2001. The UK Terrorism Order, which implements UN Security Council Resolution 1373, creates the offense of collecting and making funds available for terrorist purposes and provides for identification and freezing of terrorist-related funds.

The Government of Bermuda should continue to strengthen its regulations to prevent and inhibit money laundering and terrorism finance, including the enactment of legislation to implement the provisions of the FATF Special Recommendations on Terrorist Financing and new international anti-money laundering standards. It also should enact the proposed measures to detect/monitor cross-border transportation of cash and monetary instruments and 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. Bolivia is a major drug producing and drug-transit country. Most money laundering in Bolivia is related to public corruption, contraband smuggling, and narcotics trafficking. Bolivia's long tradition of banking secrecy facilitates the laundering of the profits of organized crime and narcotics trafficking, the evasion of taxes, and laundering of other illegally obtained earnings.

Bolivia's anti-money laundering regime is based on Law 1768 of 1997. Law 1768 modifies the penal code; criminalizes money laundering related to narcotics-trafficking, organized criminal activities and public corruption; provides for a penalty of one to six years for money laundering; and defines the use of asset seizure beyond drug-related offenses. Law 1768 also created Bolivia's 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 unit are defined under Supreme Decree 24771.

Although Law 1768 established the UIF as an administrative financial intelligence unit in 1997, the UIF did not become operational until July 1999. The UIF currently has more than 20 staff members, including the director. The director of the UIF is not a political appointee: the Superintendence of Banks and the Superintendence of Securities and Insurance elect the director to his/her position for a five-year term. It is possible for the director to be re-elected only one time. In January 2004, the term of the UIF's first director ended; he was not re-elected, and his replacement took over the operations of the UIF in February 2004.

The primary responsibility of the UIF is to collect and analyze data on suspected money laundering and other financial crimes, and to request specific information from the financial sector at the request of the Public Ministry prosecutors, investigating and prosecuting money laundering. The UIF is responsible for implementing anti-money laundering controls and has the ability to sanction covered financial institutions for noncompliance. These covered entities include banks, insurance companies and securities brokers; all are required to identify their customers, retain records of transactions for a minimum of ten years, and report to the UIF all transactions that are 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). In 2004, the UIF began to receive some of its reports electronically.

Under the current law, there is no obligation for these entities to report cash transactions above a certain threshold, as is commonplace in many countries' anti-money laundering regimes. Although, by law, the Bolivian Customs agency is permitted to share information with the UIF regarding the movement of currency into or out of Bolivia, it generally does not do so. After analyzing suspicious transaction reports and any other relevant information it may receive, the UIF reports all detected criminal activity to the Public Ministry. The UIF also has the ability to request additional information from obligated financial institutions in order to assist the prosecutors of the Public Ministry with their investigations. In 2005, the UIF plans to begin on-site inspections of covered entities in order to review their compliance with the reporting of suspicious transactions.

In 2002, the Special Group for Investigation of Economic Financial Affairs (GIAEF) was created within Bolivia's Special Counter-Narcotics Force (FELCN) to investigate narcotics-related money laundering. The UIF, the Public Ministry, the National Police and FELCN have established mechanisms for the exchange and coordination of information, including formal exchange of bank secrecy information. The full range of possibilities inherent in this mechanism has yet to be fully explored.

Corruption is a serious issue in Bolivia. However, several major convictions occurred in 2004. In December, three high-ranking police officials and one judge were convicted on charges related to narcotics-trafficking and consorting with narcotics traffickers. These convictions are considered to be truly historic. Traditionally, allegations against high-ranking law enforcement officials were routinely dismissed or forgotten; none reached the point of charges, much less prosecution and conviction. In the case of the convicted judge, a report created in part by the UIF detailing financial transactions related to the case led to the formal charges.

In spite of advances in combating money laundering, Bolivia's anti-money laundering system still has many weaknesses. The Government of Bolivia (GOB) has shown little enthusiasm for strengthening the UIF, in spite of recommendations by both the International Monetary Fund (IMF) and the Financial Action Task Force for South America (GAFISUD). Limitations in its reach and weaknesses in its basic law and regulatory framework continue to hamper the UIF's effectiveness as a financial intelligence unit. The GOB's anti-money laundering regime is also undermined by the lack of support—both legal and bureaucratic—for money laundering investigations carried out by law enforcement officials. In order to prosecute a money laundering case, Bolivian law requires that the crime of money laundering 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. Judges trying these cases are challenged to understand their complexities. There have been no convictions for money laundering to date, although one case was in the trial stage as of December 2004.

There are also serious deficiencies in Bolivia's legal framework with regard to civil responsibility. Under Bolivian law, there is no protection for judges, prosecutors, or police investigators who make good-faith errors while carrying out their duties. If a case is lost initially or on appeal, or if a judge rules that the charges against the accused are unfounded, the accused can request compensation for damages, or the judges, prosecutors, or investigators can be subject to criminal charges for misinterpreting the law. This is particularly a problem for money laundering investigations, as the law is full of inconsistencies and contradictions and is open to wide interpretation. For these reasons, prosecutors are often reluctant to pursue these types of investigations.

Several entities that move money remittances in Bolivia remain unregulated. Hotels, currency exchange houses, illicit casinos, cash transporters, and wire transfer businesses (such as Western Union), are all unregulated and can be used to transfer money freely into and out of Bolivia. Informal exchange businesses, particularly in the Santa Cruz region, are also used to transmit money in order to avoid law enforcement scrutiny.

While traditional asset seizure continues to be employed by counternarcotics authorities, until recently the ultimate forfeiture of assets was 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, however, has been poorly managed for years and only just begun to auction confiscated goods at a consistent pace.

The GOB currently lacks legislation regarding terrorist financing. Bolivia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and has signed the Organization of American States (OAS) Inter-American Convention Against Terrorism. But there are no explicit domestic laws that operationalize these treaties to 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.

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. A set of draft laws—yet to be presented to Congress—would make money laundering an autonomous crime, penalized by a minimum prison term of fifteen years; increase the number of predicate offenses for money laundering, as well as the number of entities obligated to file financial reports with the Financial Intelligence Unit (FIU); and allow for the seizure of assets and the use of certain special investigative techniques. These draft laws would also require financial institutions to report cash transactions above a certain threshold and require the customs authority to provide the UIF with information regarding the physical movement of cash or monetary instruments into or out of Bolivia. In addition, the draft law would also criminalize the financing of terrorism.

Bolivia is a party to the 1988 UN Drug Convention. The GOB has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, and the UN Convention against Corruption. Bolivia is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering, and held the presidency of the group in 2004. Bolivia is a member of the South America Financial Action Task Force (GAFISUD) and is due to undergo its second mutual evaluation by GAFISUD in 2005. Bolivia's UIF is a member of the Egmont Group of financial intelligence units. The GOB and the United States signed an extradition treaty in June 1995, which entered into force in November 1996.

The Government of Bolivia should strengthen its anti-money laundering regime by improving its current money laundering legislation so that it conforms to the Financial Action Task Force and the standards of the South America Financial Action Task Force. Bolivia should adopt new laws making money laundering a separate offense without requiring a connection to other illicit activities, expanding the list of predicate offenses, criminalizing terrorist financing, and expeditiously blocking terrorist assets. The jurisdiction of the Unidad de Inteligencia Financiera must also be expanded to cover reporting by non-banking financial institutions, as recommended by the IMF and the South America Financial Action Task Force. Bolivia 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, fuel oils, and trafficking in persons. Foregone customs revenues due to black marketeering are estimated at \$500 million per annum. Recent studies indicate that as much as 40-60 percent of the 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 BiH. Money laundering tends not to involve U.S. currency or proceeds from narcotics sales in the United States. Although the economy is primarily cash-based, with 40 percent of citizens lacking a bank account, deposits into banks have continued to increase in 2004, 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; the entity level, which includes two entities, the Federation of Bosnia and Herzegovina (Federation) and Republika Srpska (RS) plus the Brcko District; 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 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. Transferring authority to State-level institutions is a priority for the international community and for the Office of the High Representative (OHR).

Money laundering is a criminal offense in all State and entity criminal codes. New criminal procedure and criminal codes were enacted at the State and entity levels in 2003, with tougher provisions against money laundering, though significant time and resources will be needed to fully implement and enforce the legislation and to develop even the most rudimentary of anti-money laundering regimes. While some legal elements for anti-money laundering measures exist, Bosnia's officials and institutions lack the expertise, capability, and will to control drug-related transactions.

In June 2004, BiH adopted the Law on the Prevention of Money Laundering that came into force on December 28, 2004. This law determines the measures and responsibilities for detecting, preventing, and investigating money laundering and terrorist financing; prescribes measures and responsibilities for international cooperation; and, establishes a financial intelligence unit (FIU) within the newly-created State Investigative and Protection Agency (SIPA). The law requires banks to submit reports on suspicious financial transactions to the State-level FIU in SIPA. SIPA, like many State institutions, remains under-funded and under-resourced. The FIU in SIPA is not yet fully staffed or operational, and its scrutiny of suspicious transactions is therefore limited. It is still unclear what role entity financial enforcement authorities will play in this interim period, and how they will relate to the FIU once it is fully operational.

A National Action Plan, adopted in October 2003, incorporates Council of Europe recommendations against corruption and organized crime. The National Coordination team continued its work in 2004, establishing concrete steps and timelines for accomplishing goals in the areas of institution-building, legislative reform and implementation, and operational cooperation. In implementing the plan, BiH has taken several important steps such as the continued development of the nascent SIPA, the State Intelligence Agency and the Citizen Identification Protection System.

Customs authority rests with the State-level Indirect Tax Authority (ITA), which is not yet fully operational. As a result, in practice, the RS, the Federation and the Brcko district still operate as separate customs agencies that administer the State-level customs law. 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.

Current civil statutes governing money laundering are inadequate and insufficiently 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. All have been subject to political interference and/or direct intimidation in the conduct of their duties. Once SIPA and its FIU become completely operational, those ambiguities should lessen, but the exact relationship between all these bodies remains unclear. Governmental authorities throughout all three entities are primarily concerned with tax evasion and customs evasion.

There are 27 banks chartered in the Federation (five under provisional administration) and 10 in the RS (one under provisional administration). 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. However, an umbrella banking supervision agency at the State level, within the Central Bank of BiH (CBBH), is expected to be in place in early 2005, once changes and amendments to the law on the Central Bank are passed. Both RS and the Federation have a

Securities Commission and an Insurance Commission. The Commissions act as regulators for their respective sectors.

A number of banks, including all within the Federation, do have compliance officers. 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. BiH 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. Financial institutions must maintain detailed deposit records and to report suspicious transactions on a daily basis to regulatory authorities.

In order to avoid misuse of the banking system by multiplication of accounts, the CBBH has established a central registry of bank accounts. The Single Transaction Account Registry, which became operational on July 5, 2004, contains all the transactional accounts of the legal entities in BiH. Only the CBBH Main Units can issue data from the Registry. Any legal entity or citizen can submit a request for information from the Single Transactional Accounts Registry, provided they can justify the request and provide proof of fee payment.

The cash threshold for currency transaction monitoring is BAM (Bosnian Convertible Mark) 30,000 (about \$20,000). In 2004, the Federation Financial Police received reports on 77,422 currency transactions totaling BAM 6.8 billion (about \$4.6 billion) from financial institutions and customs authorities. Out of this number, 128 transactions in amount of BAM 11.1 million (about \$7.5 million) were identified as suspicious and reported to prosecutors. The accounts of 1,234 fictitious companies were blocked and assets in amount of BAM 1.3 million (about \$870,000) were frozen. Criminal charges were pressed against 67 individuals. From January 1 through June 30, 2004 the RS FIU received 17,082 currency transaction disclosures in the total amount of BAM 881,859 (about \$600,000). During the same period the FIU issued orders to freeze BAM 57.7 million (about \$39 million) in the bank accounts of 27 companies. Ten cases were sent to the RS and Brcko tax administrations for further investigation, eight cases were referred to SIPA and 6 to the State Prosecutor's Office.

There have been several multiple-defendant indictments for money laundering. Most have been disposed of by plea bargain; however, there were two money laundering trials in 2004 (one at the State level and one at the entity level) which resulted in conviction and forfeiture. In March, an individual pled guilty to money laundering and was sentenced to two years imprisonment and fined BAM 50,000 (about \$34,000). In June, the BiH State Prosecutor's Office filed an indictment against four clerks of the former Kristal Bank on the grounds that they assisted the above individual in laundering BAM 18 million (about \$12 million) during a twenty day period in 2003 for 150 firms.

In August, another individual reached a plea bargain with the BiH Prosecutor's Office and was sentenced to two years imprisonment. The indictment charges the owners of a company with money laundering and tax evasion allegedly involving 115 companies, mostly from the western Herzegovina region of the country. The Deputy BiH Prosecutor expects that these proceedings, which include measures against 65 persons and legal entities charged with laundering BAM 13.5 million (about \$9 million) for tax evasion and document forgery, will collect at least BAM 15 million (about \$10 million) for the BiH budget through fines and profit seizures.

Money laundering and asset forfeiture laws are contained in new Criminal Procedure Codes. There is a new draft law on civil confiscation, which includes an asset management and forfeiture fund. According to the draft law, forfeiture proceedings will be initiated and conducted by the Prosecutor. Asset management will be the responsibility of a unit within the State Court Police under the supervision of the Ministry of Justice. The Ministry of Justice will manage the forfeiture fund, and funds will be parceled out to various law enforcement agencies/prosecutor's offices to assist in their

operations. Adoption is expected in early 2005. There is no established mechanism to identify, trace, or share narcotics-related assets.

On October 21, 2002, UN High Representative 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; non-citizens can be extradited. BiH will not extradite its own citizens, but will prosecute them in BiH. The amendments provide Federation and RS Banking Agencies with clear legal authority to freeze assets of suspected terrorists. Federation authorities have taken significant strides to combat terrorist financing and to comply fully with pertinent UN Security Council resolutions (UNSCRs). The Federation authorities have blocked the financial and property assets of all individuals and NGOs on the UNSCR terrorist finance lists and are conducting investigations of other NGOs and individuals suspected of connections to al-Qaida.

Mutual Legal Assistance Treaties that had been signed by either the former 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. However, they lack the professional capacity to conduct complex investigations or participate fully in international financial and law enforcement fora such as Interpol and the FATF. BiH has signed bilateral agreements for information exchange regarding bank supervision with Croatia, Serbia and Slovenia. A draft agreement with Austria is in process.

BiH is a party to the 1988 UN Drug Convention but is hampered by the lack of State-level law enforcement authority. BiH is a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Bosnia and Herzegovina is a party to all 12 of the international conventions and protocols relating to terrorism. 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.

Bosnia and Herzegovina should effectively implement existing laws and banking regulations. The government of Bosnia and Herzegovina should also fully implement centralized regulatory and law enforcement authorities and fully staff the financial intelligence unit within the State Investigative and Protection Agency as soon as possible. Significant additional training should be implemented so that law enforcement, prosecutors and judges will have a better understanding of money laundering and how to pursue it. Bosnia and Herzegovina should 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. According to the Directorate on Corruption and Economic Crime (DCEC), the incidence of financial crimes in general increased dramatically in 2004. Seventy-two reports of suspected money laundering transactions were received by the DCEC during 2004, of which 38 cases are currently under investigation. This indicates heightened vigilance within Botswana's institutions with regard to the potential threat of financial crimes. The DCEC has established a special unit to address this threat.

Section 14 of the Proceeds of Serious Crime Act of 1990 criminalizes money laundering. The Bank of Botswana requires financial institutions to report any transaction in which BWP (Botswana Pula) 10,000 (roughly \$2,500) or more is transferred. The Bank of Botswana has the discretion to provide information on large currency transactions to law enforcement agencies. As of early 2004, the Bankers Association of Botswana was meeting on a monthly basis; the meetings are attended by the Botswana

Police Service's investigator of serious crimes. 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 practice of laundering or otherwise dealing in illegal proceeds, or where the bank is the affiliate, subsidiary or parent company of a bank which has been convicted.

In 2003, the Government of Botswana (GOB) enacted the Banking (Anti-Money Laundering) Regulations, which are minimum guidelines to banks on the application of international best practices on anti-money laundering practices. The new regulations require banks to record and verify the identity 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 DCEC, (which acts as a financial intelligence unit) and other law enforcement authorities. In 2004, the GOB assessed the implementation of these regulations and concluded that compliance was satisfactory.

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 DCEC. Financial institutions regularly submit reports of suspicious transactions to the DCEC. In suspected cases, the Botswana Police Service can obtain a court order to intercept communications; evidence so gathered would be admissible in court. In 2004, the Government issued regulations governing bureaux de change, including measures to prevent use of these institutions to launder money.

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 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 and trustees are not allowed. Currently, no offshore trusts operate in Botswana. Shell companies are prohibited in Botswana.

There were no prosecutions for money laundering or terrorist financing in 2004. Terrorist financing is not criminalized as a specific offense in Botswana, but is prosecuted under the Proceeds of Serious Crimes Act. Also, 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 UNSCR 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 of 1990, Botswana has the authority to confiscate proceeds of terrorist finance-related assets.

Botswana 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. Botswana officially became a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) in February 2003. It is also a member of the Southern African Forum Against Corruption (SAFAC), which combats money laundering.

While the Government of Botswana's laws and policies have been sufficient to contain the threat of money laundering and financial crimes in the past, further expansion of the international financial sector in Botswana would render them inadequate. Although the Directorate on Corruption and

Economic Crime (DCEC) is acting as a financial intelligence unit, no law specifically mandates it to do so. Botswana has yet to draw up legislation governing the micro lending sector: the DCEC expects this to take place in 2005. The Directorate on Corruption and Economic Crime (DCEC) is advocating establishment of one regulatory body for all financial organizations. The Government of Botswana is preparing a draft strategy to combat money laundering and the financing of terrorism. That strategy should include legislation to establish a financial intelligence unit with robust investigative authority and the allocation of adequate resources to ensure that such an institution possesses the skills to effectively track suspect international transactions. The legislation should also specifically criminalize terrorist financing.

Brazil

Due to its great size and large economy, Brazil is considered a regional financial center but not an offshore financial center. Brazil is a major drug-transit country. 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. An Inter-American Development Bank study of money laundering in the region found that Brazil's relatively strong institutions helped reduce the incidence of money laundering to well below the average for the region.

Money laundering in Brazil is primarily related to drugs, corruption, and trade in contraband. The Triborder Area shared by Argentina, Brazil, and Paraguay is well known for its multi-billion dollar contraband re-export trade and arms and drug trafficking. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are imported into Paraguay from Asia and transported primarily across border into Brazil, with a significantly smaller amount remaining in Paraguay for sale in the local economy. The area is also suspected to be a source of terrorist financing. In 2004 the Government of Brazil (GOB) continued investigating corrupt public figures, including customs inspectors, federal tax authorities, and high-ranking politicians, and the use of offshore companies to launder money.

Brazil's financial intelligence unit, the Conselho de Controle de Atividades Financieras (COAF) has also investigated 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. 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 United States, or that otherwise significantly affect the United States. 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 \$3,690) 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. Law 10.467, which modified Law 9.613, was passed in June 2002. 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, the 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 approximately 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 Financial Intelligence Unit (FIU) either via the Internet or using paper forms. All of these regulations include a list of guidelines that help institutions identify suspicious transactions. COAF has direct access to the Central Bank database so that it has immediate access to the SARs reported to the Central Bank. The COAF has access to a wide variety of government databases, and is authorized to request additional information directly from the entities it supervises and the supervisory bodies of other obligated entities. Domestic authorities that register with COAF may directly access the COAF databases via a password-protected system. 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, or 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, Brazil's new omnibus drug legislation was passed, allowing 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 as 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, expected to come on-line in 2005, 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 require banks to report cash transactions exceeding 100,000 reais (approximately \$36,900) to the Central Bank, establish a

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department within the Ministry of Justice to recover financial assets, and designate a representative from the Ministry of Justice to the COAF.

In 2004, the GOB adopted and began implementing a new national strategy document for combating money laundering. The strategy includes 32 actions, grouped into six strategic goals: improve coordination of disparate federal and state level anti-money laundering efforts, utilize computerized databases and public registries to facilitate the fight against money laundering, evaluate and improve existing mechanisms to combat money laundering, increase international cooperation to fight money laundering and recover assets, promote an anti-money laundering culture, and prevent money laundering before it occurs. The first major coordination action taken under the new plan was the creation of a new high-level coordination council, known as the GGI-LD, led by the Ministry of Justice's Office for Asset Seizure and International Judicial Cooperation. The GGI-LD determines overall strategy and priorities, which are then implemented by COAF, which has been strengthened with additional analysts. Specific cases are then assigned to law enforcement task forces for investigation.

Implementation of much of the strategy is ongoing. Among the more ambitious efforts is the drafting of legislative changes to facilitate greater law enforcement access to financial and banking records during investigations, criminalize illicit enrichment, allow administrative freezing of assets, and facilitate prosecutions of money laundering and terrorist financing cases by refining the legal definition of money laundering and de-linking it from the current exhaustive list of predicate crimes. The GOB reportedly plans to present to Congress a bill enacting these changes in early 2005. The creation of a unified database of all money laundering investigations and of a national-level registry of real estate, which would aid investigators, is also being considered. An existing effort to create a database of all current accounts in the country, updated in real time, is also expected to come to fruition in 2005.

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—over 1000 money laundering investigations since 2000—has led to a sharp spike in the number of money laundering cases going to court. To deal with the increased caseload, Brazilian authorities passed legislation in 2003 to create seven special money laundering courts. The judges in these courts generally have received some specialized training to deal with money laundering cases.

Investigations into the scandal involving Banestado, the state bank of Parana, continued in 2004. 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 United States between 1996 and 1999, a portion of which was likely laundered. Many high-level GOB officials were implicated in this case. The Brazilian Congress began an investigation into the matter in June 2003, but the inquiry committee was considered to be polarized along party lines, and information gathered by the inquiry was leaked to the press prior to the October 2004 municipal elections. The committee concluded its inquiry on December 14, 2004, with a politicized final report recommending that law enforcement agencies indict 91 individuals in the case. Out of the 91 implicated, only two are high-level GOB officials. The final report has not yet been approved by the full Congress. The Brazilian Federal Police and the Public Ministry are expected to continue with their own investigations.

The main weakness in Brazil's anti-money laundering regime lies in the lack of legislation criminalizing the financing of terrorism. Although terrorist financing is considered to be a predicate offense for money laundering under Law 10.701 of 2003, terrorist financing is not an autonomous crime. There have been no money laundering prosecutions to date in which terrorist financing was a predicate offense, and so it remains to be seen if the financing of terrorism could be contested as an enforceable predicate offense due to the lack of legislation specifically criminalizing terrorist financing. No known laws have been drafted to criminalize the financing of terrorism. However, the GOB has responded to U.S. Government efforts to identify and block terrorist-related funds. Since September 11, 2001, COAF has run inquiries on hundreds of individuals and entities, and has searched its financial records for entities and individuals on the UNSCR 1267 Sanctions Committee's consolidated list. None of the individuals and entities on the consolidated list was found to be operating or executing financial transactions in Brazil, and the GOB insists there is no evidence of terrorist financing in the area. The United States, however, remains concerned that the Triborder area with Paraguay and Argentina,—infamous for contraband of all kinds, including arms, drugs and pirated goods—lacks enforcement of currency controls and cross-border reporting requirements, and is suspected to be a source of terrorist financing. In November 2003, the GOB extradited an alleged financier, Assad Ahmad Barrakat, to Paraguay on charges of tax evasion; he was convicted in May 2004 and sentenced to six and one-half years in prison. Because of his suspected links to the terrorist group Hizballah, the U.S. Government designated and froze the assets of Barrakat and two of his businesses in June 2004 under Executive Order 13224 on Terrorist Financing.

The GOB has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism and the OAS Inter-American Convention on Terrorism. 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 Special Recommendations on Terrorist Financing. Brazil is a party to the 1988 UN Drug Convention and has signed, but not ratified, UN Convention against Corruption. On January 29, 2004, the GOB ratified the UN Convention against Transnational Organized Crime, which entered into force on September 29, 2003. 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, and a bilateral Customs Mutual Assistance Agreement was negotiated in 2002 and signed in 2004, and is expected to enter into force in February 2005. The GOB also participates in the "3 Plus 1" Counter-Terrorism Dialogue between the United States and the Triborder Area countries.

The Government of Brazil should criminalize terrorist financing as an autonomous offense, 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. Brazil should also enforce currency controls and cross-border reporting requirements, particularly in the Tri-border region. Additionally, Brazil and the Conselho de Controle de Atividades Financeiras (COAF), the Financial Intelligence Unit, 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 11 banks, 2,023 mutual funds with 448 licensed mutual fund managers/administrators, 312 local and captive insurance companies, 1000 registered vessels, 90 licensed general trust companies, and 544,000 international business companies (IBCs). 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. The law transfers responsibility for regulatory oversight of the financial services sector from a government body, the Financial Services Department, to the FSC, an autonomous regulatory body. The process for registering banks, trust companies, and insurers is governed by legislation that requires detailed documentation, such as a business plan and vetting by the appropriate supervisor within the FSC. Registered agents must verify the identities of their clients.

The Proceeds of Criminal Conduct Act of 1997 expands 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. Under the Financial Investigation Agency Act 2003, implemented in 2004, the FIU was reorganized and renamed the Financial Investigation Agency.

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.

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 BVI 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 current status of this proposal is not available.

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.

The BVI has criminalized terrorism and terrorist financing through the Terrorism (United Nations Measures)(Overseas Territories) Order 2001 and the Anti-Terrorism (Financial and Other Measures)(Overseas Territories) Order 2002. The BVI is a member of the Caribbean Financial Action Task Force and received a second mutual evaluation of its financial sector and regulations during November 17-21, 2003. The BVI is subject to the 1988 UN Drug Convention and as a British Overseas Territory has implemented measures in accordance with this convention and the UN Convention against Transnational Organized Crime. Application of the U.S./UK Mutual Legal Assistance Treaty concerning the Cayman Islands was extended to the BVI in 1990. The Financial Investigation Agency is a member of the Egmont Group.

The Government of the British Virgin Islands should continue to strengthen its anti-money laundering regime by fully implementing recently passed legislation.

Brunei

In 2000, The Government of Brunei Darussalam adopted anti-money laundering legislation referred to as the Money Laundering Order and created a presiding organization called the National Anti-Money Laundering Committee (NAMLC), comprised of the: Financial Institutions divisions; Ministry of Finance (Domestic); Brunei International Financial Center (BIFC); Attorneys General's Chambers (AGC); Royal Brunei Police Force (RBPF); Royal Customs and Excise Department; Anti-Corruption Bureau; Narcotics Control Bureau; Immigration Department and Brunei Currency and Monetary Board. Brunei also implemented an asset seizure and forfeiture law, and the Criminal Conduct (Recovery of Proceeds) Order. This legislation applies both domestically and offshore. There are three offshore banks: Royal Bank of Canada, HSBC, and Hong Kong-based Sun Hun Kai.

In 2001, Brunei set into motion its plans to become an offshore financial center by bringing into effect a series of laws that established the Brunei International Financial Center (BIFC). The relevant laws are: the International Business Companies Order 2003 (amended from 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 2001; the Securities Order 2003 (originally established in 2001) and the International Insurance and Takaful Order 2002.

The BIFC offers general banking, Islamic banking, insurance, international business companies (IBCs), trusts (including asset protection trusts), mutual funds, and securities services. The BIFC also launched a virtual Stock Exchange in 2002. Bearer shares are not permitted, but nominee shareholders are allowed for IBCs. Brunei residents are allowed to become shareholders of IBCs. Currently more than 2,500 companies are in the BIFC database, although many appear to be inactive. The Government also recently established the Brunei Economic Development Board to attract more foreign direct investment. There are no exchange controls.

Brunei has no Central Bank. Acting through the Financial Institutions Division and the Head of Supervision, a segregated unit of the Ministry of Finance oversees the BIFC. This unit combines both regulatory and marketing responsibilities. The multi-disciplinary group is comprised of persons responsible for the supervision of banking, insurance, corporations, and trusts.

In 2002, Brunei enacted the Drug Trafficking Recovery of Proceeds Act and the Anti-Terrorism Financial and other Measures Orders. The latter explicitly criminalize the financing and support of terrorism.

Brunei is a party to the 1998 UN Drug Convention and to the UN International Convention for the Suppression of the Financing of Terrorism. Brunei became a member of the Asia/Pacific Group on Money Laundering (APG) in 2003. The APG's Terms of Reference include a commitment to adopt the international standards contained in the revised FATF Forty Recommendations on Money Laundering and the Special Nine Recommendations on Terrorist Financing.

The Government of 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, or immobilized the bearer shares.

Bulgaria

Bulgaria is not considered an important regional financial center. However, Bulgaria is a major transit point for drugs into Western Europe, and financial crimes, including fraud schemes of all types; smuggling of persons and commodities; and other organized crime offenses also generate significant proceeds. Financial crimes—including significant tax fraud and credit card fraud—are prevalent. The sources for money laundered in Bulgaria likely derive from both wholly domestic as well as international criminal activity. Organized crime groups operate very openly in Bulgaria. There have been significant physical assaults on Bulgarian public officials as well as journalists who challenge organized crime operations. Smuggling remains a problem in Bulgaria and is undoubtedly sustained by ties with the financial system.

Government of Bulgaria (GOB) officials believe the operation of duty free shops within Bulgaria plays a major role in facilitating the smuggling of cigarettes, alcohol and luxury goods, and the execution of financial crimes. Ministry of Finance (MOF) customs and tax authorities have supervisory authority over the duty free shops. According to these authorities, reported revenues and expenses by the shops very clearly have included activities other than duty free trade. Identification procedures are also lacking. MOF inspections have revealed that it is practically impossible to monitor whether people who buy commodities at the numerous duty free shops actually cross the state border. Attempts by the MOF to close down 44 of the 57 shops operating in Bulgaria have been defeated, particularly due to the efforts of the government's junior coalition partner

Criminal proceeds are moved through Bulgaria from 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 recently increased, 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.

In February 2004, Parliament adopted a revised National Strategy for fighting serious crime. The crime strategy covers a two-year period and focuses on the importance of cooperation between various government agencies such as the Tax and Customs Administration, the Interior Ministry, and Bulgaria's financial intelligence unit (FIU), the Financial Intelligence Agency. However, despite the GOB's 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 predicate crimes are addressed elsewhere in the Penal Code.

Other administrative money laundering provisions contained in the Law on Measures Against Money Laundering (LMML) address customer identification and record keeping requirements, suspicious transaction 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 by travelers of all Bulgarian and foreign currency in cash, including traveler's checks, in excess of approximately 2,500 euros. Due to corruption and inefficiency in the Customs Service, enforcement of this requirement is irregular.

During April 2003, Parliament passed legislation amending the (LMML)-further strengthening anti-money laundering measures. The amendments expand the types of covered institutions and groups to a total of 29 different categories of covered institutions, all of which are subject to suspicious and currency transaction reporting requirements. These include lawyers, real estate agents, auctioneers, tax consultants and security exchange operators. The amendments also require covered institutions to demand an explanation of the source of funds for "operations or transactions in an amount greater than Bulgarian leva 30,000 (approximately 15,000 euros) or its equivalent in foreign currency; or exchange of cash currency in an amount of leva 10,000 (approximately 5,000 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 legal ethic rules.

The legislation also introduces a currency transaction reporting requirement of 30,000 leva (15,000 euros), thus bringing Bulgaria into compliance with the European Union's (EU) Second Directive on Money Laundering. The LMML obligates financial institutions to a five-year record keeping requirement and provides a "safe harbor" to reporting entities. Penal Code Article 253B was enacted in 2004 to establish criminal liability for noncompliance with LMML requirements. Although case law remains weak, in September 2003 for purposes of EU accession, Bulgaria's anti-money laundering legislation was determined to be in full compliance with all EU standards. To date, the banking sector has exhibited the most awareness of anti-money laundering standards and has been responsible for the largest number of suspicious transaction reports (STRs) of suspected money laundering. The absence of reports from exchange bureaus, casinos, non-bank financial institutions, dealers in high-value goods and other reporting entities can be attributed to a number of factors, including lack of understanding of money laundering reporting requirements, lack of resources (e.g., inspection staff) and effective regulatory controls, and an overall lax enforcement of the anti-money laundering policy by government officials.

The LMML amendments 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. They further institutionalize and guarantee functional independence of the FIU's director and provide 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 also authorized to perform on-site compliance inspections. Since high-value goods dealers have been required to report since 2001, and there is no supervisory authority, the FIA also acts as the compliance authority for this sector. 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. 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 is an administrative unit and does not participate in active criminal investigations. The FIA forwards reports of potential criminal activity to the Prosecutor's Office, which then has the discretion to open an investigation by referring the case to either law enforcement officers from the Ministry of Interior (MOI) or investigating magistrates from the National Investigative Service (NIS). The MOI

and the NIS are the two agencies responsible for investigating money laundering and the predicate criminal activity leading to it. If the Prosecutor's Office determines that an STR referred by the FIA does not merit prosecution, the FIA has the authority to appeal the Prosecutor's decision. Between November 2003 and October 2004, the FIA received 439 STRs and 65,465 currency transaction reports (CTRs). The STRs had a total combined value of 163.3 million euros. On the basis of the forwarded STRs, 437 cases were opened. Also during the same one-year period, the FIA referred 57 cases, representing over 35 million euros, to the Supreme Prosecutor's Office of Cassation and 167 cases with a total value of over 94 million euros to the Ministry of Interior. During the first 10 months of 2004, the FIA forwarded 37 reports to supervisory authorities for administrative action.

Although money laundering has been pursued in court cases, there has never been a conviction for the crime. In general, there are very few successful prosecutions for other financial crimes and predicate criminal activity that give rise to money laundering. This is mainly due to the fact that prosecutors, investigators, and law enforcement officials, especially at the district level, lack significant training in money laundering. GOB officials, however, hope that this trend is changing. During 2004, 22 money laundering investigations were opened at the NIS under Article 253 of the Penal Code. Also, at least five investigations resulted in arrests for money laundering. The prosecution service has reported that there were three indictments in 2004 specifically for money laundering, with thirty cases presently under investigation.

Bulgaria has strict and wide-ranging banking, tax, and commercial secrecy laws that limit the dissemination of financial information absent the issuance of a court order based on evidence of a committed crime. While the FIA enjoys an exemption from these secrecy provisions, they apply to all other government institutions and often are cited as an impediment to the performance of legitimate law enforcement functions. In a small effort to remedy the situation in 2004, amendments made to the Bulgarian Penal Code to permit the repeal of overly broad tax secrecy provisions, improving dissemination of some information previously covered by tax secrecy laws.

There are few if any indications of terrorist financing connected with Bulgaria. The GOB amended its Penal Code at Article 108a to criminalize terrorism and terrorist financing. Under Article 253 of the Criminal Code, terrorist acts and financing qualify as predicate crimes under Bulgaria's "all crimes" approach. The GOB also enacted the Law on Measures Against Terrorist Financing (LMATF) in February 2003, which links counterterrorist measures with financial intelligence and compels all covered entities to report suspicion of terrorism financing or pay a penalty of 25,000 leva. The law was passed consistent with the FATF Special Recommendations on Terrorist Financing. The law legislates a link between the FIA and terrorism financing, and authorizes the agency to use its financial intelligence to that end as well as in fighting money laundering.

Under the provisions of the LMATF, the state may freeze assets of a suspected terrorist for up to 45 days. The various lists generated by the UN, EU and United States of individuals and entities associated with terrorism have been circulated by the FIA, in cooperation with the Bulgarian National Bank, to the commercial banking sector and elsewhere. To date, no suspected terrorist assets have been identified, frozen, or seized by Bulgarian authorities.

There are no known initiatives underway to address alternative remittance systems. Although they may operate there, Bulgarian officials have not acknowledged their existence. In general, regulatory controls over non-bank financial institutions are still lacking, with some of those institutions engaging in banking activities absent any regulatory oversight. Similarly, exchange bureaus are subject to minimal regulatory oversight, and some anecdotal evidence suggests that charitable and non-profit legal status is frequently abused by some organizations. As part of its ongoing effort to strengthen its anti-money laundering and counterterrorist financing regime, the GOB has made non-bank financial institution oversight deficiencies a top priority for 2005.

In cases where a conviction has been obtained, the Bulgarian Penal Code provides legal mechanisms for forfeiting assets (including substitute assets in money laundering cases) and instrumentalities. Bulgaria's money laundering and terrorist financing laws both include provisions for identifying, tracing, and freezing assets related to money laundering or the financing of terrorism. Key players in the process of asset freezing and seizing, as prescribed in existing law, include the MOI; MOF, including FIA; Council of Ministers; Supreme Administrative Court; Sofia City Court; and the Prosecutor General. However, a comprehensive asset forfeiture law has yet to be enacted. In 2002, the MOI drafted an asset forfeiture law. But some experts have assessed the draft law as draconian and deficient.

Bulgaria has had several false starts in its attempts to enact asset forfeiture legislation, largely due to concern about the broad powers that could be afforded by the enactment of such a law. In response, the MOI in particular, and with the support of international counterparts, adopted a public awareness campaign to address those issues and re-drafted the legislation to reflect necessary political compromises. At the end of 2004, the Bulgarian Parliament was considering a new draft civil asset forfeiture law that incorporates the experts' recommendations. As a result of the revisions to the draft as well as a high level of political support for the passage of a civil asset forfeiture law, it is anticipated that the new draft law will be enacted before the end of 2005. The draft civil asset forfeiture law envisions an inter-institutional body that will be specifically tasked with criminal asset tracing responsibilities. In addition, MOI officials are in the early stages of collaboration with EU counterparts to establish a formal intelligence sharing network specifically related to asset tracing.

The United States does not have a mutual legal assistance treaty with Bulgaria. Information is exchanged formally through the letter rogatory process. Currently, the FIA has bilateral memoranda of understanding (MOU) regarding information exchange relating to money laundering with Belgium, the Czech Republic, Latvia, the Russian Federation, Slovenia, Canada, Australia, and Spain. Bulgaria is negotiating, and expects in 2005 to execute MOUs with Bolivia, Brazil, Cyprus, the Netherlands Antilles, Serbia and Montenegro, Thailand, and Ukraine. Between November 2003 and October 2004, the FIA sent 261 requests for information to foreign FIUs and received 68 requests for assistance from foreign FIUs (the FIA has replied to 62 so far). Twenty-four of the 68 requests for assistance were submitted by the United States and were related to persons designated as terrorists or supporters of terrorism pursuant to Executive Order 13224. The GOB has also entered into an intergovernmental agreement with Russia that promotes anti-money laundering cooperation.

Bulgarian authorities have a good record of cooperation with USG counterparts. In 2004, Bulgarian law enforcement and prosecutors, joined by international counterparts, took part in international operations that have resulted in arrests and prosecutions in both Bulgaria and the United States for significant financial crimes, including money laundering, credit card fraud, and counterfeiting.

Bulgaria 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 (especially with regard to non-bank financial institutions) and the consistency of its Customs reporting enforcement.

The Government of Bulgaria should enact and implement proposed measures to address forfeiture and seizure of criminal assets. Bulgaria should also establish procedures to identify the origin of funds used to acquire banks and businesses during privatization. Bulgaria should provide sufficient resources to the Financial Intelligence Agency (FIA) and incorporate technological improvements. The FIA should also continue to work cooperatively with all institutions having a role to play in combating money laundering to ensure full implementation of Bulgaria's 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 has 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 2002, 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, had approved the draft in 2003. The final stages include approval of the Cabinet and the adoption by the National Assembly which is expected to happen during the spring session ending in March 2005. 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. 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 that would comport with international standards.

Burma

Burma, a major drug producing and trafficking country, 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.

In October 2004, the Financial Action Task Force (FATF) withdrew countermeasures against Burma that it had called upon member countries to impose in 2003 for Burma's failure to remedy deficiencies to its anti-money laundering regime identified in 2001 when the FATF placed Burma on its Non-Cooperative Country and Territories list. The October FATF decision came in response to passage in April 2004 of the "Mutual Assistance in Criminal Matters Law" (MLA) along with subsequent amendments and implementing regulations to the MLA and the 2002 "Control of Money Laundering Law."

In January 2004, the Government of Burma (GOB) took steps to improve its money laundering law. It set a threshold amount for reporting cash transactions by banks and real estate companies, albeit at a high level of 100 million kyat (approximately \$100,000). The government also formally named representatives to a financial intelligence unit established in December 2003. At the request of the FATF, in October 2004 the government added fraud to its list of predicate offenses for money laundering and made clear that there was not a threshold amount for money laundering offenses associated with any of the listed predicate crimes. Shortly thereafter, in November 2004, Burma further amended its money laundering law to specify a penalty of up to three years imprisonment and/or fine, for "tipping off" that a suspicious transaction report has been filed on a particular individual.

These moves amended regulations instituted in 2003, which had set out 11 predicate offenses, including narcotics activities, human and arms trafficking, cyber crime, and "offenses committed by acts of terrorism," among others. The 2003 regulations also called for suspicious transaction reports (STRs) by banks, the real estate sector, and customs officials, and imposed severe penalties for non-compliance.

Despite the lifting of countermeasures, Burma remains on the FATF's list of non-cooperative countries and territories because of remaining shortcomings in its anti-money laundering regime. As of January, 2005, the United States has maintained the countermeasures it adopted in April, 2004, against Burma. At that time, the United States issued final rules finding the jurisdiction of Burma and two private Burmese banks, Myanmar Mayflower Bank and Asia Wealth Bank to be "of primary money laundering concern," and requiring U.S. banks to take certain special measures with respect to all Burmese banks, including Myanmar Mayflower and Asia Wealth Bank in particular. These rules were issued by FinCEN of the Treasury Department pursuant to Section 311 of the 2001 USA PATRIOT Act.

The rules prohibit certain U.S. financial institutions from establishing or maintaining correspondent or payable-through accounts in the United States for, or on behalf of, Myanmar Mayflower and Asia Wealth Bank and, with narrow exceptions, all other Burmese banks. Myanmar Mayflower and Asia Wealth Bank have been directly linked to narcotics-trafficking organizations in Southeast Asia. In December 2003, the Burmese Government announced an investigation of these two private banks. However, in 2004 there were no publicly available interim reports or other evidence of progress in these investigations.

Burma remains 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 Section 311 rules complement the 2003 Burmese Freedom and Democracy Act (renewed in July 2004) and an accompanying executive order. These laws imposed new economic sanctions on Burma following the Burmese government's May 2003 attack on pro-democracy leader Aung San Suu Kyi and her convoy. New sanctions prohibit the import of Burmese-produced goods into the United States, ban the provision of financial services to Burma by U.S. persons, freeze the assets of identified Burmese

institutions including the ruling junta, and expand visa restrictions to include managers of state-owned enterprises, among other officials and family members associated with the regime.

Burma holds observer status in the Asia/Pacific Group on Money Laundering and is a party to the 1988 UN Drug Convention. Over the past several years, the Government of Burma (GOB) has 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. Burma has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. In March 2004, Burma ratified the UN Convention against Transnational Organized Crime.

The Government of Burma now has in place a framework to allow mutual legal assistance and cooperation with overseas jurisdictions in the investigation and prosecution of serious crimes. 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 or encourage widespread use of informal remittance or “hundi” networks. Burma should create an 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. Burma should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and criminalize the funding of terrorism.

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 donors. 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 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. In late 2004, the Government of Burundi indicated that it was drafting legislation on money laundering.

Burundi has signed, but not ratified, both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

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.

The Government of 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. Burundi should also criminalize terrorism and the financing of terrorism.

Cambodia

Cambodia is not an important regional financial center. Nevertheless, Cambodia remains vulnerable to money laundering. It has a very weak anti-money laundering regime, a cash-based economy with an active hawala system, porous borders with attendant smuggling, and widespread official corruption. The National Bank of Cambodia (NBC) has made some strides in recent years by beginning to regulate the small banking sector, but other non-bank financial institutions, such as casinos, remain outside its jurisdiction. The Ministry of Interior has legal responsibility for oversight of the casinos, but beyond receiving a cut of the proceeds and providing security, it exerts little supervision over them. The GOC continues to work on draft legislation that would criminalize money laundering and the financing of terrorism, but the law is not expected to pass before late 2005. In the meantime, the NBC has a compendium of legally binding regulations (Prakas) that it plans to issue in 2005 that will prohibit money laundering and terrorism financing.

Cambodia's banking sector is small, with thirteen general commercial banks and four specialized commercial banks. There is some evidence of financial deepening but overall lending and banking activity remains limited. Recently, one of Australia's largest banks, ANZ Banking Group Ltd, decided to enter the Cambodian market through a joint venture. Otherwise, the banking sector is largely dominated by a handful of Cambodian-owned banks such as Canadia, Mekong, and the government-owned Foreign Trade Bank.

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 are no reports to indicate that banking institutions themselves are knowingly engaged in money laundering, but some money laundering in relatively small amounts does occur in the banking system, typically involving the proceeds of smuggling, narcotics-trafficking, or corruption. The NBC regularly audits individual banks to ensure compliance with laws and regulations. There is a standing requirement for banks to declare transactions over \$10,000. The NBC says its audits reveal that this requirement is generally followed. There is evidence that at least one major bank has not performed proper due diligence to prevent potential money laundering through its accounts. Having become aware of unusual transfers into some of its accounts from overseas, the bank did not question the source or structuring of the money transfers and may have unwittingly facilitated a money laundering operation. For its part, the NBC did not uncover the nature or source of the money transfers through its audits of this bank. A more likely route for money laundering in Cambodia is through underground banking or unregulated non-banking financial institutions. Neither the NBC nor any other Cambodian entity is responsible for identifying or regulating these informal and underground banking networks.

With political stability and the gradual return of normalcy in Cambodia after decades of war and instability, bank deposits have continued to rise and the financial sector shows some signs of deepening as domestic business activity continues to increase in the handful of urban areas. Nevertheless, foreign direct investment in the general economy remains limited and is on a downward trend, largely due to the high risks of doing business in Cambodia, including an incomplete legal framework, inadequate legal enforcement, and official corruption.

There is no apparent increase in the extent of financial crime over the past year. There is a significant black market in Cambodia for smuggled goods, including drugs, but little evidence that smuggling is funded primarily by drug proceeds. Heroin is smuggled through Cambodia to other countries. Most of the smuggling that takes place is intended to circumvent official duties and taxes and involves items such as fuel, alcohol and cigarettes.

Some government officials and their private sector associates have a significant amount of control over the smuggling trade and thus its proceeds. Cambodia has a cash-based and dollar-based economy, and the smuggling trade is usually conducted in dollars, which facilitates money laundering. Such

proceeds are rarely transferred through the banking system or other financial institutions. Instead, they are readily 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. In addition, neither money laundering (except in connection with drug trafficking) nor terrorism financing is a specific criminal offense in Cambodia at this time.

The NBC does not have the authority to apply anti-money laundering controls to non-banking financial institutions such as casinos or other intermediaries, such as lawyers or accountants.

The major non-banking financial institutions in Cambodia are the casinos, where foreigners are allowed to gamble but most Cambodians are not. The regulation of casinos falls under the jurisdiction of the Ministry of Interior, although the Ministry of Economy and Finance issues casino licenses. The Interior Ministry stations a few officials at each casino. It does not appear that Interior Ministry staff at the casinos exercise any supervision over casino operations, beyond making sure that the Ministry receives its share of casino payouts. There are roughly a dozen casinos in Cambodia, with several more under construction. Most are located along Cambodia's borders with Thailand or Vietnam. There is one casino located in Phnom Penh that has somehow escaped the regulation that all casinos be at least 200 kilometers from Phnom Penh. It would appear that the casinos operate relatively unregulated and with no real supervision.

Most casino patrons hand-carry their money across the border. For high-dollar patrons, the casinos have accounts with major banks, usually in Thailand. In practice, the patron wires a large amount of money to one of these accounts in Thailand. After a quick phone call to verify the transfer, the casino in Cambodia issues the appropriate amount in chips. The casinos do no due diligence as to the source of the money, regardless of whether it is hand-carried into Cambodia or wired into a Thai bank.

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 October 2003, the NBC issued a circular to assist banks in identifying suspicious transactions. In addition to the NBC, the Ministries of Economy and Finance, Interior, Foreign Affairs and Justice also are involved in anti-money laundering matters.

The 1996 and 1999 laws include provisions for customer identification, suspicious transaction reporting, and the creation of an Anti-Money Laundering Commission (AMLC) under the Prime Minister's Office. The composition and functions of the AMLC have not yet been fully promulgated by additional decrees, and the NBC currently 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 is not a party to the 1988 UN Drug Convention. On November 11, 2001, Cambodia signed both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. It has yet to ratify the former; it has acceded to the latter. Cambodia has assisted neighboring countries with money laundering investigations. While Cambodia is drafting legislation that would specifically address terrorism financing, it currently does not have any laws that do so. It does circulate to financial institutions the list of individuals and entities included on the UN 1267 Sanctions Committee's 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 designated terrorist financiers 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.

In June 2004, Cambodia joined the Asia/Pacific Group on Money Laundering (APG) as an observer. The APG has 30 members, including the U.S., and it is run as a FATF-style regional body. Among its other activities, the APG conducts mutual evaluations of members' anti-money laundering and terrorism financing efforts. The APG plans to conduct an evaluation of Cambodia in 2005. Hopefully, that evaluation will facilitate the passage of AML/CFT laws and regulations. The GOC also plans to work with the APG members to establish a Financial Intelligence Unit (FIU). In order to decide where to locate the FIU, an "unofficial" Anti-Money Laundering Committee was formed recently, consisting of the NBC and the Ministries of Commerce, Foreign Affairs, Finance and Justice. The Committee held its first session in December 2004.

A Working Group of the National Anti-Drug Committee was formed on November 26, 2003 to draft legislation that meets international standards. The Working Group includes the NBC and the Ministries of Interior, Justice, Economy and Finance, and Foreign Affairs. In 2004, the Working Group continued its work on draft legislation to update Cambodia's AML/CFT laws and procedures. However, there were no substantive accomplishments in terms of strengthening Cambodia's legal or institutional framework for combating financial crimes. There were no arrests for money laundering in 2004.

Among other priority actions, the Working Group's draft legislation and action plan to fight money laundering and the financing of terrorism envisions the following: criminalizing money laundering and the financing of terrorism; ratification of all 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.

The draft legislation also addresses preventive obligations related to customer due diligence, record keeping, internal controls, reporting of suspicious transactions and setting up an FIU to receive, analyze and disseminate information and to supervise compliance with all relevant laws and regulations. Absent passage of the draft legislation in 2005, the NBC plans to issue a series of regulations that have the force of law (Prakas) and that will criminalize money laundering and terrorism financing, as well as update existing financial rules and regulations.

Cambodia should pass the draft anti-money laundering and counterterrorist financing legislation as soon as possible. Cambodia should also engage fully with the Asia/Pacific Group on Money Laundering and take full advantage of its upcoming mutual evaluation to enact whatever additional policies and procedures are necessary to meet international standards. Cambodia should ratify the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The larger question remains the government's ability and will to enforce these measures once they are in place.

Cameroon

Cameroon is not a major regional financial center. Cameroon has not been experiencing an increase in financial crimes, but has dealt with banking irregularities in the past year. Despite creating anti-money laundering legislation, the process of implementing the regulations is not complete, and Cameroon is still vulnerable to money laundering and terrorist financing.

Cameroon is a member of the Central African Economic and Monetary Union (CEMAC), and shares a regional Central Bank (BEAC) with Central African Republic, Chad, Congo-Brazzaville, Equatorial Guinea and Gabon. As a consequence, the Government of Cameroon (GOC) has essentially given up banking regulatory sovereignty to this institution. The GOC is also a member of the Banking

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Commission of Central African States (COBAC), an organization within CEMAC. COBAC supervises the banking systems in CEMAC countries, ensuring the legality of the operations carried out by financial institutions. Following the 2001 terrorist attacks in the United States and subsequent United Nations resolutions, CEMAC member countries formed the Central African Action Group Against Money Laundering (GABAC) to draft a common anti-money laundering law to apply to all CEMAC countries. Cameroon, as a member of CEMAC, participates in the Ministerial Committee that adopts regulations, which as supranational laws are enforceable in all member states without specific legislation in each country.

The country-specific offices of GABAC are the National Agencies for Financial Investigation (NAFI). In Cameroon, the creation of this group has been delayed due to economic reasons. In view of these delays, the governor of BEAC, along with the secretariat of COBAC, adopted a new set of regulations giving COBAC the authority to act on money laundering and terrorism financing suspicions. Money laundering, and most financial crimes in general, are criminal offenses, and COBAC has the authority to investigate complaints, seize assets, prosecute individuals (including malfeasant bankers), and revoke banking licenses of banks that knowingly commit financial crimes. The regulations implement the FATF Forty Recommendations and nine UN resolutions on terrorism financing.

COBAC and GABAC require banks to record and report the identity of customers engaging in large transactions once the NAFI is created, and to keep a record of large transactions for five years. The threshold for reporting large transactions will be set at a later date by the CEMAC Ministerial Committee. All investigations are conducted in accordance with banker confidentiality requirements. To date, there have been no arrests related to financial crimes, but COBAC expects to fully implement the regulations in Cameroon once its staff is trained in February 2005.

The largest concern for Cameroon in terms of money laundering and terrorist financing is in the form of cross-border currency transactions and companies that transfer money internationally. BEAC has not addressed this problem to date and there are currently no laws to regulate such transfers. This is particularly troublesome to COBAC because they see it as the most vulnerable section of the financial sector.

COBAC is also responsible for circulating to its 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 Usama Bin Ladin, al-Qaida or the Taliban, or other groups identified by the United States or the European Union. Cameroon is a party to the 1988 UN Drug Convention and is bound by UNSCR 1373 and UNSCR 1267 as a member of the UN, but has only submitted reports to the 1373 committee. Cameroon has not signed the UN International Convention for the Suppression of the Financing of Terrorism. Cameroon has signed, but not yet ratified, the UN Convention against Transnational Organized Crime.

The Government of Cameroon should work with the Banking Commission of Central African States (COBAC) to fully implement applicable regulations and to establish an anti-money laundering regime capable of thwarting terrorist financing, including the enactment of cross-border currency reporting requirements. Cameroon should criminalize terrorist financing and become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Canada

Canada has implemented several measures in recent years to reduce its vulnerability to money laundering and terrorist financing. Canadian financial institutions, however, remain susceptible to currency transactions involving international narcotics proceeds, including significant amounts of funds in U.S. currency derived from illegal drug sales in the United States. The United States and Canada 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 has no offshore financial centers.

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 money laundering offenses was expanded and now covers all indictable offenses, including terrorism and the trafficking of persons.

The PCMLTFA creates 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.

A second set of regulations, published in May 2002, relates 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. 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.

Money service businesses, casinos, accountants, and real estate agents handling third-party transactions are required to report suspicious financial transactions. During 2004, the reporting requirements for the legal profession were 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.

The FIU, the Financial Transactions and Reports Analysis Center of Canada (FINTRAC), was established in July 2001. 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 counterterrorist 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.

FINTRAC now receives mandatory reports on all international electronic funds transfers, cash transactions, or cross-border movements of Canadian \$10,000 or more. During 2003-2004, FINTRAC received more than 9.5 million reports. The majority of the reports were filed electronically; of these reports, some 350, totaling approximately \$500 million, were thought of as suspicious transactions. 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 revised laws and regulations. No prosecutions occurred in 2003 or 2004.

In a November 2004 report to Parliament, Canada's Auditor General stated that "privacy concerns restrict FINTRAC's ability to disclose intelligence to the Police, and as a result, law enforcement and security agencies usually find that the information they receive is too limited to justify launching investigations." Additionally, U.S. law enforcement officials have echoed concerns that Canadian privacy laws and the high standard of proof required by Canadian courts inhibit the full sharing of timely and meaningful intelligence on suspicious financial transactions. Such intelligence may be critical to investigating and prosecuting international terrorist financing or major money laundering investigations. Recently, the concern has been the inability of U.S. and Canadian law enforcement

officers to exchange promptly information concerning suspected sums of money found in the possession of individuals attempting to cross the U.S.-Canadian border.

The PCMLTF enables Canadian authorities to deter, disable, identify, prosecute, convict, and punish terrorist groups. Canada has signed and ratified all 12 United Nations Conventions pertaining to terrorism and terrorist and has listed all terrorist entities designated by the UN. As of June 2002, STRs are required on financial transactions suspected to involve the commission of a terrorist financing offense. The GOC has also searched financial records for groups and individuals on the UNSCR 1267 Sanctions Committee's consolidated list. Canada has listed and frozen the assets of more than 420 entities.

FINTRAC has the authority to negotiate information exchange agreements with foreign counterparts. It has signed 10 memoranda of understanding to establish the terms and conditions to share intelligence with FIUs, and is negotiating several other memoranda. Canada has longstanding agreements with the United States on law enforcement cooperation, including treaties on extradition and mutual legal assistance. Canada has provisions for asset sharing, and exercises them regularly.

Canada is a member of the Financial Action Task Force (FATF) 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). In June 2002, FINTRAC became a member of the Egmont Group. Canada is a party to the OAS Inter-American Convention on Mutual Assistance in Criminal Matters. Canada is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Crime and the 1988 UN Drug Convention. The GOC has signed, but not yet ratified, the UN Convention against Corruption.

The Government of Canada continues to take significant steps to reduce its vulnerability to money laundering and terrorist financing. Canada should continue its efforts to work toward ensuring the timely sharing of financial information that may be critical to international terrorist financing or major money laundering investigations. Canada also should continue its active participation in international fora dedicated to the fight against money laundering and terrorist financing.

Cape Verde

Cape Verde is not a regional financial or banking center, nor is it a significant location for money laundering. There are only four banks that operate in country, and three of these (Banco Comercial do Atlantico, Banco Interatlantico, and Caixa Economica) are subsidiaries of Portuguese banks. The fourth bank was purchased from a Portuguese banking institution by Cape Verdean investors in 2004. Because of the close linkages between the strongest banks and their Portuguese parent companies, there is a great sensitivity in the banking sector to the requirements of the European Union with regard to financial transactions.

The two unique features of banking and financial operations in Cape Verde are the following: The importance of remittances from emigrant Cape Verdeans for the national economy (approximately 16 percent of GDP) and the growth of tourism (primarily on the islands of Sal and Boavista). The country's main vulnerability for money laundering is with the rapid development of tourist infrastructure, but there does not appear to any evidence that money laundering is indeed taking place.

Cape Verde passed money laundering legislation in 2002. Reportedly, no cases of money laundering have been brought under the statute since its enactment. The asset seizure provisions of the legislation therefore remain untested. The legislation has broad provisions to combat money laundering, and it is not limited exclusively to narcotics-related activities. Because the overwhelming amount of banking transactions are carried out with Portuguese-affiliated banks, the levels of information technology and

record keeping in the financial sector is considered quite high. The banks are subject to inspection of an independent Central Bank.

Although Cape Verde is not a narcotics producing country, there is mounting evidence that Cape Verde is being used as a transit country for drugs, particularly drugs being shipped from South America to Europe. There are nonstop flights weekly from Cape Verde to Brazil, and daily nonstop flights from Cape Verde to Portugal or other locations in Western Europe. During calendar year 2004, the Cape Verdean police seized several hundred pounds of pure cocaine, all of which was being prepared for shipment by air from Cape Verde to Europe. In December 2004, a local prosecutor who had allegedly been looking into narcotics matters was shot and seriously wounded, allegedly as a “shock attack” by an individual or group affiliated with narcotics-trafficking.

Cape Verde maintains active contacts with a number of United States and Western European police forces, particularly with the Judiciary Police of Portugal. From all available evidence, cooperation between Cape Verde’s police and its foreign counterparts has been excellent.

Cape Verde is party to the UN International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) and to the UN Convention against Transnational Organized Crime, as well as the UN International Convention for the Suppression of the Financing of Terrorism. Cape Verde should criminalize terrorist financing.

Cayman Islands

The Cayman Islands, a United Kingdom (UK) Caribbean overseas territory, continued to make strides in its anti-money laundering program in 2004, but the islands remain vulnerable to money laundering due to their significant offshore sector. With a population estimated at around 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 over 500 banks and trust companies, 3000 mutual funds, and 500 captive insurance companies that are licensed in the Caymans.

Since the year 2000, the Cayman Islands has passed and amended several anti-money laundering (AML)-related 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).

Money laundering regulations that entered into force in late 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 one-time transactions 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) access to audited account information from licensees who are incorporated under the Companies Law (2001 Second Revision) and 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.

The Monetary Authority Law enacted in December 2002 grants the CIMA independence with respect to licensing and enforcement powers over financial institutions. Unlike earlier versions of the Monetary Authority Law, this one contains no requirement that the 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

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companies that were previously exempted, while the Companies Law (2001 Second Revision) institutes a custodial system in order to immobilize bearer shares.

The Cayman Islands is subject to the U.S./UK Treaty concerning the Cayman Islands, relating to Mutual Legal Assistance in Criminal Matters. The Cayman Islands, through the United Kingdom, is also subject to the 1988 UN Drug Convention. In addition, the Cayman Islands is a member of the Caribbean Financial Action Task Force (CFATF) and the Egmont Group.

The Cayman Islands should continue its efforts to implement its anti-money laundering regime. The Cayman Islands should criminalize 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 between 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 UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O. 13224. As of the end of 2004, 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, but the Central African Action Group Against Money Laundering (GABAC), a CEMAC entity created in Chad in December 2000, has not yet formally endorsed them. As a result, Chad has not adopted the regulations into its local law, although Chad has a low threshold for the reporting of transactions already in place. The CEMAC 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 also 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 receive legal protection for cooperating 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. It is not a party to either the UN Convention against Transnational Organized Crime or the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Chad should criminalize terrorist financing and money laundering. Chad 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. Chad should also work with the BEAC to strengthen the region's anti-money laundering and counterterrorist financing regime. Chad should work through the GABAC for the approval of the draft anti-money laundering and counterterrorist financing legislation, and then ensure their domestic application and implementation.

Chile

Chile has a large, well-developed banking and financial sector, and it is a stated goal of the government to turn Chile into a major regional center. The Chilean government does not think there is a significant money laundering problem, but information is lacking as to the extent of money laundering activity. Money laundering appears to be primarily narcotics-related, and until 2003, money laundering was only a crime when it involved the direct proceeds of drug offenses. Chile is not considered to be 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 identify and combat money laundering.

Money laundering in Chile is criminalized under Law 19.366 of January 1995 and Law 19.913 of December 2003. Prior to the approval of Law 19.913, Chile's anti-money laundering program was based solely 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 and offered no "safe harbor" provisions protecting banks from civil liability; 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 Tráfico Ilícito de Estupefacientes) within the CDE functioned as Chile's Financial Intelligence Unit (FIU) until a new FIU with broader powers was created under Law 19.913.

Law 19.913 went into effect on December 18, 2003. Under Law 19.913, predicate offenses for money laundering 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 the new financial intelligence unit, the Unidad de Análisis Financiero (UAF), within the Ministry of Finance, which has replaced the CDE as Chile's FIU. Law 19.913 requires mandatory reporting of suspicious transactions by banks and financial institutions, brokerage firms, financial leasing companies, general funds-managing companies and investment funds-managing companies, the Foreign Investment Committee, money exchange firms and other entities authorized to receive foreign currencies, credit cards issuers and operators, securities and money transfer and transportation companies, stock exchanges, stock exchange brokers, securities agents, insurance companies, mutual funds managing companies, forwards and options markets operators, tax free zones' legal representatives, casinos, gambling houses and horse tracks, customs general agents, auction houses, realtors and companies engaged in

the land development business, and notaries and registrars. The law also requires that obligated entities maintain registries of cash transactions that exceed 450 unidades de fomento (approximately \$12,000), and imposes record keeping requirements (five years). All cash transaction reports contained in the internal registries must be sent to the UAF at least once per year, or more frequently at the request of the UAF. 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.

Shortly after the passage of Law 19.913 in September 2003, 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 held that some of the powers granted to the UAF in the law violated privacy rights guaranteed by the constitution. The tribunal’s decisions eliminate the ability of the UAF to request background information from government databases or from the reporting entities (including information on the reports they submit) and prevent UAF from imposing sanctions on entities for failure to file or maintain reports, or for failure to lift bank secrecy protections. The law went into effect in December 2003 without the above-mentioned powers. A new bill has been drafted to give the UAF the ability to fine or sanction reporting entities for noncompliance with the reporting requirements. The UAF was initially granted this power in the original version of Law 19.913, but the constitutional tribunal objected to this section on grounds of due process. The new bill, if passed, will address the due process issues by allowing the individual or entity 15 days to contest the sanction, and also create sanctions by the regulatory agencies prior to sanctions administered by the UAF. The bill will establish processes through which the UAF can request information from other government entities.

The UAF began operating in April 2004, and began receiving suspicious transaction reports (STRs) from reporting entities in May 2004, and had received 25 STRs as of October 2004. STRs from financial institutions are received electronically, via a system known as SINACOFI (Sistema Nacional de Comunicaciones Financieras) that is used by banks to distribute information in an encrypted format among themselves and the Superintendency of Banks. The UAF has not yet developed a suspicious transaction disclosure form for entities other than banks and financial institutions, and therefore, has not received STRs from non-financial institutions. Non-bank financial institutions currently do not fall under the supervision of any regulatory body. It is estimated that the UAF will average roughly 50-80 STRs per year. Cash transaction reports (CTRs) are only reported upon request, and, as of October 2004, the UAF had only requested CTRs from currency exchange houses. Reports on the transportation of currency and monetary instruments into or out of Chile must be to the customs agency, which sends the reports to the UAF on a daily basis.

After receiving a STR, the UAF may request account information on the subject of the STR from the institution that filed the report. The UAF may also request CTRs from reporting entities at any time, but is required by law to request at least once per year all CTRs filed from each institution. If the draft law is passed, the UAF will be able to request information from any entity that is required to file STRs, even if that entity did not file the STR that is being investigated. The draft law will also permit the UAF to request information from any entity that is not required to report suspicious transactions, if that information is necessary to complete the analysis of an STR, and will allow the UAF access to any government databases necessary for carrying out its duties. In order to perform these functions detailed in the draft law, the UAF will need the authorization of the Santiago Appeals Court. However, in the case of access to government databases, the UAF only needs court authorization for protected information, such as information related to taxes.

The Consejo de Defensa del Estado (CDE) continues to analyze and investigate any cases opened prior to the establishment of the UAF. Until June 2005, all cases that are deemed by the UAF to require further investigation will be sent to the CDE. The UAF has not yet sent any cases to the CDE for further investigation. After June 2005, the Public Ministry (the public prosecutor’s office) will be responsible for receiving and investigating all cases from the UAF. 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. The Public Ministry has up to two years to complete an investigation and prosecution.

Given the above legislative restrictions, no money laundering cases were prosecuted in 2004. At the same time, the Chilean investigative police (PICH) are actively cooperative in pursuing money laundering investigations.

Terrorist financing in Chile is criminalized under Law 18.314 and Law 19.906. Law 19.906 went into effect in November 2003 and modifies Law 18.314 in order to sanction more efficiently 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. The Government of Chile (GOC) circulates the UNSCR 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. 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. 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.

Chile is a party to the 1988 UN Drug Convention, and ratified the UN Convention against Transnational Organized Crime in November 2004. In November 2001, Chile became a party to the UN International Convention for the Suppression of the Financing of Terrorism. On December 11, 2003, the Chile 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 CDE became a member of the Egmont Group of financial intelligence units in 1997, and the UAF was vetted by the Egmont Group in October 2004 to replace the CDE.

In the establishment of the UAF, the Government of Chile has created an FIU that essentially surmounts the deficiencies of the CDE and meets the Egmont Group's definition of a financial intelligence unit. However, there remain several weaknesses that may hinder the operations of the UAF, such as its inability to sanction reporting entities or individuals for failure to file reports and its lack of access to information from other government agencies. Chile 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. If the abilities of the UAF remain limited by the current version of the new law, the steps that have been taken in Chile over the past years to create a regime capable of investigating, punishing, and deterring financial crime may be severely limited, if not negated. Chile should take all necessary steps to ensure that its FIU becomes a viable entity capable of combating money laundering and terrorist financing to the best of its abilities.

China, People's Republic of

Money laundering remains a major concern as the People's Republic of China (PRC) restructures its economy. A more sophisticated and globally connected financial system in one of the world's fastest growing economies will offer significantly more opportunities for money laundering activity. 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, often return to the PRC disguised as foreign investment, and as such, receive tax benefits. Speculation on a possible currency revaluation has also been fueling illicit capital flows into China throughout 2004. Hong Kong-registered companies figure prominently in schemes to transfer corruption proceeds and in tax evasion recycling schemes. The International Monetary Fund estimates that money laundering in China may total as much as \$24 billion.

After conducting studies on 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 non-cash 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 large renminbi transactions, including single credit transfers of over 1 million renminbi (RMB) (\$120,500), cash transactions above 200,000 RMB (\$24,000), and domestic fund transfers of over 200,000 RMB, and are expected to report suspicious RMB transactions and 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 criminalized money laundering under Article 191 for three categories of predicate offenses-narcotics-trafficking, organized crime, and smuggling. In 2001, Article 191 was amended to add terrorism as a fourth predicate offense. Additionally, Article 312 criminalizes complicity in concealing the proceeds of criminal activity, and Article 174 criminalizes the establishment of an unauthorized financial institution.

While official scrutiny of cross-border transactions is improving, the Chinese Government is also moving to loosen capital-account restrictions. For example, as of January 1 2005, travelers can take up to 20,000 renminbi (\$2,400) in or out of the country on each trip, up from 3,000 renminbi (\$360) previously. New provisions allowing the use of renminbi in Hong Kong have also created new loopholes for money laundering activity. Authorities are also allowing greater use of domestic, renminbi-denominated, credit cards overseas. Such cards can now be used in Hong Kong, Macau, Singapore, Thailand, and South Korea. SAFE reported that in the first six months of 2004, it uncovered 300 money laundering cases involving more than \$1 billion. Over 50 percent of suspicious transactions came through Hong Kong, followed by the United States, Japan, and Taiwan.

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, asset 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 remains with the PBOC, the country's Central Bank, along with the Ministry of Public Security in terms of enforcement.

A new anti-money laundering law is being drafted under the direction of a ministerial-level coordinating committee that was created in 2004. This new law is expected to broaden the scope of existing anti-money laundering regulations and to establish more firmly PBOC's authority over national anti-money laundering efforts. No date has been set for passing the new law, but authorities expect passage during 2005.

In 2004, the PBOC established a Financial Intelligence Unit (FIU) called the Anti-Money Laundering Monitoring and Analysis Center, which will supervise the monitoring of suspicious transactions. This move was an important accomplishment of the Anti-Money Laundering Strategy Team tasked with developing the legal and regulatory framework for countering money laundering in the banking sector. The team is chaired by a Vice-Governor of the PBOC and is composed of representatives of the PBOC's 15 functional departments. It had earlier 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 allowed for immediate electronic supervision of transactions, collection of statistical data, and reporting and analysis of transactions. A separate Anti-Money Laundering Bureau was established at the PBOC in late 2003 to coordinate all anti-money laundering efforts in the PBOC and among other agencies, and to supervise the creation of the new FIU.

In spite of China's 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, which in some regions reportedly account for over one-third of lending activities. China has made some efforts in recent years to crack down on underground lending institutions. In an August 2004 speech, PBOC Governor Zhou Xiaochuan said the government had closed 153 underground money centers and illegal banks since 2002.

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.

To remedy these deficiencies, the PBOC is launching a national credit-information system in early 2005. Using this system, banks will have access to information on individuals as well as on corporate entities. PBOC rules obligate financial institutions to perform customer identification and due diligence, and record keeping. However, there is currently no legislative instrument—only administrative rules—requiring customer due diligence and record keeping. SAFE implemented a new regulation on March 1, 2004 requiring non-residents, including those from Hong Kong, Macau, Taiwan, and Chinese passport holders residing outside mainland China, to verify their real names when opening bank accounts with more than \$5,000.

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 U.S. and international efforts to identify, track, and intercept terrorist finances, specifically through implementation of United Nations Security Council counterterrorist financing resolutions.

China's concerns with terrorist financing are generally regional, focused mainly on the western province of Xinjiang. 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—estimated by the Chinese Government at about 10 percent of the formal economy, but probably larger—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 United States 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 2004. 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 UNSCR 1267 Sanctions Committee for inclusion on its consolidated list. In December 2003, China unilaterally decided to list several individuals and "East Turkistan" groups as terrorists, and requested that domestic and foreign financial entities freeze their financial assets. East Turkistan is the name for Xinjiang province used by these separatist groups.

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 provides 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. The next one is scheduled for February 21, 2005. 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. Bilateral cooperation on anti-money laundering was further strengthened through a series of training seminars conducted by the U.S. Treasury Department and the National Committee on U.S.-China Relations in July 2004.

In late 2004, China joined the newly-created Eurasian Group (EAG), a Financial Action Task Force (FATF)-style regional group which includes Russia and a number of Central Asian countries. China had previously declined to join the Asia/Pacific Group on Money Laundering (APG), the Asia Pacific regional FATF-style body, due to Beijing's concerns over Taiwan's membership in the APG.

The Government of the People's Republic of China should continue to build upon the substantive actions taken in recent years to develop a viable anti-money laundering/terrorist financing regime consonant with international standards. Important steps include expanding its list of predicate crimes

to include all serious crimes, and continuing to develop a regulatory and law enforcement environment designed to prevent and deter money laundering. China should clarify Article 120 of its criminal code to make clear whether the law applies to third parties. China should ensure that the FIU is an independent, centralized body with adequate collection, analysis and disseminating authority, including the ability to share with foreign analogs and law enforcement. China should provide for criminal penalties for non-compliance with requirements that financial institutions perform customer identification, due diligence, and record keeping as well as incorporating the suspicious transaction-reporting requirement into law. China should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Colombia

Colombia, a major drug producer, is a regional leader in the fight against money laundering. Comprehensive anti-money laundering legislation regulations have allowed the government to refine and improve its ability to combat financial crimes and money laundering. Nevertheless, the laundering of drug money from Colombia's large and lucrative cocaine and heroin trade continues to penetrate its economy and affect its financial institutions. Additionally, a complex legal system and limited resources for anti-money laundering programs constrain the effectiveness of the Government of Colombia's (GOC) efforts. The extent of money laundering is related to a number of criminal activities—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)—and is carried out, to a significant degree, by officially recognized Foreign Terrorists Organizations (FTO's). The GOC and post law enforcement organizations (LEO's) are closely monitoring transactions that could disguise terrorist finance activities for local FTOs or Islamic terror organizations.

Colombia's economy is robust and diverse, and is fueled by a significant export sector that ships goods such as oil, flowers, and coffee to the U.S. and beyond. While Colombia is not a regional financial center, the banking sector is mature and well regulated. An increase in financial crimes, such as bank fraud, not related to money laundering or terrorist financing, has not been widely seen in Colombia, although criminal elements have used the banking sector to launder money, under the guise of licit transactions. Money laundering has occurred in the non-bank financial system, and in particular related to transactions that support the informal or underground economy. Colombian money launderers also use offshore centers to move funds, that are generally derived from illicit drug transactions.

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, Ecuador 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. From a money laundering standpoint, casinos in Colombia lack regulation and transparency, making them a target ripe for abuse. Free trade

zones in some areas of the country likewise present opportunities for smugglers to take advantage of lax customs regulation or the corruption of low-level officials to move products into the informal economy.

Colombian law requires that financial institutions maintain records of account holders and financial transactions. Financial entities must issue Suspicious Activity Reports (SAR's) on any transaction that raises concern. Colombia's banks operate under strict compliance controls, and work closely with the GOC, other foreign governments, and private consultants to ensure system integrity. Secrecy laws have not been an impediment to bank cooperation with law enforcement officials. Authorities often initiate money laundering investigations on the basis of the details provided by SAR reporting. Citizens are afforded rights to privacy, however, and authorities carry out money laundering investigations in accordance with legal requirements to protect those rights. Financial institutions are not protected by law nor are they exempt from compliance with law enforcement obligations. General negligence laws and criminal fraud provisions ensure that the financial sector complies with its responsibilities while protecting consumer rights.

Colombian law is unclear about the government's authority to block assets of individuals and entities on the UNSCR 1267 Sanctions Committee's Consolidated List. The GOC distributes the list widely among financial sector participants and banks are able to close accounts, but not seize assets. Banks also monitor other lists, such as the U.S. Office of Foreign Assets Control (OFAC) publications, to ensure that services are denied to criminal elements, through the closing of accounts and denial of services.

Widespread corruption of government officials has not been reported. The GOC has taken dramatic steps to ensure the integrity of its most sensitive institutions and senior government officials. The government regulates charities and NGOs to ensure compliance with Colombian law and to guard against their involvement in terrorist activity. The NGO regulation consists of several layers of scrutiny, including the regulation of incorporation procedures and the tracing of suspicious financial flows via the collection of intelligence or SAR reporting. Moreover, Colombia is improving its ability to regulate alternative remittance systems. These systems include networks of informal cash remittances through family member connections or the use of smuggling rings that forms the backbone of the Black Market Peso Exchange.

Colombia has broadly criminalized money laundering. In 1995, Colombia established the "legalization and concealment" of criminal assets as a separate criminal offense. In 1997, Colombia more generally criminalized the laundering of the proceeds of extortion, illicit enrichment, rebellion, and narcotics-trafficking. Effective in 2001, Colombia's criminal code extended 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 nonconviction-based asset 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 in Colombia's principal counternarcotics statute, Law 30 of 1986. In 1996, Colombia added non-conviction-based forfeiture with the enactment of Law 333 of 1996, which establishes a process that allows for the extinguishing of ownership rights for assets tainted by criminal activity. This process is only the first step in Colombian law, which requires a second judicial procedure to

transfer the title from the original owner to the GOC. This second procedure can take years if the original owner decides to fight the transfer. Despite an 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 September of 2002, the GOC took additional forceful measures to remove practical obstacles to the effective use of forfeiture to combat crime by issuing a decree to suspend application of Law 333 and implement more streamlined procedures in forfeiture cases. In December, the government refined and formally adopted these reforms when it enacted Law 793 of 2002. In addition, Law 793 repealed 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 the property. Law 793 also required expedited consideration of forfeiture actions by judicial authorities, and establishes a fund for the administration of seized and forfeited assets.

In December 2002, the GOC strengthened its ability to administer seized and forfeited assets by enacting Law 785 of 2002. This statute provided 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 before a final forfeiture order, including assets seized prior to the enactment of the new law. In 2004, the Department of Administration of Property within the Prosecutor General's office seized nearly 17,000 properties. The DNE, with assistance from the United States Marshals Service, is developing a modern asset management and electronic inventory system for tracking and managing seized assets.

Colombia, in December 2002, changed its asset forfeiture law to resemble an analogous law in the United States. The GOC shortened the amount of time for challenges and moved the focus from the accused to the seized item (cash, jewelry, boat, etc.), placing a heavier burden on the accused to prove the item was acquired with legitimately obtained resources. There was a 25 percent increase in money laundering prosecutions and a 42 percent increase in asset forfeiture cases in 2004. According to the office of the Prosecutor General, the total value of seized assets held by the GOC is estimated to total over six billion U.S. dollars.

The Colombian government has been aggressively pursuing the seizure of assets obtained by drug traffickers through their illicit activities. As a prime example, for the last two years the Colombian National Police Special Investigative Unit (CNP/SIU), in conjunction with DEA and the Colombian Prosecutor General, has been investigating the Cali Cartel business empire under the Rodriguez Orejuela brothers. A series of investigations designed to identify and seize assets either purchased by money gained through illegal drug activity or assets used to launder drug proceeds took place under Operation DINASTIA. In October 1995, under Executive Order 12978, OFAC named a Colombian national pharmacy chain, "Drogas La Rebaja", as a Specially Designated Narcotics-trafficking (SDNT) entity. After a lengthy investigation by Colombian law enforcement, on September 16, 2004, the CNP/SIU mobilized 3,200 police officers and 465 Colombian prosecutors nationwide in order to seize approximately 480 retail stores of the "Drogas La Rebaja" drug store chain. As part of the operation, authorities also seized the largest pharmaceutical laboratory in Colombia. This is the largest asset forfeiture in Colombia to date. The operation took place in 28 of the 32 Colombian departments over three days. The Colombian Direccion Nacional de Estupefacientes (DNE) took control of the stores and has replaced the top 24 company executives with DNE administrators. All 4,200 company employees will continue to work, but all company profits are to be dedicated to counternarcotics programs.

Money Laundering and Financial Crimes

The public and political response to asset forfeiture has been positive. Press reports have been matter-of-fact concerning asset seizure operations, and the court-sanctioned nature of the seizure orders mitigates political pressure. In general, Colombians recognize the relationship between criminals and their illicitly gotten gains. The banking sector has been cooperative with law enforcement activity based on judicial orders. Banks and other financial sector entities are also mindful of USA PATRIOT Act provisions that require action against criminals that fall under the jurisdiction of that act. Criminals in Colombia often act violently against vigorous law enforcement activities. As a result, GOC officials at all levels of involvement must guard against retaliatory actions.

Colombia formally adopted legislation in 1999 to establish a unified, central financial intelligence unit, the “Unidad de Informacion y Analisis 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. Covered 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 non-compliance, 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. The U.S. and Colombia exchange information and cooperation based on the 1998 UN Drug Convention. 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 U.S.

A financial investigative unit, formed within the Colombian National Police Intelligence and Investigations Unit (DIJIN) in 2002, has worked on 68 cases, some of which have been closed by investigation and arrests. This unit works closely with the Bureau of Immigration and Customs Enforcement of the U.S. Department of Homeland Security. The 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 addition to asset seizures, the CNP Airport interdiction groups in Bogota, Medellin, and Cali have seized approximately three million dollars in cash from couriers returning from the United States and Mexico. Also, the DNE reported the seizure of over 1,400 vehicles, 371 boats, and 282 aircraft during CY 2004.

Colombia is a member of the South American Financial Action Task Force (GAFISUD), the Financial Action Task Force (FATF) regional anti-money laundering organization. In 2004, Colombia continued to participate in the mutual evaluation process by providing experts for the mutual legal evaluations of other GAFISUD countries. The Director of UIAF is director of the GAFISUD FIU Working Group,

and in 2004 participated on the GAFISUD Executive Director Selection Committee and on the Budget Committee. 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, and ratified the convention in September, 2004. The GOC has not specifically criminalized the financing of terrorism, although terrorist financing crimes can be prosecuted under other sections of law. The GOC has signed, but not ratified the UN Convention against Corruption and the UN Convention against Transnational Organized Crime, along with the protocol on trafficking in persons, in August, 2004.

Despite Colombia's comprehensive anti-money laundering laws and regulations, enforcement continues to be a challenge in 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 as continuing problems.

The Government of Colombia should specifically criminalize the financing of terrorism. Colombia should also amend its anti-money legislation to include all serious crimes and should penalize all covered entities that do not file SARs or CTRs. Colombia should also take legislative action to strengthen forfeiture and other aspects of money laundering enforcement, eliminate procedural impediments, and devote additional resources to prosecutors and investigators dealing with money laundering and asset forfeiture.

Comoros

The Union of the Comoros (the Comoros) is not a principal financial center for the region. An anti-money laundering (AML) law, which addresses many of the primary AML issues of concern, was passed by Presidential Decree prior to the March 2004 elections. However, Comoros authorities lack the capacity and will to effectively implement and enforce the legislation. The Comoros consists of the islands of Grande Comore, Anjouan and Moheli. Since Comoros gained independence from France in 1975, political instability has been a chronic problem. In 1997, the islands of Anjouan and Moheli declared their independence, seceded from the country and formed their own governments. Since that time, the islands have been moving towards a rapprochement. A President was elected in 2004 and a return to relative stability has begun. However, while broad principles have been agreed upon, many of the details of the new federal legal system remain to be decided upon, and both Moheli and Anjouan continue to retain much of their autonomy, particularly with respect to their economies and banking sectors.

The new federal-level AML law is based on the French model. The main features of the law are that it: 1) requires financial and related records to be maintained for five years; 2) permits assets generated or related to money laundering activities to be frozen, seized and forfeited; 3) requires residents to declare all currency or financial instruments upon arrival and departure, and non-residents to declare all financial instruments upon arrival and all financial instruments above Comorian Francs 500,000 (\$1,250) on departure; 4) permits provision and receipt of mutual legal assistance with another jurisdiction where a reciprocity agreement is in existence and confidentiality of financial records is respected; 5) requires non-bank financial institutions to meet the same customer identification standards and reporting requirements as banks; 6) requires banks, casinos and money exchangers to report unusual and suspicious transactions (by amount or origin) to the Central Bank and prohibits cash transactions over Comorian Francs 5 million (\$12,500); and, 7) criminalizes the provision of material support to terrorists and terrorist organizations. There is no financial intelligence unit or comparable agency in existence in the country.

The autonomy of Anjouan and Moheli severely limits the ability of federal authorities to implement its AML laws within their jurisdictions. Although Moheli has its own AML law in effect (the Anti-Money Laundering Act of 2002), the law itself has some serious shortcomings and authorities lack the resources and expertise to enforce its provisions. For example, there is no absolute requirement to report large cash transactions. Comprehensive information on Anjouan's laws and regulations is difficult to obtain, but it does not appear that Anjouan has an AML law, or any legal requirement for offshore banks to maintain records or take any action when confronted with money laundering activities, be they suspected or confirmed. As is the case with Moheli, Anjouan also lacks resources and expertise to address money laundering and related financial crimes.

While the Comoros is not a principal financial center for the region, Moheli and Anjouan are attempting to develop an offshore financial services sector as a means to finance government expenditures. Both Moheli, pursuant to the International Bank Act of 2001, and Anjouan, pursuant to the Regulation of Banks and Comparable Establishments of 1999, license off-shore banks. Together, the islands have licensed more than 100 banks. Applicants for banking licenses in either jurisdiction are not required to appear in person to obtain their licenses. In Anjouan, only two documents (a copy of the applicant's passport and a certificate from a local police department certifying the lack of a criminal record) are required to obtain an offshore license and fax copies of these documents are acceptable. Even if additional information was to be required, it is doubtful that either jurisdiction has the ability or resources to authenticate and verify the information. Neither jurisdiction is capable, in terms of expertise or resources, of effectively regulating an offshore banking center. Anjouan, and probably Moheli as well, has delegated much of its authority to operate and regulate the offshore business to private, non-Comorian domiciled parties.

In addition to offshore banks, both Moheli, pursuant to the International Companies Act of 2001, and Anjouan, pursuant to Ordinance Number 1 of 1 March 1999, license insurance companies, internet casinos, and international business companies (IBC's)—Moheli alone claims to have licensed over 1200 IBC's. Bearer shares of IBC's are permitted under Moheli law. Anjouan also forms trusts, and registers aircraft and ships as well (without requiring an inspection of the aircraft or ship in Anjouan).

The Comoros is a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, and the UN Convention for the Suppression of the Financing of Terrorism .

The Government of the Union of the Comoros (GOC) should harmonize anti-money legislation for the three islands that comprise the federal entity. A unified financial intelligence unit should be established and the unregulated offshore financial sectors in Moheli and Anjouan should either be transferred to the federal level from the private sector or be shut down. In either case, bearer shares should be immobilized. The deficiencies in the anti-money laundering/terrorist financing regimes in the Comoros, and the GOC's inability to implement existing legislation make it vulnerable to traditional money laundering and to the financing of terrorism. Comoros should make every effort to comport to international standards. Comoros should criminalize the financing of terrorism.

Congo, Democratic Republic of

The Democratic Republic of the Congo (DRC) is not a regional financial center. However, its porous borders, lack of a well-regulated banking sector and a functional judicial system, and inadequate enforcement resources make it susceptible to money laundering. Smuggling is widespread throughout the DRC, and money laundering often involves the proceeds from illicit import/export activities and diamond sales. Money laundering also is prevalent in the money transfer agencies in the DRC and their associated exchange facilities. Most economic activity in the DRC takes place in the informal sector, estimated to be at least four times the size of the formal sector, with most transactions, even those of legitimate businesses, carried out in cash. Money laundering in the DRC is neither primarily nor significantly related to narcotics proceeds.

With the assistance of the World Bank, the Congolese Central Bank, and the IMF, the GDRC recently passed legislation criminalizing money laundering and terrorist financing. Banks and non-banking financial institutions are now required to report all transactions over \$10,000. Banks find this requirement burdensome, as 90 percent of transactions using the banking system meet this threshold. There are no legal restrictions in the DRC prohibiting the sharing of financial account information with foreign entities. The President and courts have the legal authority to freeze the assets of terrorist organizations.

The DRC is in an ongoing effort to reform and restructure its banking system with the assistance of the IMF. Several insolvent banks have been liquidated. New computerized communications and accounting networks are to be installed that will make it easier to trace formal financial transactions.

The DRC has signed, but not yet ratified, both the 1999 International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. It has not signed the UN Convention against Transnational Organized Crime.

The Government of the Democratic Republic of the Congo (GDRC) should take steps to enforce the new legislation criminalizing money laundering and terrorist financing. It should become a party to the 1988 UN Drug Convention, the 1999 UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime

Congo, Republic of

The Republic of Congo (also called Congo-Brazzaville) is not a regional financial center. Neither drug trafficking nor money laundering is 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.

Congo-Brazzaville strengthened its laws against money laundering in 2003. 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, moneychangers 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 1,000,000 FCFA (\$1,980). In addition, Congo-Brazzaville requires that foreign transfer of more than 500,000 FCFA (\$990) must receive the prior approval of banking regulators. In 2003, Congo-Brazzaville applied the anti-money laundering laws against Salu Humberto Brada, an export-import company accused of inappropriate micro-finance operations and charging excess interest. No money laundering cases were tried during 2004.

Congo-Brazzaville has bilateral extradition treaties with France, the Democratic Republic of Congo (Congo-Kinshasa) and Cuba. It is a party to the multilateral Antananarivo Convention on Matters of Justice of 1961. Congo-Brazzaville reported to the UN Security Council in 2003 that no inter-agency coordination mechanism existed to control drugs at the country's borders. That situation continued in 2004. In the same report, Congo-Brazzaville reported that it did have a national Committee against Criminality, a national Council of Security, and an Action Group against Money Laundering in Central Africa. 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 Central African Regional Monetary Union 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 parliamentary democracy in free association with New Zealand and a member of the British Commonwealth. Cook Islanders are citizens of New Zealand. By passing nine new legislative acts on May 7, 2003 and additional legislation in 2004, the Cook Islands authorities strengthened its anti-money laundering/counterfinancing (AML/CFT) legal and institutional framework.

The new laws remedy several of the deficiencies identified by the Financial Action Task Force's Non-Cooperative Countries and Territories initiative and the joint Asia/Pacific Group on Money Laundering/Offshore Group of Banking Supervisors (APG/OGBS) mutual evaluation report.

The Financial Transactions Reporting Act 2003 (FTRA 2003) imposes certain reporting obligations on financial and non-bank 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 retain all records related to the opening of accounts and financial transactions for a minimum of six years. 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 Financial Transactions Reporting Act 2004 (FTRA) redefined obligations and procedures relating to customer identification, record keeping, internal controls and reporting of suspicious or other types of transactions. It also reorganized the supervisory structure, by allocating compliance checking functions for licensed entities to the Financial Supervisory Commission (FSC). The FTRA addresses confidentiality/secretcy of financial transactions, and provides authority that supersedes other related legislation in Sections 35 and 36. These sections compel financial institutions to comply with the reporting and other requirements of the FTRA, and to provide transaction information to the Cook Islands Financial Intelligence Unit (FIU), established under the law.

The FTRA mandates due diligence, ongoing monitoring of customers and transactions, suspicious activity reporting, development and maintenance of internal procedures for compliance, audit and record keeping. Furthermore, the FTRA establishes the supervision and authority of the FIU, including cooperation with supervisors, and provides for administrative and penal sanctions for noncompliance.

The FIU became legally established pursuant to Section 20 of the FTRA. With the assistance of a Government of New Zealand technical advisor, the FIU became fully operational. The FIU is the competent authority responsible for receiving, suspicious transaction reports (STRs). The FIU also receives currency transaction reports, as well as reports of telegraphic transfers over NZD\$10,000. If the Financial Intelligence Unit (FIU), after analyzing these reports determines that a money laundering offense has been, or is being committed, the FIU must refer the matter to law enforcement for investigation. The 2003 FTRA also authorizes the FIU to request information from any law enforcement agency and supervisory body. The FIU is required to destroy a suspicious transaction report received or collected after six years since the receipt of the report, if there has not been activity or information relating to the report or the person named in the report. Covered institutions obligated to file STRs to the FIU are banks, insurers, financial advisors, bureaux de change, solicitors/attorneys,

accountants, financial regulators, casinos, lotteries, money remitters, and pawn shops. Administrative oversight is vested with the Minister of Finance, who appoints the Head of the FIU. FIU has the authority to require reporting parties to supplement reports, and has broad powers to obtain relevant information needed to combat money laundering and the financing of terrorism. The FIU does not have an investigative mandate.

The FIU has delegated responsibility for assessing AML compliance by licensed financial institutions to the FSC. The resulting reports and relevant documentation are to be provided to the FIU. However, the FIU retains responsibility for assessing compliance by non-licensed reporting institutions. In 2004, it did not conduct any on-site compliance visits, as it is still in the process of hiring a compliance officer and of identifying the non-licensed reporting institutions.

In May 2003 the Government enacted legislation to establish the Financial Supervisory Commission (FSC) as the sole regulator of the licensed financial sector. The FSC is empowered to license, regulate, and supervise the business of banking, and serves as the administrator of the legislation that regulates the offshore financial sector. Its policy is to seek to respond to requests from overseas counterparts to the utmost extent possible. The Board has also taken a broad interpretation of the concept of “counterpart,” and does not need to establish general equivalence of function before being able to cooperate.

The only known request to the FSC in 2004 was a request from the New Zealand Securities Commission. The FSC advised the Securities Commission that, owing to the requirements of Cook Islands law, the information requested could be provided only if there were appropriate confidentiality arrangements in place. The Securities Commission developed confidentiality orders, advised the FSC of this in June 2004, and received the information sought in August 2004. The Securities Commission reports that it found the FSC willing to assist, and that it received all the information it sought.

The Cook Islands reporting requirements apply to all currency transaction reports (CTRs) of NZ\$10,000 (\$7,100) and above, electronic funds transfer reports (EFTR) of NZ\$10,000 (\$7,100) and above, as well as all suspicious transactions. Currency taken in and out of the Cook Islands in excess of NZ\$10,000 must be reported, as well. The FIU received 14 STRs in 2004. In 2004, the FIU received 862 CTRs, 2,613 EFTRs, and 11 border currency reports (BCRs). To date, 30 of the 36 suspicious transaction reports have related to non-residents.

Under Sections 10 and 11 of the FTRA banks and a broad range of non-bank financial institutions are required to report telegraphic transfers above NZ\$10,000 (approximately \$7,100). CTRs must be filed when NZ\$10,000 and above is transported over the border.

The domestic banking system is comprised of branches of two major Australian banks, and the local Bank of the Cook Islands (BCI). The latter is the result of a 2001 merger of the government-owned Cook Islands Development Bank and the Post Office Savings Bank. The primary business of the domestic banks operating in the Cook Islands is traditional deposit taking and lending. The BCI operates as a stand-alone institution competing against the two Australian banks, and is no longer engaged in development lending. Legislation allows for development lending to be undertaken in the future by a separate company not subject to supervision by the FSC. In addition, non-performing loans made by the Cook Islands Development Bank have been transferred to another affiliated company.

Licensing requirements, as set out in the legislation, are comprehensive. The Banking Act 2003 and a Prudential Statement on Licensing issued in February 2004 contain detailed licensing criteria for both locally incorporated and foreign banks, including “fit and proper” criteria for shareholders and officers, satisfactory risk management, accounting and management control systems, and minimum capital requirements. The Banking Act 2003 defines banking business, prohibits the unauthorized use of the word “bank” in a company name, and requires prior approval for changes in significant shareholding.

The Cook Islands has an offshore financial sector that licenses international banks and offshore insurance companies and registers international business companies. It also offers company services and trusts—particularly asset protection trusts that contain a “flee clause”. Flee clauses state that if an inquiry is made by a foreign law enforcement agency regarding the trust, the trust will be automatically transferred to another jurisdiction.

The Banking Act 2003 and the Financial Supervisory Commission Act 2003 (FSCA 2003) established a new framework for licensing and prudential supervision of domestic and offshore financial institutions in the Cook Islands. The FSCA required all banks, onshore and offshore, to reapply for a license within 12 months of the commencement of the FSCA—May 2004. All offshore banks that had been licensed under the previous legislation were required to re-apply for an international banking license under the Banking Act 2003.

The effect of the legislation is to require offshore banks to have a tangible physical presence in the Cook Islands (the “mind and management” principle), transparent financial statements, and adequate records prepared in accordance with consistent accounting systems. All banks are subject to a vigorous and comprehensive regulatory process, including on-site examinations and supervision of activities on a consolidated basis. This physical presence requirement was intended to ensure that the Cook Islands would have no “shell banks” by June 2004.

Nine applications were received by the FSC for international banking licenses. Seven of the pre-existing banks decided not to re-apply. Two licenses were granted on May 28, 2004, and three on July 1, 2004. Four applications were declined: three on the grounds that the shareholders and/or directors were not fit and proper, and the fourth on the grounds that the ownership structure included bearer shares. One of the four banks refused a license appealed to the courts, and an interim injunction instructing the Commission to issue a license was granted. The FSC is challenging the decision, and is hopeful that the matter will be resolved by March 2005.

The FIU 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 powers similar to the FIU after the signing of an information exchange agreement.

The GOCI 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 Terrorism Suppression Act 2004 is based on the model law drafted by an expert group established under the auspices of the Pacific Islands Forum Secretariat. The Act criminalizes the commission and financing of terrorism.

The GOCI is a member of the Asia/Pacific Group on Money Laundering. The FIU became a member of the Egmont Group in June 2004, and has bilateral agreements allowing the exchange of financial intelligence with Australia. It is currently in negotiations with Thailand.

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 international peace and security. The GOCI is also finalizing regulations to give effect to UN Security Council Resolution 1373.

The Financial Action Task Force (FATF) placed the Cook Islands on its Non-Cooperative Countries and Territories (NCCT) list in 2000. In the interim, the Government of the Cook Islands has remedied the deficiencies of its anti-money laundering regime. A FATF Review Group conducted an on-site visit in November 2004 to determine the effectiveness of those remedies. The Cook Islands should continue

to implement legislation designed to strengthen its nascent institutions and should maintain vigilant regulation of its offshore financial sector to ensure that it comports with international standards.

Costa Rica

Costa Rica is not a major financial center, but it remains vulnerable to money laundering and other financial crimes, due in part to narcotics trafficking in the region and the presence in Costa Rica of Internet gaming companies. Reforms to the Costa Rican counternarcotics law in 2002, which expand the scope of anti-money laundering regulations, also create a loophole by eliminating the government's licensing and supervision of casinos, jewelers, realtors, attorneys, and other non-bank financial institutions. Gambling is legal in Costa Rica, and there is no requirement that the currency used in Internet gaming operations be transferred to Costa Rica. Currently, over 200 sports book companies have registered to operate in Costa Rica. Many of these registered firms have the same owners and addresses.

In 2002, the Government of Costa Rica (GOCR) expanded the scope of Law 7786 via Law 8204. This expansion criminalizes the laundering of proceeds from all serious crimes. Law 8204 also obligates financial institutions 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 funds involved in transactions. 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 which are involved in the transfer of funds as a primary business purpose. As stated earlier, the 2002 law does not cover casinos, jewelry dealers, or Internet gambling operations whose primary business is not the transfer of funds. New legislation/regulations are being drafted to close this loophole and may be enacted in 2005.

The formal banking industry in Costa Rica is tightly regulated. However, the offshore banking sector that offers banking, corporate, and trust formation services remains open and is an area of concern. 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. In 2004, Costa Rican authorities implemented several measures to enhance supervision of offshore banks, but acknowledge that they are still unable to adequately assess risk. Due in part to the new controls, two offshore banks ceased operations in Costa Rica in 2004 and another is expected to close in 2005. Currently, six offshore banks maintain correspondent operations in Costa Rica, three from the Bahamas and three from Panama. The GOCR has supervision agreements with its counterparts in Panama and the Bahamas, permitting the review of correspondent banking operations. Unfortunately, these counterpart regulatory authorities occasionally interpret the agreements in ways that limit review by Costa Rican officials. Despite inadequate supervision of the offshore sector, Costa Rican authorities were able to rapidly and effectively trace money in the wake of high-level corruption scandals.

During 2004, the incidents of cash couriers depositing large sums of declared currency at private banks in Costa Rica virtually disappeared. Couriers appear to have reverted to smuggling cash, and the only four convictions in 2004 on money laundering charges involve undeclared currency (over \$1.2 million) detected at airports or along the border. All four convictions have been appealed.

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 in 1999. Despite its committed and professional staff, the unit remains ill equipped and under-funded to handle its current caseload (over 200 cases) and to provide the information needed by investigators. Nevertheless, the unit developed evidence it considers formidable in four high-profile cases of money laundering during 2004. The cases have been referred for prosecution to the special prosecutor for financial crimes.

Costa Rican authorities cannot block, seize, or freeze property without prior judicial approval. Thus, Costa Rica lacks the ability to expeditiously freeze assets connected to terrorism. An interagency effort is underway to reduce the time required to obtain judicial approval.

The GOCR has ratified the major UN counterterrorism conventions. Additionally, a government task force drafted a comprehensive counterterrorism law with specific terrorist financing provisions in 2002. 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 terrorist financing into the mandate of the Costa Rican Drug Institute. In 2004, the Legislative Assembly also considered a separate draft terrorism law. GOCR officials are currently working to combine the two proposals in a way that will meet all of Costa Rica's international obligations, and they are hopeful the law will be enacted in early 2005.

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. The GOCR has signed, but not yet ratified, the UN Convention against Corruption. The GOCR has also signed the OAS Inter-American Convention on Mutual Assistance in Criminal Matters, and is a member of the Caribbean Financial Action Task Force (CFATF) and the aforementioned Egmont Group.

The Government of Costa Rica should improve the supervision of its offshore banking sector and should extend its anti-money laundering regime to cover the Internet gaming sector, exchange houses, gem dealers, casinos and other non-bank financial institutions. Costa Rica also should pass counterterrorism and terrorist financing legislation. Greater attention should be given to the concerns of the FIU, so that it is able to adequately support the needs of law enforcement. Costa Rican authorities are aware of these deficiencies in Costa Rica's anti-money laundering regime, and should continue to address them in 2005, if the country is to build on the progress it has made in this area.

Côte d'Ivoire

Côte d'Ivoire has been an important regional financial center in West Africa. However, porous borders, an ongoing armed rebellion, and regional instability contribute to Côte d'Ivoire's current vulnerability to money laundering from narcotics-trafficking, fraud, corruption, and arms-trafficking. 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 continued to notice 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, American, and French account holders through use of the Internet. A part of these funds consist of money solicited through West African advanced fee scams ("419 frauds"). The cross-border trade over Côte d'Ivoire's porous borders generates large amounts of contraband funds that are introduced into the banking system through informal or unregulated moneychangers.

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), all of which use the French-backed CFA franc currency: Benin, Burkina Faso, Guinea-Bissau, Côte d'Ivoire, Mali, Niger, Senegal, and Togo. All bank deposits over approximately \$7,700 made in BCEAO member countries must be reported to the BCEAO, along with customer identification information. Côte 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 UNSCR 1267 Sanctions Committee's consolidated list. On September 17, 2004, the WAEMU Council of Ministers issued a directive to encourage member states to take necessary measures to hasten the adoption of legislation to enact the various WAEMU directives against money laundering and terrorist financing. For instance, Côte d'Ivoire does not yet have a specific law authorizing the identity, freezing and seizing of terrorist assets. However, while such a law was being prepared, legislative action on this and other measures was suspended due to the ongoing political crises. Until the political situation stabilizes and new legislation is in place, relevant measures and procedures by the BCEAO and their application by bankers and financial institutions must substitute for the deficiencies in Ivorian legislation.

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.

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. Even with governmental authorization, there is a cash limit of \$4,000 for tourists and \$5,500 for business. Any surplus must be in travelers or bank checks. However, due to the ongoing political crises, there has been a marked increase in cross-border migration from Côte d'Ivoire. Usually, migrating individuals carry out foreign currency that was exchanged on the black market. Given the porous borders, a large quantity of foreign currency is being recycled back into the region through informal channels. In 2004, police seized the equivalent of \$1,300,000 in mixed foreign currency bound for Dubai, Hong Kong and Bangkok.

Under article 42 of the law No.90-589 of July 1990 on banking regulations, criminal assets may be frozen. 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

Côte 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 or authorizing the seizure and forfeiture of terrorist funds. 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.

Côte d'Ivoire has demonstrated a willingness to cooperate with the U.S. in investigating financial or other crimes. For example, in one case from 2004, an American citizen was being defrauded by someone posing as a GOCI Customs Official requesting demurrage fees for a shipment of goods. With a short window of opportunity for action, the U.S. Embassy notified the Economic Police, who then instructed the Bank Examiner to monitor the suspect's account. The next morning, the Economic Police arrested a Nigerian who came in to retrieve the funds. Armed with a search warrant, the police searched the suspect's house, gathered evidence of a boiler-room operation, and arrested three other Nigerians. The funds (\$15,000) were successfully wired back to the victim.

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.

The Government of Côte d'Ivoire should criminalize terrorist financing and enact legislation allowing for the freezing and seizing of terrorist assets. It should ratify the UN Convention against Transnational Organized Crime.

Croatia

Croatia is neither a regional financial nor a money laundering center; tourism is the nation's most lucrative economic sector, serving 6.5 million people each year. Much of the money laundering that does occur is related to domestic financial crimes such as tax evasion, fraud from privatization schemes, and other business-related fraud. There has, however, 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 regional narcotics-trafficking tend to be converted into real estate and luxury goods.

In 1996, the Government of Croatia (GOC) passed legislation that amended its penal code to criminalize money laundering in all forms related to serious crimes. Croatian law prohibits anonymous accounts. In 2000, Croatia's Parliament strengthened the country's penal code to ensure that all indicted individuals could 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.

Croatia continued the development of its anti-money laundering regime throughout 2002 and 2003. In 2002, the Croatian Parliament enacted a variety of legislative acts related to the fight against money laundering. These laws include the Law on Penal Responsibility of Legal Persons, the Law on Suppression of Organized Crime and Corruption, the Law on Banks, and amendments to the Law on Legal Proceedings. In 2003, Parliament approved the new Law on the Prevention of Money Laundering (new LPML) that follows the European Union (EU) Directives. The new law also incorporates terrorism financing as well as drug smuggling and trafficking in persons, and requires that all cross-border transactions with cash or monetary instruments exceeding \$6,500 be reported to Croatia's Financial Intelligence Unit (FIU).

In 1997, Croatia passed its Law on the Prevention of Money Laundering (LPML), requiring banks and non-bank financial institutions to report transactions that exceed approximately \$30,000, as well as any cash transactions that seem suspicious. Aside from cash, the LPML also requires covered entities to report all transactions involving gold, precious metals, and stones, as well as other types of monetary instruments and financial paper. The new LPML expands the list of entities subject to reporting requirements to include lawyers and notaries.

Through its regulatory authority, the Ministry of Finance requires financial institutions to use specific software to facilitate compliance with reporting requirements. Cooperation with regulators is generally good, with major financial institutions readily cooperating with Croatian authorities. Money exchange houses are licensed and operate as outposts of banks, with rates tied to those offered by the banks.

The LPML also authorizes establishment of a FIU, the Ured za Sprjecavanje Pranja Novca (Anti-Money Laundering Department or AMLD), within the Ministry of Finance. Over its seven years of existence, the 17-member AMLD has investigated over 1,150 cases of suspicious transactions, nearly 500 of which have occurred since 2002, and forwarded 250 reports (130 since 2002 alone) on suspicious transactions (STRs) to the authorities; 40 of these reports went to foreign authorities. Between October 2003 and December 2004, the AMLD received approximately 3,000 STRs and opened 260 new analytical cases. Upon completion of analysis, the AMLD forwarded 70 of these cases to authorities for further investigation and action. AMLD has increased the number of STRs released to prosecutors within Croatia by 70 percent.

In 2001, the GOC established a National Center for the Prevention of Corruption and Organized Crime (USKOK) 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. In October 2004, the Parliament revised the law governing USKOK's work. The revisions strengthen the tools USKOK can use to combat organized crime and grant USKOK jurisdiction to investigate narcotics-linked organized crime cases.

Croatia has a history of strict separation of operations. Responsibility for investigating financial crimes remains divided between the police, prosecutor's office, and ministry of finance. In an effort to strengthen domestic inter-agency cooperation and information sharing, the Ministry of Finance is currently negotiating memoranda of understanding (MOUs) with the Central Bank, the Securities and Exchange Commission, the pension fund supervisory body, and the insurance industry regulatory body.

Despite the GOC's efforts, there were only a small number of arrests and prosecutions for money laundering or terrorism financing during 2004. During 2004, the Croatian police conducted a total of five money laundering investigations (two of which involved narcotics-related offenses). In 2003, one of four money laundering investigations was drug related. To date, the GOC has succeeded in obtaining three convictions for money laundering. Weak interagency cooperation, inadequate technical skills of the police and prosecutors when analyzing and dealing with complex financial crimes, and a general lack of knowledge among members of the banking community as to what exactly constitutes a money laundering offense are all factors that impede Croatia's anti-money laundering efforts. The judicial backlog of 1.4 million cases, understaffing and severe resource constraints also are deterrents to effective prosecution of all criminal cases, including money laundering cases.

Although Croatian investigators have the authority to temporarily seize property in the course of an investigation, 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. Therefore, it is extremely difficult to seize the assets of those who are not directly involved in the street-level work of organized crime. An interagency working group headed by the Ministry of Internal Affairs

and funded by the EU is looking at the issue of establishing a more reasonable burden of proof for asset seizures.

In 2003, the AMLD worked with authorities in an EU country to block \$3 million in suspected criminal proceeds. Despite the fact that there is also no specific legislation regulating the sharing of seized assets with foreign governments, Croatian officials advise that, under existing law, judges do have the power to authorize asset sharing with another country.

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 Against Corruption and the International Convention for the Suppression of the Financing of Terrorism. Croatia has established an inter-ministerial body to evaluate and improve the country's counterterrorism regime. It also circulates throughout its financial system all international lists of designated individuals and entities. Authorities have the right to identify and, with a court order, to 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 UNSCR 1267 Sanctions Committee. In fact, Croatian law enforcement officials have greater authority to freeze assets linked to individuals and entities included in UNSCRs 1267, 1333, and 1390.

The AMLD has the authority to freeze assets and can do so with relatively little difficulty for an initial 72-hour period. However, obtaining an extension of the initial 72-hour period is more complicated, with the Prosecutor's Office requiring either an international instrument or a formal legal request for an asset freeze. Therefore, if assets identified by authorities do not relate to an individual or entity cited by the UN, it is very difficult for the Prosecutor's Office to obtain a long term legal freeze. In May 2003, after its own investigation dovetailed with its investigation of individuals on the UN-distributed terrorist lists, 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 and Herzegovina, and ultimately used to fund al-Qaida activities. During 2004, the AMLD received three STRs related to possible terrorist financing activity, and to date has frozen funds in four cases associated with terrorist financing.

In the international arena, the AMLD cooperates fully with foreign FIUs. Croatia does not have limitations on exchanging information with international law enforcement on money laundering investigations. Croatia actively cooperates with its Balkan neighbors in the law enforcement arena, especially in the fight against money laundering, where Croatia worked to establish a regional working group to address the issue. This working group meets twice yearly. 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 Trans-border Crime.

In addition, Croatia is working in concert with Bosnia and 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.

In the fall of 2004, Croatia's chief State Prosecutor initiated discussions with his counterparts in neighboring countries toward signing bilateral agreements to facilitate cross-border criminal prosecutions. In December 2004, Croatia joined 11 other regional prosecutors in signing a memorandum of understanding to work jointly to fight organized crime. Croatia also participates as a member in the EU's Community Assistance for Reconstruction, Development, and Assistance (CARDS) Program, which seeks to assist countries of the Western Balkans to achieve a greater level of EU integration. As part of the CARDS Program, in 2005 Croatia expects to sign a multilateral

memorandum of understanding among the FIUs of Albania, Bosnia and Herzegovina, Serbia, Montenegro, and Macedonia.

Croatia has 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 the progress of other member states. 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 also an active member of the Egmont Group.

The 1902 extradition treaty between the Kingdom of Serbia and the United States remains in force and applies to present-day extradition between Croatia and the United States. However, according to the Croatian Constitution, citizens of Croatia may not be extradited, except to The Hague for the War Crimes Tribunal.

Croatia is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. In December 2003, the GOC signed, but has not yet ratified, the UN Convention against Corruption. Croatia also 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 Convention on Transnational Organized Crime. In June 2003, Croatia signed the European Convention on the Transfer of Proceedings in Criminal Matters.

The Government of Croatia should work to improve interagency cooperation on money laundering matters. Croatia 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. Croatia should improve its asset forfeiture regime to enable the freezing and seizing of assets in an efficient and timely manner and continue its important leadership role within the Egmont Group.

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 neither of Cuba's dual peso currencies is freely convertible. No significant changes are noted for 2004.

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 criminalized terrorist financing in a 2001 law against terrorist acts.

The Government of Cuba should ensure its prosecutors and judges have received sufficient training to enable the successful prosecution of money laundering cases.

Cyprus

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.

Republic of Cyprus. The Republic of Cyprus is a major regional financial center with a robust financial services industry, both domestic and offshore, which contributes about 6.1 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. Casinos, Internet gaming sites, and bearer shares 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 July 2002, Cyprus introduced a major amendment to its tax laws resulting in a uniform tax rate of 10 percent for all enterprises in Cyprus, irrespective of the permanent residence of their owners. As of January 1, 2003, the so-called "ring fencing" of business enterprises and banks, owned by non-residents has been abolished. As a result, there is reportedly no longer any distinction between local companies and offshore international business companies (IBCs). Both the prohibition from doing business locally and the preferential tax treatment that distinguished IBCs from local companies have been abolished. The tax revision includes a grandfather clause, allowing existing IBCs to opt to maintain their former tax status of 4.25 percent for a transitional period until the end of 2005. The Cypriots state the distinction between domestic companies and IBCs will cease entirely on January 1, 2006, when the transition period expires, effectively ending the offshore IBC sector in Cyprus.

Similar provisions were introduced for offshore International Banking Units (IBUs), branches or subsidiary companies of established foreign banks, which had cumulative assets of \$9.8 million at the end of 2004. According to the GOC, as with IBCs the distinction between domestic banks and IBUs will cease on January 1, 2006 once the transition period expires. The only exception is that IBUs will still be prohibited from offering any banking services whatsoever in Cyprus Pounds to either residents or non-residents. As with IBCs, IBUs established before 2002 have the option of maintaining their preferential tax rate of 4.25 percent until the end of 2005. IBUs are also prohibited from providing other foreign currency services and accepting deposits from residents of Cyprus until January 1, 2006, unless they agree to be immediately subject to the standard 10 percent tax rate. In the meantime, IBUs are required to adhere to the same legal, administrative, and reporting requirements as domestic banks. The Central Bank requires prospective IBUs to face a detailed vetting procedure to ensure that only banks from jurisdictions with proper supervision are allowed to operate in Cyprus. IBUs must have a physical presence in Cyprus and cannot be shell banks. Once an IBU has registered in Cyprus, it is subject to a yearly on-site inspection by the Central Bank. The GOC-controlled area of Cyprus hosts 12 domestic banks, and 26 IBUs.

Since May 2004, when Cyprus joined the European Union (EU), banks licensed by competent authorities in EU countries may establish branches in Cyprus or provide banking services on a cross-border basis without obtaining a license from the Central Bank of Cyprus, under the EU's "single passport" principle. By the end of 2004, three EU banks that had already been operating as IBUs had elected to continue their presence in Cyprus under the "single passport" arrangement.

Over the past nine years, Cyprus has put in place a comprehensive anti-money laundering legal framework that comports with 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 non-drug-related money laundering, provides for the confiscation of proceeds from serious crimes, codifies actions that banks and non-bank financial institutions must take (including customer identification), and mandates the establishment of a Financial Intelligence Unit (FIU). The anti-money laundering law authorizes criminal (but not civil) seizure and forfeiture of assets. Subsequent amendments to the 1996 law broadened its scope by eliminating the separate list of predicate offenses (now defined as any criminal offense punishable by a prison term exceeding one year), 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 and 2004 implement the 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, real estate agents, and dealers in precious stones and gems; 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.

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 expired on May 1, 2004.

The supervisory authorities for the financial sector are the Central Bank of Cyprus, the Securities Commission of the Stock Exchange, the Superintendent of Insurance, the Superintendent of Cooperative Banks, the Councils of the Bar Association and the Institute of Certified Public Accountants. 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 Cypriot 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 (SARs) 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.

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 non-cooperative. This list is updated regularly in line with the changes effected to the non-cooperative list by the FATF.

In November 2004, the Central Bank issued a revised money laundering guidance note that places several significant new obligations on banks, including requirements to develop a customer acceptance policy; renew customers' identification data on a regular basis; construct customers' business profiles; install computerized risk management systems in order to verify whether a customer constitutes a "politically exposed person"; provide full details on any customer sending an electronic transfer in excess of \$1,000; and implement (by June 5, 2005) adequate management information systems for on-line monitoring of customers' accounts and transactions. Cypriot banks reportedly have responded by adopting dedicated electronic risk management systems, which they typically use to target transactions to and from high-risk countries. Cyprus's Exchange Control Law expired on May 1, 2004, ending Central Bank review of foreign investment applications for non-EU residents. Individuals wishing to invest on the island now apply through the Ministry of Finance. The Ministry also supervises collective investment schemes.

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.

MOKAS, the Cypriot FIU, was established in 1997. A representative of the Attorney General's Office heads the unit and its 20-member staff includes 14 full-time personnel, three part-time police officers, and three part-time Customs officers. However, MOKAS staffing is not sufficient to allow it to meet all its responsibilities. Plans to hire eight additional full-time employees have consistently been put on hold due to GOC-wide hiring freezes. MOKAS cooperates closely with FinCEN and other U.S. Government agencies in money laundering investigations.

All banks and non-bank financial institutions-insurance companies, the stock exchange, cooperative banks, lawyers, accountants, and other financial intermediaries-must report suspicious transactions to MOKAS. Sustained efforts by the Central Bank and MOKAS to strengthen reporting have resulted in an increase in the number of SARs being filed from 25 in 2000 to 123 in 2004. During 2004 MOKAS received 156 information requests from foreign FIUs, other foreign authorities, and INTERPOL. Two 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 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. Since late 2003, the MOKAS computer network has been connected with that of the central government, thus giving MOKAS direct access to other GOC agencies and ministries.

During 2004, MOKAS opened 299 cases and closed 123. During the same period, it issued 16 Information Disclosure Orders and seven freezing orders, resulting in the freezing of \$1,964,450 in bank accounts and four pieces of real estate. Additionally, during 2004, MOKAS issued four confiscation orders for the total amount of \$2,461,000. 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 at least ten convictions recorded under the 1996 Anti-Money Laundering law, and a number of other cases are pending.

Cyprus has implemented the FATF's Special Recommendations on Terrorist Financing. On November 30, 2001, Cyprus became a party to 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. In November 2004, MOKAS designated two employees to be responsible for terrorist finance issues. MOKAS routinely asks banks to check their records for any transactions by any person or organization designated by foreign FIUs as a terrorist or a terrorist organization. If a person or entity is so designated by the UNSCR 1267 Sanctions Committee or the EU Clearinghouse, the Central Bank automatically issues a "search and freeze" order to all banks, both domestic and IBUs. As of mid-December 2004, no bank had reported holding a matching account. 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. Reportedly, the majority of all charities registered in Cyprus are domestic organizations.

Cyprus is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Cyprus is a member of the Council of Europe's MONEYVAL, and the Offshore Group of Banking Supervisors. MOKAS is a member of the Egmont Group and has signed memoranda of understanding (MOUs) with the FIUs of Belgium, France, the Czech Republic, Slovenia, Malta, Ireland, Australia, Ukraine, Poland, Canada, Russia, and Israel. Although Cypriot law specifically allows MOKAS to share information with other FIUs without benefit of an MOU, Cyprus is negotiating MOUs with the United States, Venezuela, Bulgaria, Italy, and Romania. 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 is scheduled to undergo a MONEYVAL mutual evaluation in April 2005.

The Government of the Republic of Cyprus has put in place a comprehensive 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. Cyprus should enact provisions that allow for civil forfeiture of assets.

North Cyprus ("Turkish Republic of Northern Cyprus"). It is more difficult to evaluate anti-money laundering efforts in the self-proclaimed "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 the 22 essentially unregulated, and primarily Turkish-mainland owned, casinos are the primary vehicles through which money laundering occurs. Casino licenses are fairly easy to obtain, and no background checks are done on applicants. 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. Another area of concern is the 500 "finance institutions" operating in the "TRNC" that extend credit and give loans. Although they must register with the "Office of the Registrar of Companies"

they are unregulated. Some are owned by banks and others by auto dealers. The fact the “TRNC” is recognized only by Turkey limits the ability of “TRNC” officials to receive training or funding from international organizations with experience in combating money laundering.

The offshore banking sector also remains a concern. In August 2004, the U.S. Department of the Treasury’s FinCEN issued a notice of proposed rulemaking to impose a special measure against First Merchant Bank OSH Ltd in the “TRNC” as a financial institution of primary money laundering concern. Pursuant to Section 311 of the USA PATRIOT Act, FinCEN found First Merchant Bank to be of primary money laundering concern based on a number of factors, including: (1) It is licensed as an offshore bank in the “TRNC”, a jurisdiction with inadequate anti-money laundering controls, particularly those applicable to its offshore sector; (2) it is involved in the marketing and sale of fraudulent financial products and services; (3) it has been used as a conduit for the laundering of fraudulently obtained funds; and (4) the individuals who own, control, and operate First Merchant Bank have links with organized crime and apparently have used First Merchant Bank to launder criminal proceeds. As a result of the finding and in consultation with federal regulators and the Departments of Justice and State, FinCEN proposed imposition of the special measure that would prohibit the opening or maintaining of correspondent or payable-through accounts by any domestic financial institution or domestic financial agency for, or on behalf of First Merchant Bank OSH Ltd.

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. Banks, non-bank financial institutions, and foreign exchange dealers must report all currency transactions over \$20,000, and suspicious transactions in any amount. Banks must follow a know-your-customer policy and require customer identification. Banks must also submit suspicious transactions to a central multi-agency committee that is supposed to function as a quasi-FIU and have investigative powers. The five-member committee is composed of representatives of the police, customs, the “Central Bank,” and the “Ministry of the Economy and Tourism.” However, the 1999 anti-money laundering law has never been fully implemented or enforced. Furthermore, very few suspicious transaction reports have been filed since the inception of the law and the “Anti-Money Laundering Committee” has been largely inactive. There are currently 26 domestic banks in the “TRNC”. Internet banking is available.

Although the 1999 “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.

The “Ministry of Economy and Tourism” has drafted a new anti-money laundering law that it says will, among other things, better regulate casinos, currency exchange houses, and both onshore and offshore banks. A “TRNC” official stated that the “TRNC” wants to ensure the draft law meets international standards.

The offshore sector consists of 21 banks and approximately 50 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 1999 law does provide better banking regulations than were previously in force, but it is still not adequate. 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 “TRNC” should move quickly to enact a new anti-money laundering law and to tighten regulation of its casinos, money exchange houses, and offshore sector.

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. A July 2002, amendment to the Criminal Code 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.

The Czech anti-money laundering legislation (Act No. 61/1996, Measures Against Legalization of Proceeds from Criminal Activity) became effective in July 1996. A 2000 amendment to the money laundering law requires a wide range of financial institutions to report all suspicious transactions to the Czech Republic’s Financial Intelligence Unit (FIU), known as the Financial Analytical Unit (FAU) of the Ministry of Finance. In September 2004, the latest amendments to the money laundering law came into force. The amendments introduce several major changes to the Czech Republic’s money laundering laws and harmonize the nation’s legislation with the requirements of the European Union’s (EU) Second Money Laundering Directive. As a result, the list of covered institutions now includes attorneys, casinos, realtors, notaries, accountants, tax auditors, and entrepreneurs engaging in transactions exceeding 15,000 euros. In addition to reporting all suspicious transactions possibly linked to money laundering, covered institutions are now required to report all transactions suspected of being tied to terrorist financing.

For years, the Czech Republic had been criticized for allowing anonymous passbook accounts to exist within the banking system. Legislation adopted in 2000 prohibits 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. 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.

The FAU is an administrative FIU without law enforcement authority. One of the FAU’s primary purposes is the identification of tax evasion. The 2004 amendments to the Anti-Money Laundering Act also extend the anti-money laundering/counterterrorist financing responsibilities of the FAU. To

fulfill these additional responsibilities, the new legislation provides for an increase in the number of FAU staff. The FAU will also be authorized to share all information with the Czech Intelligence Service (BIS) and Czech National Security Bureau (NBU). It is hoped that this type of information sharing will improve the timeliness and nature of exchanges between the different agencies within the Czech government.

The number of suspicious transaction reports transmitted to the FAU has increased significantly, while the number of reports evaluated and forwarded to law enforcement remains unchanged. This is interpreted as evidence of the active participation of mandated entities in the anti-money laundering regime. After clarifications to the reporting requirements in 1996, reporting of unusual transactions rose significantly. In 2002, 1,260 suspicious transactions were reported, 1,970 in 2003, and 3267 in 2004; 85 percent of these reports came from the formal banking sector. The number of reports forwarded to the police remained steady at 115 in 2002 and 114 in 2003. In 2004, the number dropped slightly to 103. Every case that was passed to law enforcement was investigated.

In July 2004, a new specialized police unit called the Financial Police (known also as Illegal Proceeds and Tax Crime Unit) was established. The Department of Criminal Proceeds and Money Laundering, which used to be part of the unit fighting organized crime, became a part of the newly established Financial Police. It is still the main law enforcement counterpart to FAU, a partnership which has led to the first formal charges on money laundering. In 2004, the Department of Criminal Proceeds and Money Laundering investigated 139 cases and secured assets valued at roughly \$90,000. This figure is an increase over 2003 when police investigated 113 cases and secured approximately \$29,000. In 2004 the Department participated in 25 cases investigated by the Czech National Drug Headquarters and secured assets valued at \$700,000, as compared to 2003, when 23 cases related to drug crimes were investigated and the department succeeded in securing assets valued at \$7,250,000.

Prior to 2004, the Czech Republic had not yet had a successful prosecution in a money laundering case. However, during the first half of 2004, Ministry of Justice statistics show that prosecutors were able to obtain the first two money laundering convictions. Four people were prosecuted; three were actually accused. One case was suspended and the only penalties imposed were a suspended sentence and a fine. In 2003, there were 36 money laundering cases; five were suspended. There were no resulting convictions in 2003. One ongoing issue is that law enforcement must prove that the assets in question were derived from criminal activity. The accused is not obligated to prove that the property or assets were acquired legitimately.

The Czechs have specific laws criminalizing terrorist financing and have legislation permitting rapid implementation of UN and EU financial sanctions, including action against accounts held by suspected terrorist entities or individuals. The Czech Government approved the National Action Plan of the Fight Against Terrorism in April 2002. This document covers topics ranging from police work and cooperation to protection of security interests, enhancement of security standards and customs issues. The latest amendment of the Criminal Code, that came into force in November 2004, adds new definitions for terrorist attacks and for terrorist financing. A penalty of up to 15 years imprisonment can be imposed on those who support terrorists financially, materially or with other means.

A new government body called the Clearinghouse was instituted in October 2002. It was established under the FAU, and functions to streamline input from institutions in order to enhance cooperation and response to a terrorist threat. The FAU is currently distributing lists of designated terrorists to relevant financial and governmental bodies. Czech authorities have been cooperative in the global effort to identify suspect terrorist accounts. Since September 11, 2001, the FAU has checked the accounts of approximately 1,000 people. The 2000 amendment to the anti-money laundering law requires financial institutions to freeze assets that belong to subjects named on lists issued by the UN 1267 Sanctions Committee. To date, no suspect accounts have been identified in Czech financial institutions and no terrorist assets have been confiscated.

A May 2001 revision of the Criminal Code facilitates the seizure and forfeiture of bank accounts. A financial institution that reports a suspicious transaction has the authority to freeze that suspect account for up to 24 hours. However, for investigative purposes, this time limit can be extended to 72 hours in order to give the FAU sufficient time to investigate whether or not there is evidence of criminal activity. Currently, the FAU is authorized to freeze accounts for 72 hours. However, the FAU's efforts can be hampered because it often waits for the annual tax submission of suspected individuals before deciding to forward cases to law enforcement for investigation. This often results in the disappearance of funds and property before the police can seize them. If sufficient evidence of criminal activity exists, the case is forwarded to the Financial Police, who have another three days to gather the necessary evidence. If the Financial Police are able to gather enough evidence to start prosecution procedures, then the account can stay frozen for the duration of the investigation and prosecution. If, within the 72 hour time limit, the Financial Police fail to gather sufficient evidence to convince a judge to begin prosecution, the frozen funds must be released. These time limits do not apply to accounts owned by individuals or organizations on the UN's list of designated terrorists.

In January 2002, further changes to the Criminal Code 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 freeze the account without previous consent of the prosecutor, but within 48 hours have to inform the prosecutor, who then confirms the freeze or releases the funds. The Law on the Administration of Asset Forfeiture in Criminal Procedure, passed in August 2003, and effective on January 1, 2004, implements provisions such as handling and care responsibilities for the seizure of property.

The United States and the Czech Republic have a Mutual Legal Assistance Treaty, which entered into force on May 7, 2000. There is also an extradition treaty in force between the United States and the Czech Republic

The 2004 amendments to the Anti-Money Laundering Act authorize the FAU to cooperate with similar units around the world, regardless of whether these units are administrative or law enforcement, or whether they are members of the Egmont Group. 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, 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. The Czech Republic actively participates in the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), 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. The Czech Republic 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 Czech Republic also is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime, as well as the World Customs Organization's Convention on Mutual Administrative Assistance for the Prevention, Investigation, and Repression of Customs Offenses. The main obstacle to ratification is the absence of legislation on criminal liability of legal persons (companies). The appropriate legislation has been proposed and will become a part of the re-codification of the criminal

code that officials hope will take effect in 2006. In the interim, the government is trying to satisfy Convention requirements by utilizing administrative or civil procedure.

The Government of the Czech Republic should continue to enhance its anti-money laundering regime 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 and making legal persons subject to criminal prosecution for money laundering, so that the Czech Republic can begin to successfully prosecute anti-money laundering cases. Furthermore, the Czech Republic should enhance its asset forfeiture regime by simplifying the forfeiture of jointly owned assets and allowing for the confiscation of substitute assets.

Denmark

Denmark is a regional financial center with 108 commercial banks and 73 local and savings banks. The banking system is under the control of the Financial Supervisory Authority, and the Danish legal and regulatory systems are transparent and consistent with European Union (EU) directives and regulations. Corruption is not a major problem in Denmark. According to the 2004 Corruption Perceptions Index by Transparency International, Denmark is the third 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. The Gambling Casino Act of 1993 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. Following 2002 amendments to the law, suspicious transaction reporting (STR) requirements apply to credit and financial institutions, life insurance companies, lawyers, accountants, tax advisors, real estate agents, money transmitters, money exchange offices, transporters of currency, insurance brokers, and retailers/auctioneers who deal in cash transactions above 15,000 euros.

Banks and other financial institutions are required to know, record, and report the identity of their customers, and to maintain those records for five years beyond the termination of the relationship. For non-account holders, the financial institutions are only required to collect and store for five years the identification information for transactions over 15,000 euros. There are no secrecy laws in Denmark that prevent disclosure of financial information to competent authorities, and there are laws that protect bankers and others who cooperate with law enforcement authorities.

Denmark'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 STRs. 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 regard to money laundering investigations.

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. The Danish Penal Code provides for seizures or forfeitures of proceeds from a criminal act upon conviction.

Denmark passed comprehensive counterterrorism legislation in 2002, which was incorporated into Consolidated Act 129 in February 2004, specifically addressing terrorist financing and implementing the provisions of UNSCR 1373. Act 129 extends the Act on Measures to Prevent Money Laundering 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 and is subject to STR reporting requirements. Denmark has circulated to its financial institutions the UNSCR 1267 Sanction Committee's consolidated list. To date, no such assets have been identified.

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 Danish Ministry of Justice will examine the revised criminal code when it becomes available, to ensure that all requirements in UNSCR 1373 are fully satisfied.

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.

Denmark 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. Denmark has signed, but not yet ratified, the UN Convention against Corruption. 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. Denmark is also a member of the Financial Action Task Force (FATF), and its FIU belongs to the Egmont Group. Denmark participates in European Union anti-money laundering efforts and has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision."

The Government of Denmark should continue its efforts to extend its Criminal Code amendments to the Faroe Islands and Greenland, if necessary. Denmark should continue the enforcement of its comprehensive anti-money laundering/counterterrorist financing program and its active participation in international organizations to combat money laundering and the support and financing of terrorists and their organizations.

Djibouti

Djibouti is one of the more stable countries in the Horn of Africa. It is a financial hub in the sub-region, thanks to its U.S. dollar-pegged currency and its unrestricted foreign exchange. Officials from the Central Bank have not reported any recent instances of money laundering. Informal and black markets for goods remain important. Smuggled goods consist primarily of highly taxed cigarettes and alcohol. The Djibouti Free Zone (DFZ), managed by Dubai's Jebel Ali Free Zone, was inaugurated in June 2004. Once fully operational, the DFZ will approve and deliver licenses for up to 85 companies. Djibouti is not considered an offshore financial center but offshore institutions are permitted to settle at the DFZ. Two existing commercial banks handle the bulk of financial transactions. The remainder of the demand is met by a growing number of hawalas. The Central Bank makes efforts to closely monitor the activities of both the commercial banks and hawalas. 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 is a party to the 1988 UN Drug Convention, signed the United Nations International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, which entered into force on May 23rd, 2001. Djibouti has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism. Legislation criminalizing the financing of terrorism, consistent with UNSCR 1373, is included in the Anti-Money Laundering Law passed in December 2002 as Law No. 196/AN/02/4emeL. Drafted by the three-year-old National Committee on Terrorism, this document contains provisions for prevention of, and punishment for, money laundering.

The Anti-Money Laundering Law applies to financial institutions of all forms as well as professionals involved in financial matters. Regulated activities include money deposits, insurance, investment, real estate, casinos and entertainment. The legislation also addresses international cooperation and allows for the freezing or seizing of assets in suspected terrorist finance cases. The government regularly circulates the names of individuals and entities included on the UNSCR 1267 Sanctions Committee's consolidated list. The law also requires financial institutions to verify customer information, including current residence. This verification process promotes rigorous transparency and strict control of transactions. Furthermore, it imposes criteria for: customer identification; communication of information; documentation related to international cooperation; surveillance procedures for suspect accounts; and legal protection of professional secrecy for individuals reporting suspect transactions.

Professionals convicted of facilitating money laundering or terrorist financing can face five to ten years in jail and a fine of DF 25 to 50 million (\$141,283 to \$282,566). A financial professional who fails to report suspect transactions is liable for fines ranging from DF 10 to 25 million (\$56,513 to 141,283). The Department of Treasury receives the proceeds of any assets seized or forfeited in terrorist financing cases.

Djibouti does not have an agreement with the United States government to exchange information on money laundering, but Central Bank officials have repeatedly indicated they would fully cooperate if requested. Djibouti has a formal, bilateral agreement with Ethiopia for the exchange of information and extradition in criminal cases. Furthermore, the anti-money laundering legislation stipulates that Djibouti will cooperate with other countries by exchanging information, assisting in investigations, providing mutual technical assistance and facilitating the extradition process in money laundering cases. In addition, the Central Bank plans to set up a money laundering investigation bureau. The bureau will also provide expertise to the banking community concerning counterfeit currency, including U.S. bills.

The Government of Djibouti should accede to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. While Djibouti took a positive step by adopting anti-money laundering legislation, enforcement of the law remains a major challenge. Notwithstanding the claims of Central Bank officials, it is unlikely that there have not been any recent instances of money laundering. Though Djibouti makes an effort to control all formal transaction points, a large number of hawaladars escape Central Bank regulation. Corruption is also a concern. Corrupt customs officials can easily be tempted to allow large amounts of money to pass through the borders without any declaration. There is also a history of politically powerful and criminally "untouchable" individuals protecting suspicious financial institutions. Finally, Djibouti must also ensure that an effective anti-money laundering regime is extended to the Djibouti Free Zone as it becomes established.

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

vulnerable to official corruption. In response to international criticism, Dominica has enacted legislation to address many of the deficiencies in its anti-money laundering regime. Dominica's financial sector includes one offshore and four domestic banks, 17 credit unions, 8,601 international business companies (IBCs) (a significant increase from 1,435 in 2002), 23 insurance agencies, and three operational Internet gaming companies (although reports have indicated over 30 such gaming sites exist). There are no free trade zones in Dominica. 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. Although it was not very active in 2004, 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 third country without visas. Subjects of United States criminal investigations have been identified as exploiting Dominica's economic citizenship program in the past.

In June 2000, the Financial Action Task Force (FATF) identified Dominica as non-cooperative 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.

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.

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. A December 2000 agreement between the OFSC and the ECCB 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 ECCB also conducts on-site inspections for anti-money laundering compliance of onshore and offshore banks in Dominica. Inspections of the offshore banks are conducted by the ECCB in collaboration with the IBU. The ECCB is unable to share examination information directly with foreign regulators or law enforcement personnel; however, legislation to permit such sharing is under draft. 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 and to have available for review on-site books and records of transactions.

The International Business Companies (Amendment) Act No. 13 of 2000 (effective January 25, 2001) requires that 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” over 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 MLPA establishes the Money Laundering Supervisory Authority (MLSA) and authorizes it to inspect and supervise non-bank 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 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 be established, and the verification of the nature of the business and the source of the funds of the account holders and beneficiaries. 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 staff consists of two certified financial investigators, a Director, Deputy Director, and an administrative assistant. The FIU analyzes suspicious transaction reports (STRs) and cross-border currency transactions, forwards appropriate information to the Director of Public Prosecutions, and carries on liaison with other jurisdictions on financial crimes cases. In 2004, the FIU received 109 STRs. There have been no known convictions on money laundering charges in Dominica. Since 2003, the GCOD has 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 United States, the United Kingdom, 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 United States entered into force. The GCOD also has a Tax Information Exchange Agreement with the United States 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. In September 2004, Dominica acceded to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of the Commonwealth of Dominica should fully implement and enforce the provisions of its legislation and provide additional resources for regulating offshore entities, including its gaming sites. Dominica should eliminate its program of economic citizenship. Dominica should continue to develop the FIU to enable it to fulfill its responsibilities and cooperate with foreign authorities. If it has not already done so, Dominica should criminalize terrorist financing. Complete implementation of its reforms remains vital to the country's ability to combat financial crime including money laundering.

Dominican Republic

The Dominican Republic continues to be a major transit country for drugs, mostly cocaine and heroin, moving to Europe and the United States. The Dominican Republic's financial institutions engage in currency transactions involving international narcotics-trafficking proceeds that include significant amounts of U.S. currency or currency derived from illegal drug sales in the United States. The smuggling of bulk cash by couriers and wire transfer remittances are the primary methods for moving illicit funds from the United States into the Dominican Republic. Once in the Dominican Republic, currency exchange houses, money remittance companies, free trade zones and casinos facilitate the laundering of these illicit funds. The Dominican Republic held elections in May 2004 and inaugurated a new President on August 16, 2004. The Government of the Dominican Republic (GODR) continues its legislative and regulatory efforts to combat drug-trafficking, corruption, money laundering, and terrorism.

Banco Intercontinental (Baninter), which was the third largest bank in the nation, is a significant example of the corruption and money laundering scandals that have occurred in the financial sector. Approximately \$2.2 billion evaporated over several years due to the fraudulent schemes orchestrated by senior officials, which caused the bank to collapse. On May 13, 2003, the Banco Intercontinental president was arrested, in addition to five other bank employees. All were released on bail, and as of December 2004 none of the cases had reached the prosecution phase. The Central Bank took over the bank's companies and confiscated the assets of its principal shareholders. Despite the Central Bank's intervention and assumption of Banco Intercontinental's liabilities, the Dominican peso depreciated to about 40 to one U.S. dollar. In 2003, Banco Mercantil and Bancredito also failed and brought the combined total loss to approximately \$3 billion.

Narcotics-related money laundering has been deemed a criminal offense since the enactment of Act 17 of December 1995 (the "1995 Narcotics Law"). In 2002, the GODR passed Law 72-02 to expand money laundering predicate offenses beyond illegal drug activity 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 tapes made by physical or moral entities, theft of vehicles, counterfeiting of currency, fraud against the State, embezzlement, and extortion and bribery related to drug trafficking.

Money Laundering and Financial Crimes

Under Decree No. 288-1996, the Superintendency of Banks decree, banks, currency exchange houses, and stockbrokers are required to know and identify their customers, keep records of transactions (five years), record currency transactions greater than \$10,000, and file suspicious transactions reports (STRs). Law 72-02 broadens the requirements for customer identification, record keeping of transactions, and reporting of suspicious activity reports (SARs). Numerous other financial sectors are now covered, 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. The law mandates that these entities are to report currency transactions exceeding \$10,000, and suspicious transactions. Prior to passage of Law 72-02 financial institutions, money exchangers and remitters were the only entities required to report. Moreover, the legislation requires individuals to declare cross-border movements of currency that are equal to or greater than the equivalent of \$10,000 in domestic or foreign currency.

The Unidad de Inteligencia Financiera (UIF) was created in 1997 and is located within the Superintendency of Banks. The UIF is an administrative financial intelligence unit that regulates the financial sector and has the ability to seize and freeze assets. Law No. 72-02 creates the Unidad de Analisis Financiero, to receive STRs from the newly mandated entities and to ensure efficient function of the system of registrations and analysis of information supplied by accountable entities. The powers of Unidad de Analisis Financiero supersede those of the UIF. This unit has investigative authority and will also provide support to other competent authorities on any phase of a financial investigation. Law 72-02 obligates the UIF to forward all STRs it receives from financial institutions, money exchangers, and remittance companies to the Unidad de Analisis Financiero. Those reports are to be sent within the first 15 days of each month, by means of a form or through magnetic media.

While numerous narcotics-related investigations were initiated under the 1995 Narcotics Law, and substantial currency and other assets were confiscated, there have been only three successful money laundering prosecutions under the 1995 Narcotics Law. In 2004, counternarcotics authorities submitted to the justice system 12 cases of money laundering related to narcotics, arresting three persons and seizing a total of 16 vehicles, three firearms, 62 buildings, and \$1,273,536 in cash. Another 12 money laundering investigations are ongoing.

The Act allows preventive seizures and criminal forfeiture of drug-related assets, and authorizes international cooperation in forfeiture cases. In 1998, the GODR passed legislation that allows extradition of Dominican nationals on money laundering charges. Although the GODR and the United States have not put in place a mutual legal assistance treaty, according to U.S. law enforcement officials cooperation between law enforcement agencies on drug cases, human trafficking, and extradition matters remains strong.

The GODR responded to U.S. Government efforts to identify and block terrorist-related funds. Although no assets were identified or frozen, the GODR's efforts to identify and block terrorist-related funds continue through orders and circulars issued by the Ministry of Finance and the Superintendency of Banks that instruct all financial institutions to continually monitor accounts.

The UIF has been a member of the Egmont Group since June 2000. The Dominican Republic is a member of the Organization of American States Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. 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 the GODR has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

The Government of the Dominican Republic has the legislative framework to combat money laundering and terrorist financing, but insufficient implementation leaves the country vulnerable to criminal financial activity and abuse. The Dominican Republic should remain vigilant concerning controls relating to its many free zones, which may represent vehicles to facilitate money laundering.

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. Many basic laws governing the financial sector have not been completed and capacity to monitor the sector is limited. At present, there are three banks operating in East Timor with international linkages. All three are branches of 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 banking laws. East Timor acknowledges the need to criminalize the financing of terrorism, but lacks the internal capacity to draft the legislation and implementing regulations. A team of advisers from the International Monetary Fund is currently assisting the Government in drafting legislation against terrorist finance and money laundering. Once such a law is enacted, additional time will likely be necessary before the country has sufficient human and monetary resources to ensure allegations of money laundering or terrorist finance can be thoroughly investigated. There is no evidence that the country's financial system has been used to finance terrorism or to launder money.

In addition to working towards criminalizing the financing of terrorism, the government of East Timor is in the process of acceding to the U.N International Convention for the Suppression of Terrorism

Ecuador

Ecuador, a major drug-transit country, with a dollar economy and a geographical situation between Colombia and Peru—both major drug-producing countries—is highly vulnerable to money laundering. With its partial and inadequate anti-money laundering controls. Real estate, sales of businesses and commercial contraband are other vehicles for money laundering. In addition to concerns about illicit transactions through financial institutions, the public identification in 2003 of two Ecuadorian front companies for the Cali drug cartel gave credence to suspicions that money laundering is taking place through “normal” commercial activity. Recurrent detections of large amounts of unexplained currency entering and leaving Ecuador indicate that transit and laundering of illicit cash are also significant activities.

The Narcotics and Psychotropic Substance Act of 1990 (Law 108) criminalizes money laundering activities only in connection with illicit drug trafficking. These activities include illegal enrichment (Article 76), conversion or transfer of assets (Article 76, 77), and creation of front men or figureheads (Article 78). A further revision of Law 108 is pending. 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. In addition to establishing money laundering as an autonomous offense, the draft law also provides a legal framework for establishment of a financial intelligence unit. The draft law was submitted to Congress in January 2004 and was reported out of committee in December. Its first reading is expected in January 2005.

Regulations issued pursuant to Law 108, the 1994 Financial System Law, and a 1996 Banking Superintendence Resolution require financial institutions to report to the National Drug Council (CONSEP). Within CONSEP, the Reserved Information Processing Unit (UPIR) was created to collect information related to preventing the laundering of drug money. Under Resolution JB-97-020, financial institutions are required to report suspicious transactions to CONSEP. CONSEP mandates

through internal control manuals that institutions in the national financial sector must report cash transactions that equal or exceed \$5000 to the UPIR, while the financial services sector must report to the UPIR transactions equal to or greater than \$2000. For example, mutual societies are required to report transactions of \$5,000 and above, while financial cooperatives must report transactions of \$2,000 and higher. Electronic reporting of this information was implemented in 1999. The Superintendence of Banks also requires that financial institutions under its control maintain a registry of transactions equal to or greater than \$10,000 and file a monthly report with the Superintendence. Therefore, many institutions in the private sector are required to file CTRs with both the UPIR and the Superintendence. At the same time, several sectors—securities and money remitters—are not required to report to either supervisory authority. Both CONSEP and the Superintendence of Banks have the ability to sanction institutions for failure to report. Banks operating in Ecuador are also 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.

Neither the Superintendence of Banks nor CONSEP function as a financial intelligence unit. The Superintendence acts mainly as a regulatory body, while CONSEP/UPIR requests and receives information from the obligated institutions. Although CONSEP/UPIR receives suspicious transaction reports (STRs) and cash transaction reports (CTRs) and the Superintendence receives cash transaction reports, neither unit analyzes the information that is received. CONSEP provides the Public Ministry with statistical data on the suspicious activity reports (SARs) without first analyzing the data to determine if any of the SARs may be connected with money laundering, making it virtually impossible for a case to be developed or prosecuted. In 2003, the Superintendence of Banks created an investigative unit, the Unidad de Investigación Financiera, to reinforce the functions of the UPIR. The Public Ministry also has a unit for investigating general financial crimes, the Unidad de Investigaciones Financieras, which works in conjunction with the financial investigations section (SIF) of the National Police.

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 Superintendence. 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, cooperation between other Government of Ecuador (GOE) agencies and the police falls short of the level needed for effective enforcement of money laundering statutes. 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 Superintendence. As a result, Superintendence auditors could not verify if a bank was complying with 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. The extent money to which 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 is not known. Steps taken by the GOE since 2002 to remedy this situation have been only partially effective due to the lack of a comprehensive legal framework to clarify and legitimize them. The Banking Superintendence and CONSEP still have conflicting responsibilities and authorities to receive and analyze reports from financial institutions and 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.

Several Ecuadorian banks maintain offshore offices. The Superintendence 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 Superintendence. These private accounting firms perform the standard audits on offshore banks that would generally be undertaken by the Superintendence in Ecuador. Bearer shares are not permitted for banks or companies in Ecuador.

Terrorist financing has not been criminalized in Ecuador. However, the Ministry of Foreign Affairs, Superintendence of Banks and the Association of Private Banks formed a working group in December 2004 to draft a law against terrorist financing. In June 2004, the Government of Ecuador (GOE) ratified the UN International Convention for the Suppression of the Financing of Terrorism. The Banking Superintendence 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, nor would the Superintendence be able to administratively freeze any assets without first obtaining a court order. No steps have been taken to prevent the use of gold and precious metals to launder terrorist assets and there are currently 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 the UN Convention against Transnational Organized Crime. The GOE has signed, but not yet ratified, both the Inter-American Convention Against Terrorism and the UN Convention against Corruption. Ecuador is a member of the OAS Inter-American Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering and the South American Financial Action Task Force (GAFISUD). The GOE 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 GOE and the U.S. to share information on currency transactions. Because the GOE has yet to establish a financial intelligence unit, it is one of only two South American countries that are not members of the Egmont Group.

By its membership in the United Nations, the OAS and South American Financial Action Task Force (GAFISUD), the Government of Ecuador is committed to adhere to the international standards articulated by these organizations and the Financial Action Task Force. In spite of these commitments and assistance to it by the OAS and the United States, Ecuador has yet to enact comprehensive anti-money laundering legislation or to criminalize the financing of terrorism. Ecuador should pass comprehensive money laundering legislation that encompasses all serious crimes, and includes the establishment of a single independent financial intelligence unit to which all covered institutions would report. Ecuador should also criminalize the financing of terrorism.

Egypt, The Arab Republic of

Egypt is neither a regional financial center nor does it have an offshore financial sector. The Government of Egypt (GOE) implemented changes in late 2004 to streamline cumbersome financial regulations, but the changes have not affected the level of financial crime. Egypt is still largely a cash economy, and many financial transactions do not enter the banking system at all.

While there is no significant market for illicit or smuggled goods in Egypt, authorities say that under-invoicing of imports and exports by Egyptian businessmen is a relatively common practice. The primary goal for businessmen who engage in such activity is reportedly the 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, particularly from numerous Egyptians working in the Gulf and elsewhere, are a potential means for laundering funds, but it is unclear if and to what extent laundering occurs through remittances. Some remittances may be sent through couriers and informal channels such as a value transfer system rather than through the banking system, due to either lack of trust or lack of familiarity with banking procedures and the lower transaction costs associated with informal exchange systems.

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 non-cooperating 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 continued to make substantial reforms and progress toward developing an effective money laundering and terrorist financing regime, incorporating the FATF recommendations, which culminated in the FATF’s removal of Egypt from its list of Non-Cooperative Countries or Territories (NCCTs) in February 2004. Subsequently, the Financial Crimes Enforcement Network (FinCEN) of the U.S. Department of the Treasury withdrew its advisory for U.S. financial institutions.

In May 2002, Egypt passed the Anti-Money Laundering Law (Law no. 80 of 2002). The law criminalizes the laundering of funds from narcotics-trafficking, prostitution and other immoral acts, terrorism, antiquities theft, arms dealing, organized crime, and numerous other activities. The law also requires banks to keep all records for five years, places suspicious transaction reporting (STR) requirements on the full range of financial institutions, and prohibits the opening of numbered or anonymous financial accounts. The law did not repeal Egypt’s existing law on secrecy of bank accounts, but provided the legal justification for providing account information to responsible civil and criminal authorities.

The law also provides for the establishment of the Money Laundering Combating Unit (MLCU) as the Financial Intelligence Unit (FIU), which officially began operating on March 1, 2003. The MLCU is an independent entity with its own budget and staff, and has full legal authority to examine all STRs and conduct investigations with the assistance of counterpart law enforcement agencies, including the Ministry of Interior. The MLCU cooperates with all supervisory and law enforcement authorities.

Presidential Decree No. 164/2002, issued in June 2002, delineates the structure, functions, and procedures of the MLCU. The unit handles implementation of the anti-money laundering law, including publishing the executive directives. The MLCU takes direction from a five-member council, chaired by the Assistant Minister of Justice for Legislative Affairs. Other members include the chairman of the Capital Market Authority (CMA), the Deputy Governor of the Central Bank of Egypt (CBE), a representative from the Egyptian Banking Federation, and an expert in financial and banking affairs. In June 2004 the MLCU was admitted to the Egmont Group of FIUs.

In June 2003, the administrative regulations of the Anti-Money Laundering Law were issued as Prime Ministerial Decree no. 951/2003. The regulations provided the legal basis by which the MLCU derives its authority. The regulations spell out the predicate crimes associated with money laundering, establish a board of trustees to govern the MLCU, define the role of supervisory authorities and financial institutions, and allow for the exchange of information with foreign competent authorities.

The introduction of the regulations, among other things, lowers 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.

On the administrative side, the Executive Director of the MLCU is responsible for the operation of the FIU and the implementation of the policy drafted by the Council of Trustees. His responsibilities include proposing procedures and rules to be observed by different entities involved in combating money laundering, and presenting them to the Chairman of the Council of Trustees; reviewing the regulations issued by supervisory authorities for consistency with legal obligations and to ensure they are up to date; ensuring the capability and readiness of the Unit's database; exchanging information with supervisory entities abroad; acting as point of contact within the GOE; preparing periodical and annual reports on the operational status of the Unit; and taking necessary action on STRs recommended to be reported to the office of the Public Prosecution. Since its inception, the MLCU has received 850 STRs from financial institutions (an increase of about 560 STRs in 2004).

In March 2004, the CBE issued instructions requiring banks to establish internal systems enabling them to comply with the anti-money laundering laws. In addition, banks are now required to submit quarterly reports showing the progress made with respect to their anti-money laundering responsibilities. The CBE has undertaken compliance examinations of all banks operating in Egypt, carried out by a special anti-money laundering (AML) team consisting of five CBE examiners. The assessments consist of questionnaires issued by the CBE and on-site visits, to check that systems and procedures are in place. On the basis of the examinations, banks are divided into three categories: fully compliant, partially compliant, and non-compliant. To date, only one bank has been found to be non-compliant. Where deficiencies are found, the banks are notified of corrective measures to be undertaken, with a deadline for making the necessary changes, and a follow-up program of visits is undertaken to reassess compliance. In addition to the special examinations, AML compliance by banks will also be assessed as part of the comprehensive periodical examinations undertaken by the CBE. The CBE also monitors closely bureaux de change and money transmission companies for foreign exchange control purposes, with close scrutiny of accounts with transactions above certain limits. The CBE sanctions include issuing a warning letter, imposing financial penalties, forbidding banks to undertake certain activities, replacing the board of directors, and revoking the bank's license.

The Capital Market Authority (CMA), which is responsible for regulating the securities markets, has also undertaken the inspection mission of firms under its jurisdiction. The inspections were aimed at explaining and discussing AML regulations and obligations, as well as at evaluating the implementation of systems and procedures, including checking for an internal procedures manual and ensuring the appointment of compliance officers.

Money laundering investigations are carried out by one of the three law enforcement agencies in Egypt, according to the type of predicate offense involved. The Ministry of Interior, which has general jurisdiction for the investigation of money laundering crimes, has established a separate AML department, which includes a contact person for the MLCU and who coordinates with other departments within the ministry. The AML department works closely with the MLCU during investigations. It has established its own database to record all the information it received, including STRs, cases, and treaties. The Administrative Control Authority (ACA) has specific responsibility for investigating cases involving the public sector or public funds. It also has a close working relationship with the MLCU, depending on the nature of the investigation. The third law enforcement entity, the National Security Agency (NSA), plays a more limited direct role in the investigation of money laundering cases, where the predicate offense is more serious or threatens national security.

Because of its own historical problems with domestic terrorism, the GOE has sought closer international cooperation to counterterrorism and terrorist financing. The GOE has shown willingness

to cooperate with foreign authorities in criminal investigations. It has acted promptly on asset freezing requests from the United States, and continually monitors the operations of domestic non-governmental organizations (NGOs) and charities to forestall funding of terrorist groups abroad. In 2002, the GOE passed the Law on Civil Associations and Establishments (Law No. 84/2002), which governs the procedures for setting up NGOs, including their internal regulations, activities, and financial records. The law places restrictions on accepting foreign donations without prior permission from the proper authorities.

In April 2004, citing the importance of the role that the FIU plays in fighting serious financial crimes, the GOE, pursuant to Prime Minister Decree No. 676/2004, decided to grant representatives from the MLCU membership in the Egyptian National Committee for International Cooperation in Combating Terrorism, which was established in 1998. The other members of the Commission are the Ministry of Justice, Ministry of Foreign Affairs, Ministry of Interior, and the National Security Agency. The GOE is considering the establishment of a national committee for coordinating issues regarding anti-money laundering, which will go into effect in 2005.

The United States and Egypt have a Mutual Legal Assistance Treaty, which entered into force November 2001. 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. Information about financial and other assets frozen and/or seized in connection with money laundering and terrorist financing investigations is not a matter of public record in Egypt.

Egypt was one of the founding members the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region. In November 2004, Egypt was elected to a one-year term as the first Vice-President of MENAFATF, which was inaugurated on November 30 in Bahrain by 14 Arab countries.

Egypt is a party to the 1988 UN Drug Convention. In March 2004, it ratified the UN Convention against Transnational Organized Crime. It has signed, but not yet ratified, the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Egypt has taken several significant steps in 2004 to address domestic and international concerns regarding deficiencies in its banking system and monetary policy. Egypt is reportedly eager to improve international cooperation in these areas. However, Egypt should intensify financial institution training in order to enhance the reporting mechanism for suspicious activities; consider ways of improving MLCU feedback on STRs to reporting financial institutions; and enforce cross-border currency controls, including reporting requirements. 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. Its most significant financial contacts are with neighboring Central American countries, as well as with the United States, Mexico, and the Dominican Republic. The January 2001 adoption of the U.S. dollar as legal tender, along with the size and growth rate of the financial sector, makes the country a potentially fertile ground for money laundering. In 2004, more than \$2.5 billion in remittances was likely sent to El Salvador through the financial system. Most were 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 the Laundering of Money and Assets," criminalizes money laundering related to narcotics-trafficking and other serious crimes, including trafficking in persons, kidnapping, extortion, illicit enrichment, embezzlement, and contraband. The law also establishes the Unidad de Investigación Financiera (UIF), El Salvador's financial intelligence unit (FIU), which is located within the Public Ministry. 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.

Under Decree 498, covered entities must identify their customers, maintain records for a minimum of five years, train personnel in identification of money and asset laundering, establish internal auditing procedures, and report all suspicious transactions and transactions that exceed approximately \$57,000 to the UIF. Entities obligated to comply with these requirements include banks, finance companies, exchange houses, stock exchanges and exchange brokers, commodity exchanges, insurance companies, credit card companies, casinos, dealers in precious metals and stones, real estate agents, travel agencies, the postal service, construction companies, and the hotel industry. The law includes a safe harbor provision to protect all persons who report transactions and cooperate with law enforcement authorities, and also contains banker negligence provisions that make 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, Decree 498 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 proceedings. 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 El Salvador, to report the value of goods or cash in excess of approximately \$11,400.

There were no arrests for money laundering or terrorist financing in 2004. 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 Decree 498.

The Government of El Salvador (GOES) has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related and other assets of serious crimes. The UIF and PNC have adequate police powers to trace and seize assets, but the PNC lacks the resources to do so. Forfeited money laundering proceeds are deposited in a special fund used to support law enforcement, drug treatment and prevention, and other 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. Figures for 2004 are not available. There exists no legal mechanism to share seized assets with other countries.

Money Laundering and Financial Crimes

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 FATF Special Recommendations on Terrorist Financing, and would include the OAS Inter-American Drug Abuse Control Commission's model regulatory reforms for the laundering of assets.

Although Decree 498 does not specifically mention terrorism or terrorist financing as predicate offenses for money laundering, it criminalizes the laundering of the proceeds of serious criminal acts. This has been interpreted to include terrorism. Therefore, it is illegal to launder money generated by a terrorist act, and assets of terrorists that are derived from criminal activities could be targeted under Decree 498. However, providing legitimate money (money that is not derived from a criminal act) to known terrorist organizations is not considered to be a crime, and the person contributing those funds could not be prosecuted unless it could be shown that he or she was directly involved in the planning or execution of a crime. The GOES has drafted counterterrorism legislation that will further define acts of terrorism and establish tougher penalties for the execution of those acts. The draft legislation, if passed, would also grant the GOES the legal 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 lists. Bank accounts belonging to a female companion of a former Red Brigade terrorist arrested in Argentina in 2002 were frozen. The woman's accounts, totaling \$22,000, were frozen pending the completion of Italy's investigation. Both had previously resided in El Salvador. No additional assets linked to terrorism have been found to date. There is no evidence that any charitable or nonprofit entity in El Salvador has been used as a conduit for terrorist financing.

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 is party to the Inter-American Convention on Mutual Assistance on Criminal Matters, which provides for 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.

El Salvador is a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD), the Caribbean Financial Action Task Force and the Egmont Group. The GOES is party to the OAS Inter-American Convention Against Terrorism and the UN International Convention for the Suppression of the Financing of Terrorism, as well as the 1988 UN Drug Convention. El Salvador ratified the UN Convention against Transnational Organized Crime and the UN Convention Against Corruption in March and July of 2004, respectively. 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. El Salvador should continue to expand and enhance its anti-money laundering policies and strengthen its ability to seize and share assets. The Government of El Salvador should criminalize the support and financing of terrorists and terrorist organizations.

Equatorial Guinea

Equatorial Guinea (EG) is not a major regional financial center. EG has not been experiencing an increase in financial crimes, but has dealt with banking irregularities in the past year. Despite creating anti-money laundering legislation, the process of implementing the regulations is not complete, and EG is still vulnerable to money laundering and terrorist financing.

Equatorial Guinea is a member of the Central African Economic and Monetary Union (CEMAC), and shares a regional Central Bank (BEAC) with Cameroon, Central African Republic, Chad, Republic of the Congo, and Gabon. The Government of EG (GOEG) also is a member of the Banking Commission of Central African States (COBAC), an organization within CEMAC. COBAC supervises the banking systems in CEMAC countries, ensuring the legality of the operations carried out by financial institutions. Following the 2001 terrorist attacks in the United States and United Nations resolutions, CEMAC member countries formed the Central African Action Group Against Money Laundering (GABAC) to draft a common anti-money laundering law to apply to all CEMAC countries. Equatorial Guinea, as a member of CEMAC, participates in the Ministerial Committee that adopts regulations, which as supranational laws are enforceable in all member states without specific legislation in each country.

The country-specific offices of GABAC (established in each member country) are the National Agencies for Financial Investigation (NAFI). In EG, the creation of this group has been delayed due to economic reasons. In view of these delays, the governor of BEAC, along with the secretariat of COBAC, adopted a new set of regulations giving COBAC the authority to act on money laundering and terrorism financing suspicions. Money laundering and most financial crimes, in general, are criminal offenses, and COBAC has the authority to investigate complaints, seize assets, prosecute individuals (including malfeasant bankers), and revoke the banking licenses of banks that knowingly commit financial crimes. The regulations are intended to implement the Financial Action Task Force (FATF) Forty Recommendations and nine UN resolutions on terrorist financing.

COBAC and GABAC require banks to record and report the identity of customers engaging in large transactions once the NAFI is created and to keep a record of large transactions for five years. The threshold for reporting large transactions will be set at a later date by the CEMAC Ministerial Committee. All investigations are conducted in keeping with banker confidentiality stipulations. To date, there have been no arrests related to financial crimes.

The largest concern for EG in terms of money laundering and terrorist financing is in the form of cross-border currency transactions and companies that transfer money internationally. BEAC has not addressed this problem to date, and there are currently no laws to regulate the amount transferred each day or by whom and for what reason. This is particularly troublesome to COBAC because they see it as the most vulnerable section of the financial sector.

COBAC is also responsible for circulating to its financial institutions the list of individuals and entities that have been included on the UN 1267 Sanctions Committee's consolidated list, or other groups identified by the United States or the European Union. The GOEG is subject to UNSCRs 1373 and UNSCR 1267, but has only submitted reports to the 1373 committee. The GOEG is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. EG is not a party to the 1988 UN Drug Convention.

The Government of Equatorial Guinea (GOEG) should work with the Banking Commission of Central African States (COBAC) to fully implement applicable regulations and to establish an anti-money laundering regime capable of thwarting terrorist financing, including the enactment of cross-border currency reporting requirements. EG should criminalize terrorist financing and become a party to the 1988 UN Drug Convention.

Eritrea

Eritrea is not an important regional financial center. It is believed to have little or no significance in terms of money laundering either with respect to narcotics or other criminal proceeds or terrorist financing. Eritrea is not a source of narcotics, nor is it believed to be a significant market or transit route for narcotics. There is no indication that Eritrea is experiencing an increase in financial crimes. The country's banking sector is primitive. Its connections to the rest of the world are rudimentary at best. It has no offshore sector. Given Eritrea's weak economy, the marketing of smuggled goods occurs on a small scale. Relatively little contraband enters this impoverished country and the funds generated from such activity are limited. However, due to its limited regulatory structure and its proximity to regions where terrorist and criminal organizations operate, Eritrea is vulnerable to money laundering and related activities.

Money laundering, to the extent that it occurs, largely occurs through the non-bank financial system. The government has outlawed all but one exchange house, which is controlled by the only legal political party that also controls the government. Unsanctioned exchange operations serve as a main source of foreign exchange given the lack of foreign exchange available from legal sources.

Eritrea's legal system is weak. The ten-year old country's Constitution has yet to be implemented and legal codes for civil and criminal matters remain a work in progress. The country continues to rely on many laws from the period when it was a part of Ethiopia.

Information generated by the financial sector is limited and closely held. All Eritrean banks are government-owned. No foreign banks are yet authorized to operate. The banks and financial institutions are slowly implementing computerized record keeping systems, which are designed to supply standardized reports that will eventually allow for more effective regulation by banking authorities.

The banks and other financial institutions record and report the identity of customers who engage in large currency transactions. All transactions, even for small sums, require that identification be presented. Banks maintain records of significant transactions, allowing for transactions to be traced if necessary. Bank officials claim to report all suspicious transactions to the appropriate authorities. Eritrea has no secrecy laws that would preclude the reporting of information to the authorities as long as appropriate permission is obtained.

All travelers are required to declare the currency they are carrying upon entering and leaving the country at ports, airports and other entry points. In fact, due to the unreliability of the country's financial system and the poor exchange rate offered for funds transferred through official banks and the one authorized exchange house, many travelers carry cash from Eritrea's large diaspora to their relatives living in Eritrea. These cash deliveries, while significant for Eritreans who receive them, are fairly small, typically in the range of thousands rather than tens of thousands of dollars. The Eritrean authorities have tended to tolerate this since it serves as one of the country's most important sources of foreign exchange.

Eritrean authorities do not routinely provide information on specific arrests and prosecutions, nor do they provide reliable aggregate data on crimes. Eritrea has not reached agreement with the U.S. on a mechanism for exchanging records in connection with investigations and proceedings relating to crime investigations. Nor are any negotiations underway to establish such a record exchange mechanism. It is not known whether Eritrea has established formal systems and procedures for identifying, tracing, freezing, seizing, and forfeiting narcotic-related assets or assets derived from other serious crimes including the funding of terrorism. The Eritrean government and regulatory authorities have expressed their readiness to cooperate in identifying and seizing assets generated from serious crimes and terrorism-related activities. It is not known whether authorities have actually seized or frozen such assets.

Eritrea is not a party to the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. It is party to the 1988 International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

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 the UN Convention against Transnational Organized Crime.

Estonia

Estonia has one of the most transparent, developed banking systems among the new European Union 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, the Government of Estonia (GOE) 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 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 cash transactions above 100,000 kroons (approximately \$8,600) or non-cash transactions above 200,000 kroons (approximately \$17,100). Estonia's legislation requires the credit or financial institutions to report suspicious or unusual transactions to the "Rahapesu Andmebüro", Estonia's Financial Intelligence Unit (FIU).

On January 1, 2004, the Amendment Law to the Money Laundering and Terrorism Financing Prevention Act (MLTFPA) took effect; this law amends the 1999 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, dealers in high-value goods and other intermediaries for cash transactions subject to reporting. 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 Supervisory Authority.

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 non-compliance.

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. In 2004 the FIU became an independent unit within the Economic Crime Department of the Central Criminal Police. The FIU's authority includes investigating money laundering cases, the ability to conduct misdemeanor procedures and issue administrative acts against violations. In 2002, the FIU received 1,073 suspicious transaction reports; in 2003 it received 1,293 reports; and, through October 2004, it received 1,189. 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.

There are three free trade zones in Estonia—at the ports of Muuga and Sillamae and on the land border with Latvia. In the free zones, VAT and excise duties do not have to be paid on goods imported and later exported. The main supervisory authority responsibility for monitoring and checking the movement of goods in the free zones is the Estonian Tax and Customs Board, which is governed by the Ministry of Finance. There are strict identification requirements, similar to those used by the Estonian Border Guard, for companies and individuals using the zones. There is no indication that trade-based money laundering schemes or financiers of terrorism are active in these free zones.

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. The GOE regards the financing of terrorism as a form of participation in terrorism. Acts that are aimed at the commission of terrorism (in the preparation stage) are criminalized; therefore, the GOE believes it has criminalized terrorist financing. Nevertheless, the GOE is in the process of reviewing the Penal Code and considering the introduction of terrorism financing as a distinct crime. The MLTFPA allows 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 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 "Rahapesu Andmebüro" is a member of the Egmont Group and joined the European Union's financial intelligence units' net (FIU.NET). The GOE participated in the European Commission's Anti-Money Laundering Project for Economic Reconstruction Assistance (PHARE Project). The purpose of the project was to provide support to Central and Eastern European countries in the development and/or improvement of anti-money laundering regulations. In August 2000, Estonia ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime. In October 2001, the GOE signed a cooperation agreement with Europol. The GOE 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.

The Government of Estonia 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 continue its efforts to implement the European Commission's Anti-Money Laundering Project for Economic Reconstruction Assistance (PHARE

project) in order to increase its capacity to fight money laundering on a national and international level. Estonia should clarify that its laws, in fact, criminalize terrorist financing, and if not, should enact appropriate legislation to do so. Estonia should make every effort 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. There is no offshore sector. 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.

Historically, money laundering has not been a serious problem. However, while reliable data is not available, the Federal Police have stated that incidents of money laundering have increased in the past few years. Reports indicate that alternative remittance systems, particularly hawala, are also widely used by immigrant communities. The government has closed a number of illegal hawala operations. Proposed revisions to the penal code, likely to be adopted in early 2005, would make money laundering a criminal offense.

The country has an underdeveloped financial infrastructure, containing six small private banks and 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 applicable to non-banking financial institutions or to intermediaries. The Government of Ethiopia (GOE) has proposed terrorist finance legislation, which is still under review in Parliament. The Central Bank has the authority to identify, freeze, and seize terrorist finance related assets, and it has done so in the past. The Central Bank routinely circulates to its financial institutions the list of persons and entities that have been designated by the UNSCR 1267 Sanctions Committee. During 2004, no assets linked to these persons or entities have been identified.

Ethiopia is a party to the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not yet signed UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Ethiopia should act on the pending terrorist finance legislation and pass anti-money laundering and counterterrorist finance legislation that adheres to international standards. Ethiopia should proceed with ratification of the UN Convention against Transnational Organized Crime. It should also 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. Much of the money laundering that does occur results from the use of Fiji as a transshipment point for illegal narcotics. There have also been a number of money laundering investigations involving foreign exchange dealers and overseas remittances. The Director of Public Prosecutions has successfully imposed freezing orders on

several occasions. However, there have not yet been any prosecutions or confiscations of criminal assets.

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. Key measures include widening the scope and coverage of financial institutions to include non-traditional financial and banking institutions. As a result, a new Financial Transactions Reporting Act was passed by both houses of Parliament in December 2004. The legislation will be implemented in early 2005 and amendments to the Proceeds of Crime Act and Mutual Assistance in Criminal Matters Act are in the final draft stage. Amendments to the Proceeds of Crime and the Mutual Assistance Act have been proposed to allow, among other things, for civil and criminal forfeitures and the extension of mutual assistance to foreign countries. Cabinet has given approval for the review and drafting of the amendments, which will be put before Parliament in early 2005.

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 examinations of licensed banks and other deposit taking institutions for compliance with anti-money laundering laws and guidelines are reportedly ongoing.

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. The Committee was established in 1998 and meets once a month to discuss the implementation of anti-money laundering measures in Fiji. 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. More than 400 suspicious transaction reports were filed in 2004.

In 2003, Fiji established a Financial Intelligence Unit (FIU). The FIU is currently based in the Reserve Bank of Fiji. Fiji's FIU became operational in November 2003 and is responsible for identifying and referring suspect transactions to the Director of Public Prosecutions for further investigation. More than 100 cases have been developed directly from suspect transaction reports (STRs), all of which are currently being investigated by law enforcement authorities: Police, Customs, Immigration and Tax Authorities.

Fiji is a member of the Asia/Pacific Group on Money Laundering (APG). In February 2002, the APG conducted a mutual evaluation of Fiji. Fiji is a party to the 1988 UN Drug Convention. Fiji is not yet a party to either the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. In February 2003, a Counter-Terrorism Officials Group was established. The Group has drafted model counterterrorism legislation for Pacific Island countries.

The Government of Fiji has sent representatives to attend a plenary session of the Egmont Group in 2003 and to a training seminar in October 2004 for new and emerging FIUs. Fiji would like to gain admission to the Egmont Group in 2005. 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 center for money laundering, financial crime, or illegal commerce. A “Corruption Perceptions Index” survey taken by Transparency International in 2004, which evaluates countries based on perceptions of corruption rather than actual statistics, ranked Finland in first place as the country perceived around the world to be the least corrupt. Nonetheless, Finnish authorities are concerned about money laundering links to organized crime, as well as financial crimes arising from fraud or other criminal activities. Criminal proceeds laundered in Finland derive mainly from domestic criminal activity. Local narcotics-trafficking organizations as well as a small number of local organized crime groups control some of the money laundering proceeds.

Finland has four Free Zones and seven Free Warehouse areas. The four designated Free Zones are located in Hanko (Southern Customs District); Hamina and Lappeenranta (Eastern Customs District); and Turku (Western Customs District). The seven Free Warehouses are located in Helsinki (Southern Customs District); Naantali, Pori, Rauma, and Vaasa (Western Customs District); and Kemi and Oulu (Northern Customs District). In Finland, the duty-free free zone and warehouse licenses have, in most cases, been granted to municipalities or cities, but one or several commercial operators, approved by the customs districts, are usually in charge of warehousing operations within the area. The duty-free storage areas are available to both domestic and foreign-owned companies. The Community Customs Code has harmonized the free zone area regulations in the EU.

Finnish free trade zones often serve as transit points for shipments of good to and from Russia. Many goods originating in East Asia and destined for St. Petersburg or Moscow are transported on the trans-Siberian railway to the Lappeenranta Free Zone, where they are temporarily stored. These are mostly high-value goods. There are no indications that the free trade zones are being used in trade-based money launderings schemes or by the financiers of terrorism. There are no supervisory programs and/or due diligence procedures in place to monitor activities in the free trade zones.

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 non-bank financial institutions 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 Money Laundering Act came into force in 2003. Also included are the businesses and professions that perform other payment transfers that are not referred to in the Credit Institutions Act, such as “hawala.” According to the Money Laundering Act, a covered 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.

Amendments to the Penal Code came into force on April 1, 2003. The amendments include the differentiation of penalty provisions concerning money laundering and the traditional receiving offense in order to clarify the law where some actions could be punishable under 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 use or transmission of property gained through an offense, and its proceeds or property replacing such property. The amendments also bring 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.

Money Laundering and Financial Crimes

Finland does not have any cross-border transaction reporting requirements. However, Finnish authorities have addressed the problem of the international transportation of illegal source currency and monetary instruments in the Customs Act.

The MLCH, established under the National Bureau of Investigation in March 1998, receives and investigates suspicious transaction reports (STRs) from covered reporting institutions. In 2003 the responsibilities of the MLCH were expanded to include the prevention of terrorist financing. The MLCH received 2,718 STRs in 2002, 2,716 STRs in 2003, and 4,132 STRs in 2004. Approximately four-fifths of the reports concern money laundering; the remainder consists mostly of entities designated on United States, European Union (EU), and/or UN suspected terrorist financing lists. A majority of STRs involve at least one foreign party. Nationals from 84 countries are mentioned in the reports. To some extent, this internationalization is due to the receipt of terrorist financing related STRs. Of the money laundering STRs, the most represented suspect nationalities are Finnish (48 percent), Russian (16.5 percent), Estonian (4.8 percent) and Swedish (1.6 percent).

Of all the reporting agencies, currency exchange companies are the most active in reporting suspicious transactions, accounting for 70 percent of all money laundering STRs. Other reporting entities include banks (19 percent), non-police national authorities such as Customs and the Frontier Guard (7 percent) and insurance companies (1 percent). Reports from the National Police account for approximately 0.6 percent of all STRs. The Act on Preventing and Clearing Money Laundering protects individuals that cooperate with law enforcement entities. Finland has not enacted secrecy laws that prevent disclosure of client and ownership information by financial services companies to bank supervisors and law enforcement authorities.

The MLCH has authority to initiate investigations before the basis of a pre-trial investigation has been established. Of the cases forwarded to law enforcement for pre-trial criminal investigation, 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. Financial crimes offenses have remained steady over the past three years (approximately 1,600 cases per year). Between 1994 and 2002, 93 people were arrested, of which 83 were convicted for money laundering.

Finnish authorities do not have national authority to permanently suspend transactions or forfeit assets independent of a judicial process. Although the authority to freeze assets rests with the National Bureau of Investigation, officials at the MLCH consult and coordinate with other branches of government, including the Ministry of Foreign Affairs, the Ministry of Interior, and the Ministry of Finance. The MLCH has the ability to freeze a transaction for up to five business days in order to determine the legitimacy of the funds. From January-November 2004 the MLCH issued 24 orders to freeze assets/suspend transactions. The total value of these transactions was approximately \$1.7 million. With these orders, the MLCH recovered \$630,000 of criminal proceeds. Most cases involved money laundering and financial crime. In 2003, the MLCH issued 16 orders to freeze assets/suspend transactions totaling approximately \$1.8 million, of which authorities recovered approximately \$1.5 million. The 2003 freeze/suspend orders show a significant increase from 2002 (\$900,000 frozen/suspended of which \$5,000 was recovered) and 2001 (\$720,000 frozen/suspended of which \$650,000 was recovered). According to the Penal Code, the proceeds of crime shall be given to the injured party. If a claim for compensation or restitution has not been filed, Finnish authorities can order forfeiture. With some exceptions, only the proceeds of a crime can be forfeited. Legitimate businesses can be seized if used to launder drug money or support terrorist activity. Finland has enacted laws for the sharing of seized narcotics assets, as well as the assets from other serious crimes, with other governments.

The Penal Code of Finland was amended at the end of 2002 with the addition of a new chapter on terrorism (Chapter 34 a). According to Section 5 of the amendment, a person who directly or indirectly

provides or collects funds in order to finance a terrorist act or who is aware that these funds shall finance a terrorist act, commits a punishable offense. Amendments to the Money Laundering Act came into force in the spring of 2003, bringing it in line with the Financial Action Task Force's (FATF) 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 extend the system of money laundering prevention to include suspected terrorist financing.

Finland has national authority to freeze terrorist assets. The MLCH performs investigations on all individuals suspected of financing terrorist acts, including all individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list. To date, no Finns have been suspected of financing terrorism and no funds of foreign nationals suspected of terrorist financing have been located in Finland. In the event that funds are found, the assets could be frozen without undue delay for five business days. For the funds to remain frozen, a criminal investigation must be launched (either in Finland or abroad). The funds would remain frozen for the period of the investigation.

Finland has concluded numerous bilateral law enforcement cooperation agreements. 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. The MLCH may exchange information with other FIUs and with bodies engaged in criminal investigations, such as police services and public prosecutors. Although no Memorandum of Understanding (MOU) is required for this purpose under Finnish law, MOUs have been concluded with Belgium, Bulgaria, France, Latvia, Lithuania, Luxembourg, Poland, Spain, Switzerland, Thailand, Korea, Canada, Russia and Albania. The information exchanged may only be used for the prevention and clearing of money laundering transactions. Consequently, the information obtained may only be used as evidence with the approval of the MLCH.

Finland is party to the 1988 UN Drug Convention; the UN Convention against Transnational Organized Crime; the UN International Convention for the Suppression of the Financing of Terrorism; the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime and the European Convention on Mutual Assistance in Criminal Matters. Finland has signed, but not yet ratified, the UN Convention against Corruption.

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 EU, Europol, the UN, Interpol, the Baltic Sea Task Force, the Organization for Economic Co-operation and Development, and other international agencies designed to combat organized crime.

Finland should continue to enhance its anti-money laundering/counterterrorist financing regime. Finland should adopt reporting requirements for the cross-border movement of currency and financial instruments and should provide adequate supervision and oversight of its free trade zones.

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 previously laundered assets) 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 1996 the criminalization of money laundering was expanded to cover the proceeds of all crimes. In January 2004, the French Supreme Court judged that joint prosecution of individuals was possible on both money laundering charges and the underlying predicate offense. Prior to this judgment, the money laundering charge and the predicate offense were considered the same offense and could only be prosecuted as one offense.

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. The 1996 amendment to the law also obligates insurance brokers to report suspicious transactions. In 1998, the covered parties were expanded to include non-financial professions (persons who carry out, verify or give advice on transactions involving the purchase, sale, conveyance or rental of real property). 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. Following the 2001 amendments, the law covers banks, moneychangers, public financial institutions, estate agents, insurance companies, investment firms, mutual insurers, casinos, notaries, and auctioneers and dealers in high-value goods. In 2004, the list was expanded again to include chartered accountants; statutory auditors; notaries; bailiffs; judicial trustees and liquidators; lawyers; judicial auctioneers and movable auction houses; groups, clubs, and companies organizing games of chance: lotteries, bets, sports and horse-racing forecasts; institutions/unions of pensions management and intermediaries entitled to handle securities. 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 was enacted into domestic French legislation in 2004. The GOF has enacted legislation consistent with the Financial Action Task Force (FATF) Forty Recommendations.

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 Intelligence and Action Against Clandestine Financial Circuits), and the Justice Ministry. It comprises representatives from reporting professions and institutions, regulators, and law enforcement authorities; its purpose is to supply professions required to report suspicious transactions with better information and to make proposals in order to improve the anti-money laundering system.

The Banking Commission supervises financial institutions and conducts regular audits of credit institutions, and the Insurance and Provident Institutions Supervision Commission reviews insurance brokers. The Financial Market Authority evolved from the merger of the Securities Exchange Commission and the Financial Markets Council, and monitors the reporting compliance of the stock exchange and other non-bank financial institutions.

TRACFIN is responsible for analyzing suspicious transaction reports (STRs) that are filed by French financial institutions and non-financial 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 3,598 STRs in 2001, 6,896 STRs in 2002, and 9,007 STRs in 2003. Approximately 83 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; 291 cases

were referred in 2002, which resulted in 14 criminal prosecutions, and 308 cases were referred in 2003, which resulted in 55 preliminary investigations and 21 judicial procedures.

Two other types of reports are required to be filed with the FIU. A report must be filed with TRACFIN (no threshold limit), when the identity of the principal or beneficiary remains doubtful despite due diligence. In addition, a report must be filed in cases where transactions are carried out on behalf of a third party natural person or legal entity (including their subsidiaries or establishments) by a financial entity acting in the form, or on behalf, of a trust fund or any other asset management instrument, when legal or beneficial owners are not known. The reporting obligation can also be extended by decree to transactions carried out by financial entities, on their own behalf or on behalf of third parties, with natural or legal persons, including their subsidiaries or establishments, that are domiciled, registered, or established in any country or territory included on the FATF list of Non-Cooperative Countries or Territories (NCCT). Currently, a reporting decree exists concerning Nauru and Burma.

Since 1986, French counterterrorist 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. In March 2004, the GOF passed a law that extends the scope of STR to terrorist financing.

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. French authorities moved rapidly to freeze financial assets of organizations associated with al-Qaida and the Taliban, and took the initiative to put two groups on the UNSCR 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. 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.

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. TRACFIN is a member of the Egmont Group and is the Egmont Committee Chair of the newly created Operational Working Group. TRACFIN has information-sharing agreements with 27 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, Switzerland, Russia, Lebanon, Ukraine, Guatemala, Korea, and Canada.

France is a member of the FATF and a Cooperating and Supporting Nation to the Caribbean Financial Action Task Force, as well as a Supporting Observer to the Financial Action Task Force of South America Against Money Laundering (GAFISUD). 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; the UN Convention against Transnational Organized Crime; and the UN International

Convention for the Suppression of the Financing of Terrorism. In December 2003, France signed, but has not yet ratified, the UN Convention against Corruption.

The Government of France has established a comprehensive anti-money laundering regime. France should 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. The regulations would allow bankers and other individuals responsible for submitting suspicious transaction reports to 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 signed the 1988 UN Drug Convention in 1989, but has never ratified it. It signed the UN International Convention for the Suppression of the Financing of Terrorism in 2000, but has not yet ratified it. Reportedly, Gabon plans to ratify the latter convention in 2005. Gabon acceded to the UN Convention against Transnational Organized Crime in December 2004.

Gabon should work with the Bank of Central African States (BEAC) to establish a viable anti-money laundering and counterterrorist financing regime. Gabon should become a party to both the 1988 UN Drug Convention and 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. However, the Customs authorities in The Gambia, with those in Senegal, are working out a scheme to curb smuggling along their shared border.

In 2003, the Government of The Gambia (GOTG) passed the Money Laundering Act (the Act). 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. The Act also empowers the GOTG to identify and freeze assets of a person suspected of committing a money laundering offense.

The Gambia is a member of the Economic Community of West African States (ECOWAS) Intergovernmental Action Group against Money Laundering (GIABA), which was created in 2000 to improve cooperation in the fight against money laundering among ECOWAS 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 more effectively.

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 for individuals and \$40,000 for institutions. 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 Central Bank has circulated the list of terrorists designated by the USG under E.O. 13224 among Gambian banks and other financial institutions. There have been no arrests and/or prosecutions for money laundering or terrorist financing since January 2003. However, in March 2004 politician and former Majority Leader of the National Assembly Baba Jobe was sentenced to nearly 10 years in jail for failing to pay taxes and duties to the Gambian Customs and Ports Authority and for other economic crimes. In July 2004, the GOTG froze Jobe's assets in compliance with UN Security Council Resolution 1532 on Liberia, which listed Jobe among the people accused of complicity in international arms trafficking and the trade in "conflict" diamonds, in violation of UN sanctions.

The Criminal Intelligence Unit of The Gambia Police Force works in liaison with the Non-Governmental Organization Affairs Agency to verify the status of NGOs and their sources of funding.

The Gambia is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The Gambia has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of the Gambia should examine its re-export sector to determine whether or not it is being used to launder criminal proceeds. The Gambia also should expand its anti-money laundering legislation to include a comprehensive range of predicate offenses and should take steps to develop a financial intelligence unit. If it has not already done so, the Gambia should specifically criminalize terrorist financing and should become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Georgia

Georgia is not considered an important regional financial center. Prior to 2003, the international community was concerned 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. Also prior to 2003, smuggling of goods across international borders was one of the country's most serious problems, with 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). At the time, law enforcement officials provided protection to smugglers, instead of prosecuting them, helping to maintain the shadow economy that made up to 90 percent of Georgia's economic activity (based on an estimate by the Transnational Crime and Corruption Center). The new government that came into power in November 2003 placed a stronger emphasis on financial crimes and terrorist financing.

On June 6, 2003, the Georgian Parliament adopted the Anti-Money Laundering Law (AML Law) on Facilitating the Prevention of Legalization of Illicit Income. A counterterrorist financing article is also included in the AML Law. The Georgian Ministry of Justice and the Financial Monitoring Service have prepared draft amendments to the Criminal Code and Criminal Procedure Code of Georgia. The drafts have been sent to the Parliament of Georgia and are expected to be finalized by the end of 2005. A draft amendment of Article 194 of the Criminal Code introduces criminal liability of legal persons.

New draft amendments to the AML Law are currently undergoing hearings in several committees within the Parliament of Georgia. The most significant amendment requires Georgian banking and insurance institutions—holding senior management accountable—that reinvest or reinsure their assets with larger western institutions to conduct background checks on their prospective partners to ensure they have not engaged in legalizing illicit funds. One provision stipulates that persons with a criminal record are not permitted to hold prominent positions within the financial institutions or be significant shareholders of the entities.

In accordance with the Georgian Presidential Decree Number 354, Article 74 of the Law on the National Bank of Georgia and the AML Law, the Financial Monitoring Service (FMS) was created as an independent body within the National Bank of Georgia on July 16, 2003. The FMS became fully operational as the Georgian Financial Intelligence Unit (FIU) on January 1, 2004. Based on recommendations of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), the FMS developed a draft of changes and amendments to the AML Law. The Parliament of Georgia adopted the new changes and amendments on February 25, 2004. The most significant change affects Article 5, which requires all covered entities to report cash and non-cash transactions where amounts exceed 30,000 Georgian lari (approximately \$16,900). The change to the law makes Article 5 operational, starting on September 1, 2004. Prior to this change only suspicious transactions (regardless of the amount) had to be reported to the FMS. New draft amendments to the AML Law will expand the covered entities, to include money remitters and pawnshops.

Covered entities which presently must report to the FMS include commercial banks; currency exchange bureaus; non-bank depository institutions; brokerage companies; securities registrars; insurance companies; founders of non-state pension schemes; casinos; entities organizing lotteries and other commercial games; entities engaged in activities related to precious metals, precious stones, antiquities, and other high-value goods; notaries; entities extending grants and charity assistance; customs authorities; and postal organizations. The FMS has received 47 suspicious transaction reports (STRs) from covered entities since the required start date of January 2004, and 4,876 currency transaction reports (CTRs) since the required start date of September 2004.

The FMS is tasked with analyzing cases of money laundering and terrorism financing, and forwarding the necessary information to authorized agencies. The FMS works closely with the General Prosecutor's Office of Georgia, Ministry of Police and Public Safety, the National Central Bureau of Interpol, and the State Department of Statistics. The FMS works with the Supervisory Authorities and monitors entities on a regular basis to increase understanding and cooperation with reporting requirements. The FMS also provides guidelines, methodological examples, recommendations, and specialized training to other government agencies, financial institutions and other monitored entities to increase their abilities to identify and monitor suspicious activity.

The new Administration has launched several investigations relating to financial misdeeds undertaken by former members of the Georgian government and has made an effort to increase law enforcement effectiveness by restructuring the agencies, providing better equipment and paying higher salaries. Economic, tax, and customs crimes have been consolidated into the Financial Police Unit under the Georgian Ministry of Finance. Border controls were strengthened, and the Ergneti market was closed. Law enforcement officials conducted several successful antismuggling operations in the other black market areas and continue to work to decrease the shadow economy.

In 2004, the National Money Laundering Prosecution Unit Special Service on Prevention of Legalization of Illicit Income was established within the Prosecutor General's Office of Georgia. The National Money Laundering Prosecution Unit is comprised of a special task force of investigators and prosecutors. It collects, investigates, and, where appropriate, prosecutes matters arising from receipt of STRs from the FMS. It also investigates and, where appropriate, prosecutes violations of the AML Law which may come to its attention by referral from law enforcement or other agencies of the government and/or because of its own in-house assessment of information suggesting violations of the AML Law or its predicate offenses. In July 2004, based on information provided by the FMS, the Special Service on Prevention of Legalization of Illicit Income opened its first criminal money laundering case, the investigation and arrest of a local bank president and other bank officers for laundering one billion dollars from Russia through Georgia to the U.S. and Caribbean islands.

Until the recent changes in the Georgian leadership, GOG officials perceived asset forfeiture as unconstitutional; therefore, legislators did not include asset forfeiture provisions in their Penal and Criminal Procedure Codes. This interpretation was based on a July 1997 landmark ruling of the Constitutional Court of Georgia to remove the confiscation clause as a form of punishment from the Criminal Code of Georgia. Confiscation as a punitive measure was deemed unconstitutional because it also applied to proceeds that might 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. 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. From 1997 through 2003, the GOG made no serious attempts to amend the legislation or to reexamine the constitutionality of the confiscation clause. The new leadership has emphasized revising the Penal and Criminal Procedure Codes of Georgia.

The draft amendments to the Criminal Code introduce forfeiture provisions concerning: objects and/or instruments of crime, items intended for the commission of a crime, property acquired through criminal means (all items, including non-material property and legal acts/documents which grant rights over the property), and proceeds derived from property acquired through criminal means, or property of equivalent value.

Draft amendments to the Criminal Procedure Code reword the definition of "procedural confiscation" to read "forfeiture of the property, manufacturing, use, carrying, storing, transfer, transportation, and disposal of which represents crime according to the Criminal Code of Georgia, and which is executed on the basis of the court's resolution, regardless of the final decision made on the case." Another draft amendment to the Criminal Procedure Code addresses the procedure for the seizure of property. According to the draft, "for the purpose of securing a suit, procedural confiscation, measures of criminal coercion, as well as possible forfeiture of the property, the court may seize property, including bank accounts of the suspect, accused, or person on trial, and the person bearing material responsibility for his actions, provided that there are data to suppose that they may conceal or sell the property, or the property is derived through criminal means."

The draft amendments to the Criminal Code include draft Article 331 that criminalizes terrorist financing. The draft amendments to the Criminal Procedure Code include the authority for the head of

the FMS to apply to the court to seize property, prior to initiating a criminal case, if there is sufficient information to suspect that the property or person may be used for terrorist financing and/or the property belongs to terrorist or persons supporting terrorism. The FMS has issued ordinances on terrorist watch lists and the Financial Action Task Force's (FATF's) designated non-cooperative territories.

The changes and amendments to the AML Law have expanded the role of the FMS in international cooperation. Although a memorandum of understanding (MOU) is not mandatory to exchange information with other FIUs, the FMS has signed agreements with Liechtenstein, Estonia, the Czech Republic, Serbia, and Ukraine. In addition to the Egmont Group members, the FMS has cooperated with the International Monetary Fund (IMF), World Bank, the FATF, MONEYVAL, and the United States Treasury and Justice Departments.

Georgia is a member of MONEYVAL, and, in June 2004, the FMS became a member of the Egmont Group. The GOG is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism, and on February 17, 2004, ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In December 2000, the GOG signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

The Government of Georgia has taken important steps toward the development of a sound anti-money laundering regime. Georgia should enact the pending amendments to its anti-money laundering legislation. Georgia should also take whatever additional action is necessary to bring its anti-money laundering/counterterrorist financing regime into accordance with international standards. Georgia should specifically criminalize the financing and support of terrorism and terrorists.

Germany

With one of the largest financial centers in Europe, German authorities are aware that the country's financial system could be used for money laundering purposes. 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. No significant market for smuggled goods exists in the country.

In 2002, the Government of Germany (GOG) enacted a number of laws to improve authorities' ability to combat money laundering and the financing of terrorism. The Money Laundering Act, 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. It also imposes due diligence and reporting requirements on banks and financial institutions, and requires financial institutions to obtain customer identification for transactions conducted in cash or precious metals exceeding 15,000 euros. Germany has had this requirement for some time (in DM), but the information was only used for statistical purposes; only in recent years has the information been used in money laundering investigations. The legislation also calls for stiffer background checks for owners of financial institutions and tighter rules for credit card companies. Banks must report suspected money laundering to the financial intelligence unit within the Federal Criminal Police (Bundeskriminalamt or BKA), as well as to the State Attorney (Staatsanwaltschaft), who can order a freeze of the account in question. Germany's legislation has fully incorporated the Financial Action Task Force (FATF) Forty Recommendations and its Special Recommendations on Terrorist Financing, including coverage of 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 measures 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 GOG 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).

In May 2002, the German banking, securities, and insurance industry regulators were merged into a single financial sector regulator known as the Federal Financial Supervisory Authority (BaFIN). The anti-money laundering legislation requires the BaFIN to compile a centralized register of all bank accounts in Germany, including 300 million deposit accounts. As a result, on April 1, 2003, the BaFIN established a central database, which has electronic access to all key account data held by banks in Germany.

Banks cooperate with authorities and use computer-aided systems to analyze their customers and their financial dealings to identify suspicious activity. This system, which provides regulators with automated access to banks' account records, went into operation in November 2003. In the first seven weeks after its launch, the system processed 2,200 inquiries and provided information for a total of more than 9,600 inquiries. The BaFIN also commissioned 23 special bank audits in 2003 and opened a total of 201 new cases against unauthorized fund transfers and/or foreign currency transactions in 2003.

Also in 2002, Germany established a single, centralized, federal Financial Intelligence Unit (FIU) within the Federal Criminal Police. The FIU functions as an administrative unit and is staffed with financial market supervision, customs, and legal experts. The FIU is responsible for developing a central database for analyzing cases and responding to reports of suspicious transactions. As with other crimes, actual enforcement under the German federal system is carried out at the state (sub-federal) level. Each state has a joint customs/police/financial investigations unit (GFG), which works closely with the federal FIU. The number of money laundering convictions totaled 128 in 2003. U.S. authorities have conducted joint investigations with GFGs on a number of transnational cases.

Regulations for freezing assets are in place and BaFIN's new system allows for immediate freezing of financial assets. The GOG also has established procedures to enforce its asset seizure and forfeiture law. In cases where law enforcement authorities seize assets for evidentiary purposes, German law requires a direct link to the crime before seizures are allowed. Proceeds from asset seizures and forfeitures are paid into the government treasury. German authorities cooperate with U.S. authorities to trace and seize assets to the full extent that German law allows. The GOG investigates leads from other countries. However, German law does not allow for sharing forfeited assets with other countries.

In 2002, the GOG added terrorism and terrorist financing as a predicate offense for money laundering, as defined by Section 261 of the Federal Criminal Code. A 2002 amendment of the Criminal Code also allows for prosecution of members of terrorist organizations based outside of Germany. Previously, German authorities could only prosecute a member of a foreign-based terrorist organization if that group had some organized presence within Germany.

The GOG moved quickly after September 11, 2001, to identify and correct weaknesses in Germany's laws that permitted terrorists to live and study in Germany prior to that date. The first reform package closes loopholes in German law that permitted members of foreign terrorist organizations to raise money in Germany, e.g., through charitable organizations, and extremists to advocate violence in the name of religion. Germany has stepped up its legislative and law enforcement efforts to prevent the misuse of charitable entities. Germany has used its Law on Associations (Vereinsgesetz) to ban by administrative action extremist associations that threaten the constitutional order.

The second reform package, which went into effect January 1, 2002, enhances the capabilities of federal law enforcement agencies, and improves the ability of intelligence and law enforcement authorities to coordinate their efforts and to share information on suspected terrorists. The new law provides Germany's internal intelligence service with access to information from banks and financial institutions, postal service providers, airlines, and telecommunication and Internet service providers.

Germany is an active participant in UN and EU processes to monitor and freeze the assets of terrorists, and possesses the regulatory and legislative framework to identify and freeze rapidly the assets of those designated by the UN, the EU, and/or German authorities. A November 2003 amendment to the Banking Act creates a broad legal basis for the BaFin to order freezing of assets of suspected terrorists who are EU residents. The EU Council continually updates, reviews, and issues revised lists, and Germany adheres to these lists and ensures their circulation to financial institutions. Germany and several other EU member states have taken the view that the EU Council Common Position 2001/931/CSFP requires at a minimum a criminal investigation to establish a sufficient legal basis for freezes under the EU "Clearinghouse" process.

The GOG has responded quickly to freeze over 30 accounts of entities associated with terrorists. After September 11, 2001, Germany froze many millions of euros of Taliban-era Afghan assets, but these accounts have been unfrozen and made available to the new Government of Afghanistan. The release of assets does not include accounts frozen under the administrative banning of extremist organizations under the Law on Associations.

Informal money transfer schemes, such as "hawala," are considered banking activities. Accordingly, German authorities require banking licenses for money transfer services, allowing them to prosecute unlicensed operations and to maintain close surveillance over authorized transfer agents. The BaFin has investigated a total of 2,345 cases of unauthorized financial services since 2003.

A new immigration law that went into effect in January 2005 complements counterterrorism laws. It contains provisions designed to facilitate deporting foreigners who support terrorist organizations. Furthermore, a third counterterrorism package is currently under discussion within the government.

Germany continues to be an active partner in the fight against money laundering and participates actively in a number of international fora. The FIU exchanges information with its counterparts in other countries. The GOG exchanges information with the United States through bilateral law enforcement agreements and other informal mechanisms. German law enforcement authorities also cooperate closely at the EU level, such as through Europol. Germany also has Mutual Legal Assistance Treaties (MLATs) with numerous countries. Germany and the United States signed a MLAT in October 2003. The German Bundestag is expected to ratify the new MLAT in 2005. The MLAT has also been sent to the U.S. Senate for its advice and consent. In addition, the U.S.-EU Agreements on Mutual Legal Assistance and Extradition are expected to improve further U.S.-German legal cooperation. The U.S.-German implementing instrument is currently under negotiation.

Germany is a member of the FATF, the EU, the Council of Europe, and in 2003 became a member of the Egmont Group. 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. Germany signed, but has not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. After signing the UN International Convention for the Suppression of the Financing of Terrorism in 2000, Germany ratified the instrument, effective July 17, 2004.

Since 2001, the Government of Germany has enacted legislation to strengthen its anti-money laundering and counterterrorist financing regime with the support of the German public. The Government of Germany's new anti-money laundering laws and its ratification of international instruments underline Germany's commitment to combat money laundering and to cooperate with the

international community. Information exchange with the U.S. and other countries is likely to increase as the FIU becomes more established. Germany should continue to enhance its anti-money laundering regime and continue its active participation in international fora.

Ghana

Ghana is not a regional financial center, although the government is promoting efforts to model Ghana's financial system on that of the regional financial hub in Mauritius. The government has developed new laws to stimulate financial sector growth, including the revision of the banking law to strengthen the operational independence of the Central Bank (Bank of Ghana). The Bank of Ghana has imposed higher capital requirements to increase competition and force consolidation. Due to continuing turmoil in the region, Ghana's financial sector is likely to become more important regionally as it develops.

Ghana has designated two areas as free trade zone areas and also licenses factories outside the free zone area as free zone companies. Free-zone companies export at least 70 percent of their output. Most of the companies produce garment and processed foods. The Ghana Free Zone Board and the immigration and customs authorities monitor these companies. Immigration and customs officials do not suspect that trade-based money laundering schemes are a major problem in the free trade zones.

The banking sector lacks a strong regulatory framework to prevent money laundering and other suspicious transactions, although it is sensitized to the importance of such a framework. The police suspect that non-bank financial institutions, such as foreign exchange bureaus, are used to launder the proceeds of narcotics-trafficking. They also allege that donations to religious institutions have been used as a vehicle to launder money. The number of "advanced fee" scam letters that originate in Ghana has increased dramatically, as have other related financial crimes, such as use of stolen credit and ATM cards. The informal economy makes up approximately 45 percent of the total Ghanaian economy, according to World Bank estimates. Only a small percentage of the informal economy, however, relies on the banking sector. Ghana's relatively low tariffs do not encourage smuggling. The lack of government resources, however, makes both the informal economy and smuggling difficult to track with accuracy.

Ghana has criminalized money laundering related to narcotics-trafficking and other serious crimes. The Narcotic Drug Law of 1990 provides for the forfeiture of assets upon conviction of a money laundering offense. 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. Local banks are not required to report suspicious transactions, but are required by the Central Bank to report their 20 largest deposits and 20 largest withdrawals on a weekly basis. The Central Bank has circulated the list of individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list to local banks, but no assets have been identified. 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 January 2005, the bill had still not been submitted to Parliament and is still under review. The Government of Ghana made no arrests or prosecutions related to money laundering in 2004.

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. Ghana also hosted the 2002 conference of the West African Joint Operation (WAJO), which promotes regional law enforcement cooperation against narcotics-trafficking, terrorism, and money laundering.

Domestic security agencies cooperate in the fight against terrorism but need assistance. Ghana is a party to all twelve UN conventions on terrorism, including the UN International Convention for the

Suppression of the Financing of Terrorism. Ghana is a party to the 1988 UN Drug Convention. 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.

The Government of Ghana should pass the anti-money laundering legislation that has been under review for several years, and take practical 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 (UK), which assumes responsibility for Gibraltar's defense and international affairs. As part of the European Union (EU), Gibraltar is required to implement all relevant EU directives, including those relating to anti-money laundering.

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 who becomes concerned about the possibility of money laundering. The DOO covers 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 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.

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 services, insurance companies, and collective investment schemes. Internet gaming is permitted by the Government of Gibraltar (GOG), and is subject to a licensing regime. Gibraltar has guidelines for correspondent banking, politically exposed persons, bearer securities, and "know your customer" procedures, and has implemented the FATF Special Recommendations on Terrorist Financing.

In 1996, Gibraltar established the Gibraltar Coordinating Center 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 serves as Gibraltar's Financial Intelligence Unit (FIU) and is a sub-unit of the Gibraltar Criminal Intelligence Department. The GCID consists mainly of police and customs officers but is independent of law enforcement.

In 2003, the GOG adopted and implemented the European Union Money Laundering Directive 91/308/EEC on the Prevention of the Use of the Financial System for the Purpose of Money Laundering. The GOG 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) and, in 2004, the GCID became a member of the Egmont Group.

The Government of Gibraltar should continue its efforts to implement a comprehensive anti-money laundering regime capable of thwarting terrorist financing. If it has not already done so, Gibraltar should criminalize terrorist financing and should put in place reporting requirements for cross-border currency movements.

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 former Soviet constituent countries, as well as in 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 non-bank 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. Money laundering became an offense in Greece under Presidential Decree 2181/93.

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 this legislation, the Bank of Greece has direct scrutiny and control over transactions by credit institutions and entities involved in providing services for fund transfers. The Bank of Greece issues operating licenses after a thorough check of the institutions, their management, and their capacity to ensure the transparency of transactions.

Law 3259/August 2004 allows individuals and legal entities that pay taxes in Greece to repatriate capital from any bank account held outside Greece by paying a three percent tax on the transferred funds within six months. The Bank of Greece, the nation's Central Bank, has issued a circular to financial institutions that receive repatriated funds, instructing them on how to scrutinize the transfers

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for possible money laundering. The Ministry of Economy and Finance has issued detailed instructions on the documentation and auditing procedures required for repatriating capital.

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 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.

Under Decree 2181/93, banks in Greece must demand customer identification information when opening an account or conducting transactions that exceed 15,000 euros. If there is 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.

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. Reporting individuals are protected by law.

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 GOG'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.

Law 2331/1995 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 Bank of Greece, the nation's 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, a multi-agency group that functions as the CC's investigative arm. In 2004, the Financial Crimes Enforcement Unit was renamed the Special Control Directorate (YPEE) and placed under the direct supervision of the Ministry of Economy and Finance. The CC is also responsible for preparing money laundering cases on behalf of the Public Prosecutor's Office.

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 new law will

incorporate elements of the EU Framework Decision on the freezing of funds and other financial assets and the EU Council regulation on combating the financing of terrorism. The basic law on money laundering, Law 2331/1995, will be amended and supplemented accordingly. YPEE has established a mechanism for identifying, tracing, freezing, seizing, and forfeiting assets of narcotics-related and other 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. 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. Under a new counterterrorism law (Law 3251/July 2004), anyone who provides financial support to a terrorist organization faces imprisonment of up to ten years. If a private legal entity is implicated in terrorist financing, it faces fines of between 20,000 and 3 million euros, closure for a period of two months to two years, and ineligibility for state subsidies. The new law incorporates the Financial Action Task Force (FATF) Special Eight 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 UNSCR 1267 Sanctions Committee's consolidated list as being linked to Usama Bin Ladin, 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 GOG 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. The financial and economic crimes police as well as tax authorities closely monitor charitable and nongovernmental organizations; there is no evidence that such organizations are being used as conduits for the financing of terrorism.

Greece is a member of the FATF, the EU, 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 April 16, 2004, Greece became a party to 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, Macedonia, Poland, Romania, Russia, Tunisia, Turkey, and Ukraine. It also has a trilateral police cooperation agreement with Bulgaria and Romania, and a bilateral agreement with Ukraine to combat terrorism, drug trafficking, organized crime and other criminal activities.

Greece exchanges information on money laundering through its Mutual Legal 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 the U.S. Drug Enforcement Administration and YPEE has been extensive, and the GOG has never refused to cooperate. The CC can exchange information with other FIUs, although it prefers to work with a memorandum of understanding in such exchanges.

The Government of Greece should extend and implement suspicious transaction reporting requirements for gaming and stock market transactions, and should adopt more rigorous standards for casino ownership or investments. Additionally, Greece should ensure uniform enforcement of its cross-border currency reporting requirements and take steps to deter the smuggling of precious gems

and metals across its borders. Greece should also enact its pending legislation to bring its asset forfeiture regime up to international standards.

Grenada

Improvement has been noted in Grenada's anti-money laundering regime and the supervision of its financial sector. 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 2004, Grenada has one offshore bank, which is currently under investigation, one trust company, one management company, and one international insurance company. Grenada is reported to have over 20 Internet gaming sites. There are also 859 international business companies (IBCs). The domestic financial sector includes six commercial banks, 26 registered domestic insurance companies, two credit unions, and four or five money remitters. The GOG has repealed its economic citizenship legislation.

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 for 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. The Proceeds of Crime (Amendment) Act of 2003 extends anti-money laundering responsibilities to a number of non-bank 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 regard to the revocation of offshore entities' licenses and issues certificates of incorporation to IBCs. 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). It is expected that GIFSA will be renamed the Grenada Authority for the Regulation of Financial Institutions. Legislation implementing the Grenada Authority for the Regulation of Financial Institutions as the new regulatory body was defeated in the Senate; however, the legislation will be reintroduced in 2005.

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 requires 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 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, but is not in effect. 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.

Grenada's legal framework effectively enables GIFSA to obtain customer account records from an offshore financial institution upon request, and to share the customer account information that regulated financial institutions must maintain under due diligence requirements 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 help bankers 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 2004, the FIU had received 45 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. Grenada has cooperated extensively with U.S. law enforcement in numerous money laundering and other financial crimes investigations. As a result, several subjects in the United States were successfully prosecuted.

In 2003, Grenada enacted counterterrorist 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.

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. 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 also has demonstrated consistently good cooperation with the U.S. Government by responding rapidly to requests for information involving money laundering cases. 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, the UN International Convention for the Suppression of the Financing of Terrorism, and as of May 2004, the UN Convention against Transnational Organized Crime.

Although the Government of Grenada has 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. Grenada should also continue to enhance its information sharing, particularly with other Caribbean jurisdictions.

Guatemala

Guatemala is a major transit country for illegal narcotics from Colombia and precursor chemicals from Europe. Those factors, combined with historically weak law enforcement and judicial regimes, 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 human trafficking, contraband, kidnapping, tax evasion, vehicle theft, and corruption, is substantial. 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, large commercial projects, and shell companies, or are otherwise transferred through the financial system.

Guatemala is not considered a regional financial center, but it is an offshore center. Exchange controls have largely disappeared and dollar accounts are common, but some larger banks conduct significant business through their offshore subsidiaries. The Guatemalan financial services industry is comprised of 25 commercial banks (3 more in the process of liquidation); approximately 11 offshore banks (all affiliated, as required by law, with a domestic financial group); seven licensed money exchangers (hundreds exist informally); 27 money remitters, including wire remitters and remittance-targeting courier services; 18 insurance companies; 18 financial societies (bank institutions that act as financial intermediaries specializing in investment operations); 15 bonded warehouses; 198 cooperatives, credit unions, and savings and loan institutions; 13 credit card issuers; seven leasing entities; 12 fianzas (financial guarantors); and one check-clearing entity run by the Central Bank.

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. Guatemala's relatively small free trade zones target regional maquila (assembly line industry) operations and are not considered by GOG officials to be a money laundering concern.

The offshore financial sector initially offered a way to circumvent currency controls and other costly financial regulations. However, financial sector liberalization has largely removed many incentives for legitimate businesses to conduct offshore operations. 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 SIB. The law requires offshore banks to be authorized by the Monetary Board and to maintain an affiliation with a domestic 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 completed the process of reviewing and licensing its offshore banks in 2004, 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. Eleven offshore banks 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. In 2004 the SIB and Guatemala's financial intelligence unit, the *Intendencia de Verificación Especial*, concluded a process of reviewing and licensing all offshore entities, a process which resulted in the closure of two operations. No offshore trusts have been authorized, and offshore casinos and Internet gaming sites are not regulated.

There is continuing concern over the volume of money passing informally through Guatemala. Much of the more than \$2 billion in remittance flows pass through informal channels. The large sums of money seized in airports—totaling over \$2 million in 2004—suggest that proceeds from illicit activity are regularly hand carried over Guatemalan borders. Increasing financial sector competition should continue to expand services and bring more people into the formal banking sector, isolating those who abuse informal channels.

In June 2001, the Financial Action Task Force (FATF) placed Guatemala on the list of Non-Cooperative Countries and Territories (NCCT) in the fight against money laundering. Since that time, authorities have implemented the necessary reforms to bring Guatemala into compliance with international standards, including the creation of a Financial Intelligence Unit (FIU) and the passage of comprehensive anti-money laundering legislation. An inspection in May 2004 by a FATF review team found that the GOG had made excellent progress, and Guatemala was removed from the NCCT list at the FATF plenary in June 2004.

In November 2001, Guatemala enacted Decree 67-2001, the “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 non-commutable prison term ranging from six to 20 years, and fines equal to the value of the assets, instruments, or products resulting from the crime. Convicted foreigners will be expelled from Guatemala. Conspiracy and attempt to commit money laundering are also penalized. Guatemalan authorities have had some success using these conspiracy provisions to target narcotics-traffickers.

Since the FATF designation, the GOG has taken important steps to reform its anti-money laundering program. 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. Covered institutions must establish money laundering detection units, designate compliance officers, and train personnel to detect suspicious transactions. The Guatemalan financial sector has largely complied with these requirements and has a generally cooperative relationship with the SIB.

Decree 67-2001 adds 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 immune 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.

Covered institutions are prohibited from maintaining anonymous accounts or accounts that appear under fictitious or inexact names; non-banks, however, may issue bearer shares, and there is limited banking secrecy. Covered 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, covered entities must maintain records of these registries and transactions for five years.

Decree 67-2001 also obligates individuals and legal entities to report to the competent authorities cross-border movements of currency in excess of approximately \$10,000. At Guatemala City airport, a new special unit was formed in 2003 to enforce the use of customs declarations upon entry to and exit from Guatemala. Compliance is not regularly monitored at land borders.

Decree 67-2001 establishes a FIU, the Intendencia de Verificación Especial (IVE), within the Superintendence of Banks, to supervise covered financial institutions and ensure their compliance with the law. The IVE began operations in 2002 and has a staff of 25. The IVE has the authority to obtain all information related to financial, commercial, or business transactions that may be connected to money laundering. Covered 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 day, and report these transactions to the IVE. The IVE conducts inspections on the covered entities’ management, compliance officers, anti-money laundering training programs, “know-your-client” policies and auditing programs; it inspected 30 entities in 2004. The IVE may impose sanctions on financial institutions for noncompliance with reporting requirements, and has imposed over \$100,000 in civil penalties to date.

Since its inception, the IVE has received approximately 1,200 suspicious transaction reports (STRs) from the 287 covered entities in Guatemala. All STRs are received electronically, and the IVE has developed a system of prioritizing them for analysis. STRs are given a rating of “A,” “B,” “C,” or “D,” with “A” being high-profile cases that warrant immediate analysis, and “D” being cases that do not appear to be highly suspicious and are filed away for possible analysis in the future. Of the 266 STRs the IVE received as of October 2004, eight have been categorized as class “A,” 69 as class “B,” and 189 as class “C” or “D.”

After determining that an STR is highly suspicious, the IVE gathers further information from public records and databases, other covered entities and foreign FIUs, and assembles a case. Bank secrecy can be lifted for the investigation of money laundering crimes. Once the IVE has determined a case warrants further investigation, the case must receive the approval of the SIB before being sent to the Anti-Money or Other Assets Laundering Unit (AML Unit) within the Public Ministry. Under current regulations, the IVE cannot directly share the information it provides to the AML Unit with any other special prosecutors (principally the anticorruption or counternarcotics units) in the Public Ministry.

The IVE also assists the Public Ministry by providing information upon request for other cases the prosecutors are investigating.

Eight cases have been referred by the IVE to the AML Unit, four of which stem from public corruption. One of these investigations has resulted in nine persons facing charges, with additional arrests still pending. In several cases, assets have been frozen. Two money laundering prosecutions have been concluded, one of which resulted in a conviction. The Public Ministry is appealing the decision of the case that did not result in conviction. Both cases resulted in confiscation of the defendant's assets. Additional cases have been developed from cooperation between the Public Ministry and the IVE. The Public Ministry's AML Unit had initiated 143 cases as of November 2004. Five cases have been concluded, with three sentences handed out and the remaining two awaiting appeal and retrial by the prosecutors. Sixty-five cases are either under continuing investigation or in initial stages of the trials, and the remaining cases were transferred to other offices for investigation and prosecution (such as the anticorruption unit) due to the nature of their particular predicate offenses. Several high profile cases of laundering proceeds from major corruption scandals involving officials of the previous government are currently under investigation and have resulted in arrests and substantial seizures of funds and assets. These seizures have been supported by the cooperating financial institutions along with the vast majority of public and political interests.

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 temporarily suspended those provisions and this impasse has not yet been addressed under the new administration.

An additional problem is that the courts do not allow seized currency to benefit enforcement agencies while cases remain open. 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 2004, Guatemalan authorities seized more than \$2 million in bulk currency, significantly less than the \$20 million seized in 2003 (although one case alone in 2003 accounted for more than \$14 million). The lack of access to the resources of seized assets outside of the judiciary has made sustaining seizure levels difficult for the resource-strapped enforcement agencies.

Guatemala has taken several 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 can issue a freeze order on terrorist assets, but no test case has validated these procedures. The legality of freezing assets in Guatemala when no predicate offense has been legally established remains to be determined. The GOG has been very cooperative in looking for terrorist financing funds. A comprehensive counterterrorism law that includes provisions against terrorist financing was introduced in Congress in 2003; however, the law has not yet been passed. The absence of terrorist financing legislation places the GOG in a position of noncompliance with the FATF Special Recommendations on Terrorist Financing and the UNSCR Resolution 1373 against Terrorism.

The SIB, through the IVE, has signed Memorandums of Understanding (MOUs) with Argentina, the Bahamas, Barbados, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, El Salvador, Honduras, Mexico, Montserrat, Panama, Peru, Spain and Venezuela. During 2004, the SIB signed

MOUs with Belgium, France, South Korea and the United States. Guatemala also signed an agreement with the USG Office of the Comptroller of the Currency to cooperate on supervision issues, and has begun negotiations to sign an MOU with Puerto Rico. Guatemalan law enforcement is actively cooperating with appropriate USG law enforcement agencies on cases of mutual interest.

Guatemala 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. The GOG has signed, but not yet ratified, the UN Convention against Corruption. Guatemala is a party to the Central American Convention for the Prevention of Money Laundering and Related Crimes, and is a member of the 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, the IVE became a member of the Egmont Group.

Corruption and organized crime remain strong forces in Guatemala and may prove to be the biggest hurdles facing the Government of Guatemala in the long term. Guatemala has made efforts to comply with international standards and improve its anti-money laundering regime. In 2004, Guatemalan authorities completed implementation of new procedures to license and monitor offshore banks, and demonstrated that they could use anti-money laundering laws to successfully target criminals. However, the Guatemala should take steps to immobilize bearer shares, and to identify and regulate offshore financial services and gaming establishments. Guatemala should pass legislation to criminalize terrorist financing and continue efforts to improve enforcement and implementation of needed reforms. Cooperation between the IVE and the Public Ministry has improved since the new administration took office in January 2004, and several investigations have led to prosecutions. However, Guatemala should continue to 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.

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 16,071 companies registered in the Bailiwick. Non-residents 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). Local residents own the remainder of the companies, including 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 59 banks, all of which have offices, records, and a substantial presence in the Bailiwick. The banks are licensed to conduct business with residents and non-residents alike. There are 597 international insurance companies and 496 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 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) Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Regulations, 2002. The legislation criminalizes money laundering for all crimes except 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 beyond financial institutions to cover others as well, for example, bureaux de change and check cashers.

In addition, the Bailiwick authorities recently enacted the Prevention of Corruption (Bailiwick of Guernsey) Law of 2003. They have also 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, the Commission must license all fiduciaries, corporate service providers and persons acting as company directors of any business. 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. The AML/CFT Regulations contain penalties to be applied when financial services businesses do not follow the requirements of the Regulations. 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 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 meet to coordinate the anti-money laundering and counterterrorism policies and strategy in the Dependencies.

The FIS operates as the Bailiwick’s financial intelligence unit (FIU). The FIS began operations in April 2001, and is currently staffed by Police and Customs/Excise Officers. The FIS is directed by the Service Authority, which is a small committee of senior Police and Customs Officers who co-ordinate

with the Bailiwick's financial crime strategy and report to the Chief Officers of Police and Customs/Excise. The FIS is mandated to place specific focus and priority on money laundering and terrorism financing issues. Suspicious Transaction Reports (STRs) 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 FIS received 777 SARs in 2002, 705 SARs in 2003, and 757 SARs in 2004.

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 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 FATF Recommendations.

There has been counterterrorism legislation covering the Bailiwick since 1974. The Terrorism and Crime (Bailiwick of Guernsey) Law, 2002, replicates equivalent UK legislation. Legislation consistent with UNSCR 1373 and 1390 was enacted in domestic law at the same time as they were enacted in the UK.

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.

After its 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 from 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. The Bailiwick has requested that the UK Government seek the extension to the Bailiwick of the UN International Convention for the Suppression of the Financing of Terrorism.

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 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 Banking Supervisors. The FIS is a member of the Egmont Group.

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 Guernsey's anti-money laundering program to assure its effectiveness, and to cooperate with

international anti-money laundering authorities. The Bailiwick should continue to press the UK to extend the UN International Convention for the Suppression of the Financing of Terrorism to Guernsey.

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 small traditional mining 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 the gold and diamond trade. 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 refugees from neighboring nations try to bring substantial amounts of cash, counterfeit currency and precious stones into Guinea.

Some narcotics-trafficking occurs in Guinea. Heroin, cocaine, and amphetamines are imported into the country, usually by expatriate communities, while cannabis and Indian hemp are widely cultivated locally. Authorities report that drug use is growing, despite their efforts to combat it.

Article 398 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.

Authorities have made no money laundering arrests and no prosecutions for money laundering or terrorist financing since January 1, 2004. Authorities seized no monies related to financial crimes. 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, but it is not a party to the UN Convention against Transnational Organized Crime. 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 for all serious crimes and also criminalizes terrorist financing. Guinea should become a party to the UN Convention against Transnational Organized Crime.

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 2004.

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.

The Government of 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 or free trade zones. 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 40 percent of the size of the formal sector. Some speculate that the number could be as high as 60 percent. Money laundering has been linked to trafficking in drugs, firearms and persons, as well as corruption and fraud. There are suspicions that high levels of drug trafficking and money laundering are propping up the Guyanese economy. 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 2004 due to lack of legislation.

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.

The GOG established a financial intelligence unit in 2003, and as of July 2004 the unit is operational. There is currently enough funding (provided by the GOG with assistance by the USG) to pay for the staff. Funding for operations is still being sought. To date, the FIU has conducted preliminary investigations on approximately 28 cases and is preparing drafts of legislation related to terrorist finance and money laundering. 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 relevant UNSCRs. 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 became a party to the UN Convention against Transnational Organized Crime by accession on September 14, 2004. Guyana has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

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 that it will become a major player in the region's formal financial sector in the near future. Money laundering activity is strongly linked to the drug trade that passes through Haiti, which continues to be a major drug-transit country, especially for cocaine. In 2004, there was no significant decrease in the amount of cocaine coming from Colombia and Venezuela en route to the United States. There also 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 non-bank 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.

Flights to Panama City, Panama, remain the main identifiable mode of transportation for money couriers. Usually travelers, predominantly Haitian citizens, hide large sums, \$30,000-\$100,000 on their persons. Haitian Narcotics Officers interdicting these outbound funds often collect a 6-12 percent fee and allow the couriers to continue without arrest. During interviews, couriers usually declare that they intend to use the large amounts of U.S. currency to purchase clothing and other items to be sold upon their return to Haiti.

In March 2004, an interim government was established in Haiti following former President Jean Bertrand Aristide's resignation and departure. The interim government has taken initiatives to establish improvements in economic and monetary policies as well as working to improve governance and transparency. These initiatives include reducing interest rates to facilitate access to credit, implementation of a trade facilitation unit, and an effort to enhance the dialogue between the public and private sectors. Currently, only two foreign banks are operating in Haiti.

In response to the corruption that continues to plague Haiti, the interim government created an Anti-Corruption Unit, in addition to a commission to examine transactions conducted by the government from 2001 through February 2004. Haiti has also taken steps to address its money laundering problems.

In 2002, Haiti formed a National Committee to Fight Money Laundering, the *Comite National de Lutte Contre le Blanchiment des Avoirs (CNLBA)*. The CNLBA is in charge of promoting, coordinating, and recommending policies to prevent, detect, and suppress the laundering of assets obtained from the illicit trafficking of drugs and other serious offenses. The CNLBA, through the *Unite Centrale de Renseignements Financiers (UCREF)*, Haiti's Financial Intelligence Unit (FIU), is responsible for receiving and analyzing reports submitted in accordance with the law. Although established in 2002, the CNLBA is still not fully functional or funded.

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 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 FIU officials upon request. Bank secrecy or professional secrecy cannot be invoked as grounds for refusing information requests from these authorities.

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 UCREF 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, large amounts of money do not flow through the official financial institutions that are governed by these regulations.

The UCREF is referenced in the AML Law and was created through an August 2000 circular by the Ministries of Justice and Public Security. The FIU officially opened in December 2003; however, it remains a fledgling entity. The UCREF has a new staff of eight persons, including police officers seconded to the unit to investigate suspicious transaction reports. The Caribbean Anti-Money Laundering Program (CALP) provided intensive training assistance for the investigators. 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. During 2004, UCREF seized \$3 million related to money laundering offenses, and submitted three cases for prosecution. In 2004, though there are many pending arrest warrants for money laundering, there was only one arrest.

The AML Law has provisions for the forfeiture 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. Over one million U.S. dollars were seized in drug-related investigations in 2004. Haiti is considering modifications to the law to strengthen the judicial procedure and asset seizure and forfeiture provisions.

Haiti has made little progress regarding terrorist financing. 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 UNSCR 1267 Sanctions Committee's consolidated list. The Central Bank chaired meetings with all bank presidents and requested their cooperation.

UCREF has been gaining credibility since its official opening; it has concluded three Memoranda of Understanding with the Dominican Republic, Panama and Honduras. Though UCREF has applied for membership in the Egmont Group and hopes to be accepted in the upcoming July 2005 Plenary, it has not yet been accepted and accredited. Haiti is a member of the OAS/CICAD Experts Group to Control Money Laundering and the Caribbean Financial Action Task Force. Haiti is a party to the 1988 UN Drug Convention. Haiti has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption.

Presidential elections will be held in November 2005, and the incoming administration should work diligently and expeditiously to fully implement and enforce the AML Law. The Government of Haiti should criminalize terrorist financing and work toward becoming a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Honduras

Two years after passing a new law against money laundering, the Government of Honduras (GOH) has made considerable progress in implementing the law, establishing and training the entities responsible for the investigation of financial crimes, and improving cooperation among these entities. In 2004, the products of these efforts became apparent, with 16 arrests related to money laundering, the seizure of over \$6 million in cash and goods, and the first five convictions for the crime of money laundering in Honduras' history. Sustained progress will depend upon increased commitment from the government to aggressively prosecute financial crimes.

Honduras is not an important regional or offshore financial center and is not considered to have a significant black market for smuggled goods, although there have been recent high-profile smuggling

cases involving gasoline and other consumer goods. Money laundering, however, does take place, primarily through the banking sector but also through currency exchange houses and front companies. While the operation of offshore financial institutions is prohibited, casinos remain unregulated. The vulnerabilities of Honduras to money laundering stem primarily from significant trafficking of narcotics, particularly cocaine, throughout the region; the smuggling of contraband may also generate funds that are laundered through the banking system. Money laundering in Honduras derives both from domestic and foreign criminal activity, and the proceeds are controlled by local drug trafficking organizations and organized crime syndicates. It is not a matter of government policy to encourage, facilitate, or engage in laundering, the proceeds from illegal drug transactions, terrorist financing, or other serious crimes; however, corruption remains a serious problem, particularly within the judiciary and law enforcement sectors.

Under Honduran legislation, companies may register for “free trade zone” status, and benefit from the associated tax benefits, regardless of their location in the country. Companies that wish to receive free trade zone status must register within the Office of Productive Sectors within the Ministry of Industry and Commerce. As of December 2004, there are 337 companies, both domestic and foreign, with free trade zone status operating in Honduras, mostly in the textile and apparel industry. There is no indication that these free trade zone companies are being used in trade-based money laundering schemes or by the financiers of terrorism.

In 2002, the National Congress of Honduras passed long-awaited legislation to widen the definition of money laundering and strengthen enforcement measures. Prior to the passage of Decree No. 45-2002, the Honduran anti-money laundering regime was based on Law No. 27-98 of 1998, which criminalized only the laundering of narcotics-related proceeds and introduced customer identification, record keeping, and reporting requirements for financial institutions. However, weaknesses in the law—including an extremely narrow definition of money laundering—made it virtually impossible to prosecute the crime of money laundering. Under Decree No. 45-2002, the Honduran anti-money laundering legislation 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, human organs, 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 to occur in their institutions. Decree No. 45-2002 also requires all persons entering or leaving Honduras to declare—and, if requested, present—cash and/or monetary instruments in their possession if the amount exceeds \$10,000 or its equivalent.

Under Decree No. 45-2002, the Honduran financial intelligence unit, the Unidad de Información Financiera (UIF), was created within the 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 \$10,770) in local currency accounts. Obligated entities are also required to report all unusual or suspicious financial transactions to the UIF. These entities, which are supervised by the National Banking and Securities Commission, include state and private banks, savings and loan associations, bonded warehouses, stock markets, currency exchange houses, securities dealers, insurance companies, credit associations, and casinos. In addition to reporting suspicious transactions and transactions over the \$10,000 threshold to the UIF, obligated entities are also required to implement client identification procedures and maintain registries of reported transactions for a minimum of five years.

Decree No. 45-2002 requires that a public prosecutor be assigned to the UIF. In practice, four prosecutors are 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.

Under the Honduran Criminal Procedure Code, officials responsible for filing reports on behalf of covered entities are protected by law with respect to their cooperation with law enforcement authorities. However, some officials have alleged that their personal security is put at risk if the information they report leads to money laundering prosecutions. Officials from the Public Ministry (the Honduran equivalent of the U.S. Department of Justice); the National Banking and Insurance Commission; and the private-sector banking association, AHIBA, are looking into ways of treating testimony from these officials differently, in order to protect their identity.

Until 2004, there had been some ambiguity in Honduran legislation concerning the responsibility of banks to report information to the supervisory authorities, and the duty of these institutions to keep customer information confidential. A new law passed in September 2004, the Financial Systems Law (Decree No. 129-2004), clarifies this ambiguity, explicitly stating that the provision of information requested by regulatory, judicial, or other legal authorities shall not be regarded as an improper divulgence of confidential information.

Although there have been no changes or additions to Honduran money laundering or terrorist financing legislation in 2004, four laws—including the Financial Systems Law—were passed in September to strengthen the financial sector and reform the Central Bank and the National Banking and Insurance Commission. While these laws do not touch specifically on money laundering or terrorist financing, they improve the legal and operational capacity of Honduran authorities to regulate the banking sector, and should therefore strengthen their ability to detect and counteract money laundering or terrorist financing activities. While some bank officials and political figures objected to portions of these laws, the laws were developed overall through close consultation with representatives of the financial sector. This greatly supports these changes in their impact on greater clarity and effectiveness in regulatory functions.

Prior to 2004, there had been no successful prosecutions of money laundering crimes in Honduras. To date in 2004, however, Honduran authorities have arrested 16 persons for money laundering crimes, issued six additional outstanding arrest warrants, and secured five convictions. In April 2004, two Guatemalan citizens were caught crossing the border between Guatemala and Honduras carrying \$247,000 in cash that was suspected to be linked to narcotics-trafficking. The two men were brought to trial in June; one was convicted and sentenced to 16 years in prison, while the other was found not guilty. This was the first conviction of a money laundering offense since Decree No. 45-2002 was passed in 2002.

In December 2002, the fishing vessel “Captain Ryan” was seized while departing a Honduran port and found to be carrying \$467,000 in cash believed to be connected to drug trafficking. The Honduran citizens on board the boat were arrested. In June 2004, four of them were convicted of money laundering, while three others were found innocent and released. All four who were convicted are currently serving terms of 19 years in prison. The cash and other assets seized at the time of the arrest, including the boat, were ordered to be forfeited. Another person connected to the same case was apprehended in Panama by Panamanian authorities; his case is still being processed in the Panamanian judicial system.

In early 2004, a Honduran citizen was arrested and charged with running an illegal lottery scheme and laundering the proceeds. Honduran authorities seized approximately \$1.6 million in cash and assets in connection with this investigation. However, defense attorneys filed a motion claiming that the seizure was unconstitutional; this motion has been referred to an appellate court. A denial of the motion is expected in early January 2005, and the case is expected to proceed to trial in February.

The National Congress enacted an asset seizure law in 1993 that subsequent Honduran Supreme Court rulings substantially weakened. Decree No. 45-2002 strengthens the asset seizure provisions of the law, establishing an Office of Seized Assets (OABI) under the Public Ministry. The law authorizes the OABI to guard and administer “all goods, products or instruments” of a crime, and states that money seized or money raised from the auctioning of seized goods should be transferred to the public entities that participated in the investigation and prosecution of the crime. Under the Criminal Procedure Code, when goods or money are seized in any criminal investigation, a criminal charge must be submitted against the suspect within 60 days of the seizure; if one is not submitted, the suspect has the right to demand the release of the seized assets. Decree No. 45-2002 is not entirely clear on the issue of whether a legitimate business can be seized if used to launder money derived from criminal activities. The chief prosecutor for organized crime maintains that the authorities do have this power, because once a “legitimate” business is used to launder criminal assets, it ceases to be “legitimate” and is subject to seizure proceedings. However, this authority is not explicitly granted in the law, and to date there has not yet been a case to set precedent.

The Office of Seized Assets has not yet established firm control over the asset seizure and forfeiture process. Implementation of the existing law, as well as the process of equipping the OABI to maintain control over seized assets and effectively dispose of them, has been slow and ineffective. The implementing regulations governing the OABI were not finalized and published until 2003. Plans to build separate offices and a warehouse for this entity are still incomplete, resulting in seized assets currently being kept in various locations under dispersed authority. Money seized is also kept in a variety of accounts without clear records of control, or kept in cash as evidence. Due to the absence of a clear chain of custody over seized cash, the Public Ministry on one occasion in 2004 used seized cash to pay certain employees’ salaries, without the money’s first having passed through a proper legal process for disposal.

Similarly, goods such as vehicles, properties and boats that are seized are in many cases left unused, rather than being distributed for use by government agencies. In one case in 2004, a house seized in connection with a narcotics-trafficking investigation was nominally put under the OABI’s control, but was in fact left unguarded; as a result, the house was looted and severely damaged. Cases such as this one have led some police agencies—which do not have the proper resources to carry out their operations—to use these assets, again without having first passed through a legal process for their disposal. While these actions are contradictory to proper procedures set forth in the law, the OABI lacks the necessary autonomy or power to resist such actions because the OABI itself is under the Public Ministry. Furthermore, there is currently no external or independent audit of the OABI’s activities to guarantee transparency and proper handling of seized assets.

The total value of assets seized in 2004 was \$6.1 million, including \$4.1 million in cash and \$2 million in goods. This marks a significant increase over 2003 seizures, which included \$2 million in cash and \$584,000 in goods. Most of these seized assets are alleged to have derived from crimes related to narcotics-trafficking; none are suspected of having links to terrorist activity.

The 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; however, under separate authority, the National Banking and Insurance Commission has issued freeze orders promptly for the organizations and individuals named by the UNSCR 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 has 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 \$1.1 billion in 2004), 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. Most remittances are sent through wire transfer or bank services, although it is likely that some cash is being transported physically from the U.S. to Honduras. There is no significant indigenous alternative remittance system operating in Honduras, nor is there any evidence that charitable or non-profit entities in Honduras have been used as conduits for the financing of terrorism.

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, Mexico, Peru, Colombia, and the Dominican Republic. The GOH strives to comply with the Basel Committee's "Core Principles for Effective Banking Supervision," and the new Financial System Law, Decree No. 129-2004, is designed to improve compliance with these international standards. 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 United Nations Convention for the Suppression of the Financing of Terrorism, and in November 2004 Honduras became a party to the OAS Inter-American Convention on Terrorism. The GOH is also party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, and in May 2004 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 and the Caribbean Financial Action Task Force (CFATF).

In 2004, the Government of Honduras 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. 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. Honduras 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. Honduras should also criminalize terrorist financing, and ensure full implementation and proper oversight of its asset forfeiture program.

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 the 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, methamphetamines, and ecstasy), tax evasion, fraud, illegal gambling and bookmaking, and commercial crimes. 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 Forty FATF

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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 the 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 ordinances apply to all persons, including banks and non-bank financial institutions, as well as to intermediaries such as lawyers and accountants. All persons must report suspicious transactions 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 reflecting the revised set of FATF Forty Recommendations 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. However, the Narcotics Division is drafting a bill for the legislature's consideration in 2005, that would authorize Hong Kong Customs officials to stop and question passengers about money they are bringing into or taking out of Hong Kong. The draft bill will also mandate that Customs officials maintain records of individuals carrying more than \$15,000 across the border, even if it is not related to a crime.

The bill will not mandate currency declarations at the border, but will widen the Hong Kong Government's ability to seize cash being laundered from all "serious crimes," instead of only cash stemming from narcotics-trafficking or related to terrorism. Under the bill, bankers, lawyers, accountants, real estate agents, precious metals dealers, and other professionals may face criminal sanctions if they assist in money laundering through a failure to "know their customers." The new bill will involve a statutory requirement to obtain sufficient information about the client—including the beneficial ownership of corporate clients and the source of wealth of individuals. This measure extends beyond current regulations, which already make the failure to report suspicious transactions an offense.

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. On February 25, 2004, Hong Kong banks began to offer Chinese currency- (renminbi or RMB-) based, deposit, exchange, and remittance services. Later in the year, Hong Kong banks began to issue RMB-based credit cards, which could be used both in mainland China and in Hong Kong shops that had signed up to the Chinese payments system, China UnionPay. This change brought many financial transactions related to China out of the money-transfer industry and into the more highly regulated banking industry, which is better equipped to guard against 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 November 1, 2004, the value of assets under restraint was \$171 million, and the value of assets under confiscation order, but not yet paid to the government, was \$14.36 million, according to figures from the JFIU. It also reported that as of November 1, 2004, the amount confiscated and paid to the government since the enactment of DTRoP and OSCO was \$49.5 million, and a total of 119 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: there is no longer a requirement of actual notice to an absconded offender; there is no longer a requirement that the court fix a period of time in which a defendant is required to pay a confiscation judgment; the court is allowed to issue a restraining order against assets upon the arrest (rather than charging) of a person; the holder of property is required to produce documents and otherwise assist the government in assessing the value of the property; and an assumption is created 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 JFIU has continually increased. In the first ten months of 2004, a total of 12,006 STRs were filed, compared to a total of 11,671 for the twelve months of 2003.

A new Financial Investigations Division, established in the Narcotics Bureau, is supporting the investigations of STRs. The new division contains a section dedicated to money laundering investigations related to drug trafficking and terrorist financing. The division provides the main link with overseas and local law enforcement agencies on investigations and intelligence exchange concerning money laundering and terrorist finance. It also contains the JFIU, including a new intelligence analysis team.

The new division will analyze 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 terms of actual prosecutions for money laundering, there were 40 during the first 10 months of 2004, compared to 29 for the entire year of 2003.

In July 2002, Hong Kong's legislature passed the United Nations (Anti-Terrorism Measures) Ordinance that criminalizes the supply of funds to terrorists. On July 3, 2004, the Legislative Council passed the United Nations (Anti-Terrorism Measures)(Amendment) Ordinance. This law is intended to implement UNSCR 1373 and the FATF Special Nine Recommendations on Terrorist Financing that were in place in July, 2004. It extends the Hong Kong Government's freezing power beyond funds to the non-fund property of terrorists and terrorist organizations. Furthermore, it prohibits the provision or collection of funds by a person intending or knowing that the funds will be used in whole or in part to commit terrorist acts. 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 the UNSCR 1267 Sanctions Committee's consolidated list.

The People's Republic of China represents Hong Kong on defense and foreign policy matters, including UN affairs. After the PRC becomes a party to a UN terrorism treaty, the Hong Kong Government submits implementing legislation to Hong Kong's Legislative Council. After passage, the HKG executes the relevant UN treaty. The PRC has yet to ratify the UN International Convention for the Suppression of the Financing of Terrorism.

In 2004, 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, the Hong Kong Monetary Authority (HKMA) issued a new supplementary guideline in June 2004 on the latest "know your customer" principles, taking into account the October 2001 Basel Committee on Banking Supervision. The guideline also incorporates the FATF Special Nine Recommendations on Terrorist Financing and Hong Kong's new United Nations (Anti-Terrorism) Ordinance. The instruction also requires banks to verify fund sources, before accepting money from any of: offshore companies established with the intention of disguising beneficial ownership, correspondent banks from FATF-designated non-cooperative countries or territories, and prominent politicians and heads of state.

The new rule also requires banks to maintain a database of terrorist names, and requires management information systems that detect unusual patterns of activity in customer accounts. The Securities and Futures Commission (SFC) and the Office of the Commissioner of Insurance (OCI) are revising their guidance notes on the prevention of money laundering and terrorist financing, to reflect the new requirements in the revised FATF Forty Recommendations and international securities and insurance guidance. The Hong Kong government has modified its regulations in order to make its regulations consistent with the revised FATF recommendations.

Other bodies governing segments of the financial sector are also active in anti-money laundering efforts. The Hong Kong Estates Agents Authority, for instance, has drawn up specific guidelines for real estate agents on filing suspicious transaction reports, and the Law Society of Hong Kong and the Hong Kong Institute of Certified Public Accountants are in the process of drafting such guidance.

In a major 2004 money laundering case, a High Court jury charged two of six defendants in a case involving \$2.6 billion-\$3.8 billion laundered annually for five years. The Hong Kong Independent

Commission against Corruption (ICAC) alleged that the Guardecade Money Changing firm had collected funds from mainland Chinese commercial tax evaders and had transferred the proceeds to accounts in Hong Kong and overseas. One of the defendants, who worked in a bank, was acquitted of money laundering, but was found guilty of bribery by the High Court. The High Court will retry two other of the acquitted defendants. The trial will begin February 17, 2005.

The Hong Kong police also assisted the United States in terrorism investigations in 2004. 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 anti-money laundering regime against the FATF Forty Recommendations and the FATF Special Nine Recommendations on Terrorist Financing. The team described Hong Kong's anti-money laundering measures as "resilient, sound, and overseen by a comprehensive supervisory framework."

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 December 2004, Hong Kong had mutual legal assistance agreements with a total of 16 other jurisdictions: Australia, Canada, the United States, Italy, the Philippines, the Netherlands, Ukraine, Singapore, Portugal, Ireland, France, the United Kingdom, New Zealand, the Republic of Korea, Belgium, and Switzerland. Hong Kong has also signed surrender-of-fugitive-offenders agreements with 13 countries, and has signed transfer-of-sentenced-persons agreements with seven countries, including the United States.

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.

The Government of Hong Kong should further 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 mandatory cross-border currency reporting requirements and continue to encourage more suspicious transaction reporting by lawyers and accountants, as well as by 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 such as Ukraine, which shares part of its border with Hungary, are entrenched in Hungary. The economy is largely cash-based. Money laundering is related to a variety of criminal activities, including narcotics, prostitution, and organized crime. Financial crime has not increased in recent years, though there have been isolated, albeit well-publicized cases, some of which are still ongoing. Combating cross-border criminal activities is a priority for Hungary's law enforcement community.

Hungary became a full member of the European Union (EU) on May 1, 2004. Upon EU accession, all EU regulations became effective immediately in Hungary. As a full EU member, Hungary also is working to implement EU Directives, including those relating to money laundering. Hungary had been placed on the Financial Action Task Force (FATF) list of non-cooperative countries and territories (NCCT) in the fight against money laundering in June 2001, but was removed completely from this list in the summer of 2003 due to significant improvements in its money laundering regime. Since then, it has strived to implement the FATF Forty Recommendations and Special Recommendations on Terrorist Financing.

Hungary banned offshore financial centers by Act CXII of 1996 on Credit Institutions. Offshore casinos are also prohibited from operating by the 1996 Act. There are offshore companies registered in Hungary that enjoy a preferential tax rate and are exempt from the local corporate turnover tax of two percent. Due to EU accession, however, the preferential tax treatment is being phased out and will cease at the end of 2005. Beginning in 2006, these companies will be converted automatically into Hungarian companies, subject to all Hungarian corporate taxes. The only special status they will thereafter retain is the ability to keep books in foreign currencies.

Act CXX of 2001 eliminated bearer shares and required that all such shares be transferred to identifiable shares by the end of 2003. In Hungary, all shares are dematerialized, and both owners and any beneficiaries must be registered.

By mid-2003, Hungary had successfully transferred 90 percent of anonymous savings accounts into identifiable accounts. As of December 31, 2004, such accounts can be converted only by written permission from the police.

Hungary no longer permits the operation of free trade zones. Law CXXVI of 2003 stipulates that permits for companies operating in free trade zones would expire, but allowed companies to request new permits that would convert them into normal companies in the early part of 2004. The companies affected could transfer their assets until the end of April 2004 without a value-added tax (VAT) or customs duty. Upon Hungary's EU accession on May 1, these companies' operations immediately came under EU Council Regulation 2913/1992 and the European Commission Regulation 2454/1992. Currently, there are no companies operating in free trade zones. The Finance Ministry, however, is planning to propose new free trade zones.

Anti-money laundering legislation in Hungary dates back to Act XXIV of 1994. Money laundering related to all serious crimes punishable by imprisonment is a criminal offense. In 2003, the Government of Hungary (GOH) re-codified this legislation in Act XV of 2003, "On the Prevention and Impeding of Money Laundering," which became effective on June 16, 2003. The 2003 Act extends the anti-money laundering legislation to encompass the following additional professions and business sectors: financial services, investment services, insurance, stock brokers, postal money transfers, real estate agents, auditors, accountants, tax advisors, gambling casinos, traders of gems or other precious metals, private voluntary pension funds, lawyers, and public notaries. Act XV also criminalizes tipping off and forces self-regulating professions to submit internal rules to identify asset holders, track transactions, and report suspicious transactions. In April 2002, Section 303 of the Penal

Code on Money Laundering was amended to criminalize as punishable offenses the laundering of one's own proceeds, laundering through negligence, and conspiracy to commit money laundering.

Hungary's financial regulatory body, the Hungarian Financial Supervisory Authority (HFSA), is charged with supervising all types of financial services providers. The one exception to this is cash processing, which is supervised by Hungary's Central Bank, the National Bank of Hungary. Auditors, casinos, lawyers, and notaries are supervised by their own trade associations. The Hungarian National Police (HNP) supervises all other professions covered under the 2003 Act, because they have neither self-regulatory professional bodies nor state supervision.

The 2003 Act also states that if an individual carries currency exceeding 1 million HUF (approximately \$5,300) across a border, the amount must be declared in writing to the customs authority. Customs authorities are also obligated to establish the identity of an individual crossing the border if any suspicion of money laundering arises.

As of 2001, only banks or their authorized agents can operate currency exchange booths. These exchange booths are subject to "double supervision", as they are subject to the banks' internal control mechanisms, which are in turn subject to supervision by the HFSA. The exchange booths are required to file suspicious transaction reports (STRs) for amounts exceeding 300,000 HUF (approximately \$1,600). These amounts can come either from a single transaction or consecutive separate transactions exceeding this threshold. There are currently about 300 exchange booths in Hungary.

The 2003 Act also states that covered service providers are required to identify their customers or any authorized individual representing their customers, when entering into a business relationship. In transactions exceeding 2 million HUF (approximately \$10,600) or transactions of any amount where suspicion of money laundering arises, the customer must be identified. Under the anti-money laundering legislation, banks, financial institutions, and other service providers are required to maintain records for at least ten years. All of the service providers are required to report suspicious transactions directly, or through their representation bodies, to the police authority as soon as they occur. Lawyers and notaries are exempt from their reporting obligations only when they are representing their clients in a criminal court case. Under all other circumstances, they are obligated to file reports. Both lawyers and notaries submit their reports to their respective bar and notary associations, who then forward the reports on to the police. All other service providers submit their reports directly to the police. The police may perform on-site random checks of service providers. Hungary has no bank secrecy laws that would prevent disclosure of client or ownership information to law enforcement authorities.

When these professions were included in the anti-money laundering legislation of 2003, there were some initial concerns and protests as to how the legislation would be put into practice. As the police briefed representatives of these professions and rules were adopted, the concerns have diminished. Currently, only antique shops are known still to have concerns, although they are believed to be meeting their reporting obligations.

Reporting individuals are protected in their anti-money laundering reporting obligations. If the report involves suspicious activity related to terrorist financing, the law allows for the possibility of protection. But, currently, actual extension of protection is granted at the discretion of the prosecutor.

Hungary's Financial Intelligence Unit (FIU) is part of the HNP. It investigates money laundering cases and has considerable authority to request and release information, nationally and internationally. In the summer of 2004, the HNP completed a major organizational restructuring, which included the establishment of the National Bureau of Investigation (NBI). Among its mandates, the NBI is charged with the detection and investigation of major corruption and money laundering cases. One of the main objectives of this restructuring was to eliminate the parallel jurisdictions that existed between the Financial Crime Investigation and Economic Crime Investigation areas and to implement a more

coordinated investigative effort for money laundering investigations. The combined Economic and Financial Crimes Department of the NBI has a staff of 134 at the headquarters level. The FIU within this department has a staff of 42. In 2004, it received 14,120 STRs. An increase in the number of investigators has helped the FIU investigate cases.

In 2003, a money laundering scandal broke involving a Hungarian subsidiary, K&H Equities, 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 police are still investigating the case. After it was discovered that bank tellers had failed to file STRs in the K&H case, “banker negligence” laws were enacted that made individual bankers responsible if their institutions launder money. This has resulted in over-reporting, according to the FIU.

The Hungarian Criminal Code, Act XIX of 1998, and amended by Act II of 2003, contains a provision on the forfeiture of assets. Under this provision, assets that were used to commit crimes, would endanger public safety, or were created as a result of criminal activity, are subject to forfeiture. All property related to criminal activity during the period of time when the owner was a party to a criminal organization can be seized, unless proven to have been obtained in good faith as due compensation. Act II of 2003 states that persons or members of criminal organizations sponsoring activities of a terrorist group by providing material assets or any other support face five to fifteen years of imprisonment.

The Hungarian Criminal Code treats terrorist financing-related crimes differently than all other crimes. For all other crimes, the police freeze the assets and must then inform the bank within 24 hours as to whether there will be an investigation. Police investigations must be completed within two years of filing charges. Forfeiture and seizure for all crimes, including terrorist financing, is determined by a court ruling. The banking community has cooperated fully with enforcement efforts to trace funds and seize/freeze bank accounts. In all cases, some of the frozen assets may be released, for example, to cover health-related expenses or basic sustenance, if the FIU approves a written request from the owner of the assets. After subtracting any related civil damages, proceeds from asset seizures and forfeitures go to the government.

Act IV of 1978, Article 261, criminalizes terrorist acts. Hungary criminalizes terrorism and all forms of the financing of terrorism by Act II of 2003, which modifies Criminal Code Article 261. This includes providing funds or collecting funds for terrorist actions or facilitating or supporting such actions by any means. The penalty for such crimes is imprisonment of five to fifteen years.

Hungary can also freeze terrorist finance-related assets. Act XIX of 1998 on Criminal Procedures, Articles 151, 159, and 160, provide for the immediate seizure of terrorist assets. In cases where terrorist financing is suspected, banks freeze the assets and then promptly notify HFSA and the FIU. There is no time limit as to when the FIU must then inform the bank of whether it is conducting a police investigation. The GOH circulates to its financial institutions the names of individuals and entities that have been included on the UNSCR 1267 Sanctions Committee’s consolidated list as well as those that the U.S. Government and the EU have designated under relevant authorities. In 2003, there was one arrest for terrorist financing, when a foreigner attempted to donate to a charitable organization listed on the UN’s consolidated list of terrorists. The bank immediately froze the assets, but the individual was deported from the country without the case going to trial. In 2004, there was one suspected case of terrorist financing. Assets were frozen in a bank account that received a transfer from a bank in Saudi Arabia. However, the court ruled that the recipient of the funds could not be judged guilty solely on the basis of receiving funds from an entity on the UN’s consolidated list of suspected terrorists.

Act CXII of 1996 on Credit Institutions bans the use of any indigenous alternative remittance systems that bypass, in whole or in part, financial institutions. In cases where money is transferred to a

charitable or non-profit entity, the GOH has proven it will freeze the assets regardless of the amount, as was true in the one notable case in 2003.

Hungary is party to a Mutual Legal Assistance Treaty with the United States, and signed, in January 2000, a non-binding information-sharing arrangement with the United States, which is intended to enable U.S. and Hungarian law enforcement to work more closely to fight organized crime and illicit transnational activities. In furtherance of this goal, in May 2000, Hungary and the U.S. Federal Bureau of Investigation established a joint task force to combat Russian organized crime groups. Hungary has signed bilateral agreements with 41 other countries to cooperate in combating terrorism, drug-trafficking, and organized crime.

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 second round mutual evaluation in 2001. Hungary's FIU has been a member of the Egmont Group since 1998.

In 2000, Hungary signed and ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. Hungary is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. The GOH signed the UN Convention against Corruption on December 10, 2003.

The Government of Hungary has made progress in developing its anti-money laundering regime, however, Hungary should continue its efforts with respect to financial supervision and prosecution. Hungary should improve the effectiveness of its prosecutions by further training prosecutors, judges, and police so that it may successfully prosecute money laundering cases.

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, non-banking 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 non-cooperative 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 FME has indicated that the MCML may be revised during 2005 as a result of the new European Union (EU) directive on money laundering and revised FATF recommendations.

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 15,000 euros (approximately \$20,000). 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, Iceland's Financial Intelligence Unit (FIU).

Suspicious transaction reporting (STRs) is on the rise in Iceland, but the authorities believe this increase is due to increased training of bank employees, better cooperation between authorities and financial institutions, and an increased awareness of the importance of the issue. Although there were no money laundering regulatory or legislative changes during 2004, the enforcement capability has increased with the addition of an officer assigned to the FIU. The FIU is expanding the training provided to financial institutions to include those working at financial intermediaries such as lawyers and accountants. The FIU received 163 STRs in the first 11 months of 2002, 213 STRs in 2003, and 276 STRs in 2004. One company in the currency exchange business was responsible for 17 percent of all STRs filed in 2003. This operation was taken over by one of the commercial banks so stricter oversight will apply. The majority of the STRs filed in 2004 originated from commercial banks and financial institutions. In addition, one STR was filed by a lawyer and another was filed by the Customs authority. Eighty percent of the STRs filed were narcotics-related and 20 percent were filed for suspicious financial transactions.

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, one of which was appealed to the Supreme Court where the decision has not yet been rendered. There were no prosecutions in 2004.

Iceland's FIU 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 FIU can take measures such as freezing or seizing funds. There are no significant obstacles to asset seizure, as long as the FIU, when requesting such measures, can demonstrate a reasonable suspicion of illegal activity to the court. The FME and the FIU make every effort to enforce existing drug-related asset seizure and forfeiture laws. In recent years, asset seizure has become quite common in embezzlement crimes, while only a small fraction of total asset seizures has 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 any other government's requesting seized assets from Iceland. If such a situation arose, the sharing of seized assets with another government would only become possible if new legislation were 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 UNSCR 1267 Sanction Committee's consolidated list or on European Union clearinghouse list 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 Sanction Committee's consolidated list. 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.

There is currently no agreement (or discussions toward one) between Iceland and the United States to exchange information concerning financial investigation, and no Mutual Legal Assistance Treaty (MLAT). 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.

The Government of Iceland should continue to enhance its anti-money laundering/counterterrorist financing regime. If it has not already done so in its 2003 legislation, Iceland should specifically criminalize the financing of terrorism and terrorists.

India

India's status as a growing regional financial center, the existence of a large system of informal cross-border money flows (hawala), and widely perceived tax avoidance make India vulnerable to money laundering activities. India is a major drug-transit country. 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.

India's historically strict foreign-exchange laws, transaction reporting requirements, and the banking industry's know-your-customer policy make it difficult for criminals to use banks or other financial institutions to launder money. Large portions of illegal proceeds are accordingly laundered through the

alternative remittance system called “hawala” or “hundi.” The hawala market is estimated at anywhere between 20 and 50 percent of the formal market. Remittances to India reported through legal, formal channels in 2003-2004 amounted to \$18 billion.

Under the hawala system, individuals transfer funds or other items of value from one country to another, often without the actual movement of currency. Among its advantages, the system: provides anonymity and security; permits individuals to convert one currency into another; and lets them convert narcotics, gold, or trade items into currency. Anecdotal evidence suggests that many Indians do not trust 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 those charged by banks. The Government of India (GOI) neither regulates hawala dealers nor requires them to register with the government; the Reserve Bank of India (RBI), the country’s Central Bank, argues that hawala dealers cannot be registered or regulated because the system (though widespread) is illegal. The RBI does intend to increase its regulation of non-bank money transfer operations such as currency exchange kiosks and wire transfer services.

Historically, gold has been one of the most important commodities 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 pervasive and is used extensively to both avoid customs duties and taxes and to launder illicit proceeds through trade-based money laundering.

Tax evasion is also widespread. Changes in the tax system are gradually being implemented, as the GOI now requires individuals to use a personal identification number to pay taxes, purchase foreign exchange, and apply for passports. The GOI plans to introduce a nation-wide value added tax in 2005. Such a tax would replace a basket of complicated state sales taxes and excise taxes, thus reducing the incentive and opportunities for businesses to conceal their sales or income levels.

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 disproportionately large in comparison 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. The Smugglers and Foreign Exchange Manipulators Act (SAFEMA) also allows the seizure and forfeiture of assets linked to Customs Act violations. The competent authority (CA), located in the Ministry of Finance (MOF), administers both the NDPSA and SAFEMA.

The 2001 amendments to the NDPSA allow the CA to immediately seize any asset owned or used by a narcotics trafficker upon arrest; previously, assets could be seized only after conviction. However, Indian law enforcement officers lack training in the procedures for identifying individuals who might be subject to asset seizure/forfeiture, and in tracing assets to be seized. They also need training in drafting and expeditiously implementing asset freezing orders. The Foreign Exchange Management Act (FEMA), which was enacted in 2000, is one of the GOI’s primary tools for fighting money laundering. 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 RBI also plays an active role in the regulation and supervision of foreign exchange transactions.

On November 27, 2002, the lower house of Parliament finally passed the Prevention of Money Laundering Act (PMLA), 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 provides for the creation of a Financial Intelligence Unit (FIU). However, the implementing rules and regulations for the PMLA had not been promulgated as of the end of December 2004.

In November 2004, the Indian Cabinet gave its approval for setting up the FIU, which will be an independent unit within the MOF's Central Economic Intelligence Bureau (CEIB). The FIU is expected to become operational in early 2005 and will reportedly have both intelligence and investigative wings. India's new FIU will seek to join the Egmont Group. Until the new FIU becomes fully operational, the CEIB will continue to serve as the GOI's leading organization for fighting financial crime. In this capacity, it receives suspicious transactions reports, of which there is a backlog, according to GOI officials in late 2003. The Central Bureau of Investigation, the Directorate of Revenue Intelligence, Customs, and Excise, the RBI, the Competent Authority, and the MOF are also active in anti-money laundering efforts. In 2004, the Directorate of Revenue Intelligence (DRI) referred four hawala-based money laundering cases with a U.S. nexus to the U.S. Department of Homeland Security/Immigration and Customs Enforcement.

Many banking institutions, prompted by the RBI, have taken steps on their own to combat money laundering. Many banks have 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 must report suspicious transactions. The GOI has the power to order banks to freeze assets. In November 2004, the RBI issued a circular updating its know-your-customer guidelines to ensure that they comply with all Financial Action Task Force (FATF) recommendations. The RBI has asked all commercial banks to become FATF-compliant for existing as well as new accounts by December 2005. The guidelines include the requirement that banks identify politically connected account holders residing outside India and identify the source of funds before accepting deposits from these individuals. The RBI has placed politically exposed persons (those entrusted with prominent public functions in other countries) in the highest risk category for the commission of financial crimes.

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. 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 in which they are involved. 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. India became a party to the UN International Convention for the Suppression of the Financing of Terrorism in April 2003. 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; ratification was expected in early 2004 but has been delayed. India has also signed a police and security cooperation protocol with Turkey, which among other things provides for joint efforts to combat money laundering.

The GOI 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 the 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 the POTA. In November 2004, the Parliament repealed the POTA and amended the 1967 Unlawful Activities (Prevention) Act to include the POTA's salient elements, including the criminalization of terrorist financing and the legal definitions for terrorism and terrorist acts. A GOI/POTA review committee will have one year to review all 333 pending POTA cases, after which time any case that is not resolved will be dismissed.

Terrorist financing in India, as well as in much of the subcontinent, is linked to the hawala system. The Government of 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 citizens' involvement in the underworld of the international diamond trade should be examined. India should pursue efforts to join the FATF. It also needs to quickly finalize the implementing regulations to the anti-money laundering law and establish the new FIU in order to enhance information sharing with its counterparts around the world. Meaningful tax reform will also assist in negating the popularity of hawala and lessen money laundering. Increased enforcement action should also be taken to combat invoice manipulation and trade-based money laundering. India should ratify the UN Convention against Transnational Organized Crime.

Indonesia

Although neither a regional financial center nor an offshore financial haven, Indonesia is vulnerable to money laundering and terrorist financing due to a poorly regulated financial system, the lack of effective law enforcement and widespread corruption.

Most money laundering in the country is connected to non-drug criminal activity such as gambling, prostitution, bank fraud or corruption. Indonesia also has a long history of smuggling, facilitated by thousands of miles of un-patrolled 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 non-cooperating 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. Based on the Government of Indonesia's (GOI) progress in addressing its concerns, the FATF plans to conduct an on-site visit to Indonesia in early 2005.

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 has been operational since 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 December 2004, the PPATK has received over 1,200 suspicious transaction reports (STRs) from banks and non-bank financial institutions and referred 237 STRs to the police. The police have investigated a number of cases and referred 36 to the Attorney General. Indonesia has successfully prosecuted one money laundering case and two criminal cases predicated on money laundering offences. In September 2003, Parliament passed an Amending Law to the 2002 Anti-Money Laundering Law that addressed many FATF concerns. Based on this substantial progress, the FATF invited Indonesia to submit an Anti-Money Laundering Regime Implementation Plan in February 2004. 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 scope of regulations requiring STRs to include attempted or unfinished transactions. Article 12A introduces a scheme of administrative sanctions (in addition to criminal sanctions) for failure to file STRs. Article 13(2) shortens the time to file an STR to three days or less after the discovery of an indication of a suspicious transaction. Article 17A makes it an offense to disclose information about the reported transactions to third parties, which carries a maximum of five years' imprisonment and a maximum of one billion rupiah (approximately \$111,000). 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 international 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 the BI within seven days any "suspicious transactions" in excess of Rp 100 million (approximately \$11,100). 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. The 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."

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 GOI became interested in controlling capital flight and recovering foreign assets of large-scale corporate debtors or alleged corrupt officials. The BI has issued an Internal Circular Letter No. 6/50/INTERN, dated September 10, 2004 concerning Guidelines for the Supervision and Examination of the Implementation of KYC and AML by Commercial Banks. In addition, BI also issued a Circular Letter to Commercial Banks No. 6/37/DPNP dated September 10, 2004 concerning the Assessment and Imposition of Sanction on the Implementation of KYC and other Obligation Related to Law on Money Laundering Crime. The BI is also preparing Guidelines for Money Changers on Record Keeping and Reporting Procedures and Money Changer Examinations given by BI examiners.

Money Laundering and Financial Crimes

Currently, banks must report all foreign exchange transactions and foreign obligations to the BI. Individuals who import or export more than Rp 50 million in cash (approximately \$5,550) must report such transactions to Customs. The PPATK is currently drafting presidential decrees that would protect individuals and witnesses who cooperate with law enforcement entities on money laundering cases. Indonesia's bank secrecy law covers information on bank depositors and their accounts. Such information is generally kept confidential and can only be accessed by the authorities in limited circumstances. However, Article 27(4) of the AML Law now expressly exempts the PPATK 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 AML law exempts providers of financial services from bank secrecy provisions when carrying out their reporting obligations, and Article 15 of the AML 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 PPATK has also signed seven memoranda of understanding (MOUs) to assist in financial intelligence information exchange with the following entities: Bank Indonesia, the Capital Market Supervisory Agency (Bapepam), the Directorate General of Financial Institutions, Directorate General of Tax, the Center for International Forestry Research, and the Anti-Corruption Agency.

The GOI does have the authority to trace and freeze assets of individuals or entities on the UNSCR 1267 Sanctions Committee's consolidated list, and through the BI, has circulated the 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 assets of entities or individuals on the consolidated list.

The October 18, 2002, emergency counterterrorism regulation, the Government Regulation in Lieu of Law of the Republic of Indonesia (Perpu), No. 1 of 2002 on Eradication of Terrorism criminalizes terrorism and provides the legal basis for the GOI to act against terrorists, including the tracking and freezing of assets. The Perpu provides a minimum of three years and a maximum of 15 years imprisonment for anyone who is convicted of intentionally providing or collecting funds that are knowingly used in part or in whole 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 often unclear to what extent terrorism generates proceeds. In October 2004, an Indonesian court convicted and sentenced one Indonesian to four years in prison on terrorism charges connected to his role in the financing of the August 2003 bombing of the Jakarta Marriott Hotel.

The GOI has just begun to take into account alternative remittance systems or charitable or nonprofit entities in its strategy to combat terrorist finance and money laundering. The PPATK has issued guidelines for non-bank financial service providers and money remittance agents on the prevention and eradication of money laundering and the identification and reporting of suspicious and other cash transactions.

Indonesia is a member of the Asia/Pacific Group on Money Laundering (APG) and the Bank for International Settlements. The BI claims that it voluntarily follows the Basel Committee's "Core Principles for Effective Banking Supervision." 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.

In June 2004, Indonesia became a member of the Egmont Group and, as such, is bound to share financial intelligence with other members in accordance with the organization's charter. The AML law contains specific provisions (Article 44 and 44 A) that provide for mutual legal assistance with respect to money laundering cases. The Ministry of Justice and Human Rights has produced a draft Mutual Legal Assistance (MLA) Law that now awaits the President and Parliament's approval. Until this legislation is formally passed, the GOI uses informal procedures to facilitate MLA from other states. The PPATK has memorandums of understanding with Thailand, Malaysia, Republic of Korea, Philippines, Romania, and Australia. The PPATK has also entered into an Exchange of Letters enabling international exchange with Hong Kong. As the Chair of the ninth ASEAN Summit, Indonesia has launched a plan of action, which includes establishing a Mutual Legal Assistance Treaty among ASEAN countries. The Indonesian Regional Law Enforcement Cooperation Centre was created to develop the operational law enforcement capacity needed to fight transnational crimes.

The Government of Indonesia should continue its steady progress in developing a credible and effective anti-money laundering regime. In particular, it must improve interagency cooperation in investigating and prosecuting cases. In this regard, Indonesia should review the adequacy of its Code for Criminal Procedure and Rules of Evidence and enact legislation to allow the use of modern techniques to enter evidence in court proceedings. Indonesia should also enact mutual legal assistance legislation as soon as possible and cooperate closely with other countries in providing and receiving this assistance. Indonesia should review and streamline its process for reviewing UN designations and identifying, freezing and seizing terrorist assets. Indonesia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should ratify the UN Convention against Transnational Organized Crime.

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.

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 leads to a significant amount of trade-based money laundering. Goods purchased in Dubai are sent to one of many ports in southern 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. The Government of Iran should construct a viable anti-money laundering and terrorist financing regime that adheres to international standards. It should ratify the UN Convention against Transnational Organized Crime. It should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism. It should not support terrorism or the funding of terrorism.

Iraq

Iraq's economy is cash-based. The two state-owned banks control 87 percent of the banking sector. However, the sector is growing and at least 10 new banks, both domestic and international, have been licensed to operate in Iraq.

The Coalition Provisional Authority (CPA), the international body that governed Iraq beginning in April 2003, issued Regulations and Orders that carried the weight of law in Iraq. The CPA ceased to exist in June 2004, at which time the Iraqi Interim Government assumed authority for governing Iraq. Drafted and agreed by Iraqi leaders, the Transitional Administrative Law (TAL) describes the powers of the Iraqi government during the transition period. The TAL will remain in effect until a duly elected government, operating under a permanent and legitimate constitution, comes into being. Under TAL Article 26, Regulations and Orders issued by the CPA pursuant to its authority under international law remain in force until rescinded or amended by legislation duly enacted and having the force of law.

CPA Order No. 93, "Anti-Money Laundering Act of 2004" (AML Act), criminalizes money laundering and terrorist financing and calls for penalties of imprisonment and/or fines. The AML Act covers banks; asset, investment fund and securities dealers/managers; insurance entities; money transmitters and foreign currency exchanges as well as persons who deal in financial instruments, precious metals or gems. Covered entities are required to verify the identity of any customer opening an account or conducting a transaction of more than five million Iraqi dinars. Beneficial owners must be identified upon account opening or for transactions exceeding ten million Iraqi dinars. Records must be maintained for at least five years. Covered entities must report suspicious transactions and wait for guidance before proceeding with the transaction; the relevant funds are frozen until guidance is received. Suspicious transaction reports (STRs) are to be completed for all transactions over four million Iraqi dinars that are believed to have a nexus to financial crime or terrorist financing. Tipping off is prohibited, and bank employees are protected from liability for cooperating with the government. Willful violations of the reporting requirement may result in imprisonment or fines.

CPA Order No. 94, "Banking Law of 2004," gives the Central Bank of Iraq (CBI) the authority to license banks and to conduct due diligence on proposed bank management. Order No. 94 establishes requirements for bank capital, confidentiality of records, audit and reporting requirements for banks, and prudential standards. CBI is responsible for the supervision of financial institutions. The CBI is mandated by the AML Act to issue regulations and require financial institutions to provide employee training, appoint compliance officers, develop internal procedures and controls to deter money laundering and establish an independent audit function. The AML Act provides that the CBI will issue guidelines on suspicious financial activities and conduct on-site examinations to determine institutions' compliance. The CBI also may issue regulations to require large currency transaction reports. The cross-border transport of currency of more than 15 million Iraqi dinars must be reported to the CBI. The CBI is also mandated by the AML Act to distribute the UNSCR 1267 Sanction Committee's consolidated list of individuals/entities associated with Usama bin Ladin or members of the Taliban or al-Qaida. Order No. 94 provides administrative enforcement authority to the CBI, up to and including the removal of institution management and revocation of bank licenses.

The AML Act calls for the establishment of the Money Laundering Reporting Office (MLRO) within the CBI. The MLRO is to be separately funded and operate independently to collect, analyze and disseminate information on financial transactions subject to financial monitoring and reporting,

including suspicious activity reports. The MLRO is also empowered to exchange information with other Iraqi or foreign government agencies.

The AML Act includes provisions for the forfeiture of criminal proceeds and instruments of crime. It also blocks any funds or assets, other than real property (which is covered by a separate regulation), belonging to members of the former Iraqi regime and authorizes the Minister of Finance to confiscate such assets following a judicial or administrative order. Confiscated property is transferred to the Development Fund for Iraq.

The Government of Iraq should ensure that any new legislation that either replaces or enhances the AML Act or the Banking Law meets current international standards. The new government should implement its laws as rapidly as possible and seek to become a full member of a FATF style regional body as the opportunity presents itself.

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 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. The Central Bank reports to the Irish Police regarding institutions under its supervision. The reports cover failure to establish identity of customers, failure to retain evidence of identification, and failure to adopt measures to prevent and detect the commission of a money laundering offense. 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). In 2004, approximately 430 international financial institutions and companies operated in the IFSC. Services offered include banking, fiscal management, re-insurance, fund administration, and foreign exchange dealing. The IFSRA regulates the IFSC companies that

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 2004, the ODCE had 20 prosecutions resulting in fines of varying amounts, two more than in 2003.

The Bureau of Fraud Investigation (BFI), Ireland's financial intelligence unit (FIU), analyzes financial disclosures. In 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 in recent years. In 2004, the Criminal Assets Bureau took action in a number of such cases, the details of which are not yet available. The number of STRs filed decreased from 4,398 in 2002 to 4,254 in 2003. Convictions for money laundering offenses under the Criminal Justice Act totaled four in 2001 and two in 2002. In 2003, there were three prosecutions resulting in two convictions, currently awaiting sentencing. 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. When criminal activity is suspected, the exchange of information between police and the Revenue Commissioner 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. Under the Proceeds of Crime Act 1996, specified property may be frozen for a period of seven years, unless the court is satisfied that all or part of the property is not the proceeds of crime. Since 1996, the CAB has frozen over 50 million euros of assets. In 2003, the CAB collected 10 million euros in taxes against the proceeds of criminal activity. In 2003, the CAB also initiated criminal prosecutions against a number of suspects for breaches of criminal law, and proceeded with successful investigations/prosecutions for revenue and social welfare offenses previously not presented before the criminal courts.

In 2002, the GOI introduced the Criminal Justice (Terrorist Offenses) Bill targeting fundraisers for both international and domestic terrorist organizations. In December 2004, the Lower House of the Irish Parliament approved this bill, which is now awaiting Senate approval. The bill is expected to pass into law in February 2005. The Central Bank participates with the Irish Parliament subcommittee in drafting guidance notes for regulated institutions on combating and preventing terrorist financing. These notes will be finalized and issued to institutions upon the passing of the pending bill.

Enactment of the bill will pave the way for later ratification of the UN International Convention for the Suppression of the Financing of Terrorism, which will extend the existing powers of the GOI to seize property and/or other financial assets belonging to groups suspected of involvement with the financing

of terrorism. The bill will allow the Irish 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 seven individuals, including one in 2004, who maintained a total of nine accounts that were frozen in accordance with the provisions of the European Union's (EU) Anti-Terrorist Legislation. The aggregate value of the funds frozen is approximately 90,000 euros.

In 2003, 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 counterterrorist funding bill, full implementation of its 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. The Government of Ireland also should ensure that its offshore sector is adequately supervised and should require the beneficial owners and nominee directors of shell companies and trusts to be properly identified.

Isle of Man

The Isle of Man (IOM) is a Crown Dependency of the United Kingdom located between England and Ireland 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, 2004, the IOM's financial industry consists of approximately 19 life insurance companies, 25 insurance managers, more than 177 captive insurance companies, more than 17.2 billion pounds (approximately \$32.7 billion) in life insurance funds and 5.6 billion pounds (approximately \$10.6 billion) in non-life insurance funds under management, 53 licensed banks and two licensed building societies, 82 investment business license holders, 30.1 billion pounds (approximately \$57.2 billion) in bank deposits, and 164 collective investment schemes with 6.5 billion pounds (approximately \$12.4 billion) of funds under management. There are also 171 licensed corporate service providers, with approximately another seven 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, insurance companies, investment businesses, credit unions, bureaux de change, check cashing facilities, money transmission services, real estate agents, auditors, casinos, accountants, lawyers, and trustees are required to report suspicious transactions and comply with the requirements of the anti-money laundering (AML) code, such as customer identification.

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. In 2005, the FSC is expected to become the regulatory body for trust service providers. The IPA regulates insurance companies, insurance management companies, general insurance intermediaries, and retirement benefit schemes and their administrators. In addition, the FSC also maintains the Company Registry Database for the IOM, which contains company records dating back to the first company incorporated in 1865. Statutory documents filed by IOM companies can now be searched and purchased online through the FSC's website.

Instances of failure to disclose suspicious activity would result in both a report's 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 revised Financial Action Task Force (FATF) Forty Recommendations. The IOM is also assisting the FATF Working Groups considering matters relating to customer identification and companies' issues.

New regulations were introduced in August 2002, that require money service businesses (MSBs) that 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. In addition, the IPA conducts on-site visits to examine procedures and policies of companies under its supervision.

The IOM introduced the Online Gambling Regulation Act 2001 and an accompanying AML (Online Gambling) Code 2002. The Act, Regulations, and dedicated AML Code are supplemented by AML 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 AML Code was at the time unique within this segment of the gambling industry.

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.

The 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 1,727 STRs in 2002, 1,920 in 2003 and 2,250 in 2004. The FCU maintains close relationships with the financial sector and regularly provides training presentations to it.

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. 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. All decisions for assistance are made by the Attorney General of the IOM on a case-by-case basis, depending on the circumstances of the inquiry. 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 law also provides powers to constables, including 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 United Kingdom implemented the amendments to its Proceeds of Crime Act in 2004. The IOM is currently reviewing new legislation that will redo its Criminal Justice Act along similar lines. The new amendments are under consideration and are expected to come into force in late 2005 or early 2006.

The Customs and Excise (Amendment) Act 2001 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 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 on January 4, 2005. The IOM Terrorism (United Nations Measure) Order 2001 implements UNSCR 1373 by providing for the freezing of terrorist funds, as well as by 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. A further revision is scheduled to take place in 2005 to reflect changes in the appropriate international standards.

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 within the financial sector, and considerable effort has been made to put appropriate practices into place. In November 2003, the Government of the IOM published the full report made by the International Monetary Fund (IMF) following its examination of the regulation and

supervision of the IOM's financial sector. In this report the IMF commends 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 the Isle of Man fully meets international standards in areas such as banking, insurance, securities, anti-money laundering, and combating the financing of terrorism.

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.

Isle of Man officials should continue to support and educate the local financial sector to help it combat current trends in money laundering. The authorities also should continue to work with international anti-money laundering authorities to deter financial crime and the financing of terrorism and terrorists.

Israel

Israel is not a regional financial center. It primarily conducts financial activity with the financial markets of the United States and Europe, and to a lesser extent with Asia. A quarter of all Israeli money laundering or terrorist financing seizures are related to narcotics proceeds. The majority of the seizures are related to illegal gambling, fraud, and extortion. Israel does not have free trade zones and is not considered an offshore financial center.

Israel enacted the "Prohibition on Money Laundering Law" (PMLL) on August 8, 2000 (Law No. 5760-2000). The PMLL established a 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 included more than 18 serious crimes, in addition to offenses described in the prevention of terrorism ordinance, as predicate offenses for money laundering. The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report, and keep records for specified transactions for seven years. In November 2000, Israel enacted the "Prohibition on Money Laundering (Reporting to Police)" regulation establishing mechanisms for reporting to the police transactions involving property that was used to commit a crime or that represented the proceeds of crime.

In addition, Israel adopted in 2001 the "Prohibition on Money Laundering (The Banking Corporations Requirement Regarding Identification, Reporting, and Record Keeping) Order". The Order establishes specific procedures for banks with respect to customer identification, record keeping, and the reporting of irregular and suspicious transactions. The PMLL requires the declaration of currency transferred (including cash, travelers' checks, and banker checks) into or out of Israel for sums above 80,000 new Israeli shekels (nis) (about \$18,000). This applies to any person entering or leaving Israel and to any person bringing or taking money into or out of Israel by mail or by any other methods, including cash couriers. This offense is punishable by up to six months' imprisonment or a fine of nis 202,000 (\$46,000), or ten times the amount that was not declared, whichever is higher. Alternatively, an administrative sanction of nis 101,000 (\$23,000), or five times the amount that was not declared, may be imposed.

The PMLL also provided for the establishment of the Israeli Money Laundering Prohibition Authority (IMPA) as the country's Financial Intelligence unit (FIU). The IMPA became operational in February 2002. The PMLL requires financial institutions to report "unusual transactions" to IMPA as soon as possible under the circumstances—"unusual transactions" are loosely defined. The term is used so that the IMPA will receive reports even when the financial institution is unable to link the unusual transaction with money laundering.

In addition, suspicious transaction reporting is required of members of the stock exchange, portfolio managers, insurers or insurance agents, provident funds and companies managing a provident fund, providers of currency services, and the Postal Bank. The PMLL does not apply to intermediaries like lawyers and accountants.

In 2002, Israel enacted several new amendments to the PMLL that resulted in the addition of the money services businesses (MSB) to the list of entities required to file cash transaction reports (CTRs) and suspicious transaction reports (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 (INP) and the Israel Security Agency. The PMLL also authorized the issuance of regulations requiring financial service providers to identify, report, and keep records, for specified transactions for seven years.

In August 2003, the GOI passed a comprehensive amendment to the PMLL that lowered the threshold for reporting CTRs from 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.

The PMLL mandates the registration of MSBs through the Providers of Currency Services Registrar at the Ministry of Finance. It is assumed that money laundering occurs in all types of financial institutions, especially MSBs. In 2004, Israeli courts convicted several MSBs for failure to register with the Registrar of Currency Services. In addition, several criminal investigations have been conducted against other currency-services providers, some of which have resulted in money laundering indictments, which are still pending. The closure of unregistered MSBs was a priority objective of the INP in 2004, and it raided at least 19 such locations. The INP and the Financial Service Providers Regulatory Authority maintain a high level of coordination, routinely exchange information, and have conducted multiple joint enforcement actions. In April 2004, the Bank of Israel fined five banks for violating the PMLL. The banks were found to be negligent with respect to their procedures for verifying the identities of new customers, because they did not require account holders to sign declarations of identity, share information with the money laundering authority, or report suspicious transactions.

In October 2004, six co-conspirators operating an exchange house were arrested for multiple structuring offenses involving over \$230 million of funds that are believed to be from criminal syndicates. \$2.5 million in criminal proceeds were seized. An indictment and forfeiture request are forthcoming. In December 2004, an indictment was brought against 25 members of a heroin trafficking organization in the Tel Aviv District Court. The indictment charges organized crime, kingpin, and money laundering offenses, and includes a forfeiture request against \$2.5 million in criminal assets.

The Financial Action Task Force (FATF) removed Israel from the Non-Cooperative Countries and Territories (NCCT) list in June 2002, because of its efforts to meet the FATF's recommendations. 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.

On December 29, 2004, the Israeli Parliament adopted the Prohibition on Terrorist Financing (Law No. 5765/2004) to enhance Israel's ability to combat terrorist financing and to cooperate with other countries on such matters. Terrorist financing offenses are defined as predicate offenses under the law. Under the International Legal Assistance Law of 1998, Israeli courts are empowered to enforce forfeiture orders executed in foreign courts for crimes committed outside Israel. The new anti-money

laundering law has recently enhanced this ability. 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.

Israel has established systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets, as well as assets derived from or intended for other serious crimes, including the funding of terrorism. The identification and tracing of such assets is part of the ongoing function of the Israeli intelligence authorities and IMPA. In 2004, the INP seized approximately \$27 million in suspected criminal assets. Three quarters of these assets were seized for money laundering offenses relating to fraud, illegal gambling, extortion, and prostitution; the rest relate to drug cases. Total seizures for each of the past three years were more or less the same, \$23-26 million per year.

Israel is a party to the 1988 UN Drug Convention and the 1999 UN International Convention for the Suppression of the Financing of Terrorism. Israel signed the UN Convention against Transnational Organized Crime on December 13, 2000, but has not yet ratified it. In June 2003, the Knesset adopted the Combating Criminal Organizations Law, which includes comprehensive measures with regard to organized crime.

The Government of Israel continues to make progress in strengthening its anti-money laundering and terrorist financing regime in 2004. Israel has enacted new laws pertaining to combating terrorist financing, 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 enforce regulations pursuant to the PMLL and continue improving its anti-money laundering and counterterrorist financing regime through ensuring the diligent reporting of suspicious activities by banks and non-financial institutions. Israel should ratify the UN Convention against Transnational Organized Crime.

Italy

Italy is not an important regional or offshore financial center. However, money laundering is a concern both because of the prevalence of homegrown organized crime groups and the recent influx of criminal bands from abroad, especially from Albania, Romania, and Russia. Counternarcotics efforts are complicated by the heavy involvement in international narcotics-trafficking of domestic and Italian-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. Additional priority trafficking groups include other Balkan organized crime entities, as well as Nigerian, Dominican, and Colombian and other South American trafficking groups. In addition to the narcotics trade, laundered funds come from a myriad of criminal activities, such as alien smuggling, contraband cigarette smuggling, pirated goods, extortion, usury, and kidnapping. Financial crimes such as credit card and Internet fraud are increasing.

Money laundering occurs both in the regular banking sector and, more frequently, in the non-bank financial system, i.e., casinos, money transfer houses, and the gold market. Money launderers predominantly use non-bank financial institutions for the illicit export of currency—primarily U.S. dollars and euros—to be laundered 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 narcotics proceeds.

Money laundering is defined as a criminal offense when it relates to a separate, intentional felony offense. All intentional criminal offenses are predicates to the crime of money laundering, regardless of the applicable sentence for the predicate offense. 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. The Bank of Italy's mandatory guidelines require the 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 negotiable bearer instruments 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 ten years 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 archive was established for record keeping and financial oversight purposes, but has proved useful for tracking money laundering. A “banker negligence” law makes individual bankers responsible if their institutions launder money. The law protects bankers and others with respect to their cooperation with law enforcement and regulatory 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 negotiable bearer instruments. Reporting is mandatory for cross-border transactions involving negotiable bearer monetary instruments (e.g., checks), but not for wire transfers; nevertheless, financial institutions are required to maintain a uniform anti-money laundering database for wire transfers and to submit this data on a monthly basis to the UIC. The UIC analyzes the data and can request specific transaction details if warranted. The Anti-Mafia Directorate is conducting a retrospective analysis of irregular and suspect money flows from organized crime groups 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, antiques dealers, lawyers, and notaries. Although Italy now has comprehensive internal auditing and training requirements for its (broadly-defined) financial sector, implementation of these measures by non-bank financial institutions lags behind that of banks, as evidenced by the relatively low number of suspicious transaction reports (STRs) filed by non-bank financial institutions. According to UIC data, banking institutions submit 88 per cent of all STRs. Other financial intermediaries such as exchange houses submit 5.5 per cent, insurance companies 3.1 per cent, the postal sector 2.6 per cent, and all other sectors less than one per cent.

The UIC, which is an arm of the Bank of Italy, receives and analyzes STRs filed by covered institutions, and then forwards them to either the Anti-Mafia Directorate (including local public prosecutors) or the Guardia di Finanza (GdF) (financial police) for further investigation. The UIC compiles a register of financial and non-financial intermediaries that carry on activities that could be exposed to money laundering. The UIC also performs supervisory and regulatory functions such as

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issuing decrees, regulations, and circulars. It does not require a court order to compel supervised institutions to provide details on regulated transactions.

A special currency unit of the GdF is the Italian law enforcement agency with primary jurisdiction for conducting financial investigations in Italy. STRs led the GdF to identify \$14,400,000 in laundered money in 2003. Both the UIC and the special currency unit have access to the Bank of Italy's central archive. Investigators from other divisions in the GdF and other Italian law enforcement agencies must obtain a court order prior to being granted access to the archive.

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. Under anti-Mafia legislation, seized financial and non-financial assets of organized crime groups can be forfeited. The law allows for forfeiture in both civil and criminal cases. 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. 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. Funds from asset forfeitures are entered into the general State accounts. Italy shares assets with member states of the Council of Europe.

In October 2001, Italy passed a decree (subsequently converted into legislation) that created the Inter-Ministerial Financial Security Committee (FSC), 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 as-yet-unused 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. In 2003, FSC data indicates that 43 accounts belonging to 42 individuals were frozen in relation to terrorism financing, totaling \$570,000. The GOI cooperates fully with efforts by the United States to trace and seize assets. Italy is second only to the United States in the number of individual terrorists and terrorist organizations it has submitted to the UNSCR 1267 Sanctions Committee for designation. The UIC is responsible for transmitting to financial institutions the EU, UN, and U.S. Government (USG) lists of terrorist groups and individuals. The UIC may provisionally suspend for 48 hours transactions deemed suspect. The courts must then act to freeze or seize the assets. Under Italian law, financial and economic assets linked to terrorists can only 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. The Ministry of Finance has drafted legislation that would allow the freezing, seizing, and forfeiture of non-financial assets belonging to terrorist groups and individuals. The legislation still needs approval by the Council of Ministers before being submitted to Parliament.

In Italy, the term "alternative remittance system" refers to non-bank regulated institutions such as money transfer businesses. Informal remittance systems do exist, primarily to serve Italy's significant immigrant communities. 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 UIC and the Federation of ONLUS Agencies have agreed to cooperate to develop statistical data on and analysis of ONLUS organizations, as well as to provide information and alerts to donors to caution them on how legitimate donations can be siphoned to illegitimate ends.

Italian cooperation with the United States on money laundering matters has been exemplary. The United States 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. An effort to provide a mechanism under the MLAT for asset forfeiture and the sharing of forfeited assets has not yet come to fruition. Assets can only be shared bilaterally if agreement is reached on a case-specific basis.

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.

Italy is a member of the Financial Action task Force (FATF) and held the FATF presidency in 1997-98. As a member of the Egmont Group, Italy's 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, Belgium, Panama, Latvia, the Russian Federation, Canada, and Australia. Italy also is negotiating agreements with Japan, Argentina, Malta, Thailand, Singapore, Hong Kong, Malaysia, and Switzerland, and has a number of bilateral agreements with foreign governments in the areas of investigative cooperation on narcotics-trafficking and organized crime. There is no known instance of refusal to cooperate with foreign governments.

Italy is firmly committed to the fight against money laundering and terrorist financing, both domestically and internationally. However, given the relatively low number of STRs being filed by non-bank financial institutions, the GOI should increase its training efforts and supervision in this sector, to decrease its vulnerability to abuse by criminal or terrorist groups. Italy 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 therefore make Jamaica susceptible to money laundering activities and other financial crimes. Jamaica is not experiencing any increase in incidence of financial crimes such as bank fraud or contraband smuggling that filter funds through the banking system. The Government of Jamaica (GOJ) does not encourage or facilitate money laundering, nor has any senior official been investigated or charged with the laundering of proceeds from illegal activity.

Jamaica is not an offshore financial center and its banking system continues to be under intense scrutiny from regulators in the wake of several major banking scandals in the 1990s. Because of this scrutiny, Jamaican financial instruments are considered an unattractive mechanism for laundering money. As a result, much of the proceeds from drug-trafficking and other criminal activity are used to acquire tangible assets such as real estate or luxury cars, while still more merely passes through Jamaica as cash shipments to South America. Further complicating the picture are the hundreds of

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millions of U.S. dollars in remittances sent home to Jamaica by the substantial Jamaican population overseas.

The Money Laundering Act (MLA), 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 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, 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 (DPP). In February 2000, the MLA was amended to add fraud, firearms trafficking, and corruption as predicate offenses for money laundering. In February 2002, legislative measures imposed a requirement for money transfer and remittance agencies to report transactions over \$50,000.

During 2004, the Jamaican Parliament passed amendments to the Bank of Jamaica Act, the Banking Act, the Financial Institution Act and the Building Society Act that govern the periodic examination of commercial banks and financial institutions. The Acts provide the legal and policy parameters for the licensing and supervision of financial institutions and lay the foundation for the proposed amendments to the MLA scheduled for debate in Parliament. The proposed amendments have not been agreed upon.

In addition to a new Customs arrival form that requires declaration of currency or monetary instruments over \$10,000 or equivalent introduced in 2003, the GOJ changed its immigration form in conjunction with the implementation of a new border security entry/exit system designed to better control the flow of persons in and out of Jamaica. This measure should assist law enforcement efforts to combat the movement of large amounts of cash—often in shipments totaling hundreds of thousands of U.S. dollars through Jamaica.

Jamaica has an on-going continuing education program to ensure compliance with the suspicious transaction reporting requirements. The Financial Investigations Division of the Ministry of Finance consists of 14 forensic examiners, six police officers who have full arrest powers, a director and 5 administrative staff. However, no major cases of money laundering arrests or prosecutions were reported in 2004. Jamaican law enforcement officials responsible for combating financial crimes are generally cooperative with U.S. law enforcement agencies and frequently request training and other technical assistance.

Further action is still required in the area of asset forfeiture to permit the GOJ to take full advantage of this mechanism in its anti-money laundering efforts. Law enforcement authorities are hampered by the fact that Jamaica has no civil forfeiture law, and under the 1994 Drug Offenses (Forfeiture of Proceeds) Act, a criminal drug-trafficking conviction is required as a prerequisite to forfeiture. This often means that even when police discover illicit funds, the money cannot be seized or frozen and must be returned to the criminals. Asset that are eventually forfeited, are deposited into a fund shared by the Ministries of National Security, Justice and Finance. In 2004, GOJ agencies shared \$85,000 from seizures from drug-trafficking, money laundering, tax and customs evasion and larceny. The new Proceeds of Crime Bill, currently circulating in Parliament, will go a long way to address the shortcomings but the process is moving at a snail's pace.

Terrorism and terrorist financing are covered under the pending Terrorism Prevention Bill. Currently, these crimes are covered as suspicious transactions for money laundering purposes. 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. The Terrorism Prevention Bill is also far from becoming law.

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 progress the Government of Jamaica has made in fighting money laundering is tempered by the lack of action on key legislation. A more aggressive effort is necessary to bring its regime into line with international standards, such as is being considered in the proposed money laundering and proceeds of crime legislation. The scope of predicate offenses for money laundering should be extended to encompass all serious crimes, and asset forfeiture provisions should be approved as soon as possible. Consideration should also be given to returning the reporting threshold to \$10,000, as originally mandated. Jamaica should criminalize terrorist financing and ratify the UN International Convention for the Suppression of the Financing of Terrorism. The Government of Jamaica should also augment its Financial Crimes Division and ensure that the division has sufficient resources to adequately combat financial crimes.

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), often linked to Japan's organized criminal organizations. The National Police Agency of Japan estimates the aggregate annual income from organized criminal organizations is approximately \$10 billion, \$3.38 billion of which is income from the trafficking of methamphetamines.

U.S. law enforcement reports that drug-related money laundering investigations initiated in the United States periodically show a link between drug-related money laundering activities in the United States and bank accounts in Japan. The number of Internet-related money laundering cases is increasing. In some cases, criminal proceeds were concealed in bank accounts obtained through the Internet market. Laws enacted in 2004 now make sales of bank accounts illegal.

Prior to 1999, Japanese law only criminalized narcotics-related money laundering. The Anti-Drug Special Law, which took effect in July 1992, also 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 has 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 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 Japan's organized crime groups 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 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.

An amendment to the Anti-Organized Crime Law was submitted on February 20, 2004 to the Diet (Japan's legislature) for approval. The amendment would expand the predicate offenses for money laundering from approximately 200 individual offenses currently, to almost all offenses penalized by imprisonment, with the resulting number of predicate offenses rising to about 350 as a result.

To facilitate the exchange of information related to suspected money laundering activity, Japan's Financial Services Agency 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 JAFIO, which analyzes them and disseminates them as appropriate. JAFIO also publishes "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 organized criminal groups and their associates.

JAFIO concluded international cooperation agreements during 2004 with Singapore's Financial Intelligence Unit (FIU) and with FinCEN, establishing cooperative frameworks for the exchange of financial intelligence related to money laundering and terrorist financing. JAFIO already had similar agreements in place with the FIUs of the United Kingdom, Belgium, and South Korea. JAFIO received 95,315 suspicious transaction reports in 2004, more than double the number in 2003. Of these, 64,675 were disseminated to law enforcement authorities. Some 86 percent of the reports came from banks, 8.5 percent from insurance companies, 3.3 percent from the country's large postal savings system, and 1.2 percent- from non-bank money lenders.

The Financial Services Agency (FSA) and Ministry of Finance are working on measures, expected to be promulgated in 2006, to enable authorities to closely monitor domestic and international money remittances. The Cabinet office published its counterterrorist action plan on December 10, 2004. The plan states that Japan intends to fully implement certain Financial Action Task Force Special Recommendations on Terrorist Financing covering these issues by the end of June 2006. Specific measures will be announced this year.

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.

In April 2002, Parliament enacted the Law on Customer Identification and Retention of Records on Transactions with Customers by Financial Institutions (a "know your customer" law). The law reinforced and codified the customer identification and record keeping procedures that banks had practiced on their own for years. The Foreign Exchange and Foreign Trade Law was also revised so that financial institutions are required to make positive customer identification for both domestic transactions and transfers abroad in amounts of more than two million yen (approximately \$19,230). Banks and financial institutions are required to maintain customer identification records for seven years.

Japanese financial institutions have, when requested, cooperated with law enforcement agencies, including U.S. and other foreign government agencies investigating financial crimes related to narcotics. In 2003, the United States and Japan concluded a Mutual Legal Assistance Treaty (MLAT). Although Japan has not adopted "due diligence" or "banker negligence" laws to make individual

bankers responsible if their institutions launder money, there are administrative guidelines in existence that require due diligence. Japanese law protects bankers and other financial institution employees who cooperate with law enforcement entities.

In a major 2004 money laundering case, a Japanese banker who had worked for Credit Suisse in Hong Kong was arrested in Hong Kong in June and accused of laundering 4.6 billion yen (\$42 million) for a leading criminal organization. In September, the Financial Services Agency (FSA) cited Citibank for failure to comply with laws designed to prevent money laundering (such as failing to properly screen clients). In February, the FSA disciplined Standard Chartered Bank for failing to properly check customer identities and for violating the obligation to report suspicious transactions.

The Foreign Exchange and Foreign Trade 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 \$9,615), 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 \$1,923) 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 either to stem from criminal proceeds or 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 for the Suppression of the Financing of Terrorism on October 30, 2001, and became a party on June 11, 2002. After September 11, 2001, Japan froze accounts related to the Taliban. Since then, Japan has regularly searched for and designated for asset freeze any accounts that might be linked to the entities and individuals on the UNSCR 1267 Sanctions Committee's consolidated list.

Underground banking systems operate widely in Japan, 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 \$4 billion) since the beginning of 1992. About 120 billion yen (\$1.1 billion) have been illegally transferred to China and Korea, and about 90 billion yen (\$865 million) to Peru. In November 2004, the Diet approved legislation banning the sale of bank accounts, in a bid to prevent the use of purchased accounts for fraud or money laundering.

Japan has not enacted laws that allow for sharing of seized narcotics assets with other countries. However, the Japanese Government cooperates with efforts by the 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 and the UN Transnational Organized Crime Convention. Japan is a member of the Financial Action Task Force. JAFIO joined the Egmont Group of FIUs in 2000. Japan has also taken a leadership role as a member in 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.

In terms of international information exchange on money laundering, as of December 2003 JAFIO had received 45 requests for information from foreign FIUs, and had replied with information to 38 requests, according to statistics from JAFIO. Japan has actively supported anti-money laundering

efforts in developing countries in Asia. For example, in 2003 and 2004 Japan provided assistance to the Philippines and to Indonesia for the development of their anti-money laundering framework.

The Government of 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, Japan should stringently enforce the Anti-Organized Crime Law. Japan should also 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; mutual funds; insurance companies (which are largely captive insurance companies); investment advice, dealing, and management companies; and trust/corporate 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 an assessment 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 notes that the Finance and Economics Committee’s power to give direction to the JFSC could appear as a conflict of interest between the two agencies, and suggests that a separate body be established to speak for the industry’s consumers. The IMF’s second proposal is the establishment of rules for banks dealing with market risk, along with a code of conduct for collective investment funds. Third, the IMF recommends 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 2006.

Jersey’s main anti-money laundering laws are: the Drug Trafficking Offenses (Jersey) Law of 1988, which criminalizes money laundering related to narcotics trafficking, and the Proceeds of Crime (Jersey) Law, 1999, which extends the predicate offenses for money laundering to all offenses punishable by at least one year in prison. The Prevention of Terrorism (Jersey) Law 1996, which criminalizes money laundering related to terrorist activity, was replaced by the Terrorism (Jersey) Law 2002, that came into force in January 2003. The Terrorism (Jersey) Law 2002 is a response to the events of September 11, 2001, and enhances the powers of the Island authorities to investigate terrorist offenses, to cooperate with law enforcement agencies in other jurisdictions, and to seize assets.

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 with Guernsey and the Isle of Man) that sets 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 presence in Jersey, and management must be in Jersey.

Jersey has established a Financial Intelligence Unit (FIU) 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 2002 the JFCU received 1,612 suspicious activity reports; 1,272 in 2003; and 1,248 in 2004. 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, France, and the United States. The JFSC has a memorandum of understanding for information exchange with Belgium. 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. Application of the 1988 UN Drug Convention was extended to Jersey on July 7, 1997. Jersey authorities have also put in place sanction orders freezing accounts of individuals connected with terrorist activity.

The Government of 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 Jersey's Financial Services Commission (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/counterterrorist financing regime in areas of vulnerability.

Money Laundering and Financial Crimes

[*This text has been revised since its original posting; see version as [released to Congress](#).]

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 Financial Action Task Force (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 has checked for assets of individuals and entities identified by the UNSCR 1267 Sanctions Committee, although no such assets have been identified to date. In December 2004, the United States and Jordan signed an Agreement regarding Mutual Assistance between their Customs Administrations that provides for mutual assistance with respect to customs offenses and the sharing and disposition of forfeited assets.

Jordan has neither enacted a comprehensive anti-money laundering law, nor established an independent Financial Intelligence Unit (FIU). However, a draft anti-money laundering law is nearing completion for approval by the cabinet and presentation to Jordan’s parliament. Anti-money laundering efforts are handled by an anticorruption 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 (as amended in 2003) waives banking secrecy provisions in any number of criminal cases, including suspected money laundering and terrorism financing.

Jordan is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. Jordan has signed, but not ratified, the UN Convention against Transnational Organized Crime. Jordan is a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

The Government of Jordan has taken steps in constructing an anti-money laundering and terrorist financing 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. Jordan should ratify the UN Convention against Transnational Organized Crime. Jordanian law enforcement and customs should examine forms of trade-based money laundering.

Kazakhstan

Kazakhstan, with its developed, modern banking system has become the financial center for Central Asia. Unfortunately, the lack of adequate banking regulations, widespread corruption, regular incidents of money laundering and cash smuggling, mostly related to economic crimes, and Kazakhstan’s status as a major transit hub for narcotics-trafficking from Afghanistan, also make this country a potential regional money laundering center. The Government of Kazakhstan (GOK) is a willing partner in the fight against terrorism, but weak laws, corruption, ill-trained financial police and a lack of modern equipment hamper its efforts. It is, however, taking steps to remedy these problems.

Money laundering was first criminalized in Kazakhstan by Article 30 of the 1998 counternarcotics law, which makes it illegal to launder money in connection with the sale of illegal drugs. The definition of money laundering used in the act, however, is narrow and the sanctions against it relatively light (a maximum of three years imprisonment, rising to five for multiple offences). A further limit to the effectiveness of the law is that bank records may not be examined until after a criminal case has been initiated.

The GOK has been aware for several years of problems with its policing of financial crimes and is proactively taking corrective measures. In January 2004, the State Agency for Economic Crimes and Corruption was established. The agency is an amalgam of the former Financial Police Agency and the Ministry of Internal Affairs' 9th Department on Economic Embezzlement. The newly created Agency for the Regulation and Inspection of the Financial Market and Financial Organizations is authorized to supervise all aspects of financial markets. In the past, supervision of financial markets was carried out by various state bodies and coordinated by the National Bank. The establishment of a new body, separate from the National Bank, demonstrates the government's intentions to ensure that the country's financial system is consistent with the best international practices. While the head of the new agency reports directly to the president of Kazakhstan, the agency itself continues to operate under the auspices of the National Bank with which it shares regulatory functions. The overall effectiveness of the agency is also limited by a lack of training and the absence of any legal mechanisms to ensure law enforcement's access to the information related to illegal financial operations, such as money laundering, corruption, terrorism financing and other crimes.

The Prosecutor General's Office is the lead agency in drafting new anti-money laundering and counterterrorist financing legislation and in the formation of the proposed Financial Investigative Unit (FIU). The Office of the Prosecutor General expects the legislation to be passed by the end of the first quarter (April 1, 2005), and that the FIU should be fully operational by the end of 2005. The latter is contingent on requisite funding of the FIU being provided by the Parliament during the annual GOK budget process. The Office of the Prosecutor General has the responsibility within the GOK to ensure that the provisions of the law and the function of the FIU will meet international standards and become an effective means of combating money laundering and related financial crimes.

Only one-half of 242,000 registered business entities in the country are in fact operational. In addition, it is estimated that over 93,000 businesses do not report their tax incomes. Since the beginning of 2004, the State Agency for Combating Economic Crimes and Corruption reported 421 registered money laundering cases in Kazakhstan totaling \$107 million. In early January 2004, the Almaty Prosecutor's Office charged two companies with bank fraud. The two companies were charged with illegal operations resulting in the laundering of \$7 million over a period of five months. According to the Prosecutor's Office, these crimes were conducted with the help of bank employees, making them especially difficult to detect. According to the Prosecutor General of Kazakhstan the detection of crimes involving money laundering companies is fairly low, and the above figures probably do not reflect the true scope of these crimes in Kazakhstan. Moreover, even when such crimes are detected, they often are not prosecuted. According to the Prosecutor's Office, approximately only one out of ten criminal proceedings is actually brought to court.

Kazakhstan is not an offshore financial center. There are no offshore companies or banks. Existing legislation does not favor offshore banks and financial centers. Foreign banks, including American, Dutch, Turkish, and Russian-based financial institutions have offices in Kazakhstan.

The GOK cooperated in circulating the E.O. 13224 list among Kazakhstani banks.

Kazakhstan acceded to the 1988 UN Drug Convention in 1997, 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. In 2000, the GOK signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

Kazakhstan is considering acceding to the Council of Europe's Convention on Laundering, Search, Seizure and Confiscation of the Proceeds of Crime. Kazakhstan is 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, the Kyrgyz Republic, Tajikistan and Uzbekistan. Kazakhstan is a charter member of the newly organized Eurasian Group on Combating Money Laundering and Financing of Terrorism.

The Government of Kazakhstan is still in the process of developing some of the key legal and institutional frameworks necessary to establish a viable anti-money laundering/counterterrorist financing regime. The Kazakhstan should enact comprehensive legislation, to include criminalizing terrorist financing, and implement due diligence and reporting requirements that meets international standards. Kazakhstan should continue its efforts to provide training and adequate resources to the bodies tasked with enforcing its laws and regulations.

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 such funds.

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. The Kenyan Parliament enacted legislation at the end of 2004 that strengthens the Central Bank's supervisory authority, but it makes no specific reference to money laundering.

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 require 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 non-bank 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, and only a handful of suspicious transactions have been reported so far.

Kenya is a party to the UN International Convention for the Suppression of the Financing of Terrorism. It has cooperated with the United States and the United Kingdom, but lacks the institutional capacity, investigative skills, and equipment to conduct complex investigations independently. In April 2003, the Government of Kenya (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, though not because of the bill's counterterrorism aspects as such. A GOK official stated in October 2004 that the bill was in the process of being re-drafted. The public does support the government's attempts to increase transparency and to combat 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 with the annual reporting could lead to de-registration; however, this is rarely enforced. The government did de-register some non-governmental organizations 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 arrangement with the United States 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 (FIU) by Kenya would help to formalize its relationship with the United States 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 not introduced. Relevant authorities claim that the bill, entitled the Anti-Money Laundering and Proceeds Bill, will be introduced to Parliament in 2005.

The key points of the legislation 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. The proposed legislation is not explicit on seizing legitimate business 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 the Anti-Money Laundering and Proceeds Bill and the Suppression of Terrorism Bill as first steps in building a comprehensive anti-money laundering regime. It should also establish a financial intelligence unit (FIU) to serve as a vital part of this regime.

Korea, Democratic Peoples 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.

The Government of North Korea should enact a comprehensive anti-money laundering regime and take steps to stop financial crimes originating in North Korea and the funding of terrorism.

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, however, 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. The Financial Transactions Reports Act (FTRA), passed in September 2001, requires financial institutions to report suspicious transactions to the Korea Financial Intelligence Unit (KoFIU), which operates within the Ministry of Finance and Economy. The KoFIU was officially launched in November 2001, and 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.

In January 2004, the government tightened its requirements for STRs by lowering the monetary threshold under which they are required to file reports to 20 million won (approximately \$19,000) from the previous 50 million won. Improper disclosure of financial reports is punishable by up to five years imprisonment and a fine of up to 30 million won (about \$25,000). In December 2004, the government also adopted, through a revision of the FTRA, a currency transaction reporting (CTR) system requiring financial institutions to report all currency transactions exceeding a monetary threshold to be set by Presidential Decree. The threshold must be under 50 million won (approximately \$47,250). The FTRA revision also set customer due diligence requirements stipulating that financial institutions must identify and verify customer identification data such as address and income status. The revision will take effect in 2005, on the one year anniversary of the law's promulgation.

Between November 2001 and August 2004, KoFIU has received a total of 4,661 STRs from financial institutions, with a marked increase coming in the past year. It has completed analysis of 4,038 of them, and provided 959 reports to law enforcement agencies as of August 2004. 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). Another 639 STRs were still under the FIU's analysis. The Korean

Customs Service reported on October 4, 2004, that it had found 23 cases of illegal financial transfers overseas (including money laundering) worth 734.8 billion won (\$639 million) as the result of a special investigation conducted between June 14 and September 30. In December 2004, local police arrested several brokers who arranged for undocumented foreign workers to send illegal remittances abroad via the illegal underground “hawala” system. Additionally, the managing directors of the SK Group, a major conglomerate, were prosecuted for laundering 10 billion won (\$8.4 million), in checks and securities, in November 2003.

KoFIU supervises and inspects the implementation of internal reporting systems established by financial institutions. KoFIU is also charged with coordinating the efforts of other government bodies, and the Policy Coordination Committee held meetings in November 2003 and March 2004 to discuss policies and revisions of the FTRA. Officials charged with investigating money laundering and financial crimes are beginning to widen their scope to include crimes related to commodities trading and industrial smuggling, and continue to search for possible links of such illegal activities to international terrorist activity. On December 1, 2004, KoFIU introduced a new online electronic reporting system, through which financial institutions can report suspicious transactions more quickly.

Money laundering controls are applied to non-banking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, merchant banks, mutual savings, finance companies, credit unions, credit cooperatives, trust companies, securities companies, insurance companies, credit insurance corporations, and exchange houses. Intermediaries such as lawyers, accountants, or broker/dealers are not covered. Any traveler carrying more than \$10,000 or the equivalent in other foreign currency is required to report the currency to the Korea Customs Service.

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. Two versions of a new counterterrorism bill are working their way through the legislative process, though previous attempts to pass similar bills have not succeeded. Many politicians and nongovernmental organizations (NGOs), recalling past civil rights abuses in Korea by the government, oppose the pending counterterrorism 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 counterterrorism 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 KoFIU, the ROK circulated to its financial institutions the list of individuals and entities that have been included in the UNSCR 1267 Sanctions Committee's consolidated list as being linked to Osama bin Laden or members of the al-Qaida organization or the Taliban, or which 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 U.S. 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 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 \$9.5 million worth of drug-related assets in the first 10 months of 2004, compared to a similar amount over the same period in 2003. The ROKG established 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. Its legal framework does not allow civil forfeiture.

The ROK continues to address the problem of the transportation of counterfeit international currency. The National Intelligence Service's (NIS) International Crime Center indicated on November 24, 2004, that there were 141 reported cases of counterfeit dollars worth \$66,525 in the first nine months of 2004. This represented the same number of cases noted in the same period of 2003, but the dollar amount increased by some 47 percent compared with a year earlier. Based on the amount of counterfeit currency actually uncovered, the NIS estimated that \$500,000 to one million dollars of fake currency may be in circulation in South Korea.

South Korea has a number of thriving free trade zones (FTZs) that enjoy certain special privileges. However, companies operating within them are subject to the same general laws on financial transactions as companies operating elsewhere, and there is no indication these FTZs are being used in trade-based money laundering schemes or for terrorist financing. The ROK mandates extensive entrance screening to determine companies' eligibility to participate in FTZ areas, and firms are subject to standard disclosure rules and criminal laws. As of November, 2004, the ROK had seven FTZs, as a result of the June, 2004 recategorization of the three port cities of Busan, Incheon, and Kwangyang as FTZs. They were recategorized from their previous designation of "customs-free areas" in order to avoid confusion from the earlier dual system of production-focused FTZs, and logistics-oriented "customs-free zones." Incheon International Airport is slated to become the eighth FTZ. In

2004, the Ministry of Commerce, Industry, and Energy expects the addition of the three new FTZs to boost 2004 exports through the FTZs to over \$12 billion, and expects imports into the FTZs to reach \$10 billion by 2008.

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, and it ratified the convention on February 17, 2004. The ROK also signed in December 2003, but has not ratified, the UN Convention against Corruption. The ROK is an active member of the Asia/Pacific Group on Money Laundering (APG), and in 2004 hosted the APG annual meeting.. 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 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), Indonesia (October 2003), Colombia and Venezuela (November 2003), Japan (December 2003), Finland (January 2004), Canada (June 2004) and the United States (November 2004) to facilitate the exchange of information on money laundering. These agreements are expected to enhance the government's asset tracing and seizure abilities.

The Government of the Republic of Korea should criminalize the financing and support of terrorism and should continue to move forward to adopt and implement its pending legislation. The Republic of Korea should extend its anti-money laundering regime to financial intermediaries. The Republic of Korea 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, the Republic of Korea law enforcement officials have begun to fully grasp the negative potential impact such activity has on their country, and to take steps to combat its growth. The Republic of Korea should also accede to the UN International Convention for the Suppression of Terrorism.

Kuwait

Kuwait is not a major regional financial sector. It has nine commercial banks, including two Islamic banks, all of which provide traditional banking services comparable to Western-style commercial banks. Kuwait also has two specialized banks, the Kuwait Real Estate Bank, which is in the process of converting to an Islamic bank, and the government-owned Industrial Bank of Kuwait. Both of these banks provide medium and long-term financing. Regulators do not believe that money laundering is a significant problem, and most money laundering operations are generated as a byproduct of local drug and alcohol smuggling into the country.

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 that 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, conduct training and establish internal control systems, and report any suspicious transactions.

Law No. 35/2002 designates the Office of Public Prosecution (OPP) as the sole authority to receive reports and take appropriate action on money laundering operations. Reports of suspicious transactions are then referred from the OPP to the Central Bank of Kuwait (CBK) 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. Moreover, banks and financial institutions may face a steep fine

(approximately \$3.3 million) if found in violation of the law. Law 35/2002 does not cite terrorist financing as a crime; however, the definition of criminal activity is broad.

The law includes articles on international cooperation, and on monitoring cash and precious metals transactions. Currency smuggling into Kuwait is also outlawed under Law No. 35/2002, although reporting requirements are not enforced at ports of entry. Provisions of Article 4 of Law No. 35/2002 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). However, the law does not require individuals to file customs declarations when carrying cash or precious metals out of Kuwait. The law authorizes the Minister of Finance to set forth the resolutions necessary to ensure its implementation. The Minister of Finance, as stipulated by Law No. 35/2002, can issue resolutions to enhance combating money laundering operations, without actually amending the legislation. Several cases have been opened under Law No. 35/2002, but the majority of them were closed after investigations did not disclose prosecutable offenses. Only two cases have gone to courts. The cases reportedly involve money smuggling and failure to report currency transactions, and do not involve banks.

In addition to Law No. 35/2002, anti-money laundering reporting requirements and other rules are contained in the 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 \$10,000 (Article 20). In addition, the CBK distributed detailed instructions and guidelines to help bank employees identify suspicious transactions. The CBK is currently working on updating its anti-money laundering instructions to accommodate new international standards.

Kuwait has two Islamic banks, Kuwait Finance House (KFH) and Bubiyan Islamic Bank, which are both licensed and supervised by the CBK. As of May 31, 2004, KFH came fully under the supervision of CBK, and has been cooperative with its offices, as have all other Islamic investment companies. The Bubiyan Islamic Bank was established by the Kuwaiti Investment authority (KIA) and is in the process of being formed, after its May 2004 initial public offering. The Kuwait Real Estate Bank, which has been one of Kuwait's two "specialized banks," is in the process of converting to an Islamic bank. The CBK has been working on bringing Islamic financial institutions under its supervision since before the terrorist attacks of September 11, 2001.

In addition, CBK issued circular No. (2/sb/95/2003) in 2003, which is directed toward money changing companies, and which contains 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. There are about 130 money exchange businesses (MEBs) operating in Kuwait, none of which are companies, and therefore, are not under the supervision of the CBK but rather under the Ministry of Commerce and Industry. The CBK has reached an agreement with the Ministry of Commerce and Industry to enforce all anti-money laundering (AML) laws and regulations in supervising such businesses. Furthermore, the Ministry will work diligently to encourage the MEBs to apply for and obtain company licenses and register with the CBK.

The Ministry of Commerce and Industry supervises insurance companies, exchange bureaus, gold and precious metals shops, brokers in the Kuwait Stock Exchange, and all other financial brokers. Since

September 2002, these firms must abide by all regulations concerning customer identification, record keeping of all transactions for five years, establishment of internal control systems, and the reporting of suspicious transactions.

In April 2004, the Ministry of Finance issued Ministerial Decision No. 11 (MD No. 11/224), which transferred the chairmanship of the National Committee for Anti-Money Laundering and the Combating of the Financing of Terrorism, formerly headed by the Minister of Finance, to the Governor of the CBK. The Committee is comprised of representatives of the Ministries of Interior, Foreign Affairs, Commerce and Industry, and Finance; Office of Public Prosecution; Kuwait Stock Exchange; General Customs Authority; and the Union of Kuwaiti Banks. The decree expanded the membership of the Committee to include the Ministry of Labor and Social Affairs in an apparent move to oversee charities and non-governmental organizations.

According to the MD 11/2004, the Committee shall be entrusted, *inter alia*, with drawing up the country's strategy and policy with regard to anti-money laundering and terrorist financing; drafting the necessary legislation, along with pertinent regulations; coordinating between the concerned ministries and agencies in matters related to combating money laundering and terrorist financing; following up on domestic, regional, and international developments, and making needed recommendations in this regard; setting up appropriate channels of communication with regional and international institutions and organizations; and representing Kuwait in domestic, regional, and international meetings and conferences. In addition, Article Seven entrusts the Chairman of the Committee with issuing regulations and procedures that he deems appropriate for the Committee duties and responsibilities and the organization of its activities.

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. However, there is no indication that such activities occurred with the knowledge of the Kuwaiti head office, which remains undesignated; U.S. authorities have only designated the branches in Pakistan and Afghanistan as having been used to funnel funds to terrorist organizations. The RIHS is under the supervision of the Ministry of Labor and Social Affairs, which has become the newest member of the National Committee for Anti-Money Laundering and the Combating of the Financing of Terrorism.

In August 2002, the Kuwaiti Ministry of Social Affairs and Labor issued a ministerial decree creating the 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 to charities explaining donation collection procedures and regulating financial 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. Further, the Department mandates the certification of charities' financial activities by external auditors. Banks may not transfer any money outside of Kuwait without prior permission from the Ministry. In addition, such wire transactions must be reported to the CBK.

On June 23, 2003, the CBK issued Resolution No. 1/191/2003, establishing the Kuwaiti Financial Inquiries Unit (KFIU) as an independent entity within the Central Bank. The goals of KFIU, which acts as a Financial Intelligence Unit (FIU), are to receive and analyze reports of suspected money laundering from the Office of Public Prosecution (OPP), 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 OPP. Law No. 35/2002 did not establish the FIU as the central unit for the receipt, analysis, and dissemination of the suspicious transaction reports (STR) information; instead, these critical functions were divided. Now, STRs are received in the CBK, while

the Public Prosecutor has the authority to disseminate STRs and assess international requests for information. Kuwaiti officials agree that the current limits on information sharing by the FIU are a problem that requires amending of the law.

Kuwait is a member of the Gulf Cooperation Council (GCC), which is itself a member of the Financial Action Task Force (FATF). In November 2004, Kuwait signed the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENAFATF). Kuwait is one of the fourteen charter members of this FATF-style regional body that was inaugurated in Bahrain to promote best practices to combat money laundering and terrorist financing in the region.

Kuwait has signed the 1988 UN Drug Convention. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not yet signed the UN International Convention for the Suppression of the Financing of Terrorism.

Kuwait is making progress in enforcing its anti-money laundering program. The issuance of the Ministry of Finance Decree 11/2004 concerning the new duties of the National Committee for Anti-Money Laundering and the Combating of the Financing of Terrorism represents a significant improvement. Kuwaiti officials acknowledge the need for extensive training for all involved sectors.

The Government of Kuwait should take steps to strengthen its anti-money laundering law, improve the sharing of financial information, and criminalize terrorist financing. Kuwait should also make outbound currency and precious metals declarations mandatory. More interagency cooperation and coordination between the Kuwaiti Financial Inquiries Unit and other concerned parties could yield significant improvements in proactive investigations and international information exchange. The Kuwaiti Financial Inquiries Unit should be able to independently share financial information with its foreign counterparts, and receive, analyze, and disseminate suspicious transaction reports without obtaining prior authorization from the Office of the Public Prosecutor. Kuwait should become a party to both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Kyrgyz Republic

The Kyrgyz Republic is not a regional financial center. Money laundering is still not classified as a crime under present Kyrgyz legislation. The Kyrgyz banking system remains comparatively underdeveloped. Like other countries in this region, the Kyrgyz Republic's alternative remittance systems are susceptible to money laundering activity or trade-based fraud. The smuggling of consumer goods, tax and tariff evasion, official corruption and narcotics-trafficking continue as the major sources of illegal proceeds within the Kyrgyz Republic.

In 2004 the Kyrgyz legislature drafted a fairly comprehensive law on "Combating Terrorism and Illicit Money Laundering". On December 9, 2004, the bill passed its first reading in the Parliament. It will need to pass an additional reading before being sent to the President for signature. The proposed law defines predicate offenses and criminalizes income obtained as a result of a criminal action. It also includes the mandatory reporting of suspicious transactions by all Kyrgyz financial institutions. Because of Parliamentary elections scheduled for late February, it is expected that the second reading will not take place until the second quarter of 2005. At present, the Kyrgyz Republic has no other laws or draft laws on money laundering.

The National Bank has provisions that require customer identification procedures and make an exception to bank privacy rules for suspicious transaction reporting, but these provisions are reported to be mostly ignored by the commercial banks. Currently, several National Bank restrictions prohibiting banking operations with certain offshore financial institutions and a number of identified suspicious organizations serve to regulate the anti-money laundering process. Oversight of the banking

sector, however, remains generally weak, and Kyrgyz law enforcement agencies lack the expertise and resources necessary to effectively monitor and investigate financial irregularities.

On October 6, 2004 the Kyrgyz Republic, along with Russia, China, Belarus, Tajikistan, and Kazakhstan, formed the Eurasian Group for Counteraction to the Legalization of Illegal Incomes and Terrorism Financing. The Kyrgyz Republic 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. The Kyrgyz Republic has signed, but not yet ratified, the UN Convention against Corruption.

The Kyrgyz Government has agreed to participate in a United States-sponsored “Needs Assessment” on money laundering and financial investigations scheduled for February 2005. This review is designed to identify the vulnerabilities or deficiencies in legislation to combat money laundering and financial crimes. It will also identify training needs for all Kyrgyz law enforcement agencies responsible for investigations of these crimes.

The Government of the Kyrgyz Republic should adopt the legislation necessary to implement a comprehensive anti-money laundering regime capable of thwarting terrorist financing and should provide the necessary resources to implement such a program. The Kyrgyz Government should also remain vigilant in its efforts to combat money laundering activities that circumvent the financial institutions.

Laos

Laos, a major drug-producing and transit country, 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. However, 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 has drafted a money laundering law with counterterrorism finance components, based upon a model law provided by the Asian Development Bank. The legislation was proposed during the second half of 2004 and has passed through the Ministry of Justice. It awaits prime ministerial approval and is expected to be passed by the National Assembly in April 2005, perhaps with changes. The law will criminalize money laundering and terrorist financing. A Financial Intelligence Unit (FIU) will also be established, to supplant the small and informal one currently in place. Reportedly, 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 thought that 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.

Lao law prohibits the export of the national currency, the 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 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.

The Government of Laos should pass anti-money laundering and counterterrorism financing legislation. Laos should also become a party to the UN 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 non-resident 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, contraband smuggling, and prostitution. Organized crime is thought to account for a significant portion of laundered proceeds. Latvian consumers are increasingly comfortable with the use of electronic, credit, and other non-cash payments. At the same time, there are no restrictions in Latvia on cross-border currency movement (cash or non-cash, domestic or foreign) or the physical movement of other financial instruments. However, in November 2004, a package of drafted acts was finalized, in anticipation of a forthcoming European Union (EU) Directive, to enact cash declaration requirements (over 15,000 euros) on the external borders of the EU. This will affect Latvia's border crossings with Russia and Belarus, and passengers traveling to Latvia by air from non-EU countries. The proposal will be sent to the Latvian Parliament for review in 2005. Latvia's accession to the European Union occurred on May 1, 2004.

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 anti-money laundering law (AML)) requires all institutions engaging in transactions to report suspicious activity. On February 1, 2004, the amendments to meet the requirements of the Second EU Directive of 2001 became effective. Amendments to the AML law expand the scope of reporting institutions, and include auditors, lawyers, and high-value dealers, as well as credit institutions.

The law lists four categories of entities obligated to report suspicious activities: participants in financial and capital markets (credit institutions, insurance companies, private pension funds, stock exchanges, brokerage companies, investment companies, credit unions, and investment consultants); organizers and holders of lotteries and gambling enterprises; companies engaged in foreign currency exchange; and individuals and companies who perform professional activities and services associated with financial transactions (money transfer services, tax consultants, auditors, auditing companies, notaries, attorneys, real estate companies, art dealers, and commodities traders).

Another amendment to the AML law recognizes all offenses listed in the criminal law, including terrorism, as predicate offenses for money laundering. The amendments also provide the FIU with authority to stop transactions for up to 45 days. The supervisory and control authorities have begun to amend their guidelines for the additional institutions the amendments have brought under their supervision.

The AML law requires all institutions engaging in transactions to report suspicious activity. Individual banks and other financial institutions have discretion in establishing internal protocols for identifying suspicious transactions. The law also mandates institutions to report unusual transactions, based on a

list of indicators that the GOL established in 2001 as part of its AML regime. According to the list of unusual indicators, Latvian banks are mandated to report cash transactions in excess of 40,000 lats (approximately \$80,000). Additionally, banks are required to record the identity of any customer engaging in a transaction exceeding 15,000 euros. There are no bank secrecy laws that prevent law enforcement agencies from identifying account holders during criminal investigations. Financial and credit institutions submit suspicious transaction reports (STRs) and unusual activity reports to the Control Service.

The Control Service operates under the oversight of the Prosecutor General's Office. Approximately 40 percent of all reports filed with the Control Service are STRs; the other 60 percent consist of unusual currency transaction reports. The Control Service received 7,902 reports in 2002, 15,371 reports in 2003, and 16,128 in 2004. 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 2003, nine new criminal cases were opened and nine additional cases were updated with information provided by the FIU. In 2004, ten new criminal cases were opened and six additional cases were updated with information provided by the FIU.

Prior to Latvia's accession into the European Union, the EU's 2001 Report on Latvia's Progress characterized the perceived level of corruption in Latvia as relatively high. Latvia continues to take steps to combat both real and perceived corruption. In 2002, the Parliament adopted the Law on Prevention of Conflict of Interest of Public Officials.

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 ACB started operating in February 2003. In 2004 the ACB reviewed 734 Latvian officials' asset declarations and sanctioned 63 officials for violations. In addition, in 2004, the number of cases the ACB forwarded to the prosecutor's office for criminal prosecution nearly doubled to 35. The ACB and the Control Service, cooperate on cases of suspected public corruption. In 2004, the Ministry of Justice prepared draft amendments on corruption concerning the coercive measures and criminal liability of legal entities, to be presented to Parliament in 2005.

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 non-bank financial institutions, the Latvian Stock Exchange, and insurance companies. The Bank of Latvia supervises the currency exchange sector. The FCMC conducts regular audits of credit institutions and will apply sanctions to companies that fail to file mandatory reports of unusual transactions. The Control Service also checks to insure that it receives matching STRs on transactions that occur between Latvian banks. 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. While the FCMC has pressed financial institutions to pay closer attention to suspicious transactions, particularly those involving jurisdictions on the Financial Action Task Force (FATF)-designated list of Non-Cooperative Countries and Territories (NCCTs), the FCMC is limited in its regulatory powers to take strong public action against offending banks.

In 2004, the FCMC conducted 35 on-site inspections of 19 banks where it assessed the banks' internal controls for preventing money laundering. In one instance, the FCMC fined the bank for non-compliance with AML guidelines. The FCMC placed five additional banks under an enhanced supervisory regime. These banks must address, within a prescribed time period, any non-compliance with legal and FCMC guidelines on preventing money laundering, or face sanctions. By December 2004, 13 Latvian banks were still under enhanced FCMC supervision. The FCMC notified two of these banks that board members responsible for preventing money laundering faced removal. An additional two banks face the removal of all of their board members. The FCMC warned one bank

during 2004 that it would revoke the bank's license if it failed to comply with FCMC recommendations by the imposed deadline.

The FCMC conducted 13 inspections of seven insurance companies during 2004. It fined two companies for failure to comply with requirements stemming from the "Law on the Prevention of Laundering of Proceeds Derived from Criminal Activity." The FCMC removed the managements of four insurance companies in 2003 and 2004 due to reinsurance operations that likely involved tax evasion and/or money laundering.

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 unusual but not suspicious, there is no obligation to file a suspicious transaction report with the Control Service. Latvia still lacks clear legal authority for asset seizures and forfeitures associated with financial crimes. The law enforcement authorities under the Ministry of Interior have proposed a program for combating organized crime, which is under consideration by the government. The program recommends creating a unit under the State Police that would be in charge of addressing issues and legislation concerning the confiscation of proceeds derived from criminal activity issues.

Latvia continues to address the issue of offshore investments. Information on offshore company owners had been confidential, but a law enacted in January 2002 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.

In 2004, the FCMC notified all Latvian banks that they were to cease and desist from advertising their services on websites that publicize offshore financial services. Non-residents represent approximately half of Latvian banks' account holders. Latvian law mandates that banks must collect information on the identity of all account holders, and FCMC regulations require that AML officers must approve new accounts. However, ongoing law enforcement investigations suggest that beneficial account holders sometimes use false identities to open accounts at Latvian banks.

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 evidence-gathering processes need streamlining. There are three specialized units, one at the Financial Police (Latvian Finance Ministry), one at the Economic Police (Latvian Interior Ministry), and one at the Office to Combat Organized Crime, which are responsible for money laundering investigations, and one unit at the Prosecutor's Office which specializes in bringing charges against suspected individuals. To date, there have been no forfeitures of illicit proceeds based on money laundering. In 2004, the Prosecutor's Office tried two money laundering cases that resulted in acquittals; one of those cases is on appeal by the prosecution.

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 on November 14, 2002. Latvia is also a party to 11 other international conventions designed to prevent arms trafficking, terrorism on public transportation, and hostage taking. The GOL has implemented regulations to apply sanctions imposed by UNSCR 1267 and 1333 under Cabinet of Ministers' Regulation No. 437 "On the Sanction Regime of the United Nations Security Council against the Afghan Islam Emirates in the Republic of Latvia." On October 14, 2004, Regulation No. 840 "On the Countries and International Organizations Whose Lists Include Persons Suspected of Committing Acts of Terrorism or Complicity Therein" entered into force, replacing Regulation 387 of July 2003. In accordance with Regulation No. 840, the FIU electronically provides credit and financial institutions and their supervisory and control authorities with consolidated terrorist lists. The Regulation allows

the FIU to order a credit or financial institution to freeze suspected terrorist funds. Latvia also has a mechanism for freezing financial resources or other property not involving terrorism.

The Law on Credit Institutions enables police to obtain information from credit institutions in cases of suspected terrorism during the operative stage, prior to the initiation of a criminal case. In October 2004, the FCMC updated its guidelines for financial and credit institutions' internal controls to prevent money laundering and terrorist financing. These updated guidelines incorporate all of the FATF recommendations.

In November 2004, the Prime Minister's Crime Prevention Council approved a new national action plan outlining a strategy to target money laundering, based on the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) recommendations. The Cabinet has not yet formally adopted the new measures, but individual ministries affected by the plan have begun to implement the new procedures.

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 counterterrorism 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, and have invested considerable effort in tracing transactions executed by terrorists or their accomplices. Other practical measures include organizing relevant training courses for personnel in financial institutions, creating a special counterterrorism information network within the financial system, nominating a person to deal with counterterrorism issues at the FIU, and establishing an FIU reporting system and procedures concerning terrorist finances.

Latvia has a growing legal gambling industry. Through September 2004, the gaming industry accounted for 51,000,000 lats (approximately \$100,000,000) of revenue, compared to 36,500,000 lats (approximately \$71,568,000) during the first nine months of 2003. In 2004, Latvia enacted a new law that restricts slot machines to defined gaming halls (places that have greater than ten gaming machines). Bars and cafes with slot machines that have been in operation prior to June 2002 are permitted to maintain their gaming operations provided they have no more than five slot machines. This rule change caused the number of gambling places to drop from 1,487 to 688 during 2004. The number of gaming halls increased from 508 in 2003 to 638 in 2004. As of December 2004, there were 12,125 gaming machines in Latvia, compared to 10,597 in 2003. The number of casinos dropped from 20 in 2003 to 15 in 2004.

The Ministry of Finance's Department of Lotteries and Gambling Supervisory Inspection regulates the gaming industry in Latvia. There are ten casino inspectors who preside over daily cash-out operations at each of the country's casinos. There are seven slot machine inspectors. All casino customers must register and show proof of identification prior to entering the casino premises. Casinos and gaming halls must provide information about winnings of greater than 5,000 lats (approximately \$10,000) to the Ministry of Finance and the FIU. In January 2004, the GOL mandated new bookkeeping procedures for casinos that allow for easier supervision and regulation. The Ministry of Finance has statutory authority to inquire about all casino owners and officers, and works with the FIU to review licensing applications.

There are four special economic zones in Latvia that provide a variety of significant tax incentives for manufacturing outsourcing, logistics centers, and trans-shipment of goods to other free trade zones. These zones are located at the free ports of Ventspils, Riga, and Liepaja, and in the inland city of Rezekne near the Russian and Belarusian Borders. There have been instances of smuggling involving cigarettes and meat products related to warehouses located in the free trade zone.

Latvia participates in MONEYVAL, and, as a member, underwent a mutual evaluation in March 2000 that resulted in many of the changes to its AML law and procedures. Latvia's second round of evaluations was completed in 2002, and the results were discussed during the MONEYVAL committee in May 2004. Latvia is now working to implement these measures as part of a National AML Action Plan.

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, Latvia's FIU, has been a member of the Egmont Group since 1999 and has cooperation agreements on information exchange with FIUs in Belgium, Bulgaria, Canada, the Czech Republic, Estonia, Finland, Guernsey, Italy, Lithuania, Malta, Russia, Slovenia, and Poland. In addition, Latvia has signed multilateral agreements with 10 accession countries for automatically exchanging information between the EU financial intelligence units using FIU.NET.

The GOL should continue to explore ways to improve cooperation between Latvian law enforcement agencies at the working level, and to strengthen its capacity and record in aggressively prosecuting and convicting those involved in financial crimes. The Financial and Capital Markets Commission must take tough, public action against those banks that have consistently shown themselves unable or unwilling to apply proper AML procedures. 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 more aggressively regulate its bureaux de change and its gaming industry. 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 that adequate legal tools are in place to successfully prosecute such offenses.

Lebanon

Lebanon is a financial hub for banking activities in the Middle East. It has one of the more sophisticated banking sectors in the region. The banking sector continues to record an increase in deposits. As of September 2004, 63 banks (53 commercial banks and ten investment banks) operated in Lebanon, with total deposits of \$53.5 billion. Three U.S. banks' also have representative offices operating in Lebanon: American Express Bank, the Bank of New York, and JP Morgan Chase Bank. The Central Bank (Banque du Liban) (CBL) regulates all financial institutions and money exchange houses. Banking sources emphasize that Lebanon is not a significant financial center for money laundering; however, Lebanon's free market economy, combined with the tradition of bank secrecy and the extensive use of foreign currency (particularly dollars), allows for an environment conducive to laundering money from illicit sources due to a general lack of accountability and enforcement. The narcotics trade is not a principal source of proceeds in money laundering. Lebanon imposes no controls on the movement of capital. It has a substantial influx of remittances from expatriate workers and family members.

Lebanon has continued to make progress toward developing an effective money laundering and terrorism finance regime incorporating the Financial Action Task Force (FATF) Forty Recommendations, which culminated in the FATF's removal of Lebanon from the list of Non-Cooperative Countries or Territories (NCCTs) in June 2002. With Lebanon's removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) lifted its advisory, which had instructed all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Lebanon. In October 2003, the FATF ended the monitoring period to which Lebanon had been subjected since June 2002.

In 2004, Lebanon passed a law requiring diamond traders to seek proper certification of origin for imported diamonds; the Ministry of Economy and Trade would be in charge of issuing certification for re-exported diamonds. This law, designed to prevent the traffic in conflict diamonds, will allow Lebanon to join the Kimberly Process, a voluntary joint government, international diamond industry, and civil society initiative to stem the flow of rough diamonds—that are used by rebel and terrorist movements to finance their operations—through imposing extensive requirements on participants to certify the legitimate origin of rough diamonds. In August 2003, Lebanon passed a decree prohibiting imports of rough diamonds from countries that are not members of the Kimberly Process.

In April 2001, Lebanon adopted Law No. 318, which created a framework for lifting 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. Under this law, money laundering is a criminal offense and punishable by imprisonment for a period of three to seven years and by a fine of no less than twenty million Lebanese pounds (\$13,267). 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 and selling real estate and construction, and dealers in high-value commodities. In addition, Law No. 318 requires companies engaged in transactions for high-value items (precious metals, antiquities) and real estate to report suspicious transactions.

These companies are also required to ascertain, through official documents, the identity and address of each client, and must keep photocopies of these documents as well as photocopies of the operation-related documents for a period of no less than five years. The CBL regulates private couriers who transport currency. Western Union and Money Gram are licensed by the CBL and subject to the provisions of this law. 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 CBL. Law 318 (2001) clarified the CBL's powers 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. The 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. The 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. The SIC circulates to all financial institutions the list of individuals and entities that have been included on the UNSCR

1267 Sanctions Committee's consolidated list. The SIC also circulates the list of individuals and entities that the U.S. Government and the European Union have designated under their relevant authorities. The SIC has signed a number of memoranda of understanding with other FIUs concerning international cooperation in anti-money laundering and combating terrorist financing. The SIC cooperates with competent U.S. authorities on exchanging records and information within the framework of Law 318.

During 2003, Lebanon adopted additional measures to strengthen efforts to combat money laundering and terrorism financing, such as establishing anti-money laundering units in customs and the police. In July 2003, Lebanon joined the Egmont Group of financial intelligence units. SIC reported increased inter-agency cooperation with other Lebanese law enforcement units such as Customs and the police. The cooperation led to an increase in the number of reported suspicious transactions reports (STRs), and as a result SIC initiated several investigations in 2004. Article 12 of Law 318 provides for immunity from prosecution for the chairman, staff, and delegates of the SIC, as well as for the financial institutions' money laundering reporting officers.

Since its inception, the SIC has been active in providing support to international case referrals. From January through November 2004, the SIC investigated over 176 cases involving allegations of money laundering and terrorist financing activities. Out of these cases, 13 were originated from U.S. Government (USG) requests. Seventeen of these cases were related to terrorist financing. Bank secrecy regulations were lifted in 68 instances, and three cases relating to money laundering were transmitted by the SIC to the State Prosecutor General to determine if these cases would be referred to the criminal court for trial. The Prosecutor General reported four cases to the SIC to freeze the suspects' assets. These cases involve 24 persons, 19 convicted in drug cases, four in currency counterfeiting, and one in theft. The Prosecutor General has also referred to the criminal court three cases involving four persons, two on drug-related charges and two on embezzlement charges, as well as a family of four persons facing terrorism charges based on a USG list of designated individuals. Total dollar amounts frozen by the SIC in all these cases is about U.S. \$3.2 million.

In October 2003, in order to more effectively combat money laundering and terrorist financing, Lebanon adopted two laws, Numbers 547 and 553. Law 547 expanded Article One of Law 318 (2001), criminalizing 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"). Law 547 also criminalized 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 criminalized counterfeiting of money, credit cards, debit cards, and 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, which 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.

Offshore banking is not permitted. Lebanon has no offshore trusts or offshore insurance companies. Legislative Decree No. 46, dated June 1983, governs offshore companies. It restricts offshore companies' activity to negotiating and signing agreements concerning business carried outside Lebanon or in the Lebanese Customs Free Zone; thus, offshore companies are barred from engaging in activities such as industry, banking, and insurance. All offshore companies must register with the Beirut Commercial Registry, and the owners of an offshore company must submit a copy of their identification. Moreover, the Registrar of the Beirut Court keeps a special register, in which all documents and information issued by the offshore company are to be retained.

There are currently two free trade zones operating in Lebanon, at the Port of Beirut and at the Port of Tripoli. The free trade zones fall under the supervision of Customs. Exporters moving goods into and out of the free zones submit a detailed manifest to Customs. If Customs suspects a transaction to be related to money laundering or terrorism finance, it will report it to the SIC. Lebanon has no cross-border currency reporting requirements. However, since January 2003, Customs checks travelers randomly and notifies SIC when large amounts of cash are found.

Lebanese law allows for property forfeiture in civil as well as criminal proceedings. The Government of Lebanon enforces existing drug-related asset seizure and forfeiture laws. Current Lebanese legislation provides for the confiscation of assets the court determines to be related to or proceeding from money laundering or terrorist financing. In addition, vehicles used to transport narcotics will be seized. Legitimate businesses established from illegal proceeds after passage of Law 318 are also subject to seizure.

Lebanon was one of the founding members of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-styled regional body that promotes best practices to combat money laundering and terrorist financing in the region. It was inaugurated on November 30, 2004, in Bahrain, by 14 Arab countries. Lebanon will host the first MENAFATF plenary in the first quarter of 2005. Lebanon's SIC Secretary was elected to a one-year term as the first President of MENAFATF.

Lebanon has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and is compliant on 24 out of the 25 "Core Principles." Compliance with the pending "Core Principle" is being addressed, and a draft law providing legal protection to bank supervisors awaits the cabinet's approval. Banks are compliant with the Basel I capital accord and are preparing to comply with Basel II recommendations concerning capital adequacy.

Lebanon is a party to the 1988 UN Drug Convention, although it has expressed reservations to several sections relating to bank secrecy. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It has not yet signed the UN International Convention for the Suppression of the Financing of Terrorism. Lebanon has expressed reservations on Article 11 of the UN International Convention for the Suppression of Terrorist Acts by Bombs, concerning the "extradition for political crime," claiming that it conflicts with Lebanon's penal code.

The Government of Lebanon continues to improve its efforts to develop an effective anti-money laundering and terrorism finance regime. It should encourage more efficient cooperation between financial investigators and other concerned parties, such as police and customs, which could yield significant improvements in initiating and conducting investigations. It should ratify both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of Terrorist Financing.

Lesotho

Lesotho is not a financial center and 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) drafted a comprehensive "Money Laundering and Proceeds of Crime" bill; the bill was revised in 2004. As of early 2005, the revised draft bill was being reviewed before presentation to the Cabinet.

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 multi-agency 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 intends to sponsor related training for countries of the region.

Lesotho 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. Lesotho is a member of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. However, it has not yet signed the ESAAMLG Memorandum of Understanding (MOU).

The Government of Lesotho should criminalize money laundering and terrorist financing and should develop a viable anti-money laundering regime. It should sign the MOU for ESAAMLG.

Liberia

Liberia is not a regional financial center. However, 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. Liberia is also a fertile haven for drug cultivation, but it appears that most of the locally grown drug crop is used for domestic consumption. Liberian National Police (LNP) routinely stop shipment of marijuana moving from the interior to the Atlantic coast in order to extract bribes from the drivers, but then the shipments are allowed passage. During the Liberian civil war, which was declared officially over on August 11, 2003, Liberia was also a major transshipment point for illegal diamond smuggling, exploitative timber, and illegal arms trading. There were numerous allegations that the profits from these industries were being used to fund local militias and international terrorist activities. The connection to local militias has been documented. The international terrorist nexus may have existed to some degree, but its extent and sustainability is not well known.

There was a major shift in this activity after the end of the Liberian civil war. In September 2003, the UN adopted sanctions on arms, travel, diamonds and timber. With the arrival of UN peacekeepers in 2003, the illicit arms trade has virtually disappeared. UN timber sanctions have limited legal exports, but an illegal timber industry still existed in 2004. UN sanctions on diamonds have limited the ability of smugglers to use Liberia for operations. The National Transitional Government of Liberia (NTGL) has now 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. As of the end of 2004, however, the NTGL had yet to begin implementation of the certification scheme. Until that is done, diamond traders, including Eastern Europeans and Lebanese, can 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. Cash in excess of \$10,000 must be declared to customs officers upon entering the country, and amounts over \$7,500 must be declared on departure. However, these regulations are not regularly enforced, and there is widespread corruption in Liberia's customs administration.

Money laundering is a criminal offense in Liberia, but there are no strong laws to prosecute persons who might be engaged in financing traffickers or terrorist organizations. Businesses may be seized for laundering money, and the government receives the proceeds of such seizures. The banking sector is

thought to be complicit in money laundering, given the unregulated financial environment. There were no arrests and/or prosecutions for money laundering or terrorist financing during 2003 or 2004. Liberia suffers from institutional damage from 14 years of civil war and a weak UN civil police (UNMIL) mandate, which provides no arrest authority for the force. A weak transitional authority comprised of ex-combatant leaders, the NTGL is confronted by a host of problems and lacks the political will and the policing structure to deal with the issue of money laundering. The police force is ineffective, although UNMIL is attempting to restructure and reform the force. Border security is effectively non-existent. The judiciary is notoriously corrupt, and allegations of verdict buying are rampant. This can be considered a primary form of economic crime, as businesses operating in Liberia face the constant threat of state-enabled financial pressure and/or extortion. This corruption does not operate on any organized level and enriches only the officer, judge or minister who manages to extract payment. Given the poorly supervised financial environment, private economic crime is considered to be widespread.

In November 2004, the Central Bank of Liberia (CBL) learned through Interpol of the circulation in Monrovia of counterfeit Liberian \$100 notes. At about the same time, there was an unverified report of counterfeit U.S. dollar notes in small denominations sighted in rural Liberia. The CBL contacted the Interpol West African Representative at Interpol Headquarters in Lyon, France, seeking further details, but no response has been received. One possible solution to this threat would be movement toward dollarization of the Liberian economy, an option promoted by many senior Liberian officials. The Governor of CBL is also considering the printing of newly designed notes as one of the ways to address the counterfeit bills problem.

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 2004, Liberia signed an accord with the U.S. Government giving the U.S. Navy and Coast Guard the right to search Liberian-flag vessels on the high seas.

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 March 2003, Liberia became a party to the UN International Convention for the Suppression of the Financing of Terrorism. In September 2004, Liberia became a party to the UN Convention against Transnational Organized Crime.

The Government of 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 implement and carry out its responsibilities as part of the Kimberly Process.

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 16 banks, three non-bank financial companies, and 16 public investment companies, as well as insurance and reinsurance companies. The three largest banks cover ninety percent of the market. 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 controlling interests 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 owners were 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. Total assets under management in Liechtenstein banks increased by Swiss francs (CHF) 7.32 billion to CHF 103.415 billion (an increase of 7.6 percent). Due to outsourcing of business units, the number of banking staff decreased from 1,718 to 1,527 (a decrease of 11.1 percent)

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 applies 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.

In response to international pressure, beginning in 2000, 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 continues to make progress in strengthening its anti-money laundering regime and implementing recent reforms. 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. Attorneys have become covered entities, as have dealers in high-value goods; and the practice of "tipping off" is prohibited. The GOL has committed all financial institutions (banks and non-bank intermediaries) to obtain full identification of accounts' beneficial owners. 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.

On August 18, 2004, the GOL announced its intention to intensify its fight against money laundering by undertaking a full revision of its Due Diligence legislation. The scope of the revision goes beyond the mirroring of European Union (EU) money laundering guidelines. The proposed revisions address issues such as implementing stronger know your customer regulations and procedures for risk-based monitoring. The revisions also call for the termination of existing relationships with shell banks, as well as the expansion of covered institutions to include casinos, auctioneers, dealers in precious goods, and auditors. The GOL believes the amended Due Diligence Law will increase the attractiveness and stability of the financial center of Liechtenstein. The revisions are expected to become effective on February 1, 2005.

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 it entirely from the FSA. Currently, supervisory responsibility is split between SSP and the

Financial Intelligence Unit (FIU). The SSP has completed over 80 audits covering over 25,000 banking relationships, and works effectively and closely with the FIU, 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.

Liechtenstein's FIU, the Einheit fuer Finanzinformationen (EFFI), became operational in March 2001, and a member of the Egmont Group in June 2001. 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 EFFI's authority. 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. EFFI also has responsibility for analysis and transactions in the countering of terrorism financing.

In 2003, STR notifications dropped by 14.9 percent from the year before to 172. Of these 172 cases, 82 reports each were submitted by bank and professional trustees. During 2003, fraud, money laundering, and embezzlement were the most prevalent types of offense. The number of STRs involving fraud remained stable at 38 percent, while the STRs involving money laundering and embezzlement increased from 27.7 to 36.6 percent and from 9.9 to 15 percent respectively.

Although the number of STRs filed by financial institutions in Liechtenstein is relatively small, they have generated several money laundering investigations. The EFFI works closely with the prosecutor's office and law enforcement authorities, as well as with a special unit of the National Police, known as the EWOK, that deals with economic and organized crime. The EWOK is a special unit of eight to ten police officers established specifically to address money laundering crimes. When authorized to do so by a Special Investigative Judge, the police can use special investigative measures.

Well over 100 STRs made it to the Public Prosecutor's Office, which has doubled its staff to better handle the caseload. Three indictments have resulted from those 100 STR referrals. 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. Most of the customers involved in money laundering activities were from Switzerland, Germany, and Austria. Customers from the United States (along with those from Britain) ranked fourth in STR filings. The EFFI reports that about \$260 million worth of suspicious money originated from the United States.

In 2003, the GOL received 129 inquiries from 18 foreign FIUs. This figure is almost twice the number received the previous year. In the same period, the EFFI submitted 145 inquiries to 18 different countries. This represents an increase of nearly 65 percent over the preceding year. The most frequent judicial cooperation requests originated from or were directed to Germany, Switzerland, and Austria.

In late 2002, the International Monetary Fund (IMF) assessed Liechtenstein's financial sector. The IMF's assessment was overall a positive one, noting that staffing deficiencies that existed 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

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 (i.e., the offense must be a criminal offense in both jurisdictions). Article 235A provides for the sharing of confiscated assets, and this has been used in practice.

A series of amendments to Liechtenstein law, adopted by Parliament on May 15, 2003, include 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. Liechtenstein also has issued ordinances to implement UNSCRs 1267 and 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 UNSCRs. 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 as of December 2003 by the Liechtenstein authorities based on UNSCR 1267 is \$145,300. According to the 2003 Liechtenstein report to the UN, six Taliban-related entities have been located in Liechtenstein. Their assets have been frozen and overlap with the \$145,300 reported above.

The GOL has also improved its international cooperation provisions in both administrative and judicial matters. A Mutual Legal Assistance Treaty (MLAT) between Liechtenstein and the United States entered into force on August 1, 2003. The U. S. Department of Justice has acknowledged Liechtenstein's cooperation in the Al-Taqwa case and in other fraud and narcotics cases. 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 is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL). The GOL is a party to 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. Liechtenstein has now ratified all twelve relevant international conventions and protocols. 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.

The Government of Liechtenstein has made consistent progress in addressing previously noted shortcomings in its anti-money laundering regime. It should continue to build upon the foundation of its evolving anti-money laundering/counterterrorist financing regime. Liechtenstein should accede to the 1988 UN Drug Convention. Liechtenstein 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, including the obligation to report suspicious transactions. The Einheit fuer Finanzinformationen, the Financial Intelligence Unit, 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 government should distinguish between bona fide third parties and others.

Lithuania

With ten commercial banks, two foreign bank branches and 58 credit unions, Lithuania is not a regional financial center. Lithuania has established laws that have created adequate legal safeguards against money laundering; however, its geographic location still makes it a target for smuggled goods and tax evasion. The sale of narcotics does not generate a significant portion of financial crime and money laundering activity in Lithuania; and in 2004, there were no reported cases of money laundering related to narcotics. Most financial crimes are tied to tax evasion, smuggling, illegal production and sale of alcohol, capital flight, and profit concealment. The shadow economy is estimated to account for approximately 18 percent of the total gross domestic product of Lithuania.

The flow of smuggled goods, principally cigarettes and alcohol, from Russia and Belarus, is driven by price differentials between regional non-European Union (EU) countries, Lithuania, and the West. A pack of cigarettes in Lithuania can cost one-fourth the price of a pack in the rest of the EU. Experts anticipate that smuggling will increase when Lithuania adopts the minimum EU excise rate in 2009. Smuggled goods from China are also a source of illicit income through underreporting of the goods' value to Customs and the Lithuanian Tax Administration in order to avoid the value added tax (VAT). With the removal of border checkpoints after Lithuania's accession to the EU on May 1, 2004, Customs officials are only able to inspect Chinese goods if they receive information that allows them to track the goods to Lithuanian warehouses.

Lithuania is not an offshore financial center; however, the State Tax Administration states that it has encountered cases of Lithuanian companies purchasing goods in Russia at lower prices, and then attributing higher prices to offshore companies outside Lithuania, in order to conceal their illicit profits.

Lithuania has Free Economic Zones (FEZ) in the cities of Klaipeda, Kaunas, and Siauliai. Klaipeda is the country's largest seaport, Kaunas is an air, road, and rail hub and Siauliai has the largest airport in the Baltic region. There are currently four businesses operating in the Klaipeda FEZ, the largest of Lithuania's zones, with 130 million euros (\$174 million) in total foreign investment. Klaipeda has signed contracts with four more enterprises to begin operations in 2005. Companies operating the FEZs receive the same legal guarantees as those operating elsewhere. Parliament approved a law on the fundamentals of FEZs in June 1995 that regulates conditions for the establishment of companies in these zones. Businesses in the FEZs receive corporate tax reductions for the first 10 years of existence, customs tax exemptions, VAT exemptions and discounted land leases. Lithuania's EU accession agreement permits the indefinite operation of existing free trade zones, but precludes the establishment of new ones. The Government of Lithuania (GOL) has no indication that any of the FEZs are being used in trade-based money laundering schemes or by the financiers of terrorism.

The GOL criminalized the act of money laundering in 1997 with the Law on the Prevention of Money Laundering (LPML), which entered into force in 1998. Lithuania does not have an "all serious crimes" anti-money laundering law. On January 29, 2004, the Lithuanian Parliament amended the definition of money laundering in Article 216 of the Criminal Code. The law now says that a money launderer, i.e., any person or enterprise, "who carries out financial operations with his own or another person's money or property, or with part of them, knowing that such money or property was acquired in a criminal way, concludes the agreements, uses them in economic or commercial activity, or makes a fraudulent declaration that they are derived from legal activity, for the purposes of concealing or legitimizing these proceeds shall be punished by imprisonment for a term of up to seven years."

Individuals must declare to Customs cash they transport into or out of the country in excess of LTL 10,000 (approximately \$3,800). Since Lithuania's EU accession, this requirement applies only to non-EU citizens. Customs authorities must report to the Financial Crimes Investigative Service (FCIS), Lithuania's financial intelligence unit, within seven working days, any violations for failure to declare currency in excess of 50,000 litas (approximately \$19,200).

Money Laundering and Financial Crimes

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 EU's Second Money Laundering Directive and terrorism convention, as well those in the FATF's Forty Recommendations.

Four new regulations were published in 2004 to implement the new requirements of the LPML. In July, the cabinet expanded the criteria to identify suspicious money operations. The new list includes 25 detailed criteria, such as an unusual increase in cash payments, cashing 100,000 litas (approximately \$40,000) or more within seven days, structuring funds under the reporting requirements, and cashing more than 100,000 litas (approximately \$40,000) in seven days using a foreign credit card.

The LPML Amendment expands the types of financial and non-financial entities subject to the requirement to report suspicious or unusual activity of any amount, and the identity of the clients involved, to the FCIS. In addition to financial institutions, the reporting requirements now extend to post offices, lawyers associations, investment companies, and insurance companies. It also expands the list of professions that have to implement preventive measures against money laundering to include auditors, accountants, notaries, tax advisors, enterprises providing bookkeeping or tax consultation services, lawyers and their assistants, casinos, 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 Cabinet also adopted new rules to provide the FCIS information on the identity of subjects involved in suspicious transactions. The regulation establishes a list of data and documents that a bank or other financial institution must request from a person whose transaction requires customer identification. The Cabinet also adopted detailed rules governing the management of suspicious transactions registers. Banks are aware of their reporting requirements and although not very happy about the burden imposed on them, have been very cooperative and report and exchange information of their own accord, not only upon request of the FCIS.

For large transactions exceeding 50,000 litas (approximately \$19,200), the LPML requires all financial institutions to collect information on the identity of the customer, maintain the documents for a minimum of ten years, and report the activity to the FCIS within seven days of the transaction. The LPML Amendment also mandates a stricter customer identification policy for insurance companies and casinos. Insurance companies must identify customers whose annual insurance payment exceeds 8,500 litas (approximately \$3,270). Casinos must register patrons who wager, win, or exchange currency for chips for amounts larger than 3,500 litas (approximately \$1,345). Although the insurance companies and casinos are not obligated to report customer identification, they usually file this information with the FCIS. Starting in January 2004, all taxpayers were required to submit an annual income and property declaration to the Tax Inspectorate. Prior to this, only politicians, business managers, and those purchasing property with a value in excess of 46,000 litas (approximately \$17,700), were obliged to submit declarations. The change to the regulation closes the loophole that allowed funds that were undeclared or from unknown sources to be used to purchase real estate.

Credit institutions (banks) are all privately owned and also function as bureaux de change. They must be licensed by the Central Bank of Lithuania (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. The LPML protects bankers who report required information to the FCIS. There were no investigations started in 2004 against bank officials for complicity in money laundering. Insurance and brokerage companies are under supervision by the Insurance and Brokerage Commission, which can execute administrative measures or revoke a company's license.

The FCIS, located in the Ministry of the Interior (formerly the Tax Police Department), is Lithuania's Financial Intelligence Unit (FIU). There were 156 suspicious transaction reports (STRs) filed with the

FCIS in 2002, 115 in 2003, and only 65 in 2004. In addition to STRs, the FCIS receives currency transaction reports (CTRs) for currency exchanges over 50,000 litas (approximately \$19,200). There were 43,164 CTRs filed with the FCIS in 2002, 1,020,668 in 2003, and 747,748 in 2004. In total, there have been approximately 423 STRs and 3,921,000 CTRs filed with the FCIS since 1998.

The FCIS reported that there were no convictions for money laundering in 2004; however the Prosecutor's Office initiated criminal proceedings for nine suspected cases of money laundering, and seven additional cases of suspected tax evasion, document forgery, and smuggling. The nine suspected money laundering cases were uncovered due to an investigation by the FCIS into 119 suspicious bank transactions. The lack of adequate information sharing among the FCIS, Customs, and Border Guards, limited training, and corruption of officers at the regional level can sometimes hinder investigations and cooperation among the Lithuanian law enforcement agencies; although in recent years, the GOL has made an effort to provide several training seminars to various law enforcement entities.

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. Previously, the police could freeze/seize assets on their own authority, but now they must go to the prosecutors with the named property and receive 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.

Prosecutors may prohibit individuals suspected of involvement in money laundering or other financial crimes from disposing of property for a period of up to six months. Freezing assets for a longer period requires a court order. The court can seize only property which the criminal or accomplice used as an instrument of a crime or a means to commit a crime or which was acquired as the direct result of a criminal act. The court may seize assets in order either to ensure the possibility of forfeiture in a criminal case or to secure a judgment in a civil action. Upon conviction of money laundering or terrorism financing, individuals may be subject to fines, restrictions on operating any companies owned by them, or liquidation of property.

In November 2004, the Cabinet approved the new "rules on stopping suspicious money operations and providing information to the FCIS." These rules entitle the FCIS to request any legal or natural entities (except notaries) to freeze suspicious money transactions for 48 hours. The FCIS may extend the freeze if an investigation is started. The FCIS froze over 25 million litas (approximately \$9.6 million) in assets from January through October 2004. In 2003, the FCIS froze over 52 million litas (approximately \$20 million). There are no figures available for the total value of forfeited crime-related assets. Proceeds from seizures and forfeitures go into the national budget. Lithuania does not share crime-related assets with other governments.

Article 250 of the Lithuanian Criminal Code, which came into effect in April 2003, establishes the financing of terrorism as a crime and prescribes imprisonment of four to twenty years. The GOL has independent national authority to freeze assets linked to terrorism. The amended LPML includes the direct or indirect funding of terrorism within the definition of terrorist financing. The LPML obligates the reporting institutions to notify the FCIS immediately about money transactions (both cash and non-cash) 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.

In April 2004, the Parliament passed a law on the Implementation of Economic and other International Sanctions, which makes international financial sanctions, including terrorist sanctions, valid in Lithuania. Provisions of the law apply to the actions of Lithuanian legal and natural persons in foreign countries, irrespective of whether foreign countries implement international sanctions as applied by Lithuania. The State Security Department, the lead GOL agency coordinating efforts against terrorism, and the FCIS circulate to financial institutions the names of all terrorist individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global

Terrorists designated by the United States pursuant to E.O. 13224. 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 states that if data identifying a bank customer, 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 circulated lists, such person is to be considered suspicious, and his transactions treated accordingly. 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 FIUs of Belgium, Croatia, the Czech Republic, Estonia, Finland, Latvia, Bulgaria, Slovenia, and Poland. Lithuania and Germany signed an agreement in 2001 to cooperate in the fight against organized crime and terrorism. The FCIS signed four agreements in 2004 covering cooperation against economic and financial crimes, money laundering, and the exchange of information with the European Anti-Fraud Office, the Azerbaijan Revenue Service, the Italian Guardia Di Finanza and the Estonian Tax and Customs Board. There is a mutual legal assistance treaty (MLAT) between the United States and Lithuania, which entered into force in 1999. Lithuanian law enforcement cooperates with the United States in investigations and the exchange of information related to money laundering, financial crimes, terrorist financing and customs issues. In 2004, FCIS responded to five FBI and FinCEN requests in 2004 for cooperation on money laundering and fraud cases. The police and FCIS continue to cooperate with U.S. law enforcement bodies on a significant Russian Organized Crime/Money Laundering investigation. Through the MLAT and other requests, the GOL provided bank records and other evidence to the United States to be used at trial; and Lithuania allowed bank officials to travel to the United States to testify at trial.

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), and the FCIS is a member of the Egmont Group.

The Government of Lithuania should continue its efforts to enhance its anti-money laundering/counterterrorist financing regime. In particular, Lithuania should ensure that 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 that non-governmental organizations, including charities, are adequately supervised and regulated to prevent their abuse by criminal or terrorist groups. Lithuania should provide adequate resources and training to its law enforcement entities to ensure the successful investigation and prosecution of money laundering and terrorist financing.

Luxembourg

Despite its standing as the smallest member of the European Union (EU), Luxembourg is one of the largest financial centers in the world. Its strict bank secrecy laws allow international financial institutions to benefit from and operate a wide range of services and activities. With over a trillion euros in assets managed by the global investment fund industry, Luxembourg joins the United States and France as one of the top three domiciles for investment fund activity. Luxembourg is considered an offshore financial center, with foreign-owned banks accounting for a majority of the nation’s total bank assets. Although there are a handful of domestic banks operating in the country, the majority of banks registered in Luxembourg are foreign subsidiaries of banks in Germany, France, and Belgium.

For this reason (and also due to the proximity of these three nations to Luxembourg), a significant share of Luxembourg's suspicious transaction reports (STR) are generated from transactions involving clients in these three countries.

While Luxembourg is not a major hub for illicit drug distribution, the size and sophistication of its financial center create opportunities for drug-related money laundering and terrorist financing. According to a December 2004 International Monetary Fund (IMF) report, Luxembourg has "a solid criminal legal framework and supervisory system" to counter money laundering and terrorist financing, and is "broadly compliant with almost all of the Financial Action Task Force (FATF) Recommendations." The report also notes that Luxembourg's high level of cross-border business, obligatory banking secrecy, private banking, and "certain investment vehicles" create a challenging environment for countering money laundering and terrorist financing. Further complicating the scenario is the fact that Luxembourg currently has no cross-border reporting requirements.

As of November 2004, 165 banks, with a balance sheet total reaching 689 billion euros, were registered within Luxembourg. In addition, as of December 2004, a total of 1,951 "undertakings for collective investment" (UCIs), or mutual fund companies, whose net assets had reached over a trillion euros by the end of October 2004, were operating out of Luxembourg. Luxembourg has about 15,000 holding companies, 95 insurance companies, and 270 reinsurance companies. As of November 2004, the Luxembourg Stock Exchange listed over 30,000 securities issued by nearly 4,300 entities from about 100 different countries. Legislation passed in June 2004 permits the registration of venture capital funds (*Societe d'investissement en capital a risqué*, or "SICAR").

Luxembourg's financial sector laws are modeled to a large extent on EU directives. The Law of July 7, 1989, updated in 1998, serves as Luxembourg's primary anti-money laundering (AML) law, criminalizing the laundering of proceeds for an extensive list of predicate offenses, including narcotics-trafficking. The Law of April 5, 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) and includes among its provisions customer identification, record keeping, and suspicious transaction reporting requirements. The Act of August 1, 1998 expands the list of covered entities and adds corruption, weapons offenses, and organized crime to the list of predicate offenses for money laundering. The Act of June 10, 1999 further expands anti-money laundering provisions. Fraud committed against the European Union has also been added to the list of offenses. Although only natural persons are currently subject to the law, a bill is under consideration for 2005 that would add legal persons to its jurisdiction.

In an effort to bring Luxembourg into full compliance with the requirements of the EU's Second Anti-Money Laundering Directive, on November 12, 2004, Parliament approved legislation updating the nation's anti-money laundering laws. These legislative amendments formally transferred the requirements of the EU's Second Money Laundering Directive into domestic law. The 2004 amendments also broaden the scope of institutions subject to money laundering regulations. Under the current law, banks, pension funds, insurance brokers, UCIs, management companies, external auditors, accountants, notaries, lawyers, casinos and gaming establishments, real estate agents, tax and economic advisors, domiciliary agents, insurance providers, and dealers in high-value goods, such as jewelry and cars, are now considered covered institutions. AML law does not cover SICAR entities. All covered entities are required to file STRs with the Financial Intelligence Unit (FIU) and, though not legally required, are expected to send a copy of the report to their respective oversight authorities. Financial institutions are required to retain pertinent records for a minimum of five years; additional commercial rules require that certain bank records be kept for up to ten years. The AML law also contains "safe harbor" provisions that protect obliged individuals and entities from legal liability when filing STRs or assisting government officials during the course of a money laundering investigation. The 2004 amendments also contain new requirements regarding financial institutions' internal AML programs. It imposes stricter "know your customer" requirements, mandating their application to all

new and existing customers, including beneficial owners, trading in goods worth at least 15,000 euro. If the transaction or business relationship is remotely based, the law details measures required for customer identification. Financial institutions must ensure adequate internal organization and employee training, and must also cooperate with authorities, proactively monitoring their customers for potential risk. “Tipping off” has also been prohibited.

Although Luxembourg’s 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. No court order is required to investigate otherwise secret account information in suspected money laundering cases, or when a STR is filed. Financial professionals are obliged to cooperate with the public prosecutor in investigating such cases.

The Commission de Surveillance du Secteur Financier (CSSF) is an independent government body under the jurisdiction of the Ministry of Finance, that serves as the prudential oversight authority for banks, credit institutions, the securities market, some pension funds, and other financial sector entities covered by the country’s anti-money laundering and terrorist financing laws. The Luxembourg Central Bank oversees the payment and securities settlement system, and the Commissariat aux Assurances (CAA), also under the Ministry of Finance, is the regulatory authority for the insurance sector. 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.

Under the direction of the Ministry of the Treasury, the CSSF has established a committee, the Comité de Pilotage Anti-Blanchiment (COPILAB), composed of supervisory and law enforcement authorities, the FIU and financial industry representatives. The committee meets monthly to develop a common public-private approach to strengthen Luxembourg’s AML regime.

No distinctions are made in Luxembourg’s 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 ministerial decree published in July 2004 modified the Luxembourg Stock Exchange’s internal regulations to make it easier to list offshore funds, provided the fund complies with CSSF requirements (as detailed in Circular 04/151). Also, a government registry publicly lists company directors. 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 an EU recommendation on quality control for external audit work to assure the adherence to international standards on auditing.

Established within Luxembourg’s Ministry of Justice, the Cellule de Renseignement Financier FIU-LUX serves as Luxembourg’s FIU, receiving and analyzing STRs from the financial sector, and seizing and freezing assets when necessary. As part of modifications made in 2004 to Luxembourg’s money laundering law, the FIU’s official status as a division of the Ministry of Justice Public Prosecutor’s office was formalized. While the FIU’s superiors can require the FIU to take action against a suspect, they cannot prevent the FIU from prosecuting. Some members of the financial community continue to call for the creation of an administrative FIU body separate from the office of the public prosecutor. The FIU is responsible for providing members of the financial community with access to updated information on money laundering and terrorist financing practices. It also works closely with various regulatory bodies such as the CSSF and the CAA. The FIU and CSSF work together in investigations involving significant money laundering cases.

In order to obtain a conviction for money laundering, prosecutors must now prove criminal intent rather than negligence. Negligence, however, is still scrutinized by the appropriate sector oversight authority, with sanctions for noncompliance varying from 1,250 to 1,250,000 euros.

As of mid-December 2004, covered institutions had filed a total of 914 STRs. This figure represents a steady increase from previous years (832 STRs were filed in 2003, 631 in 2002, and 431 in 2001). At the end of 2004, three individuals were jailed pending charges of laundering approximately 50 million euros in cash of drug-related money. These cases have involved consistent, close coordination between Luxembourg and foreign law enforcement agencies. An ongoing investigation from 2002 concluded in mid-2004 with a conviction and a sentence of seven years in prison; the case remains under appeal by the defendant. Fourteen additional money laundering cases are still open and under investigation by law enforcement officials. There is a consistently high level of cooperation between U.S. and Luxembourg law enforcement authorities on money laundering investigations.

The law only allows for criminal forfeitures and public takings. Drug-related proceeds are pooled in a special fund to invest in anti-drug abuse programs. Funds found to be the result of money laundering can be confiscated even if they are not the proceeds of a crime. The GOL can, on a case-by-case basis, freeze and seize assets, including assets belonging to legitimate businesses used for money laundering. The government has adequate police powers and resources to trace, seize, and freeze assets without undue delay. Luxembourg has a comprehensive system not only for the seizure and forfeiture of criminal assets, but also for the sharing of those assets with other governments.

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. In July 2003, Luxembourg's parliament passed a multifaceted counterterrorism financing law known as *Projet de Loi 4954*, designed to strengthen Luxembourg's ability to fight terrorism and terrorist financing. The law defines terrorist acts, terrorist organizations, and terrorism financing in the Luxembourg Criminal Code. 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. The November 2004 amendments bring Luxembourg into compliance with the FATF's Special Recommendation Number Four, by extending the reporting obligations of the financial sector to terrorist financing, independently from any context of money laundering. Covered institutions now are required to report any transaction believed to be related to terrorist financing, regardless of the source of the funds.

The Ministry of Justice studies and reports on potential abuses of charitable and non-profit entities to protect their integrity. 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 AML rules would apply to such systems, and no separate legislative initiatives are currently being considered to address them.

In an effort to identify and freeze the assets of suspected terrorists, the GOL actively disseminates to its financial institutions information concerning suspected individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224. Luxembourg does not yet have legal authority to designate terrorist groups. The government is currently working on draft legislation with regard to this issue. Luxembourg strives to cooperate with and provide assistance to foreign governments in their efforts to trace, freeze, seize and forfeit assets. Dialogue and other bilateral proceedings between the GOL and the United States have been particularly extensive.

Furthermore, authorities can and do take action against groups targeted through the EU designation process, the UN, or on behalf of bilateral requests from other countries. Under the 2004 amendments to Luxembourg's AML law, bilateral freeze requests are limited to a new maximum of three months; designations under the EU, UN, or international investigation processes continue to be subject to freezes for an indefinite time period. Upon request from the United States, Luxembourg froze the bank accounts of individuals suspected of involvement in terrorism. Luxembourg has also independently

frozen several accounts, resulting in court challenges by the account holders. Since 2001, over \$200 million in suspect accounts have been frozen by Luxembourg authorities pending further investigations (most of the assets were subsequently released).

Luxembourg laws facilitating international cooperation in money laundering include the Act of August 8, 2000, which enhances and simplifies procedures on international judicial cooperation in criminal matters; and the Law of June 14, 2001, which ratifies the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. During its EU council presidency from January through June 2005, Luxembourg will play a role in shepherding the draft of the Third Money Laundering and Terrorist Financing Directive through the EU's legislative process.

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 for the Suppression of the Financing of Terrorism.

Luxembourg is a member of the European Union and the FATF. 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 Ukraine. The ATTF budget has grown steadily from approximately 700,000 euros in 2000, to over 2 million euros in 2004.

The Government of Luxembourg has enacted laws and adopted practices that help to prevent the abuse of its bank secrecy laws, and has enacted a comprehensive legal and supervisory anti-money laundering regime. However, further action should be taken to address issues such as the lack of a distinct legal framework for the Financial Intelligence Unit and the small number of money laundering investigations and prosecutions. The Financial Intelligence Unit should work with regulatory agencies to formulate and issue substantive guidance to financial institutions on anti-money laundering trends and techniques. Luxembourg should continue to strengthen enforcement to prevent abuse of its financial sector, and should continue its active participation in international fora. Luxembourg should enact 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. Macau's gambling industry, however, remains particularly vulnerable to money laundering.

In 2001, the IMF assessed Macau's anti-money laundering measures as part of a study of offshore financial centers, published on March 12, 2004. The IMF concluded, "Current anti-money laundering measures as they related to the BCP (Basel Committee's 'Core Principles for Effective Banking Supervision') and ICP (Insurance Core Principles issued by the International Association of Insurance Supervisors) need strengthening." In a prior IMF "Assessment of the Regulation and Supervision of

the Financial Sector of Macao” paper published in August 2002, the IMF concluded that Macau was “materially noncompliant” with the money laundering principles of the Basel Committee’s “Core Principles for Effective Banking Supervision,” and recommended a number of improvements.

Main money laundering methods in the financial system are wire transfers; currency exchange/cash conversion; and the use of nominees, trusts, family members, or third parties to transfer cash. Macau has taken several steps over the past two years 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 to undertake subsequent investigations.

In 2003, the Macau Special Administrative Region Government (MSARG) also prepared money laundering legislation that would incorporate the revised FATF Forty Recommendations and establish a Financial Intelligence Unit (FIU). In 2004, the MSARG continued interagency consultations on the bill. The FIU will be set up after passage of the legislation. In 2004, an interagency body consisting of representatives from the Monetary Authority of Macau, Macau Customs Service, Unitary Police, International Law Office, Gaming Inspection and Coordination Office, and other economic and law-enforcement agencies, continued to discuss the mechanics of the establishment of the FIU and exchanged information in the FIU’s absence.

The government also drafted a terrorist financing bill that, 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 between the regulation and supervision of onshore and of offshore financial activities.

Macau law provides for forfeiture of cash and assets that assist in or are intended for the commission of a crime. During 2003 and the first ten months of 2004, the Narcotics Division of the Police seized almost 67,000 patacas (\$8,375), 35 cell phones, five cars, and five motorcycles.

The gaming sector and related tourism are critical parts of Macau’s economy. Taxes from gaming comprised 75 percent of government revenue in 2003, while revenues from gaming increased 45 percent during the first ten months of 2004, compared with a year earlier. The MSARG ended a long-standing gaming monopoly early in 2002 when it awarded concessions to two additional operators, the U.S.-based Venetian and Wynn Corporations. The Venetian opened its first casino, the Sands, on May 18, 2004. In addition, MGM announced its intention to open a casino in conjunction with the previous monopoly operator, Sociedade de Jogos de Macau (SJM), owned by local businessman Stanley Ho. The Venetian, Wynn, and MGM are scheduled to open casinos in 2006.

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 catered to clients seeking anonymity within Macau’s gambling establishments, and were particularly removed from official scrutiny. As a result, the gaming

industry, in particular, provided an avenue for the laundering of illicit funds and served as a conduit for the unmonitored transfer of funds out of China.

The Sands, unlike SJM and new entrant Galaxy, does not cede control of its VIP gaming facilities to outside organizations, and organized crime has therefore is not believed to have penetrated this operation.

The MSARG's draft money laundering legislation includes provisions designed to prevent money laundering in the gambling industry. The legislation aims to make money laundering by casinos more difficult, improve oversight, and tighten reporting requirements. On June 7 2004, Macau's Legislative Assembly passed legislation allowing casinos and junket operators to make loans, in chips, to customers. The law requires both casinos and junket operators to register with the government.

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 searches for terrorist assets, using the list, 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. No assets have been found to date.

The Macau legislature passed an counterterrorism law in April 2002 that is intended to assist with Macau's compliance with UNSCR 1373. The legislation criminalizes violations of UN Security Council resolutions, including counterterrorist resolutions, and strengthens counterterrorist financing provisions. The UN International Convention for the Suppression of the Financing of Terrorism will apply to Macau when the PRC accedes to it.

In 2003, the MSARG drafted a new counterterrorism bill aimed at strengthening counterterrorist financing measures. As of December 2004, 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 the UNSCR 1267 Sanctions Committee's consolidated list, and permitting assets to be frozen without first obtaining a court order. The legislation would also 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 (STRs). Macau's Judiciary Police received 107 STRs in 2003, and 86 from January 1 to October 31, 2004, from individuals, banks, companies, and government agencies. Of these 193 STRs, 21 originated from the gaming sector. Seven STRs resulted in special investigations that were ongoing as of the end of 2004, although none of these investigations has resulted in prosecutions.

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 non-banking sector-such as real estate-and penalties for entities that fail to report suspicious transactions. The bill will extend the obligations of suspicious transaction reporting to lawyers, notaries, accountants, auditors, and offshore companies. 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 (APG).

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. For such transactions, banks, insurance companies, and moneychangers must exert customer due diligence. The Monetary Authority of Macau, in coordination with the IMF, updated its bank inspection manuals to strengthen anti-money laundering provisions. The Monetary Authority inspects banks every two years, including their adherence to anti-money laundering regulations.

The United States has no law enforcement cooperation agreements with Macau, though cooperation between the United States and Macau routinely takes place. 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 APG, 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 China's ratification.

Macau has taken a number of steps in the past three years to raise industry awareness of money laundering. During a March 2004 IMF technical assistance mission, the IMF and Monetary Authority of Macau organized a seminar for financial sector representatives on the FATF Revised Forty Recommendations. The Macau Monetary Authority trains banks on anti-money laundering measures on a regular basis.

Macau should implement and enforce existing laws and regulations, and pass and implement its pending legislation. 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 take steps to implement the new FATF Special Recommendation Nine, adopted by the FATF in October, 2004, requiring countries to implement detection and declaration systems for cross-border bulk currency movement. 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 mainly cash-based, and citizens lack trust in the banking system following bank failures and a pyramid scheme in the early 1990s. Money laundering in Macedonia is mostly connected to financial crimes such as tax evasion, smuggling, financial and privatization fraud, bribery, and corruption. Most of the laundered proceeds come from domestic criminal activities. A small portion of money laundering activity may be connected to narcotics-trafficking. There is no evidence that narcotics-trafficking organizations or terrorist groups control money laundering. In addition, there is no evidence that weapons or human traffickers have been involved in money laundering activities using bank or non-bank financial institutions. Nor is there evidence of financial institutions or the Government of Macedonia (GOM) or any of its officials being engaged in currency transactions involving proceeds from narcotics-trafficking, and in particular involving U.S. currency or currency derived from illegal drug sales in the U.S.

Article 273 of Macedonia's criminal code, which came into force in 1996, criminalizes any form of money laundering. The legislation specifically identifies narcotics and arms trafficking as predicate offenses, and contains an additional provision that covers funds acquired from other punishable actions. A new Law on Money Laundering Prevention (LMLP) was enacted in July 2004, replacing the 2001 version, thus harmonizing Macedonia's money laundering regulations with EU standards and Financial Action Task Force (FATF) recommendations. The new law requires financial institutions to record and report all cash transactions in excess of 15,000 euros, as well as any suspicious transactions. Reporting entities are protected by law in their cooperation with law enforcement authorities. Institutions are also required to identify, report and keep track of clients performing those transactions, and to prepare programs to protect themselves against money laundering. Banks and other financial institutions are required to maintain records necessary to trace and/or reconstruct significant transactions for up to 5 years. The LMLP provides penalties for individuals and entities that do not comply with regulations, and the Banking Law includes provisions for "banker negligence" that make bank officials responsible if their institutions launder money. The country has no secrecy laws, and supervisory authorities have full access to financial institutions' records. The banking community cooperates with law enforcement authorities in tracing or reconstructing cases. The Customs Administration is required to register and report the cross-border transport of currency or monetary instruments in amounts that exceed 10,000 euros.

Non-bank financial institutions such as exchange offices and non-bank money transfer agents are poorly supervised and audited. Although intermediaries such as lawyers, accountants, brokers and notaries are obliged to submit reports to the Directorate for Money Laundering Prevention, to date none have done so. A Law on Money Transfer by entities other than banks was passed in December 2003, and defines the rules for licensing, operating and supervising money transfer agents.

Macedonia is in the process of implementing complex legislative reforms, including amendments to the Constitution that will allow for the use of specialized investigative methods. It is also changing the Law on Criminal Procedure, the Criminal Code, the Law on Misdemeanors and the Law on Enforcement of Sanctions. These reforms should strengthen the fight against organized crime, corruption, terrorism, trafficking in human beings, money laundering, and narcotics by increasing penalties, refining and tightening definitions, and defining authority.

Macedonia is not an offshore financial center. There are no offshore banks or other financial institutions in Macedonia. There is no separate regulation for offshore businesses, as current laws govern foreign and domestic businesses. There is no evidence that alternative remittance systems exist in Macedonia.

The Directorate for Money Laundering Prevention (DMPLP) is part of the Ministry of Finance. The Directorate collects, processes, analyzes, and stores data received from financial institutions and other

government agencies. It has no authority to undertake any further action, except submitting collected information to the police and the judiciary. From its establishment on March 1, 2002 until the end of 2004, the Directorate received 60,717 reports from various entities, mostly banks. Twelve of these were sent on to relevant authorities for detailed investigation, out of which five led to tax evasion cases and other criminal charges.

In June 2002, Parliament passed a Law establishing a Financial Police Unit. The unit, in the Ministry of Finance, investigates financial crimes, bank fraud, tax evasion, terrorism financing and money laundering cases reported by the DMLP. A Director was finally appointed in June 2004. Although not completely staffed, the unit has received training on money laundering and more advanced training is planned for the future. So far, there have been no arrests or prosecutions related to money laundering or terrorist financing.

Macedonia has yet to criminalize terrorist financing. The National Bank and Ministry of Finance circulate the lists of terrorist financing entities they receive. The authorities are allowed to identify named accounts, but require court orders before they can freeze and/or seize assets in those accounts. According to the LMLP, financial institutions could temporarily freeze assets of suspected money launderers and terrorist financiers until a court issues a freeze order. So far, the authorities have not identified, and therefore have not seized or frozen, assets related to terrorist financing. While Macedonia's two top banks have computer systems that allow them to easily identify both account holders and transactions with individuals named in the lists, the other 18 banks have no such systems and must search their customer lists manually.

Macedonia has concluded a number of Police Cooperation Agreements with almost all of the countries in the region (Albania, Bulgaria, Croatia, Romania, Slovenia, Austria, Turkey, Greece, Russian Federation, Ukraine, and Egypt) and has mutual legal assistance agreements with many countries. The exchange of police information is regularly provided through Interpol channels. Macedonia 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. Macedonia has concluded bilateral agreements for exchanging information on money laundering with Bulgaria, Croatia, Slovenia, Ukraine, Romania, Serbia, Montenegro and Albania.

Macedonia is a member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL), and underwent a second evaluation for effectiveness in preventing money laundering in October 2002. At its June 2004 meeting in the UK, the Egmont group accepted Macedonia as a fully-fledged member, thus recognizing the latest efforts by the DMLP under its new Director. Macedonia is a party to the 1988 UN Drug Convention. In May 2004, the Macedonian Parliament ratified the UN International Convention for the Suppression of the Financing of Terrorism, but has yet to ratify the UN Convention against Transnational Organized Crime.

The Government of Macedonia should work to pass its pending legislation and should continue its implementation of the new legislation, including the amendments to the Constitution that will allow for the use of specialized investigative methods. Macedonia also should provide the necessary resources and training to ensure full implementation of its laws, including the adequate supervision of non-bank financial institutions. Macedonia should criminalize terrorist financing.

Madagascar

Madagascar is not a regional financial center. Criminal activity in Madagascar reportedly includes smuggling of animal products such as tortoise shells and reptile skins for sale in international markets. These schemes have in the past been related to money laundering activities within the country.

In 1997, Madagascar criminalized money laundering related to narcotics-trafficking. In June and July 2004, the Senate and National Assembly enacted broader legislation to address money laundering, seizures, confiscation, and international cooperation in dealing with the proceeds of all types of crime. 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 2004 legislation defines prohibited activities and covered actors. There are broad definitions of “money laundering”, “proceeds of crime”, and “assets.” The provisions apply to physical persons and legal entities involved in operations concerning 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 first part of the 2004 law addresses prevention. It prohibits all cash payments over 10 million Ariary (\$5000). All international transfers over 6 million Ariary (\$3000) must be managed by a recognized credit or financial institution. Banks must ensure they know the identity of all clients and are obligated to investigate the source of any transactions exceeding 50 million Ariary (\$25,000). The law also requires 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 second part of the 2004 law addresses detection. The law authorizes the establishment of a financial intelligence service, which will serve as a clearinghouse for customer information and liaison with judicial authorities. This financial intelligence service was not yet operational by the end of 2004. Judicial authorities are authorized to use electronic, audio and video surveillance, monitor bank accounts, and access bank systems during the course of an investigation.

The law permits the freezing and seizure of assets that are the object of investigation, fines and imprisonment for money laundering and other infractions. The Government of Madagascar, through the Central Bank, currently distributes lists of individuals and organizations linked to terrorism finance throughout the banking system.

Sentences for individuals convicted of money laundering include imprisonment and fines ranging from 100,000 Ariary up to five times the laundered sum. The government can confiscate the individual’s assets and properties—as well as those of a spouse or children. Proceeds from the sale of these items can be used to fund efforts to combat organized crime and drug trafficking. No arrests or prosecutions for money laundering or terrorist financing were presented during calendar year 2004.

Madagascar is a party to the 1988 United Nations Drug Convention, the United Nations Convention against Transnational Organized Crime, and the United Nations International Convention for the Suppression of the Financing of Terrorism.

The Government of Madagascar should join the Eastern and Southern African Anti-Money Laundering Group and implement the financial intelligence service authorized in the 2004 money laundering legislation.

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. Reportedly, there has been no further action by the Parliament regarding the draft legislation in 2004.

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.

The Government of Malawi should enact comprehensive anti-money laundering legislation and counterterrorist finance legislation in order to develop viable regimes to thwart both money laundering and terrorist financing regimes as it has agreed to do as a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). Malawi should become a party to the UN Convention against Transnational Organized Crime.

Malaysia

Malaysia is not a regional center for money laundering. However, its formal and informal financial sectors are vulnerable to abuse by narcotic traffickers, financiers of terrorism and criminal elements. Malaysia’s relatively lax customs inspection at ports of entry and free trade zones, its uneven enforcement of intellectual property rights, and its offshore financial services center serve to increase its vulnerability.

Since 2000, Malaysia has made significant progress in constructing a comprehensive anti-money laundering regime. Malaysia’s National Coordination Committee to Counter Money Laundering (NCC), comprised of members from thirteen government agencies, oversaw the drafting of Malaysia’s Anti-Money Laundering Act 2001 (AMLA) and coordinates government-wide anti-money laundering efforts.

The AMLA, enacted in January 2002, criminalized money laundering and lifted bank secrecy provisions for criminal investigations involving more than 150 predicate offenses. The law also created a Financial Intelligence Unit (FIU) located in the Central Bank, Bank Negara Malaysia (BNM). The FIU is tasked with receiving and analyzing information, and sharing financial intelligence

with the appropriate enforcement agencies for further investigations. The Malaysian FIU works with more than twelve other agencies to identify and investigate suspicious transactions.

The Government of Malaysia (GOM) has a well-developed regulatory framework, including licensing and background checks, to oversee onshore financial institutions. BNM stringent 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. A comprehensive supervisory framework has been implemented to audit financial institutions’ compliance with AMLA. Currently, there are 300 examiners who are responsible for money laundering inspections for both onshore and offshore banks

Malaysia has strict “know your customer” rules under the AMLA. Every transaction, regardless of its size, is recorded. Reporting institutions must maintain records for at least six years and report any suspicious transactions to the Central Bank’s Financial Intelligence Unit (FIU). Regardless of the transaction size, if the reporting institution deems a transaction suspicious, it must report that transaction to the FIU. Officials indicate that they receive regular reports from institutions, but cannot divulge the volume or frequency of such reports. Reporting individuals and their institutions are protected by statute with respect to their cooperation with law enforcement. While Malaysia’s bank secrecy laws prevent general access to financial information, those secrecy provisions are waived in the case of money laundering investigation under the AMLA.

Malaysia has adopted “due diligence” or “banker negligence” laws that make individual bankers responsible if their institutions launder money. Both reporting institutions and individuals are required to adopt internal compliance programs to guard against any offense under the AMLA. Under the AMLA, any person or group who engages in, attempts to engage in or abets the commission of, money laundering would be subject to criminal sanction. Reporting institutions are required to file suspicious transaction reports under the AMLA. All reporting institutions are subject to the same review by the FIU and other law enforcement agencies. Reporting institutions include: commercial banks, money changers, discount houses, insurers, insurance brokers, Islamic insurance and reinsurance (takaful and retakaful) operators, offshore banks, offshore insurers, offshore trusts, the Pilgrim’s Fund (to pay for Hajj trips to Mecca), Malaysia’s postal service, development banks such as Malaysia’s National Savings Bank (Bank Simpanan Nasional), The People’s Cooperation Bank (Bank Kerjasama Rakyat Malaysia Berhad), and licensed casinos.

The detailed regulations for examining money laundering are still in development for all segments of the financial industry. By using a consultative approach, the Central Bank’s FIU continues to expand the scope of institutions which must report suspicious transactions. This approach encouraged Malaysia’s professional societies for lawyers and accountants to add suspicious transaction reporting requirements to their bylaws. Likewise, in consultation with the Security Commission, stockbrokers and brokerage houses are now required to submit suspicious transaction reports. The Government’s consultative approach has minimized potential political fallout from the statute’s expansion.

Malaysia’s fledgling Islamic finance sector, accounting for approximately 10 percent of total deposits, is subject to the same strict supervision to combat financial crime as the commercial banks. A combination of legacy exchange controls imposed after the 1997-98 Asian financial crisis and robust regulation and supervision by the Central Bank makes the Islamic financial sector as unattractive to financial criminals as is the conventional financial sector.

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. Banks are obligated to record the amount and purpose of these transactions.

Malaysia's offshore banking center in the island of Labuan, located off the eastern coast of Malaysia, is vulnerable to money laundering and the financing of terrorism. The Labuan Offshore Financial Services Authority (LOFSA) is under the authority of the Central Bank, Bank Negara. The offshore sector has different regulations for the establishment and operation of offshore businesses, than for onshore businesses. However, the same anti-money laundering laws as those governing domestic financial service providers govern the offshore sector. 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, banking companies, trusts and insurance companies, and performs stringent background checks before granting an offshore 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, trusts or insurance companies. Labuan has 4,065 registered offshore companies, money banking companies, trusts, and insurance companies. Offshore companies must be established through a trust company. Trust companies are required by law to establish true beneficial owners and submit suspicious transaction reports as necessary. Bearer instruments likewise are prohibited in Labuan, but there is no requirement to reveal the true identity of the beneficial owner of international corporations. LOFSA officials may require any organization operating in Labuan to disclose information on its beneficial owner or owners.

As of December 2004, Labuan has 53 offshore banks in operation, along with 101 insurance and insurance-related companies, 59 leasing operations, 15 fund management groups, 30 trust companies, three money banking companies, and 2,348 offshore companies (both trading and non-trading). Many of the companies established in Labuan are Japanese firms established primarily to service Japanese companies in Malaysia. Malaysia bans offshore casinos and Internet gaming sites.

The Free Zone Act of 1990 is the enabling legislation for free trade zones in Malaysia. The zones are divided into Free Industrial Zones (FIZ), where manufacturing and assembly takes place, and Free Commercial Zones (FCZ), generally for warehousing commercial stock. The Minister of Finance may designate any suitable area as an FIZ or FCZ. Currently there are 13 FIZs and 14 FCZs in Malaysia. The Minister of Finance may appoint any federal, state or local government agency or entity as an authority to administer, maintain and operate any free trade zone. Legal treatment for such zones is also different. The time needed to obtain such licenses from the administrative authority for the given free trade zone depends on the type of approval. Clearance time ranges from 2-8 weeks. There is no information available suggesting that Malaysia's free industrial and free commercial zones are being used for trade-based money laundering schemes or by the financiers of terrorism. However, the GOM considers these zones as areas outside the country and receive with more lenient tax and customs treatment relative to the rest of the country. As such, the free trade zones are vulnerable to money laundering.

In April 2002, the GOM passed the Mutual Assistance in Criminal Matters Bill and, in 2004, Malaysia made its first arrest for money laundering. The GOM is currently prosecuting this case as well as investigating several others. Malaysia cooperates with regional, multilateral, and international partners to combat financial crimes and permits foreign countries to check the operations of their banks' branches. The FIU has signed Memoranda of Understanding (MOUs) with the FIUs of Australia, Indonesia, and the Philippines. MOUs with the United States, the United Kingdom, Japan, South Korea, the Netherlands, Finland, Albania, Thailand, and Argentina are pending.

Parliament passed amendments to the Anti-Money Laundering Act, the Subordinate Courts Act, and the Courts of Judicature act in November 2003. The Criminal Procedure code is the last major piece of domestic legislation that needs an amendment before the can be incorporated into domestic law. The

amendments to the AMLA, once enacted, will make the financing of terrorism one of the 168 predicate offenses for which money laundering can be charged as a crime but additional review mandated by Parliament has delayed the amendment's entry into force. A Select Committee is currently reviewing changes to The Criminal Procedure Code—the last major piece of domestic legislation that needs amending before being enacted in domestic law. When implemented, the 2003 amendments will increase penalties for terrorist acts, allow for the forfeiture of terrorist-related assets, allow for the prosecution of individuals who provide material support for terrorists, expand the use of wiretaps and other surveillance of terrorist suspects, and permit video testimony in terrorist cases. GOM officials expect the committee to conclude its review by July 2005 and Royal assent to follow shortly thereafter. Enactment of the amendment will enable the GOM to accede to the 1999 UN Convention for the Suppression of the Financing of Terrorism. Additionally, the Cabinet has approved, as policy, the ratification of all remaining counterterrorist conventions. Malaysia is a party to the 1988 UN Drug Convention.

Despite of the absence of legislation criminalizing terrorist financing, the GOM has cooperated closely with U.S. law enforcement in investigating terrorist-related cases since the signing of a joint declaration to combat international terrorism with the United States in May 2002. The GOM currently has the authority to identify, freeze terrorist or terrorist-related assets and has issued orders to all licensed financial institutions, both onshore and offshore, to freeze the assets of individuals and entities listed by the UN Security Council Resolution (UNSCR) 1267. As evidence of its willingness to cooperate internationally in the global effort to thwart terrorism, the Ministry of Foreign Affairs, in conjunction with Malaysia's anti-money laundering unit within the Central Bank, opened the Southeast Asian Region Centre for Counter-Terrorism (SEARCCT) in August 2003.

The GOM has rules regulating charities and other non-profit entities. The Registrar of Societies is the principal government official who supervises and controls charitable organizations, with input from the Inland Revenue Board and occasionally the Companies Commission. The Registrar mandates that every registered society of a charitable nature submits its annual returns, which include financial statements. Should the Registrar find activities he deems suspicious, he will inform the FIU of such activities. Negotiations are currently underway to expand the scope of AMLA reporting institutions to include charitable organization governed by the Registrar of Societies. Malaysia's tax law allows contributions to charitable organizations (Zakat, as required by Islam) to be deducted from one's total tax liability, encouraging the reporting of such contributions. Such contributions can be taken as payroll deductions, another tool to prevent the abuse of charitable giving.

Malaysia has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision" and is a member of the Offshore Group of Banking Supervisors and the Asia/Pacific Group on Money Laundering. Malaysia's FIU gained membership to the Egmont Group of Financial Intelligence Units in July 2003.

The Government of Malaysia continues to make a broad, sustained effort to combat money laundering and terrorist financing flows within its borders. For all entities such as trust companies and International Business Companies (IBCs), Malaysia should insist on "fit and proper tests" for all management, and identification of all beneficial owners. Malaysia should also insist on the registration of trusts and of the beneficial owners of the 4,000 International Business Companies, 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. Customs regulations and inspections should be strengthened, particularly in the free trade zones. Malaysia is a signatory to the UN Convention against Transnational Organized Crime, which came into force in September 2003. Malaysia should ratify that Convention. The Malaysian Parliament should enact terrorist financing legislation in 2005 and the GOM should accede to the UN International Convention for the Suppression of the Financing of Terrorism and to all other terrorist-related UN Conventions.

The Maldives

The Maldives is not an important regional financial center. The financial sector of the Maldives is very small, 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. The MMA has authority to supervise the banking system through the Maldives Monetary Authority Act. These laws and regulations provide the MMA with 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 illegal narcotics. The law also prohibits laundering of proceeds from the illicit 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 empowers judicial authorities to freeze accounts pending a court decision.

The Government of the Maldives is in the process of drafting anti-money laundering legislation, with IMF assistance. The government has recently set up a Financial Intelligence Unit (FIU) within the MMA. Currently, there are no laws or regulations governing the FIU. Regulations to cover the FIU are expected to be included in the new money laundering legislation.

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 of any such terrorist activity is unlawful. The MMA has issued “know your customer” directives and other instructions to banks, including freezing 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 directives 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 and to the 1999 UN International Convention for the Suppression of the Financing of Terrorism. The Maldives has not signed the UN Convention against Transnational Organized Crime.

The Government of the Maldives should enact comprehensive anti-money laundering and counterterrorist financing legislation that conforms to international standards. The legislation should include all regulations necessary to successfully establish the new Financial Intelligence Unit (FIU). The Maldives should also sign and ratify the UN Convention against Transnational Organized Crime.

Mali

Mali's per capita gross domestic product (GDP) of \$250 (2002) places it among the world's 10 poorest nations. Mali is not considered an important regional financial center nor is it experiencing an increase in financial crimes. Mali has no banks with offshore facilities. Drug trafficking is also not a significant problem in Mali. There is no evidence of Mali's financial institutions engaging in currency transactions involving narcotics-trafficking. Contraband cigarette smuggling originating in West Africa and transiting Mali is significant and includes arms smuggling as well. The smuggling operators are controlled by the Salafist Group for Preaching and Combat (GSPC)—a terrorist organization. Mali has an internal market for smuggled cigarettes and textiles, but these activities are primarily a way to avoid Malian customs duties and are not related to the narcotics trade. Other than the smuggling of contraband in Mali's north, no significant organized crime is known to exist in Mali.

Money Laundering and Financial Crimes

Drug smuggling, smuggling, and money laundering are all criminal offenses in Mali. Mali has introduced a new comprehensive banking law with international and European standards that will protect bankers and others with respect to their cooperation with law enforcement entities. The new banking law will, when enacted, also regulate the transfer of currency. The Malian National Assembly has not, as yet, ratified the new comprehensive law. Further, it is not among the list of laws to be discussed during the current session.

The National Assembly approved, during its Fall 2004 session, a new law on the growing role of banks in the economy and the spread of the use of bank notes among the population. The law's intention is not only to reduce the amount of currency used in financial transactions, urging the use of checks in its place, but also to encourage the use of the banking system. Bank secrecy is very limited in Mali. Mali routinely provides law enforcement authorities with client and ownership information in investigative cases. At present, Malian customs checks passengers at airports for certificates of exchange to ascertain if money exchange within the country was through a legal source.

Mali is part of the West African Economic and Monetary Union (WAEMU). All WAEMU countries have a monetary committee that reviews, records and reports significant currency transactions. In addition, all WAEMU country banks are required to maintain records necessary to reconstruct significant transactions for ten years and are required to report suspicious transactions on a regular basis.

Money laundering controls are also applied to non-banking financial institutions, such as exchange houses, stock brokerages, casinos, insurance companies, etc., as well as intermediaries such as lawyers, accountants, and broker/dealers. There have been no ramifications, to date, related to any changes in Mali's policies and laws related to money laundering and terrorist financing nor have banking or political groups objected. There have been no arrests or prosecutions for money laundering or terrorist financing in Mali to date.

Mali is not considered an offshore financial center. No offshore banks, international business companies, or other forms of exempt or shell companies or trusts exist in Mali. There are no free trade zones in Mali.

Smuggled property involved in international drug trade, money laundering, or terrorist financing in Mali can be seized and sold with the proceeds going to the government. Assets are frozen until the investigation is complete. The Malian public and political response to government efforts to seize and/or forfeit assets has been very supportive. The Malian banking community has been very cooperative with enforcement efforts to trace funds and seize bank accounts. Under a new Banking law, the Ministry of Economy and Finance would receive the proceeds from asset seizures and forfeitures. Mali has not enacted laws for the sharing of seized assets with other governments.

The Government of Mali strictly enforces existing drug-related asset seizure and forfeiture laws. The Ministry of Finance and the Ministry of Security are responsible for tracing and seizing assets. The GOM is severely under-manned, under-trained, and under-financed to trace and seize assets adequately. Mali's law enforcement organizations operate independently of each other with little to no coordination. The police narcotics department, Gendarmerie, Customs and border police seized drugs during 2003 and 2004. The GOM did not keep records of previous years' seizures; however, GOM officials feel that the problem continues to be small. When asked, Mali has been cooperative and supportive of efforts by the USG and other countries to trace and seize assets; however, there is little coordination relating to drug interdiction between Mali and its neighbors.

Mali is a key regional partner in the global war on terrorism. Terrorism and terrorist financing are considered serious crimes in Mali. The GOM has the authority to identify, freeze, and seize terrorist finance related assets. The Ministry of Finance has circulated the names of suspected terrorists and terrorist organizations to Malian financial institutions. To date, no assets have been identified in Mali.

While the hawala system exists in Mali, it is primarily used for salary transfers of Malians working abroad. A Committee of Malians finances salaries to Malian families; in exchange, the foreign salaries earned are used to buy French commercial goods. Not all Malians use the banking system because some work abroad without legal work permits and are forced to repatriate funds through non-traceable means. The financial sector is making efforts to explain the safety of banks to thwart the misuse of charitable and/or non-profit entities that might be used as conduits for the financing of terrorism.

Mali has entered into bilateral agreements between BCEAO (Central Bank of West African States) countries for the exchange of information on money laundering. The countries include: Cote d'Ivoire, Senegal, Togo, Burkina Faso, Guinea Bissau, Niger, and Benin. The GOM has no specific agreement with U.S. authorities on a mechanism for exchanging records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious crime investigations; however, international agreements pledge Mali to share information in such cases. Mali has not entered into any relevant bilateral treaties, agreements, or other mechanisms for information exchange with the United States.

Mali is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the 1988 UN Drug Convention. In November 2000, Mali was one of 14 West African countries to attend a meeting to establish the Intergovernmental Action Group against Money Laundering (GIABA).

The Government of Mali should enact and fully implement comprehensive anti-money laundering legislation that comports with international standards. Additionally, it should ensure appropriate law enforcement personnel are trained and able to perform their duties.

Malta

Malta joined the European Union (EU) on May 1, 2004. As part of its preparation for this event, Malta strengthened its regulatory regime and introduced measures to attract European investors and 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. All licenses for offshore registered businesses expired on September 30, 2004, completing Malta's transition from an economy with over 400 international business corporations in 2001 to a country where offshore banking and business is no longer legal. 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 Government of Malta (GOM) criminalized money laundering in 1994. Maltese law imposes a maximum punishment of approximately \$2.5 million and/or 14 years in prison for those convicted of money laundering crimes. Also in 1994, the GOM issued the Regulations for the Prevention of Money Laundering, 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 Second EU Directive on the Prevention of Money Laundering, and became the national law, which expands anti-money laundering requirements to designated non-bank financial 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. Recently the MFSA widened its regulatory scope to encompass banking, insurance, investment services, company compliance, and the stock exchange. 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 information about the directors and other persons involved in the management of the company.

In December 2001, Malta's parliament established the Financial Intelligence Analysis Unit (FIAU) through an amendment to the Prevention of Money Laundering Act, 1994, to serve as Malta's Financial Intelligence Unit (FIU). The unit became fully functional in October 2002. The FIAU is independent and has a board that consists of members nominated by the Central Bank of Malta, the MFSA, the Police, and the Attorney General. Board members are not subject to the direction or control of their parent agency or any other authority.

The FIAU co-ordinates the fight against money laundering, collects information from financial institutions, and liaises with parallel international institutions as well as the MFSA and the GOM Police. The GOM requires banks, bureaux de change, stockbrokers, insurance companies, money remittance/transfer services, and other designated non-bank financial businesses and professions to file suspicious transaction reports (STRs) with the FIAU, which investigates them. The FIAU also conducts organized training sessions for Maltese financial practitioners to make them aware of their responsibilities.

The FIAU is leading an initiative 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.

STRs are not required to be filed for subjects suspected of negligence; only intentional and willful blindness offenses are penalized in Malta. The FIAU received 76 STRs in 2003 and 46 STRs in 2004. Stronger enforcement should continue as the FIAU continues analyzing STRs for referral for police investigation. Malta has also moved to bolster the prosecutorial opportunities for financial crime. 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.

In January 2002, the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (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 Special Recommendations on Terrorist Financing. The review found that Malta was in partial compliance with Special Recommendation No. 1 (ratification and implementation of UN instruments), because it had signed and ratified the pertinent UN Conventions, but had not yet fully implemented UNSCRs 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 UNSCR 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 reportedly 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 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, the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Malta has ratified the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime and the Council of Europe European Convention on the Suppression of Terrorism, and has amended its criminal code to be in alignment with these conventions.

The Government of Malta should continue to enhance its anti-money laundering regime; in particular, Malta should adopt reporting requirements for cross-border currency transportation, 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 million and total deposits of \$76 million, with domestic deposits exceeding 50 percent of the gross domestic product. The RMI financial sector consists of two commercial banks, one of which is insured by the Federal Deposit Insurance Corporation (FDIC), and a government-owned development bank whose primary function is to perform development lending in government-prioritized sectors; there are also 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 called for the establishment of the requisite infrastructure for detecting, preventing, and combating money laundering and terrorist financing.

The Marshall Islands has not seen an increase in financial crime in recent years. There have not been any prosecutions for money laundering. However, an evolving trend that poses a challenge to RMI's anti-money laundering/counterterrorist financing effort is the significant outflow of cash, generally attributed to expatriate businesses sending proceeds out of the country. There is currently no requirement to report cross-border currency transfers. The government is proposing an amendment to the Banking Act, that would address the problem.

Money laundering has been criminalized and customer identification and suspicious transaction reporting mandated. The Marshall Islands also issued guidance to its financial institutions for the reporting of suspicious transactions. In addition, the RMI drafted anti-money laundering regulations. 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 a Financial Intelligence Unit (FIU), resulted in its removal from the Financial Action Task Force's (FATF's) Non-Cooperating Countries and Territories 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 were streamlined and automated to the fullest extent possible, given the limited resources available to the DFIU.

In May 2002, the GRMI 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. Money laundering controls extend to all financial institutions, but do not cover professionals, i.e., lawyers and accountants. However, individuals can be held liable for money laundering violations by their institutions.

Under the Banking Amendment, the Proceeds of Crime Act, and the Count-Terrorism Act, the RMI can freeze, seize, and upon conviction transfer to the general fund, the proceeds of any crime that results in a one-year or greater sentence. Provisions allow for a broad range of forfeiture: any real or personal property owned by the person, any property used in the crime, and any proceeds of the crime. The Mutual Assistance Act allows the transfer to a requesting government of proceeds of such a crime committed in a foreign country. The Counter-Terrorism Act provides for the closing of any businesses involved in exporting or importing terrorist funds or supplies. These laws allow for both civil and criminal forfeiture. Although the laws are designed to meet the GRMI's international obligations, their effectiveness has not been tested, as there has been no terrorist activity in the RMI and therefore no seizures.

Depending on the nature of the offense, the Attorney General or the Banking Commission would be responsible for enforcement and for seizures of assets. Police powers are adequate, but resources are limited. However, the GRMI retains a close relationship to U.S. institutions and could call on them for assistance in cases of concern to the United States. Assets can be frozen "without undue delay."

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 GRMI has undertaken a number of initiatives to further strengthen its anti-money laundering/counterterrorist financing (AML/CFT) regime. The government and local institutions have received positive reports from FATF.

However, a very significant problem has resulted from efforts to comply with AML/CFT requirements. This issue is causing a system-wide disturbance in banking and more specifically in transaction settlement and clearance. The Bank of the Marshall Islands (BOMI), in an effort to assure full compliance, commissioned an internal audit of its procedures and controls in 2003. The results of that audit identified several weaknesses which BOMI has taken steps to correct. However, the existence of the audit, and fears of sanctions under the Bank Secrecy Act and the USA PATRIOT Act, have led Citizens Security Bank of Guam to discontinue its "payable through" relationship with BOMI, effective February 15th, 2004. Suspension of "payable through" will mean BOMI checks cannot be used outside the country. This situation has the potential to disrupt that status quo in the business community. It will also mean that the second largest population center, Ebeye, will have no banking services available for international transactions, as there is no Bank of Guam branch on Ebeye.

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 are companies formed for registering ships. NRCs are allowed to offer

bearer shares. Corporate officers, directors, and shareholders may be of any nationality and live anywhere. NRCs are not required to disclose the names of officers, directors, and shareholders or beneficial owners, and corporate entities may be listed as officers and shareholders. The corporate registry program, however, does not allow the registering of offshore banks, offshore insurance firms, and other companies which are financial in nature.

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 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 was to 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.

The GRMI 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 12 major multilateral conventions and protocols related to states' responsibilities for combating terrorism under the International Convention for the Suppression of the Financing of Terrorism.

The Marshall Islands is a member of the Asia/Pacific Group on Money Laundering. The DFIU became a member of the Egmont Group 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 Government of the Republic of the Marshall Islands (GRMI) continues to strengthen its key defenses against money laundering and terrorist financing, and has commenced work aimed at aligning its anti-money laundering system with the revised 40 recommendations of the Financial Action Task Force on Money Laundering. These tasks are highlighted in the draft Fourth Anti-Money Laundering Implementation Plan, covering the period from 2004 onward. The Republic of the Marshall Islands should accede to the 1988 UN Drug Convention. Additionally, the Marshall Islands should require the identification of the beneficial owners of Non-resident Corporations.

Mauritania

Mauritania is not a regional financial center. Its economic system suffers from a combination of weak Central Bank oversight, lax financial auditing standards, porous borders, and corruption in government and the private sector. Mauritania is a transit country for a variety of smuggled goods, including cigarettes, diverted food aid, small arms, clandestine immigrants. Government officials acknowledge that money laundering occurs in Mauritania, but most involves profits from graft and small-scale illicit

activity. Terrorism financing and narcotics proceeds are believed to constitute a small portion of the sums laundered in Mauritania.

Money laundering occurs on a small scale within local banks. Money laundering is a criminal offense in Mauritania. The main law governing money laundering, enacted in 1992, focuses specifically on laundering from narcotics-trafficking. The Government of Mauritania (GOM) is drafting a new body of laws that, when enacted, will strengthen Government control over money laundering related to terrorist groups and activities. Banks are currently required to record and report to the Central Bank the identity of customers engaging in large-scale financial transactions. The GOM did not arrest or prosecute anyone for money laundering or terrorist financing activities in 2004.

Mauritania is a party to the 1988 UN Drug Convention, acceded to the International Convention for the Suppression of the Financing of Terrorism, and has also ratified the Organization of African Unity Convention on the Prevention and Combating of Terrorism of July 1999.

Mauritania is not an offshore financial center; nor are there free trade zones in Mauritania, although the GOM does grant tax relief to certain small-scale export sectors of the economy.

The Government has demonstrated a willingness to cooperate with the United States on combating terrorist financing and related issues, but local efforts are hampered by a serious lack of resources, knowledge, and expertise in this area. Law enforcement and judicial procedures and systems for identifying and freezing assets related to illegal activity are, at best, still in their initial phases. Although no significant legal loopholes exist to allow traffickers or terrorist financiers to shield assets, such loopholes are not really necessary given the very weak enforcement of current money laundering laws.

The GOM recently created an economic-crimes investigation unit that is specifically designed to investigate financial crimes such as corruption and money laundering, but this unit is in its very early developmental stages and does not appear to be receiving the resources needed to be effective over the long term.

The Government of Mauritania should enact anti-money laundering that includes all serious crimes and should enact counterterrorist financing legislation that comport with international standards.

Mauritius

Mauritius is a developing financial hub and a major route for foreign investments into the Asian sub-continent. Officials of the Government of Mauritius (GOM) indicate that the majority of money laundering in Mauritius takes the form of schemes aimed at channeling illicit proceeds through both domestic and offshore banks.

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. Mauritius plans to expand the reporting obligation to real estate agents, dealers in precious gems, and horse racing bookmakers. In 2004, most of the suspicious activity reports being filed came from the offshore sector.

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. The FIU was admitted to the Egmont Group in 2003. Its major challenge continues to be the development of an information technology structure to store SARs, perform complex analyses on them, and provide accessibility to the SARs to other law enforcement entities. As of November 2004, the FIU had received a total of 300 SARs, of which 100 had been referred to the ICAC. The FIU would like to put in place a system that will allow for the on-line submission of SARs. It would also like to develop partnerships with local and regional institutions involved in anti-money laundering and the prevention of terrorist financing activities.

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, of the non-bank financial sector. All applications to form offshore companies (now called global business companies or GBCs) 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 GBCs.

The Prevention of Terrorism Act of 2002 was promulgated in Mauritius on February 19, 2002. This legislation criminalizes terrorist financing. The legislation gives the GOM 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 and to 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. In August 2004, Mauritius hosted the Fourth Meeting of the Council of Ministers of the ESAAMLG, and Minister Sushil Khushiram of the GOM Ministry of Industry, Financial Services and Corporate Affairs, was appointed Chairman of the ESAAMLG. Mauritius is a member of the Offshore Group of Banking Supervisors.

The Government of Mauritius should continue to take a leadership role in regional outreach through the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). It should also continue to take an active role within the Egmont Group.

Mexico

The illicit drug trade continues to be the principal source of funds laundered through the Mexican financial system. Mexico is a major drug producing and drug-transit country. Mexico also serves as one of the major conduits for proceeds from illegal drug sales leaving the United States. 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.

Currently, there are 32 commercial banks and 80 foreign financial representative offices operating in Mexico, with seven commercial banks representing 88 percent of total assets in the banking sector. Commercial banks, foreign exchange companies, and general commercial establishments are allowed to offer money exchange services. Mexico has 81 insurance companies, one mutual insurance company, 13 bonding institutions, 211 credit unions, and 28 money exchange houses. The size of the

underground economy is unknown, although it is estimated to account for anywhere between 20 and 40 percent of the gross domestic product in Mexico. While casinos are not permitted in Mexico, gambling is legally allowed through national lotteries, horse races, and sport pools.

Remittances from the United States to Mexico are at an all-time high, and exceeded \$14 billion in 2004. Although non-bank 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*, an identification card issued by Mexican consular offices to Mexican citizens residing in the United States that has been criticized, based on security issues. In some cases, neither the sender nor the recipient of a remittance is required to open a bank account in the United States or Mexico, but must simply provide the *matricula consular* as identification and pay a flat fee. Although these systems have been designed to make the transfer of money faster 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, especially with regard to the investigation of money laundering activities involving the cross-border smuggling of bulk currency from drug transactions. 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. Nevertheless, U.S. authorities have seen a significant increase in complex money laundering investigations by the financial crimes unit of the Office of the Deputy Attorney General for Organized Crime (SIEDO/PGR), some of which are being coordinated with U.S. law enforcement. In deliberations concluded in 2004, the Office of Foreign Assets Control (OFAC) announced in early January 2005, the designation of 39 Tier II targets—the majority of which were Centros Cambiarios, falling under the purview of the Ministerio de Hacienda as of May, 2004. These companies are associated with the Arellano Felix Organization, named a Kingpin under the Foreign Narcotics Kingpin Designation Act (Kingpin Act). These designations were the result of cooperation among OFAC, other elements of the USG, and SIEDO, and allowed law enforcement in Mexico and the United States to freeze Mexican drug cartels' assets and make it more difficult to take advantage of the U.S. financial system—a success already achieved in Colombia.

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.

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.

Financial institutions with a reporting obligation now require occasional customers performing transactions equivalent to or exceeding \$3,000 in value to be identified, so the transactions can be aggregated daily to prevent circumvention of the requirements to file cash transaction reports (CTR)

and suspicious transaction reports (STR). Financial institutions also have implemented programs for screening new employees and verifying the character and qualifications of their board members and high-ranking officers.

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, and in May 2004 reporting requirements for all exchange houses and money remittance businesses entered into effect. Legislation enacted in 2004 also expanded reporting requirements to many peripheral financial entities, such as factoring entities, wire transfer services, credit unions, investment clubs, and leasing facilitators. Current provisions do not include reporting requirements for offshore banks or casinos.

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. Mexico's reporting requirements included a wider range of monetary instruments (e.g. bank drafts) than those of the United States. In 2004, in an aggressive collaborative effort entailing the exchange of information between U.S. and Mexican authorities, Mexican Customs seized over \$9.5 million of unreported currency being smuggled into or out of Mexico.

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). The Hacienda expanded the authority of the DGAIO in 2004 by consolidating all of the Hacienda offices responsible for investigating financial crimes into the DGAIO, which has since been renamed the *Unidad de Inteligencia Financiera* (Financial Intelligence Unit, or UIF). In addition to its previous responsibilities as the DGAIO, the UIF also reviews all crimes linked to Mexico's financial system and examines the financial activities of public officials. The UIF's personnel now number 70 – most of whom are forensic accountants, lawyers, and analysts. The director reports to the Minister of Finance. The UIF received an average of 500 STRs and 2,500 CTRs per month in 2004.

Following the analysis of CTRs and STRs, the UIF sends reports that are deemed to require further investigation, and have been approved by Hacienda's legal counsel, to the Office of the Attorney General (PGR). As of November, the UIF had sent 63 cases to the PGR in 2004, and 476 since its inception in 1997. 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 UIF works closely with SIEDO in carrying out money laundering investigations. In addition to working with SIEDO, UIF 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 September 2003, Mexico underwent its second Mutual Evaluation by the FATF, and the findings of the evaluation team were accepted at the FATF plenary meetings in June 2004. The evaluation team found that the GOM had made progress since the first mutual evaluation by removing specific exemptions to customer identification obligations, implementing on-line reporting forms and a new automated transmission process for reporting transactions to the UIF, and slightly reducing the delay in reporting transactions overall. The GOM also developed an overall anti-money laundering strategy and plan.

However, the FATF evaluation team also identified a number of deficiencies in the system. Mexico does not have a separate offense of terrorist financing. Bank and trust secrecy continue to impede many aspects of Mexico's anti-money laundering/counter-terrorist financing system, particularly for law enforcement and prosecutorial and judicial authorities during investigations and prosecutions.

Money Laundering and Financial Crimes

With regard to lifting bank secrecy, although customers are notified, the National Banking and Securities Commission (CNBV) must approve any requests for bank secrecy to be lifted during an investigation. The approval of such a request by the CNBV cannot be challenged, and financial institutions must respond with the required information within three days. If the CNBV does not approve the request, prosecutors must request a judicial order to lift bank secrecy, and the account holder may challenge the judge's decision. Limited co-ordination among key government institutions and procedural barriers impede effective money laundering prosecution.

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 international standards. 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). The legislation has not yet been passed, and it is unlikely that this will occur prior to the second half of 2005.

The lack of significant legislation criminalizing the financing of terrorism places Mexico in a position of noncompliance with the FATF Special Recommendations on Terrorist Financing and the UNSCR 1373 requirements. However, because terrorism is declared to be a serious crime, money laundering associated with terrorism is punishable under the existing Penal Code. The GOM has responded to U.S. Government (USG) efforts to identify and block terrorist-related funds, and, although no assets were frozen, it continues to monitor suspicious financial transactions.

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 with assets seized for forfeiture in Mexico if these assets are not clearly linked to narcotics. Most assets seized during law enforcement operations go to the Service for the Management and Transfer of Assets (SAE), a semi-autonomous branch of the Hacienda established in late 2002. Although Mexican officials have made significant progress in modernizing their approach to asset seizure, actual asset forfeiture remains a challenge. 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.

Mexico has developed a broad network of bilateral agreements with the United States, and regularly meets in bilateral law enforcement working groups with the United States. The GOM and the 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.

The United States temporarily suspended information exchange with Mexico in April 2004. Financial intelligence provided to the UIF by the U.S. financial intelligence unit (the Financial Crimes Enforcement Network, or FinCEN) was disseminated by the GOM without prior USG authorization. The unauthorized disclosure of sensitive financial information was done in breach of the well established and clearly defined protocols of FinCEN, as well as the principles of the Egmont Group – of which both the United States and Mexico are members – for information exchange. Information exchange resumed in June 2004 after Mexico substantially implemented a number of measures to ensure that information is disseminated to appropriate government agencies in a manner that protects its confidentiality and warns of the consequences of unauthorized disclosure.

In addition to its membership in the FATF, Mexico participates in the Caribbean Financial Action Task Force as a cooperating and supporting nation and in the South American Financial Action Task Force 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. The GOM ratified the UN Convention Against Corruption in July 2004.

The Government of Mexico should fully implement and improve the mechanisms for asset forfeiture and money laundering cooperation with the United States, and should increase efforts to control the bulk smuggling of currency across its borders. Mexico should also closely monitor remittance systems for possible exploitation by criminal or terrorist groups. Mexico 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, Mexico 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. It is not known to be a significant money laundering location and there has been no known money laundering related to narcotics proceeds or terrorist financing. Misuse of public funds has generated illicit proceeds and led to a number of indictments and convictions of politicians and their associates, including on money laundering charges. There may be limited financial crimes outside the formal banking sector by cash dealers involved in sending remittances to the home countries of some foreign workers. Financial crimes are rare in the commercial sector. The FSM's distance from other countries and sparse transportation links to the outside world seem to have limited the amount of contraband brought into the FSM. The market for smuggled goods is not developed.

There are three financial institutions in the nation: the Bank of Guam, the Bank of the FSM, and the FSM Development Bank. The FSM Development Bank is a non-depository institution owned and financed by the FSM National Government. The Bank of Guam is chartered in the U.S. and falls under U.S. regulations and the Federal Deposit Insurance Corporation (FDIC). The locally chartered Bank of the FSM is the only non-U.S. bank insured by the FDIC. As a result, these two commercial institutions are subject to supervision by the FSM Banking Board as well as to inspection and regulation by the FDIC. The Banking Board has made the development and monitoring of anti-money laundering and anti-financing of terrorism activities one of its top priorities. There are no off-shore financial centers, banks, trusts, shell banks, casinos, or free trade zones in the FSM.

Money laundering is a criminal offense under the Money Laundering and Proceeds of Crime Act, in effect since 2001 and favorably reviewed by the IMF Legal Department. The Act criminalizes money laundering and provides for the freezing and seizure of assets, including substitute assets. It incorporates due diligence provisions. 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. Officials and private individuals from Chuuk State were arrested on money laundering charges, related to misuse of government assets in 2004. The FSM Attorney General's office is developing revisions to the legislation to tighten requirements for record keeping, establish cross-country currency reporting requirements, address non-bank establishments, and allow civil as well as criminal actions for forfeiture to bring the statutes into better compliance with international standards. These changes are scheduled to be submitted to Congress in May 2005.

The FSM Department of Justice has established procedures 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. The government recognizes the existing of alternative remittance systems for expatriate workers from the Philippines, but does not have resources to monitor this activity. The FSM is a party to the UN International Convention for the Suppression of the Financing of Terrorism. New counterterrorism legislation is under development; the draft is expected to be sent to Congress in May 2005; in lieu of these statutes, the FSM would apply the current money laundering law against terrorist financing.

Legislation to enhance 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 FSM has cooperated with U.S. law enforcement agencies. The FSM is a party to the 1988 UN Drug Convention.

The Government of the Federated States of Micronesia should continue to enhance its anti-money laundering regime by criminalizing terrorist financing and adopting and implementing pending laws and regulations.

Moldova

Moldova is not considered an important regional financial center. It is a transit country, but the extent of related money laundering is unknown. As Moldova continues to suffer from severe economic conditions, proceeds from narcotics transactions remain small 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. A rise in Internet-related fraud schemes is evident. Although a significant black market exists in Moldova for a number of goods, narcotics proceeds are not a significant funding source. Instances of money laundering have occurred in the banking system. Domestic and foreign organized crime syndicates 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), regional organized crime activities likely account for the majority of profits.

Money laundering became a criminal offense in November 2001, and the law was amended in June 2002. It remained unchanged when the new criminal code was adopted in June 2003. The legislation applies to proceeds of "all crimes," not just narcotics activity, with banks and non-bank financial institutions (NBFIs) required to report transactions over a certain amount to the Center for Combating Economic Crimes and Corruption (CCECC). On July 1, 2004, the Law on Money Laundering was amended to raise the reporting threshold from 100,000 lei to 300,000 lei for individuals, and from 200,000 lei to 500,000 for legal entities. However, the amendments still require reporting transactions under the threshold if, when combined with other transactions during a one-month period, they reach a total which crosses that threshold. This amendment may actually increase the amount of reporting required. Current anti-money laundering legislation also covers gold, gems, and precious metals, and any person involved in laundering money.

Banks must maintain transfer records for a period of five years after an account opens 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. A May 2003 amendment states that forwarding such information to law enforcement entities or the courts is not a breach of confidentiality, as long as it is done in accordance with the regulations. Current legislation

contains provisions authorizing sanctions of commercial banks for negligence. 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 (POE) by travelers entering Moldova.

The CCECC serves as Moldova's Financial Intelligence Unit (FIU). In 2004, the CCECC created a money laundering section of ten investigators to pursue suspicious financial transactions. According to Moldovan authorities, there are currently 11 full-fledged criminal investigations underway for money laundering, and 36 preliminary investigations that have been completed and recommended for opening full-fledged investigations. (Under Moldovan criminal procedure, cases first undergo a preliminary investigation by operative investigators before being sent to criminal investigators and prosecutors who decide whether a full investigation will be launched.) The CCECC identified a list of non-resident companies suspected of involvement in money laundering and asked all banks to report any transactions done by these entities in order to prevent illegal transactions. While banks were initially resistant toward money laundering legislation, they have since adopted compliance programs as required by the law. However, Moldova remains predominantly a cash society as people have little trust in banks. This makes money laundering investigations difficult.

Moldova is not considered an offshore financial center, and only two foreign banks exist in Moldova: "Banca Comerciala Romana," a Romanian bank; and "Unibank," in which the Russian bank "Petrocomert" holds 100 percent of the shares. These banks are regulated in the same manner as Moldovan commercial banks. Offshore banks are permitted, so long as they are licensed by the 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 (MOF) currently licenses five casinos, although they are reportedly not well regulated or controlled.

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 transfer of ownership of goods used during, or resulting from a crime to the state. The article may be applied to goods belonging to persons who knowingly accepted things acquired illegally, even when prosecution is declined. However, it remains unclear whether asset forfeiture may be invoked against those unwittingly involved in or tied to an illegal activity. Money laundering crimes are the purview of the CCECC, while narcotics-related seizures are within the jurisdiction of the Ministry of Interior (MOI). 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 National Bank of Moldova (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. Investigation into misuse of charitable or non-profit entities is non-existent, as the GOM has neither the resources nor ability to perform these tasks. In December 2004, the Parliament amended the law on money laundering to include provisions on terrorist financing. Moldova has made no arrests for terrorist financing.

No agreements, bilateral or otherwise, exist between the USG and the GOM regarding the exchange of records in connection with narcotics, terrorism, terrorist financing, or other serious criminal investigation. No negotiations are underway to establish 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 of 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. In addition to these, Moldova has signed an agreement with CIS member states for the exchange of information on criminal matters, including money laundering. In 2004, the CCECC was accepted as an observer at the Eurasian Group on Combating Money Laundering and as a candidate in the Egmont Group.

The Government of Moldova should continue to enhance and implement its anti-money laundering/counterterrorist financing regime. Moldova should ensure full implementation of its laws and improve the mechanisms for sharing information and forfeiting assets. Additionally, the Moldova should provide appropriate training for its law enforcement personnel and officials involved in the asset forfeiture program.

Monaco

The Principality of Monaco is considered vulnerable to money laundering due to its strict bank secrecy laws, network of casinos, and unregulated offshore sector. The principality does not face the ordinary forms of organized crime, and the crime that does exist does 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 “non-cooperative” 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 banking customers are nonresident. In 2002, the financial sector represented over 17 percent of Monaco’s economic activity. The non-banking 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 in the non-banking category. The real estate sector is another important area because of the high prices for land throughout the principality. 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. Through this convention, Monaco uses the 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 Monaco’s 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 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. Thus, though the rules are the same for both countries, the degree of enforcement may vary. 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 is 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 illicit funds 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. Government authorities held briefings to explain the new procedures to companies requiring compliance officers. 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 strengthens the “know your client” obligations for casinos and obliges companies responsible for the management and administration of foreign entities not only to report suspicions to Monaco’s Financial Intelligence Unit (FIU), but also to set up internal anti-laundering and counterterrorist financing procedures, the enforcement of which is monitored by the FIU.

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 identity of the customer and retains client identification information.

Prior approval is required to engage in any economic activity in Monaco, regardless of its nature. The Monegasque authorities issue approvals of the type of business to be engaged in, and the location for a given length of time. Of particular importance is the fact that this government approval is personal and may not be assigned. Changes in any of the above terms require the issuance of a new approval.

Monaco established its FIU, the Service d’Information et de Contrôle sur les Circuits Financiers (SICCFIN), to collect information on suspected money launderers. SICCFIN receives suspicious transaction reports, analyzes them, and forwards them to the Prosecutor when they relate to drug-trafficking, organized crime, terrorism, terrorist organizations, or the funding thereof. SICCFIN also is responsible for supervising the implementation of anti-money laundering legislation. SICCFIN also has provided training to intermediaries, most recently to lawyers and notaries. Under Law 1.162, Article 4, SICCFIN may suspend a transaction for up to twelve hours and advise the judicial authorities to investigate.

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 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 2003, SICCFIN received 250 disclosures, 19 of which were referred to the public prosecutors. By mid-December 2004, SICCFIN had received

an additional 326 disclosures, of which 18 were passed to the Public Prosecutor for further investigation. In 2004 SICCFIN received and answered 126 requests for financial information

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 co-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.

In July and August 2002, Monaco passed Act 1.253 and promulgated two Sovereign Orders, intended to implement UNSCR 1373, which outlaw terrorism and its financing. Monaco is a party to the UN International Convention for the Suppression of the Financing of Terrorism; in April and August 2002, Monaco promulgated Sovereign Orders to import into domestic law the international obligations it accepted when it ratified that Convention.

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 in combating financial crimes, particularly money laundering.

In 2004 SICCFIN signed information exchange agreements with counterparts in Malta, Poland, Andorra, Mauritius, Slovakia, Canada, and Peru. In previous years it had signed such agreements with Slovenia, Italy, Ireland, Lebanon, Switzerland, Liechtenstein, Panama, Luxembourg, France, Spain, Belgium, Portugal, and the United Kingdom. SICCFIN is a member of the Egmont Group. 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 was admitted to the Council of Europe on October 4, 2004. Well before that date, in 2002, SICCFIN approached the Council of Europe's MONEYVAL Committee and requested full participation in that Committee, including having an evaluation conducted on its anti-money laundering regime. In October 2002, the evaluation was performed; the evaluators acknowledged the extensive and thorough regime that has been developed.

Monaco is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. In May 2002, Monaco acceded to the Council of Europe Convention on the Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime.

The Government of Monaco should amend the Criminal Code to include an "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. Crimes related to banking activities are relatively few, and an upward trend has not been observed. Markets in Mongolia are licensed and monitored by the government authorities. 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 (GOM) 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.

The prepared draft law "On Combating Against Money Laundering and Funding Terrorism" (draft AML law), which is projected to pass within the next two legislative sessions, and the draft law on amending the criminal code will have provisions that define money laundering as a criminal offense. In addition, actions involving use of illegally obtained assets and money are considered to be crimes.

The Central Bank, tax authorities and law enforcement agencies have the power to investigate, within their respective jurisdictions, transactions and books of banks and other financial institutions. According to Article 39 of the Criminal Code, officers of financial institutions are obligated to provide to law enforcement agencies information on crimes that have become known to them. The draft AML Law will introduce suspicious transaction reporting (STR) requirements. The draft AML law provides that legal entities conducting the activities of banks, non bank financial institutions, commercial insurance companies, activities described by Article 15.3.1 of the Law on Special Licensing of Commercial Activities, savings and loan cooperatives, and their subsidiaries or branches have an obligation to inform relevant agencies about applicable transactions. The draft AML Law also has a provision on monitoring the management of reporting entities.

Article 7 of the Law on Banking, which provides for the confidentiality of bank records, also states that a bank or its officers shall not be liable for cooperating with a law enforcement agency. The draft AML law has a similar provision. It also states that management and officers of a bank who are involved in crimes can be charged for criminal, civil and/or administrative violations.

The Law on Foreign Currency Regulation (Article 17 and others) has provisions that regulate the flow of foreign currency through the Mongolian border. Police pay attention to international trafficking of foreign currency or other payment documents that have illegal origins, but there have been no investigations to date. Since January 1, 2004, there have been no reported incidents of money laundering or terrorism funding, and likewise no arrests or prosecutions.

A draft law "On Amending the Criminal Code" has been developed together with the draft AML law to implement the requirements of UNSCR 1373. The Foreign Currency Department of the Central Bank regularly distributes the lists of members of al-Qaida, the Taliban and other associated persons, supplied by the USG, to banks and financial institutions along with recommended measures.

The President of Mongolia directed the introduction of legal regulations combating terrorism by issuing Decree #60 in 2001, entitled "Supporting Establishment of an International Coalition Against Terrorism". Accordingly, the GOM adopted Resolution #226 in 2001, entitled "Supporting Activities of the International Coalition Against Terrorism". The resolution requires relevant agencies to exchange information and cooperate with their counterparts in coalition countries regarding terrorists, drug-trafficking and money laundering actions. Both the directive and resolution are currently enforced with no objections by any political parties.

There is a system to track, identify, investigate, seize, confiscate or impose fines regarding assets created through grave crimes such as international trafficking, narcotics-related crimes or funding of terrorism. These proceedings shall be carried out according to rules provided by the Criminal Code and the Criminal Procedure Code. Assets confiscated or fines collected are transferred to the GOM budget.

Mongolia is a party to the 1988 UN Drug Convention. Mongolia became a party to the UN International Convention for the Suppression of the Financing of Terrorism on February 25, 2004. In recent years Mongolia has increased its participation in fora that focus on transnational criminal activities and, in 2004, became a member of the Asia/Pacific Group on Money Laundering.

The Government of Mongolia should pass and implement comprehensive anti-money laundering and counterterrorist financing legislation. It should subsequently take steps to fully implement those laws and build a comprehensive anti-money laundering regime capable of thwarting terrorist financing that comports with international standards.

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.

As of 2003, 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. Insurance and trust services are negligible. 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, as the FSC does not have sufficient staff to undertake an ongoing supervision program for offshore banks. MOUs also have been entered into with four overseas regulators to provide a mechanism for collaboration in the supervision of most of the offshore banks. No examinations have been done of the offshore banks to evaluate their compliance with anti-money laundering programs.

The Proceeds of Crime Act (POCA), 1999, criminalizes the laundering of proceeds from any indictable offense except domestic drug-trafficking. Likewise, tipping off is prohibited except in money laundering cases tied to drug-trafficking. Both individuals and legal entities are subject to the law, and self-laundering is covered for all offenses. 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. Under the POCA, the Governor has issued a non-mandatory Practice Code establishing further comprehensive guidance for financial institutions. There are no reporting requirements for cross-border currency movements.

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 Money Laundering Regulations 2000 apply to banks, securities dealers, money transmission services, company management services, and financial leasing companies. The Regulations do not explicitly address offshore banks, and it remains unclear whether they are subject to the Regulations'

requirements. The Regulations call for covered entities to maintain internal reporting procedures. Anonymous accounts are prohibited. Any suspicious activity must be reported to the police. Customer identification provisions contain exemptions that allow banks to open accounts and transact business without verifying customer identity. For example, no identification is required for one-off transactions under EC \$40,000, nor is it required when a customer is introduced to the bank—the introducer may provide written assurance the customer has been subject to identification. Banks are required to keep records for five years; however, inspections of domestic banks have shown widespread deficiencies in implementation. The Practice Code contains more explicit instructions for banks, but because it is not mandatory, deficiencies are apparent in the implementation of many requirements.

The Reporting Authority (RA) was established in 2002, under the POCA, to serve as Montserrat's Financial Intelligence Unit (FIU). The RA consists of the Commissioner of Financial Services, the Attorney General and the Commissioner of Police. The Order establishing the RA sets forth only a single power, to disclose information it receives to law enforcement agencies; however, subsequent amendments have provided for the receipt of suspicious transaction reports (STRs). It does not authorize the receipt or analysis of information, although this occurs in practice. As of October 2002, 20 STRs had been received by the RA, all from one offshore bank. As of 2003, there have been no prosecutions for money laundering.

Montserrat has criminalized terrorist financing. 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. The UNSCR 1267 Sanction Committee's consolidated list is circulated to financial institutions.

The POCA provides for freezing and confiscation of the proceeds of crime and international cooperation. Except in terrorist financing cases where a restraint order may be obtained once a criminal investigation has commenced, criminal proceedings must be instituted before assets can be frozen. As of 2003, no property related to money laundering or terrorist financing had been frozen, seized or confiscated. Montserrat has not considered a mechanism to share seized assets.

In October 2002, the Caribbean Financial Action Task Force (CFATF) conducted a second round mutual evaluation of Montserrat, in conjunction with the IMF and World Bank.

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 CFATF and is subject to the 1988 UN Drug Convention.

The Government of Montserrat should criminalize self-laundering related to domestic drug-trafficking. Montserrat should make the full operation of the Reporting Authority a priority, including assuring it has the necessary authority to receive and analyze suspicious transaction reports. It should enact measures to identify and record the beneficial owners of IBCs and immobilize bearer shares. Montserrat also should enact cross-border currency reporting requirements and close the loopholes in its customer identification procedures. Montserrat must 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. Morocco remains an important producer and exporter of cannabis, with estimated revenues of \$12 billion annually, according to a joint study released in late 2003 by the United Nations

Office on Drugs and Crime (UNODC) and Morocco's Agency for the Promotion and the Economic and Social Development of the Northern Prefectures and Provinces of the Kingdom. Some of these proceeds may be laundered in Morocco and abroad. 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. Press reports indicate, however, that the Spanish investigation into the March 11, 2004 terrorist bombings in Madrid found that the alleged Moroccan national perpetrators of the attacks financed the purchase of the explosives used in the blasts through modest sales of cannabis resin in Spain.

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 potential launderers. Morocco has a free trade zone in Tangier, with customs exemptions for goods manufactured in the zone for export abroad. There have been no reports of trade-based money laundering schemes or terrorist financing activities using the Tangier free zone or the zone's offshore banks, which are regulated by an interagency commission chaired by the Ministry of Finance.

There have been no reported arrests or prosecutions for money laundering or terrorist financing in Morocco since January 1, 2004. Morocco has a relatively effective system for disseminating U.S. Government (USG) and United Nations Security Council Resolution (UNSCR) freeze lists to the financial sector and law enforcement. Morocco has provided detailed and timely reports requested by the UNSC 1267 Committee. A handful of small value accounts have been administratively frozen based on U.S. Executive Order 13224 freeze lists.

The Moroccan financial sector is modeled after the French system and consists of 16 banks, five government-owned specialized financial institutions, approximately 30 credit agencies, and 12 leasing companies. The monetary authorities in Morocco are the Ministry of Finance and the Central Bank, Bank Al Maghrib (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 still pending anti-money laundering legislation, instructing banks and other financial institutions to conduct their own internal analysis/investigations. It also mandates "know your customer" procedures, reporting of suspicious transactions and the retention of suspicious activity reports. Morocco also has in effect: legislation prohibiting anonymous bank accounts; foreign currency controls that require declarations to be filed when transporting currency across the border, although not strictly enforced; and internal bank controls designed to counter money laundering and other illegal/suspicious activities.

In June 2003, Morocco implemented a comprehensive counterterrorism bill that provided the legal basis for the lifting of bank secrecy to obtain information on suspected terrorists, freeze suspect accounts and prosecute terrorist finance-related crimes. The law also provides for the seizing and confiscation of terrorist assets and for international cooperation with regard to foreign requests for freezing assets of a suspected terrorist entity. This law brought Morocco into compliance with UNSCR 1373 requirements for the criminalization of the financing of terrorism.

As of December 2004, Morocco was 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 anti-money laundering bill reportedly includes, among other provisions, a suspicious transaction reporting scheme and the creation of a Financial Intelligence Unit (FIU). The bills are based on the Financial Action Task Force (FATF) Forty Recommendations and Egmont Group guidelines 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. The pending bills will also expand the CBM’s regulatory authority over non-banking financial transactions. Other significant provisions include: the lifting of bank secrecy during investigations, as well as legal liability protection of bankers and investigators for cooperation during investigations.

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 is also a party to the UN International Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (the Vienna Convention); in fact, Morocco has ratified or acceded to all UN and international conventions and treaties related to counterterrorism.

The Government of Morocco should move expeditiously to pass the banking sector reform bill and the anti-money laundering bill. 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.

Mozambique

Mozambique is not a regional financial center. Money laundering is fairly common, however, and local authorities believe that narcotics proceeds have helped finance the recent proliferation of new restaurants, shopping centers, hotels, and mosques in the country, especially in the capital. These businesses reputedly conceal profits made by those importing hashish and heroin from South Asia via Tanzania and, to a lesser extent, cocaine from South America via Brazil. Most narcotics are destined for South African and European markets; Mozambique is not a significant consumption destination and is rarely a transshipment point to the United States. Local organized crime controls narcotics-trafficking operations in the country, with certain recent immigrants from Pakistan and India also playing a prominent role. Money laundering in the banking sector is also considered to be a serious problem; and in recent years, prominent public figures in the Central Bank, the law enforcement community and the media have been murdered for investigating fraud and money laundering in these institutions. For example, in 2001, the Chief of Banking Supervision at the Central Bank was murdered in the stairwell of a bank that had been under investigation. Despite these problems, or perhaps because of them, there are no known links between Mozambique-based drug traffickers, money launderers and the financing of terrorists.

The financial sector in general is not believed to be experiencing any reported increase in crimes such as money laundering, but it is hard to be certain because very few instances of laundering are formally reported or investigated. Black markets for smuggled goods and financial services are widespread, dwarfing the formal retail and banking sectors in most parts of the country and making it difficult to determine when and where laundering of narcotics money takes place. Local officials are often directly involved with drug trafficking and the laundering of profits, including the ex-chief of the Criminal Investigative Police and several of his top officers, who are now awaiting trial on narcotics-trafficking charges. Evidence of money laundering was cited by the government as a reason for arresting these officials in 2003, but they are being prosecuted for narcotics-trafficking, not money laundering.

Money laundering has long been a criminal offense in Mozambique, but criminal charges and prosecutions for money laundering have been rare because the law had not been narrowly defined until enactment of the 2002 Anti-Money Laundering Act. Implementing regulations for most components of this law were only issued in September 2004, with more regulations reportedly forthcoming in

2005. The law contains specific provisions related to narcotics-trafficking, but also includes a wider range of offenses as predicates for money laundering. There were no money laundering arrests in 2004, nor any prosecutions.

According to the 2002 law, banks and exchange houses must immediately record and report to the Attorney General's office any cash transaction valued at 441 times the national minimum wage, which amounts to about \$18,000. In addition, exchange houses are required to turn in records of all transactions on a daily basis. All credit card transaction attempts over \$5,000 must also be reported and can only be processed with approval from the Central Bank. Banks and exchange houses are required to keep transaction records for 15 years (Article 15 of 2002 law). Financial institutions are required to report any suspicious transactions immediately to the Attorney General's office (Article 16). The Attorney General, in turn, is required to determine within 48 hours whether to permit the transaction (Article 19). Individuals who report suspicious transactions in good faith receive protection under the 2002 law (Article 21). Bank secrecy laws exist in Mozambique but do not apply in the case of suspected money laundering (Article 17).

The 1996 Money Exchange Act requires any individual carrying more than \$5,000 over the border to file a report with Customs. Taking more than \$5,000 in local currency out of the country is prohibited. The 2002 Anti-Money Laundering Act includes due diligence provisions that make both respective bankers and banks responsible if financial institutions launder money (Article 27). Money laundering controls apply to all formal non-banking financial institutions, including exchange houses, brokerages houses, casinos and insurance companies. Cash couriers must meet cross-border currency requirements, but usually fall outside the scope of anti-money laundering law because they generally work in the informal sector.

Mozambique has not explicitly criminalized the financing of terrorism. Its 1991 Crimes against the Security of State Act criminalizes terrorism, but financing is not addressed. The 2002 anti-money laundering law does list terrorism finance as a serious crime subject to the scope of the law, but elaborates no further (Article 4). The same law codifies Mozambique's long-authority to identify, freeze, seize and/or forfeit the assets of those charged with financial crimes, including terrorist financing (Articles 5 and 6). Financial institutions do not have direct access to the names of persons or entities included on the UN 1267 Sanctions Committee consolidated list or the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224; these lists are distributed only to the Central Bank, the Attorney General, and the Ministry of Foreign Affairs. Authorities in these institutions have not positively identified any of the persons or entities on these lists operating in Mozambique, and therefore no assets have been identified, frozen, or seized.

Mozambique is not considered an offshore financial center. Many local businessmen use offshore banking in nearby countries, such as Mauritius. There are no free trade zones in Mozambique. Authorities acknowledge that alternative remittance systems are common in Mozambique, many of which operate in exchange houses that, on paper, are heavily regulated but in fact can easily avoid reporting requirements. There are no serious legislative, judicial, or regulatory measures being considered to address this problem. Charitable institutions must receive approval by the Ministry of Justice (MOJ) before receiving a charter, and are subject to investigation by the MOJ thereafter. However, there is no evidence of the MOJ seriously investigating any charities at this time.

Mozambique is a party to the 1988 UN Drug Convention and the International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. It is also a member of a FATF-style regional body, the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Mozambique has entered a series of formal agreements with neighboring countries to share financial information required by law enforcement bodies. Cooperation with the United States on these matters has taken place on an informal basis.

The 2002 Anti-Money Laundering Act contains provisions authorizing the seizure and forfeiture of assets, including those of legitimate businesses used to launder money. In such a case, the Central Bank would be responsible for the initial tracing of assets and the Attorney General would be responsible for freezing and confiscating assets. The Attorney General also has authority to auction off confiscated assets and to distribute proceeds to a range of parties. Despite this legal framework, the institutions authorized to implement the law do not have an established system for identifying and freezing narcotics-related assets, and no assets have been seized to date under the 2002 Anti-Money Laundering Act.

The law allows for both civil and criminal forfeiture. An example of civil forfeiture would be the seizure of cash in excess of the \$5,000 limit from an individual who tried, secretly, to carry this amount across the border. The seized funds would be sent by Customs to the Central Bank. Appeals then could be made directly to the Bank. Private financial institutions are more closely regulated by criminal forfeiture acts, but are also subject to civil suits. Financial institutions also have the right to file a civil suit against the government for loss of business in cases of unreasonable suspension, a provision that will likely discourage enforcement of the law.

The Government of Mozambique should clarify that the financing of terrorism is specifically criminalized, either by its 1991 or 2002 legislation, or else it should do so in a new instrument. It should proceed as soon as possible with the issuance of the additional implementing regulations to the 2002 Anti-Money Laundering Act. It should establish a financial intelligence unit in accordance with international standards. It should ratify the UN Convention against Transnational Organized Crime. It must also address some additional and serious obstacles to enforcement of its laws, such as resource constraints affecting the Attorney General's office and the Criminal Investigative Police, significant corruption of the latter, and intimidating tactics on the part of organized crime against investigating prosecutors at the Attorney General's Anti-Corruption Unit. These practical measures will be necessary to enforce any laws.

Namibia

Namibia is not a regional financial center. In addition to its Central Bank, Namibia has 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 financial institutions.

In November of 2004, Namibia criminalized money laundering with passage of the Prevention of Organized Crime Bill. The new law requires both bank and non-bank financial institutions to report suspicious transactions to the Central Bank and provide relevant documents and other information to government authorities for use in criminal investigations. Non-bank financial institutions, such as private pension funds, the stock exchange, and investment companies, were previously exempted from such reporting requirements.

Parliament will consider a separate anti-money laundering bill—the Financial Intelligence Act (FIA)—in early 2005. The FIA is expected to add additional reporting requirements and strengthen the Government's ability to investigate and prosecute money laundering crimes. It will also establish a financial intelligence unit. The FIA is also expected to address cross-border currency reporting requirements and information sharing with foreign law enforcement authorities. Namibia currently does not have laws that criminalize the financing of terrorism. The Government intends to table its Combating of Terrorist Activities Bill in Parliament in 2005. Under the proposed counterterrorism law, the Government would 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. The proposed law would also prohibit individuals from providing money or other property with the intention or knowledge (or suspicion) that such money or other property would be

used for the purposes of terrorism (regardless whether or not a terrorism act was committed). Individuals who do so would be subject to prosecution and imprisonment not to exceed 20 years. There have been no known arrests or prosecutions for money laundering or terrorist financing since January 1, 2004.

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. Namibia is a party to the UN Convention against Transnational Organized Crime and the 1988 UN Drug Convention. In November 2001, the GRN signed the UN International Convention for the Suppression of the Financing of Terrorism, and is making progress toward becoming a party.

The Government of Namibia should pass counterterrorism and related legislation that criminalizes terrorism financing and further strengthens the country's nascent anti-money laundering regime, as it has committed to doing through its membership in ESAAMLG. Namibia should continue its efforts toward becoming 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 13,000. 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. The currently insolvent government-owned Bank of Nauru acts as the Central Bank for monetary policy. Nauru's legal, supervisory, and regulatory framework has provided significant opportunities in the past decade for the laundering of the proceeds of crime.

In June 2000, the Financial Action Task Force (FATF) placed Nauru on its initial list of fifteen Non-Cooperative Countries and Territories. In response to mounting international pressure, the Government of Nauru, in August 2001, passed the Money Laundering and Proceeds of Crime Act of 2001 (AMLA 2001). The AMLA 2001 requires financial institutions to verify and record the identity of account holders and to maintain accounts in the name of the account holder, thereby prohibiting anonymous accounts and accounts held in fictitious names. The AMLA 2001 also requires financial institutions to report suspicious transactions, and to develop internal anti-money laundering policies and procedures. The new legislation allowed for the establishment of a Financial Intelligence Unit (FIU) called the Financial Institutions Supervisory Authority (FISA). FISA has not yet been formed and no suspicious transaction reports have been filed to it. The AMLA 2001 provided for mutual assistance with respect to money laundering investigations. However, there are limitations regarding compliance with foreign requests for assistance. Nauru may refuse to comply with a foreign 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. However, the Government of Nauru (GON) has since cooperated with officials from the United States and other countries in certain criminal investigations involving Nauru's institutions.

On September 7, 2001, the FATF issued a press release recognizing the passage of the Nauru's AMLA 2001. The FATF, however, found the legislation to have several deficiencies. It 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. The amendment clarified that the law applies to all financial institutions incorporated under the laws of Nauru (as opposed to just financial institutions conducting business within Nauru). It also

broadened the definition of money laundering. Despite the passage of its anti-money laundering legislation with amendments, Nauru continued to lack a legal framework and an effective regime for the regulation and supervision of the nearly 400 registered 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 the 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. In the announcement, the U.S. Treasury published a list of 161 banks licensed by the Republic of Nauru, the majority of which were thought to be shell banks. In April 2003, U.S. Treasury and FinCEN issued a proposed rule pursuant to section 311 to invoke Special Measure Five, prohibiting U.S. financial institutions from opening or maintaining any payable-through or correspondent accounts involving a Nauru financial institution.

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 Institutions Supervisory Authority, if and when it is established, authority to cooperate with foreign states, including the power to obtain search warrants, track property, and issue monitoring orders. The amended legislation also gives the Director of Public Prosecutions the power to freeze and seize assets relating to money laundering. Legislative amendments to the Corporation Act 1972 were also enacted in 2003 to abolish offshore banking and eliminate all bank secrecy provisions. Nauru took further steps to publish the list of corporations that recently held Nauruan offshore banking licenses.

Following the election of a reformist government in 2004, Nauru enacted a series of legislative acts to reform its anti-money laundering laws and respond to deficiencies identified by the FATF. In 2004, the GON passed the Anti-Money Laundering Act of 2004, the Banking (Amendment) Act of 2004, the Corporation (Amended) Act of 2004, the Financial Transactions Reporting Act of 2004, the Counter-Terrorism and Transnational Organized Crime Act of 2004, the Mutual Assistance in Criminal Matters Act of 2004, and the Proceeds of Crime Act 2004.

The Anti-Money Laundering Act 2004 enacted on September 6, 2004 expands the coverage and scope of anti-money laundering requirements to banks, money remitters, securities and investment businesses, insurance, real estate agents, dealers in precious metals and stones, trust or company service providers, and legal entities. The new legislation provides the powers of search and seizure to law enforcement, and enables freezing and forfeiture of tainted property and terrorist property. The Act also allows mutual assistance in relation to anti-money laundering investigations with foreign states.

At the October 2004 Plenary, the FATF recommended that its member states withdraw all countermeasures against Nauru in view of Nauru’s having taken several significant steps to ensure that offshore banks previously licensed in Nauru no longer existed and no longer conducted banking activity. As of January 1, 2005, The United States had not conformed to the FATF recommendation to withdraw its countermeasure. The FATF also invited Nauru to submit an implementation plan with benchmarks and timetables regarding the steps it would take to cure the remaining deficiencies of its anti-money laundering regime.

A technical team from the Pacific Island Forum Secretariat (PIF) will travel to Nauru in early 2005 to assist Nauru in developing and implementing its anti-money laundering regime. The PIF technical team will assist in establishing Nauru's FIU- the Financial Institutions Supervisory Authority- and will provide training for prosecutors and investigators of financial crimes.

Nauru has observer status within the Asia/Pacific Group on Money Laundering and recently joined the United Nations. Nauru 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.

The Government of Nauru should continue to work with the Financial Action Task Force (FATF) to ensure that its anti-money laundering regime comports with the FATF's revised Forty Recommendations and its nine Special Recommendations on Terrorist Financing, and that whatever remnant of its offshore financial sector remains is regulated consonant with those standards. Nauru should become a party to the UN International Convention for the Suppression of the Financing of Terrorism, and to all UN Conventions pertaining to terrorism. Nauru should also ratify the UN Convention against Transnational Crime and accede to the UN Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances.

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 2004. Since the dissolution of Parliament in May 2002, any new laws must be passed by royal ordinance, which must be renewed after six months. Draft anti-money laundering legislation has been prepared but has not yet passed into law or ordinance. There were no prosecutions or even arrests for money laundering during 2004.

Banks are required to record the identity of customers engaging in significant transactions. In particular, all transactions which involve payments in foreign currency require prior approval by the NRB (Nepal's Central Bank). Any Nepali citizen who wishes to open a foreign currency account must obtain a license to do so from the NRB, and Nepali citizens wishing to take currency overseas must obtain approval from the NRB by clearly outlining the purpose for transferring funds overseas. The NRB normally approves small amounts (in USD thousands) for travel, education and medical treatment. For business transactions, however, a letter of credit from a bank recognized by the NRB must be opened by documenting the transaction details. Banks have provided records regarding bank accounts of individuals and institutions to assist in GON investigations into corruption by senior officials. Nepal has enacted bank secrecy laws that prevent the disclosure of client and ownership information to individuals and law enforcement authorities; however, the present law does not prevent the disclosure of client and ownership information to the NRB, courts, auditors or the Commission for Investigation of Abuse of Authority (CIAA). Nepal has explored the development of an offshore financial sector, but one does not exist at present.

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 information sharing system. For example, many bank branch offices do not have computers. The Nepal Police also have the authority to seize any goods or property related to criminal investigations.

A hawala system of informal remittances (called the hundi system 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 transactions. There have been no significant initiatives to regulate the system in Nepal. However, GON officials claim that changes in the laws of other countries have forced some Nepalese hundi users to conduct their transactions through formal banking institutions. In Nepal, the hundi system is linked to issues of capital flight, tax avoidance, and corruption.

Nepal has not passed any laws criminalizing terrorist financing. However, the Terrorist and Destructive Activities Act and the Bank and Financial Institutions Ordinance 2004, working in tandem, reportedly criminalize terrorist financing. Under the Bank and Financial Institutions Ordinance 2004, the NRB has the authority to seize any assets deemed to have been used in terrorist activities. No assets belonging to individuals or entities on the UNSCR 1267 Sanctions Committee's consolidated list have been identified in Nepal. Additionally, the State Offense Act of 1989 authorizes security forces to arrest and prosecute any Nepalese or foreign citizen involved in any criminal activities against the state or associated with foreign terrorist activity. The GON made one arrest for terrorist financing in 2004.

The Government of 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 proceed with ratification of this Convention. Nepal should also sign and ratify the UN International Convention for the Suppression of the Financing of Terrorism. Legislative action in Nepal has clearly been handicapped by the lack of a sitting Parliament. As soon as practicable, Nepal should enact the provisions of its 2002 Master Plan for Drug Control, including anti-money laundering and terrorist finance legislation, and develop a comprehensive anti-money laundering regime that would require the mandatory filing of suspicious transaction reports (and clarify that this may be done without violating current bank secrecy provisions), foster international cooperation in the area of anti-money laundering initiatives, and establish a financial intelligence unit. It also should initiate efforts to regulate its domestic hundi dealers.

The Netherlands

The Netherlands is a major financial center and as such is an attractive target for the laundering of funds generated from a variety of illicit activities. Activities involving money laundering are often related to the sale of heroin, cocaine, cannabis, or synthetic and designer drugs (such as ecstasy). Activities involving financial fraud are believed to generate a considerable portion of domestic money laundering. Much of the money laundered in the Netherlands is likely owned by major drug cartels and other international criminal organizations and much of it flows through the formal financial sector. 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. Although under the Schengen Accord there are no formal controls on the borders with Germany and Belgium, the Dutch authorities run special operations in the border areas designed to keep smuggling to a minimum. The Netherlands is not an offshore financial center nor are there any free trade zones in the Netherlands.

In 1994, the Government of the Netherlands (GON) criminalized money laundering related to all crimes, although prosecutors first had to prove the predicate offense before prosecuting for money laundering. In December 2001, legislation was enacted making facilitating, encouraging, or engaging in money laundering a separate criminal offense, regardless of the source of the funds, easing somewhat the government's burden of proof regarding the criminal origins of proceeds. Under the law, the GON needs only to prove that the proceeds "apparently" originated from a crime; self-laundering is also covered. 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 a maximum imprisonment of six years and a maximum fine of 45,000 euros, and those convicted may also have their professional licenses revoked. 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, violations of the Sanctions Act, or noncompliance with the obligation to declare unusual transactions according to the Economic Offenses Act.

The Netherlands has comprehensive money laundering legislation. The Services Identification Act (WID) and the Disclosure Act set forth identification and reporting requirements. All financial institutions in the Netherlands, including banks, bureaux de change, casinos, life insurance companies, securities firms, stock brokers, and credit card companies, are required to report cash transactions over 15,000 euros, as well as any less substantial transaction that appears unusual, a broader standard than “suspicious” transactions, 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/intermediaries, accountants, business economic consultants, independent legal advisers, trust companies and other providers of trust related services, and tax advisors were added. Reporting entities that fail to file reports with the MOT may be fined 11,250 euros or be imprisoned up to two years. Under the Identification of Services Act (WID), all those that are subject to reporting obligations must identify their clients, including the identity of ultimate beneficial owners, 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 seven 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, which merged with the Pension and Insurance Chamber in April 2004, and the Financial Markets Authority, 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 memoranda of understanding (MOUs).

The MOT, which was established in 1994, reviews and analyzes the unusual transactions and cash transactions filed by banks and financial institutions. The MOT receives over 85 percent of unusual transaction reports electronically through its secure website. 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). In 2002, the MOT received 137,339 reports and forwarded 24,741 to the BLOM as suspicious transactions. In 2003, the MOT received 177,157 unusual reports (totaling over 1.5 billion euros), of which 37,748 were flagged by the MOT as suspicious transactions for further investigation by the BLOM. The 30 percent increase in reports is attributed to the new reporting requirements for money transfer businesses and high value

goods dealers as well as an increase in the total amount of money transfers. The average amount reported was 41,000 euros in 2003, an increase from the 34,800 euros reported (on average) in 2002.

In order to facilitate the forwarding of suspicious transactions, the MOT and BLOM created an electronic network called Intranet Suspicious Transactions (IST). 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.

On January 1, 2003, the MOT and BLOM formed a special unit (the MBA-unit) to work together to analyze data generated from the IST. Once the data is analyzed by the MBA-unit, it forwards reports to the police. In 2003, the MBA-unit sent 275 reports to the police for further investigations. Future plans are for the MBA-unit to focus on more project-based strategic type work by analyzing transaction reports that fit profiles provided by the police.

In 2003, BLOM opened 559 investigations, which involved 13,171 transactions. Of these 559 investigations, 75 were related to actions by the Public Prosecutor Hit-And-Run Money Laundering (HARM) team, established in 2001, resulting in the confiscation of approximately 8.1 million euros and the arrest of 78 suspects. Both the MOT and BLOM are internationally recognized institutions that play a major role in the Egmont Group. BLOM provides the anti-money laundering division of Europol with suspicious transaction reports, and Europol applies the same analysis tools as BLOM.

In 2004, an evaluation of the anti-money laundering reporting system, commissioned by the Minister of Justice, was published. In response to the report, the GON announced a number of measures to enhance the effectiveness of the anti-money laundering system. These measures include: an instruction on money laundering for the Public Prosecution Service, new indicators for reporting requirements, amendments to anti-money laundering legislation (Disclosure Act and the Identification of Services Act), and an agreement of cooperation between the National Police and the Dutch Internal Revenue Service Investigation Office. These measures are currently being implemented or will take effect during the course of 2005.

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 into all law enforcement investigations into serious crime. Statistics provided by the Office of the Public Prosecutor show that the amount of assets seized in 2003 amounted to 10.1 million euros (\$11 million), compared to 7.9 million euros (\$10.5 million) in 2002. The United States and the Netherlands have an agreement on asset sharing dating back to 1994. The Netherlands also has a treaty on asset sharing with the UK, as well as an agreement with Luxembourg.

In June 2004, the Minister of Justice sent an evaluation study to the Parliament on specific problems encountered with asset forfeiture in large, complex cases. In response to this report, the GON announced several measures to improve the effectiveness of asset seizure enforcement, including steps to increase expertise in the financial and economic field, assign extra public prosecutors to improve the coordination and handling of large, complex cases, and establish a specific asset forfeiture fund.

Terrorist financing is a crime in the Netherlands. The “Sanction Provision for the Duty to Report on Terrorism” was passed in 1977 and amended in June 2002, to implement European Union (EU) Regulation 2580/2001 and UNSCR 1373. This ministerial decree provides authority to the

Netherlands to identify, freeze, and seize terrorist finance assets. The decree also requires financial institutions to report to the MOT all transactions (actually carried out or intended) that involve persons, groups, and entities that have been linked, either domestically or internationally, with terrorism. Any terrorist crime will automatically qualify as a predicate offense under the Netherlands “all offenses” regime for predicate offenses of money laundering. Involvement in financial transactions with individuals and/or organizations designated nationally, by the EU, or by the UN has been made a criminal offense. The Dutch Finance Ministry, in close coordination with the Foreign Affairs Ministry, distributes lists of designated entities to financial institutions and relevant government bodies (including local tax authorities). Freezing of assets is an administrative procedure. The Netherlands has frozen more terrorist related assets than any other EU member state.

The Act on Terrorist Offenses took effect on August 10, 2004. The new Act introduces Article 140A of the Criminal Code, which criminalizes participation in an organization when the intent is to commit acts of terrorism, and defines participation as membership or providing provision of monetary or other material support. Article 140A carries a maximum penalty of fifteen years’ imprisonment for participation in and life imprisonment for leadership of a terrorist organization. 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 treatment. Approximately 15,000 organizations (and their managements) 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. Data about informal hawala banking as a potential money laundering/terrorist financing source is still scarce. The Ministry of Justice has ordered a study in this field, to be published shortly.

The Netherlands is in full compliance with all Financial Action Task Force (FATF) Recommendations, with respect to both legislation and enforcement. The Netherlands also complies with the EU Second Money Laundering Directive, and in some areas, is ahead of the EU legislation (such as full money laundering controls on money remitters, including licensing and identification of customers). In December 2003, the International Monetary Fund (IMF) conducted an assessment of the Netherlands’ anti-money laundering and counterterrorist financing system. The Report on the Observance of Standards and Codes (ROSC), released in September 2004, indicates that the Netherlands has a sound anti-money laundering and counterterrorist financing framework.

In December 2004, the Dutch EU Presidency reached a political agreement within the EU on the Third Money Laundering Directive. The Dutch have already implemented some obligations resulting from this directive, such as effective supervision of currency exchange offices and trust companies. In November 2004, the Dutch EU Presidency also reached political agreement within the EU on a regulation controlling cross-border cash movements.

The MOT supervised the PHARE Project for the European Union (March 2002-December 2003). The PHARE Project was 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 was 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 established a project team and a consortium of international experts. Although the PHARE project concluded in December 2003, the MOT will still move forward with the enhancement of the FIU.NET Project, (an electronic exchange of current information between European FIUs by means of a secure web). Currently, there are eight countries

connected to the FIU.NET in Central and Eastern Europe. A representative of the Dutch MOT is assisting the Surinamese government in establishing a FIU.

The United States enjoys good cooperation with the Netherlands in fighting international crime, including money laundering. In September 2004, the United States and the Netherlands signed two agreements in the area of mutual legal assistance and extradition, stemming from the agreements that were concluded in 2003 between the EU and the United States. One of the amendments to the existing bilateral agreement is the exchange of information on bank accounts. The MOT has established close links with the U.S Treasury's FinCEN and is also involved in efforts to expand international cooperation between disclosure offices.

The Netherlands is a member of the 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. 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." The Netherlands is a party to the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

The Netherlands should continue the strong enforcement of its anti-money laundering program and its leadership in the international arena.

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 is reported to be the most significant source of suspicious transactions. Of note is the surge over the past few years of remittance transfers from the Netherlands.

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 approximately 18,750 international companies, mutual funds, and international finance companies. The laws 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. The practice of the financial sector in the Netherlands Antilles is for either the bank or the company service providers to maintain copies of bearer share certificates for international corporations, which include information on the beneficial owner(s). 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.

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.

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. Thus, it is

sufficient to establish that the money launderer knew, or should have known, of the money's illegal origin.

In recent 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; 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 interagency anti-money laundering working group cooperates with its Kingdom counterparts.

Onshore banks are increasingly using their discretionary authority to protect themselves against money laundering. The largest commercial bank 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 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.

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.

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 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.

The current staff of seven at the MOT NA continues to work diligently to enhance the effectiveness and efficiency of its reporting system. 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. All are now done on-line, and most of the matches with external databases will be done electronically. The MOT NA transmits information electronically to the police. 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.

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.

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.

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, although this timeframe is not always met. 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 was scheduled to come into force in January 2004. The Mutual Legal Assistance Treaty between the Netherlands and the United States also applies to the Netherlands Antilles. 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 MOT NA is an active member of the Egmont Group. The Netherlands Antilles is a member of the Caribbean Financial Action Task Force (CFATF), and as part of the Kingdom of the Netherlands, the Netherlands Antilles participates in the FATF. 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 Government of the Netherlands Antilles 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 Netherlands Antilles 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 Antilles should criminalize the financing of terrorists and terrorism, and should enact the necessary legislation to implement the UN International Convention for the Suppression of the Financing of Terrorism.

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 criminalizes laundering the proceeds of a serious offense, if the launderer knew or believed that the proceeds were derived from a serious offense. In 2003, the law was extended to apply to those who are reckless as to whether the laundered property is the proceeds of 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, criminalizes 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. 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 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. New Zealand is a member of the Financial Action Task Force, the Asia/Pacific Group on Money Laundering, 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.

The Government of 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

Nicaragua is not a regional financial center, but continues to be a major drug transit zone. This situation makes Nicaragua's financial system an attractive target for narcotics-related money laundering. Nicaraguan officials have expressed concern that, as neighbors have tightened their money laundering laws, established Financial Intelligence Units (FIUs) and taken other actions, more illicit money has moved into the vulnerable Nicaraguan financial system. However, this concern has not resulted in much action on the part of the government. While Nicaragua has pledged to fight terrorist financing, money laundering and other financial crimes, few resources have been allocated to this effort. Nicaragua continues to exercise weak oversight and regulatory control over its financial system. Money laundering unrelated to drug-trafficking is legally undefined, and all attempts to correct this deficiency have been stalled in the National Assembly for years.

Nicaragua does not permit offshore banks to operate as such, but it does permit them to 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 control. There are no known offshore or Internet gaming sites in Nicaragua. Nicaragua does not have any "due diligence" or "banker negligence" laws to hold bank officials responsible for their institutions' money laundering.

In 1999, Nicaragua passed Law 285 that requires banks to report cash deposits over \$10,000 to the Superintendence of Banks, which then forwards the reports for analysis to the Commission of Financial Analysis (CAF). The CAF is not a financial intelligence unit. On paper, the CAF is composed of representatives from various elements of law enforcement and banking regulators, and is responsible for detecting money laundering trends, coordinating with other agencies and reporting its findings to Nicaragua's National Anti-Drug Council. In fact, the Commission is a non-functioning entity grossly under-funded and understaffed. Even if the CAF were operational, it is unlikely that it would be effective. In Nicaragua, banks tend to close the suspicious accounts, even as they are

notifying the Bank Superintendence, thereby allowing the money launderers to escape with their capital intact.

Legislation that would improve Nicaragua's anti-money laundering regime has been stalled in the National Assembly for years. Reportedly, this legislation, an amended drug law, would establish money laundering as an autonomous crime, require more stringent reporting of large and/or suspicious bank deposits, and reform and improve the CAF. It is unlikely that this reform legislation or any other major initiative in this area will make it out of the Assembly in the near or medium term.

Draft counterterrorism legislation, which would criminalize terrorist financing, is under consideration by the National Assembly, but remains far from passage. It is possible that many elements of terrorist financing can be prosecuted under existing laws. Nicaragua has the authority—through five Bank Superintendence administrative decrees—to identify, freeze, and seize terrorist-related assets, but has not, as yet, identified any such cases. Reportedly, there are no hawala or other similar alternative remittance systems operating in Nicaragua, and the Nicaraguans have not detected any use of gold, precious metals, or charitable organizations to disguise such transactions.

Nicaragua is currently negotiating a financial information sharing agreement with Costa Rica, largely based on model legislation produced by the Central American Parliament. It does not have such an agreement with the United States, but it cooperated, on an ad hoc basis, in a number of cases in 2004. This cooperation has enabled Nicaragua to benefit from several U.S. asset seizure cases and to recover \$2.7 million stolen by the former Nicaraguan tax director, and used to purchase properties in Florida. Under Law 285, 20 percent of the proceeds from drug-related asset seizures go to each of the following institutions: the Ministry of Health, the National Drug Directorate, the National Police narcotics section, the penitentiary system, and non-governmental organization drug prevention programs.

Nicaragua is a party to the 1988 UN Drug Convention. The country has also ratified the UN Convention on the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Nicaragua is a member of the Organization of American States and the Caribbean Financial Action Task Force.

The Government of Nicaragua should expand the predicate crimes for money laundering beyond narcotics-trafficking and should criminalize terrorist financing. It should also make it a priority to allocate the resources needed to develop a fully functioning financial intelligence unit and to fully implement its anti-money laundering regime. Nicaragua should take steps to immobilize its bearer shares and adequately regulate its gambling industry. These steps would significantly strengthen the country's financial system against money laundering and terrorist financing, and would ensure compliance with relevant international standards regarding anti-money laundering controls.

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 became law in June 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 called 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. The office was established in 2004. 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 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's consolidated list. In addition, the Government of Niger (GON) and the BCEAO actively comply with U.S efforts to combat terrorist financing. When notified of persons or entities designated by the UN 1267 Sanctions Committee's consolidated list or the list of Specially Designated Global Terrorists designated by the U.S. pursuant to E.O 13224, the BCEAO promptly disseminates information to all financial institutions in Niger. Since January 1, 2004, there have been no reported cases of money laundering or terrorist financing in Niger.

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. In April 2004, The National Assembly adopted a domestic law on money laundering to implement GIABA. In September 2004, Niger ratified the UN Convention against Transnational Organized Crime and acceded to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Niger should continue to implement all the provisions of the 2004 anti-money laundering laws.

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. Nigeria is a major drug-transit county. Nigeria is 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 many types of financial crimes, 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. The Government of Nigeria (GON) has made efforts to counteract these crimes but, despite some successes in 2004, socio-economic conditions have impeded its efforts.

In addition to narcotics-related money laundering, 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; more 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 its 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 2002, the FATF recommended countermeasures against Nigeria if the Government of Nigeria (GON) did not enact sufficient legislative reforms by December 15, 2002. That same month, Nigeria submitted an anti-money laundering implementation plan to the FATF, but it was deemed insufficient to justify delisting Nigeria.

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 bank 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), that coordinates anti-money laundering investigations and information sharing. The 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. Based on this legislation, FATF decided not to recommend countermeasures against Nigeria; however, Nigeria remains on the NCCT list.

In April 2003, the EFCC was formally constituted, with the primary mandate to investigate and prosecute financial crimes. It has recovered or seized assets from various people guilty of fraud inside and outside of Nigeria, including 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 intent by the government to more aggressively investigate “419” and other economic crimes in Nigeria.

In 2004, the National Assembly passed the Money Laundering (Prohibition) Act (2004), which applies to the proceeds of all financial crimes. It also covers stock brokerage firms and foreign currency exchange facilities, in addition to banks and financial institutions. The legislation gives the CBN greater power to deny banks licenses and freeze suspicious accounts. This legislation strengthens 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.

However, in November 2004, the Chairman of the EFCC stated publicly that over 90 percent of Nigeria’s banks were not in compliance with the new law. He said that banks were not adhering to the know-your-customer and know-your-customer’s-business provisions of the law, and that 95 percent of banks had not yet filed any suspicious transactions reports (STRs), something he deemed “suspicious by itself.” However, he vowed to promulgate a new initiative to educate bank personnel and the general public about the provisions of the law before he began imposing sanctions for non-compliance.

The EFCC recorded some successes in 2004 in the area of combating money laundering, including the arrest of several notorious advance fee fraud kingpins, who are currently being prosecuted. These include a group involved in the Brazilian bank scam that totaled \$242 million. The EFCC seized assets worth about \$300 million in 2004. The EFCC was involved in the prosecution of more than 100 high-profile financial crime cases in the Nigerian High Court, including bank fraud, tax evasion, and money laundering. For the first time in the history of the country, a sitting provincial governor is being tried for corruption and money laundering, and several other money laundering cases are being tried. There was one money laundering conviction in 2004. The EFCC established a Financial Intelligence Unit (FIU) in 2004 that is now receiving and analyzing STRs. However, as noted above, very few such reports have yet been filed.

Nigeria 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. On December 9, 2003, Nigeria signed the UN Convention against Corruption. The United States and Nigeria have a Mutual Legal Assistance Treaty, 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 bilateral agreements for exchange of information on money laundering with South Africa, the United Kingdom, and all Commonwealth and Economic Community of West African States countries. Nigeria has been instrumental in the establishment of a permanent secretariat for the Intergovernmental Task Force Against Money Laundering in West Africa (GIABA).

The Government of Nigeria should continue to engage with the FATF to ensure that Nigeria’s remaining anti-money laundering deficiencies are corrected. It should also bolster the Economic and Financial Crimes Commission by ensuring that it is adequately funded. Nigeria should construct a comprehensive anti-money laundering regime that willingly shares information with foreign regulatory and law enforcement agencies, is capable of thwarting money laundering and terrorist financing, and comports with all relevant international standards. Nigeria 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 international business companies. 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 no 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 their 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. The institutions then will have to submit the statement of those procedures to the FIU. The FIU will also have powers to conduct investigations to ensure compliance by financial institutions with the Financial Transactions Reporting Act 2000. 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 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 the island by a registered agent and is accessible to appropriate officials.

Due to these reforms, the Financial Action Task Force (FATF) decided in October 2002 that Niue had in place an anti-money laundering system that generally meets international standards. Niue was therefore removed from the list of Non-Cooperative Countries or Territories (NCCT), on which it had been placed in June 2000. With Niue's removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) lifted its advisory that had instructed all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving Niue.

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 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.

The Government of Niue's recent reforms address some of the deficiencies in Niue's anti-money laundering regime; however, the government must finalize and promulgate the necessary regulations to bring the legislation into full force, including the establishment of a Financial Intelligence Unit (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. However, criminal activity, particularly connected with narcotics and economic crime, is increasing in Norway. According to Oekokrim, the economic crime unit of the Ministry of Justice, which serves as Norway's Financial Intelligence Unit (FIU), the rise in crime has been marked by increases in specialization, cooperation

between criminal networks, links between criminal and legal business activities, and the use of advanced technologies. Violent and professional armed robberies, often by foreigners, have also become more frequent. Authorities suspect that the proceeds of the robberies are laundered through registered companies formally or informally controlled by the criminals. Most money laundering occurs outside the banking and financial services 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. Norway does not have a significant market for smuggled goods. Norway has neither free trade zones nor an offshore banking system.

In accordance with the Norwegian Penal Code, all forms of money laundering are criminal offenses. Norway's anti-money laundering legislation has been strengthened in recent years to conform to the Financial Action Task Force (FATF) Forty Recommendations. In 2004, a new Money Laundering Law took effect, replacing the provisions of the 1988 Financial Institutions Act. The new act strengthens registration requirements, broadens the obligation to report suspicious transactions, and makes 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.

All financial institutions are required to report large and suspicious transactions to Oekokrim, verify the identity of their customers, and keep records of transactions for at least five years. Money laundering controls are also applied to all non-bank financial institutions, such as insurance companies. Financial institutions are required to report large cash transactions, including cross-border transactions, to the Norwegian Central Bank, specifying sender and recipient information. Norway has not enacted secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law-enforcement authorities. Individual bankers may be held responsible if their institutions launder money; however, the law protects reporting individuals. The number of money laundering infractions reported by traditional financial institutions decreased during the first half of 2004. Oekokrim's money laundering unit attributes the decline to the financial institutions' initial uncertainty regarding procedures under the new Money Laundering Act and to their decision to focus on the most serious and complex cases.

Through June 30, 2004, Norwegian authorities initiated 292 money laundering investigations. A total of 245 cases resulted in indictments or fines, and there were 100 court convictions for money laundering. 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.

According to Norwegian laws, assets derived from criminal acts (narcotics-trafficking, money laundering, and support for terrorism), are to be seized and confiscated by the State. Oekokrim continues to establish systems for identifying, tracing, freezing, seizing, and forfeiting narcotics-related assets and remains the principal entity responsible for tracing and seizing assets, although any police unit may do so in Norway. Section 34 of the Penal Code establishes that confiscation is mandatory unless a court finds that the confiscation is unreasonable. In serious cases, the law allows for extended confiscation. The offender must be found guilty of a criminal act from which considerable proceeds are accrued. Considerable proceeds are defined as at least NOK 75,000 (\$12,000). Legitimate businesses may be seized if they are used to launder drug money or support terrorist activity, or are linked to other criminal proceeds. Substitute assets may be seized. 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.

The law allows civil as well as criminal forfeiture. In 2003 authorities issued 929 confiscation orders totaling over \$24 million. To date, Norway has not enacted laws for sharing narcotics assets with other countries.

On June 28, 2002, Norway enacted Section 147 (A-B) of the Penal Code, criminalizing the financing of terrorism. The new bill establishes legislative measures against acts of terrorism and the financing of terrorism, which fulfill 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. There were no arrests or prosecutions for terrorist financing, and Oekokrim did not receive any suspicious transaction reports related to terrorism in 2004. Authorities have investigated one suspected instance of terrorist financing, but the case was dropped in 2004.

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 UNSCR 1267 Sanctions Committee's consolidated list. In accordance with UNSCR 1267, the bank account of one individual has been frozen since February 2003. The amount frozen was approximately \$1,000.

Alternative remittance systems are prohibited in Norway. In November 2004, a Norwegian appellate court upheld the convictions of three Somalis accused of violating banking regulations by sending unauthorized remittances overseas. The prosecutor in the case reported that the men illegally remitted approximately \$6 million annually between 1998 and 2001. The ringleader of the scheme was sentenced to a one-year jail sentence and his two accomplices were fined approximately \$1,500 each.

Norway works with Europol and is a member of the FATF, Interpol, and Schengen. Oekokrim is a member of the Egmont Group. Norway is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Corruption. 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 consults frequently with United States authorities in connection with investigations and proceedings related to narcotics, terrorism, terrorist financing, and other crimes. Norway's Money Laundering Act and Terrorist Financing Law ensure the availability of adequate records in connection with investigations of interest to the United States and other governments.

The Government of Norway should continue to enhance its anti-money laundering/counterterrorist financing regime. Norway should consider the adoption of laws that would allow the sharing of seized assets with third party jurisdictions that 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 2004, Oman had a total of 17 banks with 353 branches. The banking system consisted of five local commercial banks with 304 Omani and 11 foreign branches, three local specialized banks with 26 local branches, and nine foreign incorporated banks with 23 branches in the country. Smuggling trade goods across Oman's long borders and coastline is becoming an increasing concern. Oman may also be vulnerable to instances of trade-based money laundering and customs fraud as well as unregulated lending schemes that fall outside government purview.

In March 2002, Royal Decree No. 34/2002 was issued promulgating “The Law of Money Laundering.” This new law strengthened the existing money laundering regulations by detailing bank responsibilities, widening the definition of money laundering to include funds obtained through any criminal means, and providing for the seizure of assets and other penalties. The new law applies to other types of non-bank financial institutions, as well. In a 2003 report to the UN Counter-Terrorism Committee, Omani officials stated that “the legal freezing measures designated by the Money laundering Act are applied to both residents and non-residents holding funds, financial assets, or other economic resources in the Sultanate of Oman if they are linked to terrorist-related activities.” In addition to an interagency committee for Anti-Money Laundering, the Sultanate has established a senior-level National Committee for Combating Terrorist Finance.

Royal Decree 72/2004 of July 7, 2004 promulgated the implementing regulations for the Law of Money Laundering. These regulations include, inter alia, the following provisions: a requirement that financial institutions “take steps to obtain information on customers who open accounts in an indirect way” and “keep electronic data on e-transactions”; guidelines in the area of profiling, requiring institutions to “check and double-check” certain classes of transactions (e.g., “customers getting loans from foreign institutions” and the “keeping of accounts that do not match the business nature”); requirements for government authorities to investigate all “suspicious dealings” using internal and external reporting mechanisms; authorization for the attorney general to freeze disputed assets upon the request of investigators; protection of “secret” information; an extensive training program, with introductory courses supplemented by instruction in international best practices and effective investigation techniques; definition of the organizational structure of the National Committee for Combating Money Laundering; and, cooperation with international organizations and information exchange with other countries, including collaboration on extradition issues.

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 plans to establish a Financial Intelligence Unit (FIU) that will review suspicious transactions and help coordinate resulting investigations. As of the end of 2004, there had been no arrests under the new law. No formal mechanism currently exists for information sharing among the Central Banks or FIUs of the Gulf Cooperation Council (GCC) members, although a banking supervision committee within the GCC does issue broad guidelines for financial institution oversight.

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. There is a government-registered charity (the Oman Charitable Organization, or OCO), and all citizens and entities are encouraged to use this official channel for donations. The Ministry of Social Development recently registered a charity fund run by a prominent local businessman. At various times, charitable donations have been collected through individual accounts in local banks and sent abroad by individuals to support different causes, such as the Palestinian Intifada and the building of schools or mosques in Africa and South Asia. The local Shia minority is believed to transfer money to support their religious imams, mainly in Iraq and Iran. Apart from monthly remittances by expatriate laborers, local Indian businessmen have also been reported to channel funds in support of Hindu religious groups. In all of these cases, the CBO possesses the authority and ability to check on these accounts, as all banks and moneychangers have the obligation to report on transactions.

Informal lending societies reportedly have emerged in recent years as a popular alternative to formal banking in Oman. These societies provide interest free loans as a means for young Omanis to purchase homes and cars or service bank debts. The societies became the target of three separate warnings from the Ministry of Social Development calling on Omanis to avoid these unregulated and unregistered financial entities. Nevertheless, many Omanis flocked to these societies in solidarity with members of

their tribes and in protest against double-digit interest rates being charged by commercial banks. Later, as membership numbered in the thousands, serious problems emerged as several founding members absconded with funds from their societies. Suspicious members withdrew from the schemes, causing the collapse of many societies. Transactions in these societies are made in cash, and the societies are not registered with any government agency or institution. While such practices constitute only a fraction of overall financial transactions in Oman, they merit greater scrutiny on the part of ROP and CBO authorities. Reports of excess liquidity in the Omani financial system and the demonstrated popularity of informal societies lend credence to the view that a significant amount of wealth, amounting to hundreds of thousands if not millions of dollars, is circulating outside the formal financial system and its strict regulations, auditing requirements, and accountability to the CBO.

Oman has responded to terrorist asset freeze lists from the UN 1267 Sanctions Committee by distributing the lists to all banks and other financial institutions in the country for checking against their accounts. Thus far, the Government has reported negative results. Oman is a party to the 1988 UN Drug Convention. Although not yet a party to the UN International Convention for the Suppression of the Financing of Terrorism, Omani officials insist that Oman will soon accede. Oman has yet to sign the UN Convention against Transnational Organized Crime. Oman is a member of the Gulf Cooperation Council (GCC), which itself is a member of the Financial Action Task Force (FATF). Oman is also a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

Overall, the Government of Oman maintains a strong and effective regulatory regime with respect to its formal financial institutions. Oman should continue to implement its anti-money laundering program, specifically by establishing and dedicating adequate resources to its Financial Intelligence Unit (FIU) and training criminal investigators to initiate money laundering investigations from the field. Oman also should address the risks of alternative remittance systems and unregulated lending societies to launder money and sidestep formal government oversight of financial transactions. Applying the careful lessons learned in its tight regulation of the formal sector, Oman must now recognize that informal money transfer and cash-based lending societies represent vulnerabilities that must be addressed. Oman should sign and ratify both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

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. Pakistan is a major drug-transit country. 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 network of private unregulated charities has also emerged as a major source of illicit funds for international terrorist networks.

Pakistan's current anti-money laundering regime is weak, outdated and based on a loose patchwork of laws and regulations. The major laws include: The Anti-Terrorism Act of 1997 (amended in October 2004 to increase maximum punishments), which defines the crimes of terrorist finance and money laundering and establishes jurisdictions and punishments; The National Accountability Ordinance of 1999, which requires financial institutions to report suspicious transactions to the National Accountability Bureau (NAB) and establishes accountability courts; and The Control of Narcotic Substances Act of 1997, which also requires the reporting of suspicious transactions, contains

provisions for the freezing and seizing of assets associated with narcotics-trafficking, and establishes special courts for offenses (including financing) involving illegal narcotics. The State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) regulate financial flows.

Since 2002, Pakistan's Ministry of Finance has been coordinating an interministerial effort to draft anti-money laundering and counterterrorist financing legislation, with the goal of bringing Pakistan into compliance with international norms. As of December 2004, this legislation had not received final cabinet approval, and therefore, had not been submitted to the National Assembly for enactment. The latest version of that legislation was reviewed by a delegation from a FATF-style regional body, the Asia/Pacific Group on Money Laundering (APG), in December 2004. The draft law, among other things, provides for a Financial Intelligence Unit (FIU), which does not currently exist in Pakistan.

Notwithstanding the absence of such legislation, the SBP, which serves as Pakistan's Central Bank, has created an anti-money laundering unit. It has also introduced FATF-compliant regulations in the areas of know-your-customer policy, record retention, due diligence of correspondent banks, and the reporting of suspicious transactions. The SECP, which has regulatory oversight for non-bank financial institutions, has applied know your customer regulations to stock exchanges, trusts, and other non-bank financial institutions. All transactions exceeding RS 50,000 (approximately \$847) must be carried out via check or bank draft, as opposed to cash. The NAB, the Anti-Narcotics Force, the Federal Investigative Agency, and the Customs authority 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's cooperation in Operation Enduring Freedom has brought renewed focus on the role of informal financial networks in financing terrorist activity. In June 2004, the SBP required all hawalas to register as authorized foreign exchange dealers and to meet minimum capital requirements. Failure to comply was punished by forced closures. However, despite increased enforcement efforts, unregistered hawalas continue to operate illegally. A large percentage of hawala transfers to Pakistan consists of the repatriation of wages from the roughly five million Pakistani expatriates residing abroad. Nevertheless, the U.S. Government has observed a migration of an increasing number of transactions from the informal to the formal financial institutions sector, due to the GOP's regulation of the domestic hawala business, post-September 11 changes in the patterns of behavior of overseas Pakistanis, and a substantial increase in credit available in the formal financial sector.

There have been reports of money laundering in Pakistan 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 counter valuation in hawala transactions. A nexus of private, unregulated charities has also emerged as a major source of illicit funds for international terrorist networks. As of December 28, 2004, Pakistan's Central Bank had frozen roughly \$10.5 million belonging to 12 entities and individuals, in compliance with UNSCR 1267.

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 2004, Pakistan had not signed the UN International Convention for the Suppression of the Financing of Terrorism. Pakistan became a member of the APG in 2000.

The Government of Pakistan should move quickly to enact anti-money laundering and counterterrorist financing legislation that conforms to international standards. It also should issue financial regulations that mandate the reporting of all suspicious transactions, and establish a Financial Intelligence Unit. In addition, in light of the role that private charities have played in terrorist financing, Pakistan should develop a system to regulate the finances of charitable organizations and to shut down those that finance violence and terrorism. Pakistan should ratify both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of Terrorist Financing. Greater efforts are also needed to track and suppress trade-facilitated money laundering.

Palau

Palau is 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 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. Palau recently prosecuted its first ever case under the Money Laundering and Proceeds of Crimes Act (MLPCA) of 2001 (MLPCA) against a foreign national engaged in a large prostitution operation. The defendant was convicted on all three counts as well as a variety of other counts.

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 \$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 \$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 seven fully licensed banks in Palau and one with a conditional license. Six of the banks are majority foreign owned, and one is wholly Palauan owned. Three other banks had their licenses invalidated in 2002 and a license of another bank was revoked in 2003. One bank had its license revoked in early 2005 and one bank that is operating on a conditional license has met the conditions for reopening and is now functioning under the supervision of the FIC. 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. Once the amendments to the MLPCA are passed, all alternative money remittance systems will be licensed and regulated by the FIC. 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. The Republic has only recently established a functioning Financial Intelligence Unit (FIU), though its operations are severely restricted by a lack of dedicated human and fiscal resources. The implementing regulations to ensure compliance with the MLPCA have yet to be written but the authorities have stated that they will be drafted once the revisions to the MLPCA have been passed. 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. Additionally, the President established the Anti-Money Laundering Working Group that is comprised of the Office of the President, the FIC, the Office of the Attorney General, Customs, the FIU, Immigration and the Bureau of Public Safety. The Senate has recently refused to approve the re-nomination of the Chairman of the FIC, Daiziro Nakamura..

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 and in 2004 Palau was able to assist the Department of Justice in a money laundering investigation by securing evidence critical to the case and freezing the suspected funds.

Pursuant to the adoption of the Asia/Pacific Group's (APG) mutual evaluation of Palau at its September 2003 Plenary, the Government of Palau (GOP) has proposed amendments to the MLPCA that, if enacted, would strengthen Palau's anti-money laundering regime. Among the more significant proposals are the following: the promulgation of reporting regulations for all covered financial institutions as well as alternative remittance providers; the requirement to obtain the identification of the beneficial owner of any type of account; mandatory reporting of suspicious transaction reports to the FIU regardless of the amount of the transaction; the requirement that any currency transaction over \$5000 be done by wire transfer; the requirement that alternative remittance systems providers report any cash remittance over \$500; and, a burden shifting regime for the seizure and forfeiture of assets upon a conviction for money laundering.

The President has also recently proposed the Cash Courier Act of 2004 that was drafted by the Palau Anti-Money Laundering Working Group.

The Omnibus Terrorism Act is currently pending in the OEK. If enacted with changes proposed by the President of the Republic, the Act would comport with current international standards, including provisions for the freezing of assets of entities and persons designated by the United Nations as terrorists or terrorist organizations, provisions for the regulation of non-profit entities to prevent abuses by criminal organizations and terrorists and provisions for criminalizing the financing of terrorism. The OEK has issued resolutions ratifying Palau's accession to all the United Nation's Conventions and Protocols relating to terrorism.

The Government of 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 Forty Recommendations and its Nine 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 enact legislation and promulgate implementing regulations to the MLPCA, as recommended by the APG, including but not limited to establishing funding for the FIU, eliminating the threshold for reporting suspicious transactions and beginning a broad-based implementation of the legal reforms already put in place.

Panama

The economy of Panama is service-based and heavily weighted toward maritime transportation, commerce, tourism, banking, and financial services. Panama is a major drug-transit country. Panama's proximity to major drug-producing countries, its sophisticated international banking sector, its U.S. dollar-based economy, and the Colon Free Zone's (CFZ's) 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. Despite significant progress to strengthen Panama's anti-money laundering regime since October 2000, money laundering remains a serious threat to the stability of the country's legitimate financial institutions. Panama is a destination for 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 31), captive insurance companies (corporate entities created and controlled by a parent company, professional association, or group of businesses), and trust companies. 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 2,600 businesses established in the Zone) presents opportunities for trade-based money laundering to occur.

Law No. 41 (Article 389) of October 2, 2000 amended the Penal Code by expanding the 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 establishes a punishment of five to 12 years imprisonment and a fine.

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. Law No. 1 of January 5, 2004, adds crimes against intellectual property as a predicate offense for money laundering.

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 Unidad de Analisis Financiero (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 Superintendencia of Banks the real and ultimate beneficial owners of trusts.

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 Superintendencia 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, and also began drafting a law to regulate the operations of pawnshops and exchange houses. It also increased the number of inspections of finance companies it conducted. 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. The UAF continues efforts to raise the level of compliance for reporting suspicious financial transactions, particularly by non-bank financial institutions and businesses in the CFZ. In 2004, the Stock Commission announced that it would begin investigating suspicious activity.

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.

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. In 2003, Panama launched an education program related to prevention of money laundering and terrorist financing. Panama's Banking Association, the Inter-American Development Bank, the Panamanian Government, and the United States Government financed this campaign. Initiatives under this campaign include a crime analysis seminar, a regional seminar on money laundering for banking regulators, and the detection and reporting of suspicious activities for the banking sector. During 2004, the programs included training for the Gaming Control Commission and a seminar for the Hemispheric Congress on the prevention of money laundering. In 2004, more than 5,000 officials from public and private sector institutions received training through this campaign. Participants included representatives from banks, credit unions, real estate agencies, stockbrokers, insurance companies, Colon Free Trade Zone companies, financial institutions, and money order companies.

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 2004, Panamanian Customs continued a 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. Bulk cash shipments, including through Tocumen Airport, continue to be of great concern, with smugglers often under-declaring the amount of cash being brought into the country.

Executive Order No. 163 of October 3, 2000, which amended the June 1995 decree that created the UAF, also allows the UAF to provide information related to possible money laundering directly to the Office of the Attorney General for investigation. Panama has brought cases for domestic prosecution, and the UAF routinely transfers cases to the Unidad de Inteligencia Financiera (UIF) for investigation. During 2004 the Financial Fraud Prosecutor's office investigated 2,459 cases related to financial crimes, 86 of which led to a conviction. These included credit card fraud and fraud involving banking institutions.

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 Yardená

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. In 2004, Panamanian officials charged former Nicaraguan President Arnoldo Aleman with money laundering crimes. The GOP received cooperation in the investigation from the Government of Nicaragua. Also during 2004, there were investigations into possible money laundering crimes of high-level Costa Rican government officials. Finally, GOP investigators are looking into corruption allegations made against former government officials.

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.

Decree No. 22 of June 2003 gave the Presidential High Level Commission against Narcotics Related Money Laundering responsibility for combating terrorist financing. 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's 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 United States efforts to identify and block terrorist-related funds, the GOP continues to monitor suspicious financial transactions.

Also, the GOP created the Department of Analysis and Study of Terrorist Activities. This department is tasked with working with the United Nations and the Organization of American States to investigate transnational issues, including money laundering. Panama has an implementation plan for compliance with the Financial Action Task Force (FATF) Forty Recommendations on Money Laundering and its Special Recommendations on Terrorist Financing.

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 help 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. Executive Decree No. 163 authorizes the UAF to share information with FIUs of other countries, subject to entering into a memorandum of understanding or other information exchange agreement. The UAF has signed more than 27 memoranda of understanding with FIUs, including the U.S. FIU, FinCEN.

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), and is the current Chair of the Caribbean Financial Action Task Force. Panama is also a member of the Offshore Group of Banking Supervisors, and 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 2004, of the UN Convention against Transnational Organized Crime.

The Government of 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, Panama 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. 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.

The GPNG continues to consider amending the Criminal Code Act that will cover the collection, recruiting, or soliciting of funds from other countries for terrorists/terrorist purposes. 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. Reportedly, the GPNG plans legislation in this area. Papua New Guinea is an observer to the Asia/Pacific Group on Money Laundering. The GPNG is not a party to the 1988 UN Drug Convention but is a party to the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of Papua New Guinea should enact a comprehensive anti-money laundering regime that criminalizes money laundering related to all serious crimes. Specific counterterrorism legislation implementing UNSCR 1373 and the UN International Convention for the Suppression of the Financing of Terrorism should also be adopted, including criminalizing terrorism and the funding of terrorism. Papua New Guinea should also become a party to the 1988 UN Drug Convention. Papua New Guinea should become a member of the Asia/Pacific Group on Money Laundering.

Paraguay

Paraguay is a principal money laundering center, involving both the banking and non-banking financial sectors. The multi-billion dollar contraband re-export trade that occurs largely on the border shared with Argentina and Brazil facilitates much of the money laundering in Paraguay. Paraguay is a major drug-transit country. The Government of Paraguay (GOP) suspects that proceeds from narcotics-trafficking are often laundered, but is it difficult to determine what percentage of laundered funds is directly generated from narcotics sales. Weak controls in the financial sector, an open border, and minimal enforcement activity for financial crimes allow money launderers and terrorist financiers to take advantage of Paraguay's financial system. Although the Government of Paraguay (GOP) has made some progress in 2004, it will need to pursue more aggressive policies in 2005 in order to increase its effectiveness in combating money laundering and terrorist financing.

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. Paraguay is not considered to be an offshore financial center, but the GOP does allow representative offices of offshore banks to maintain

a presence in the country. Shell companies are not permitted; trusts, however, are permitted and are regulated by the Central Bank. 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 a large informal economy exists outside the regulatory scope of the GOP.

Money laundering in Paraguay is facilitated by the multi-billion dollar contraband re-export trade that occurs largely in the Triborder Area shared by Paraguay, Argentina, and Brazil. Ciudad del Este (CDE), on the border between Brazil and Paraguay, represents the heart of Paraguay's informal economy. The area is well known for arms and narcotics-trafficking, as well as crimes against intellectual property rights. A wide variety of counterfeit goods, including cigarettes, CDs, DVDs, and computer software, are imported from Asia and transported primarily across the border into Brazil, with a significantly smaller amount remaining in Paraguay for sale in the local economy. Some senior government officials, including members of Congress, have been accused of involvement in the smuggling of contraband or pirated goods. To date there have been few criminal investigations, much less prosecutions of senior GOP officials involvement in smuggling contraband or pirated goods) Government officials, in both Paraguay and the United States, also suspect the area to be a source of terrorist financing. Raids in CDE have led to the seizure of 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.

In 2003, the GOP noted that it was trying to introduce "maquilas" (assembly line industries) but had not done so in 2004. The GOP is trying to strengthen its tourism industry by proposing advances to its tourism infrastructure such as the international airport in Asuncion, making it a regional transportation hub for cargo and possibly passenger airlines.) Although currently no formal free trade zones are located within the country, the new customs code implemented in early 2004 provides for the creation of these zones. One is currently being planned in the town of Villeta, near Asunción. These free trade zones will not help reduce money laundering in Paraguay-in fact, the addition of free trade zones may provide additional venues for money laundering.

There are no effective controls on the amount of currency that can be brought into or out of Paraguay. Cross-border reporting requirements are limited to those issued by airlines at the time of entry into Paraguay. Persons transporting \$10,000 into or out of Paraguay are required to file a customs report, but these reports are often not actually collected or checked. Customs operations at the airports or land ports of entry provide no control of the cross-border movement of cash. The non-bank financial sector, particularly exchange houses, are used to move illegal proceeds both from within and outside of Paraguay into the formal banking system of the United States. Most of these funds move from Brazil through Ciudad del Este to the banking sector. Paraguay exercises a dual monetary system in which most high-priced goods are paid for in U.S. dollars. Large sums of dollars generated from normal commercial activity and suspected illicit commercial activity are transported physically from Paraguay through Uruguay to the banking centers in the United States. Within the past year, the GOP has begun to recognize and address the problem of the international transportation of currency and monetary instruments derived from illegal sources.

Bank fraud, which has led to several bank failures, and other financial crimes related to corruption are serious problems in Paraguay. Following bank failures in 2002 and 2003, Paraguay continues to experience problems in the banking industry. In 2004, Citibank decided to end its participation in small-consumer banking in Paraguay, and subsequently closed almost all of its branches nationwide. The GOP continues to work with the U.S. Treasury and Justice Departments to trace, account for, and return the missing \$16 million diverted from the Central Bank in 2002 to private accounts allegedly linked to the family of former President Luis Gonzalez Macchi.

Money laundering is 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 non-banking 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, as well as suspicious activities, to Paraguay's Financial Intelligence Unit (FIU), the Unidad de Análisis Financiera (UAF). The UAF 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 had been regarded as ineffective, and was 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 case 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. Serious concerns also exist with regard to UAF's personnel, its handling of confidential information, cumbersome record keeping, and concerns about possible corruption within the FIU. Efforts were made to by the GOP to improve its anti-money laundering capabilities, and in 2003, existing personnel began to be vetted and replaced as appropriate. However, there remains limited exchange of information between U.S. law enforcement agencies and GOP entities on money laundering cases, as a result of a leak of information in 2002. Information is now exchanged on a case-by-case basis.

The banking "Risk Control Division," created in 2003 to replace the Superintendent of Banks' FIU, and eliminate its duplicative function with the UAF, has the primary responsibility of reviewing the records of national financial institutions for suspected terrorist activity. The Risk Control Division is empowered to coordinate information exchange with the Central Banks of other MERCOSUR countries, but has no authority to conduct investigative work associated with financial suspicious activity reports. That remains the purview of the UAF. According to SEPRELAD officials, there has been little coordination or cooperation between the UAF and the Risk Control Division. The two groups are collaborating on a memorandum of understanding (MOU), which will lay out the provisions for increased cooperation. The MOU is scheduled to come into effect early this year. In 2004, the RCD suffered some growing pains, since its inception last year, and is off to a slow start. The division is working on several *casas de cambio* cases among its current caseload.

In 2004 SEPRELAD made significant efforts to improve the UAF's personnel, analytical capabilities, infrastructure, and technical capabilities. All UAF personnel are now vetted and receive significant

analytical training. The UAF is seeking to strengthen its relationship with other financial intelligence units; for example, the UAF is working with the U.S. financial intelligence unit, FinCEN, to re-establish information sharing procedures, which were suspended following an unauthorized disclosure by the GOP of U.S. financial information in 2001. In 2004, SEPRELAD helped to create and coordinate an interagency money laundering working group, whose members include the director of the UAF, the director of the National Anti-Drug Secretariat (SENAD), the assistant attorney general for economic crimes, the director of the customs agency and a criminal appellate judge.

The UAF also increased its role in regional and international anti-money laundering groups, including the Egmont Group and the Financial Action Task Force for South America (GAFISUD). The UAF's director now participates in the GAFISUD FIU Working Group and a committee within the Egmont Group, further expanding Paraguay's role in these organizations. Paraguay will undergo its second mutual evaluation by GAFISUD in 2005.

The new law to improve the effectiveness of Paraguay's anti-money laundering regime, drafted in late 2003, was formally introduced to Congress in May 2004, where it now remains under consideration by legislative committees. The draft law should come before the full Congress for consideration in 2005. The GOP is also in the process of drafting an counterterrorism bill to address terrorist financing issues.

The new money laundering legislation, if approved, will institute important national reforms. In addition to confirming the UAF's role as the sole FIU, it establishes SEPRELAD an independent secretariat or agency reporting directly to the Office of the President. 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 crimes that are punishable by a prison term exceeding six months, and specifically criminalizes money laundering tied to the financing of terrorist groups or acts. The full range of covered institutions will be required to report suspicious transactions to the UAF and to maintain registries of large currency transactions that equal or exceed \$10,000. Under the draft legislation, those institutions have been expanded to 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. 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 UAF will continue to 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 SENAD is the principal authority for carrying out all counternarcotics and other financial investigations, and will also have the authority to initiate investigation of cases on its own.

There are other challenges, however, that the new money laundering legislation, when passed, will not address. With only eight prosecutors dedicated to financial crimes, Paraguay currently has limited resources to investigate and prosecute money laundering and financial crimes. Moreover, prosecutors have little experience working with the UAF, and unless 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. As it is, those individuals implicated in money laundering are prosecuted on tax evasion charges. In May 2004, Assad Barakat—widely alleged to be involved in money laundering—was convicted of tax evasion and sentenced to six and one-half years in prison. In late 2004, prosecutors were investigating several tax evasion cases involving suspected money laundering by both legal and illegal money exchange offices in Ciudad del Este.

Another serious problem for money laundering investigations that will not be corrected by the new law is the obligation of federal prosecutors to notify a suspect in writing that he/she is the subject of an investigation. Suspects must be notified within six months of the start of an investigation, and may have access to all information gathered through the investigation. This is mandated by Paraguay's penal code.

Under current laws, the GOP has limited authority to freeze, seize, and/or forfeit assets of suspected money launderers. In most cases, assets that the GOP is permitted to freeze, seize, and/or forfeit are limited to transport vehicles, such as planes and cars, and normally do not include bank accounts. However, authorities may not auction off these assets until a conviction is announced by the judicial system. At best, the GOP can establish a "preventative embargo" against assets of persons under investigation for a crime in which the state risks loss of revenue from furtherance of a criminal act, such as tax evasion. However, in those cases the limit of the embargo is set as the amount of liability of the suspect to the government. As the government entity primarily responsible for the tracing and seizing of assets, SENAD is required to split the proceeds of the forfeiture with the Public Ministry. SENAD currently has no figure for the amount of assets seized and/or forfeited in 2004, as it does not place a value on these assets before auction. Under current provisions of the law, significant legal loopholes exist, allowing criminals to hide their assets under another person's name.

The new anti-money laundering legislation will, when passed, allow prosecutors to recommend that judges freeze or confiscate assets connected to money laundering and its predicate offenses. The draft law also provides for the creation of a special asset forfeiture fund to be administered by a consortium of national governmental agencies, which will support programs for crime prevention and suppression, including combating money laundering, and related training.

The GOP currently has no authority to freeze, seize, and/or forfeit assets related to the financing of terrorism. A recent attempt to freeze the assets of a suspected terrorist financier for tax evasion failed because prosecutors perceived that the Paraguayan constitution prohibits the confiscation of personal property. The financing of terrorism is not criminalized under current Paraguayan law. However, the Ministry of Foreign Affairs often provides the Central Bank and other government entities with a list of groups or individuals included on the UNSCR 1267 Sanctions Committee consolidated list; to date, the GOP has not identified, seized, or forfeited any such assets linked to these groups or individuals. The current law also does not provide any measures for thwarting the misuse of charitable or non-profit entities that can be used as conduits for the financing of terrorism. Following the submission of the draft anti-money laundering law to Congress in May 2004, a working group of GOP and U.S. officials began drafting legislation to address terrorism and terrorist financing. The draft legislation will allow the GOP to conform to international standards on the suppression of terrorist financing. The draft anti-money laundering legislation will also specifically criminalize money laundering tied to the financing of terrorist groups or acts.

The GOP ratified the UN International Convention for the Suppression of the Financing of Terrorism in November 2004 and the Organization of American States Inter-American Convention on Terrorism in January 2005. Paraguay has also signed, but not ratified, the UN Convention against Corruption. In September 2004, the GOP ratified the UN Convention against Transnational Organized Crime. Paraguay is party to the 1988 UN Drug Convention, and participates in Summit of the Americas and Inter-American Drug Abuse Control Commission (CICAD)-related meetings on money laundering. Paraguay is a member of the South American Financial Action Task Force (GAFISUD), the Egmont Group, and the "3 Plus 1" Counter-Terrorism Dialogue between the United States and the Triborder Area countries.

While the Government of Paraguay took a number of positive steps in 2004, there are other initiatives that should be pursued in 2005 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. Paraguay should also continue efforts to combat corruption, and increase information sharing among concerned agencies when and if the corruption issues are resolved. Paraguay does not have an counterterrorism law or a law criminalizing terrorist financing. While the new money laundering law would increase the Government of Paraguay's abilities to combat terrorist financing, it should also take steps as quickly as possible to ensure that comprehensive counterterrorism legislation is passed. Reforms to the criminal procedure code that would allow prosecutors to carry out long-term criminal investigations should be considered. Reforms to the customs agency are also necessary in order to allow for increased inspections and interdictions at ports of entry and to develop strategies targeting the physical movement of bulk cash. It is essential that the Unidad de Análisis Financiera continue to receive the financial and human resources necessary to operate as an effective, fully functioning Financial Intelligence Unit capable of effectively combating money laundering, terrorist financing, and other financial crimes.

Peru

Peru is not a major regional financial center, nor is it an offshore money laundering haven. Peru is a major drug producing and drug-transit country. Narcotics-related and other money laundering does occur, and the Government of Peru (GOP) has taken several steps to improve its money laundering legislation and enforcement abilities. Nevertheless, more effort is necessary to better assess the scale and methodology of money laundering in Peru. Peru is the world's second largest producer of cocaine, and, although no reliable figures exist regarding the exact size of the narcotics market in Peru, conservative estimates indicate that the cocaine trade generates between 1.5 to two billion dollars per year. As a result, money laundering occurs on a significant scale to integrate the illegal proceeds generated from the cocaine trade into the Peruvian economy.

Money laundering has historically been facilitated by a number of factors. Peru's economy is heavily dependent upon the U.S. dollar and approximately 65 percent of the economy is dollarized, allowing traffickers to handle large bulk shipments of U.S. currency with minimal complications. Currently no restrictions exist on the amount of foreign currency an individual can exchange or hold in a personal account, and until recently, there were no controls on bulk cash shipments coming into Peru.

A number of former government officials, most from the Fujimori administration, are under investigation for corruption-related crimes, including money laundering. These officials have been accused of transferring tens of millions of dollars in proceeds from illicit activities (e.g., bribes, kickbacks, or protection money) into offshore accounts in the Cayman Islands, the United States, and/or Switzerland. The Peruvian Attorney General, a Special Prosecutor, the office of the Superintendent of Banks (SBS) and the Peruvian Congress have conducted numerous investigations, some of which are ongoing, involving dozens of former GOP officials. In 2004, 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. However, there have been no convictions for money laundering offenses to date in Peru.

On June 1, 2004, the United States Department of the Treasury's Office for Foreign Assets Control (OFAC) initiated an investigation of Fernando Zevallos Gonzales, founder and de facto owner of Peru's largest airline, Aero Continente. Because of Zevallos's suspected links to narcotics-trafficking and money laundering, all of his assets in the United States were frozen by OFAC. OFAC formally added Aero Continente, now known as Nuevo Continente, to its Specially Designated Nationals (SDN) list pursuant to the Foreign Narcotics Kingpin Designation Act.

Prior to 2002, Peru had a relatively weak anti-money laundering legislative and regulatory framework. The previous system criminalized only the laundering of proceeds directly associated with narcotics trafficking and "narcoterrorism," and mandated that all unusual or suspicious financial transactions be

reported directly to the Public Ministry. Only banks and other financial institutions were required to report suspicious transactions or large cash transactions, and the requirement to report cash transactions was suspended in August 1998, one month after it went into effect.

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. In April and June of that year, Laws 27.693 and 27.765 were adopted. Law 27.765 expands the predicate offenses for money laundering to include the laundering of assets related to all serious crimes, such as narcotics-trafficking, terrorism, corruption, trafficking of persons, and kidnapping.

The penalties for money laundering were also revised. Instead of a life sentence for the crime of laundering money, Law 27.765 sets prison terms of up to 15 years for convicted launderers, with a minimum sentence of 25 years for cases linked to narcotics-trafficking, terrorism, and laundering through banks or financial institutions. In addition, revisions to the Penal Code criminalize “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.

Law 27.693 provided for the creation of Peru’s financial intelligence unit, the Unidad de Inteligencia Financiera (UIF), an autonomous body reporting to the Office of the Prime Minister. The law also expanded the entities obligated to report suspicious transactions beyond just banks and financial institutions. Stock funds or brokers, credit and debit card companies, exchange houses, mail and courier services, travel and tourism agencies, hotels and restaurants, notaries, 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 required to maintain registries of suspicious transaction reports (STRs) sent to the UIF. Law 27.693 also reinstated reporting requirements for large cash transactions, and 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. These cash transaction reports (CTRs) must be maintained in internal databases for a minimum of five years and be made available to the UIF upon request. Major institutions are required to appoint supervisory-level compliance officials to ensure that all reporting requirements for STRs and CTRs are met.

Law 27.693 also enables the UIF to request information from the following entities: the National Superintendence for Tax Administration, Customs, the Securities and Exchange Commission, the Public Records Office, the Public or Private Risk Information Centers, and the National Identification Registry and Vital Statistics Office. However, the UIF can only share information with other agencies—including foreign entities—if there is a joint investigation underway.

In July 2004, the GOP demonstrated further efforts to strengthen its anti-money laundering and terrorist financing system with the passage of Law 28.306. Law 28.306, which entered into effect on July 30, 2004, mandated that covered entities report suspicious transactions related to terrorist financing, and expanded the UIF’s functions to include the ability to analyze reports related to terrorist financing. Terrorist financing is criminalized under Executive Order 25.475, but Law 27.693 did not require covered entities to report suspicious transactions related to the financing of terrorism, nor did it enable the UIF to analyze such reports.

Law 28.306 also increased the number of individuals and entities required to file CTRs or STRs and expanded the number of government agencies from which the UIF may request information. A new reporting requirement was added as well: individuals or entities transporting more than \$10,000 in

currency or monetary instruments into or out of Peru must file reports with the customs agency, and the UIF may have access to those reports upon request. The law also gives the UIF the power to sanction entities for failure to report suspicious transactions, large cash transactions, or the transportation of currency or monetary instruments. Under Law 28.306, the UIF now has regulatory responsibilities for all covered entities that do not fall under the supervision of another regulatory body (such as the Superintendence of Banks).

The UIF began operations in June 2003 and today has 41 personnel. Reporting requirements entered into effect in September 2003, and as of October 2004 the UIF has received approximately 190 STRs. The FIU cannot receive STRs electronically; covered entities must hand-deliver STRs to the UIF.

The UIF has requested additional information from the covered entities on roughly 30 percent of the STRs. The UIF currently does not receive cash transactions reports or reports on the international transportation of currency or monetary instruments. CTRs are maintained in internal registries within the obligated entities, and reports on the international transportation of currency or monetary instruments are maintained by the customs agency. If the UIF receives an STR and determines that the STR warrants further analysis, it contacts the covered entity that filed the report for additional background information—including any CTRs that may have been filed—and/or the customs agency to determine if the subject of the STR had reported the transportation of currency or monetary instruments.

The UIF cannot receive CTRs without specifically requesting them from the covered entities, and there is no regular CTR reporting. Some requests for reports of transactions over \$10,000—such as those that are deposits into savings accounts—are protected under the constitution by bank secrecy provisions and require an order from the Public Ministry or SUNAT, the tax authority. A period of 15-30 days is required to lift the bank secrecy restrictions. All other types of cash transaction reports, however, may be requested directly from the reporting institution.

Once the UIF has completed the analysis process and determined that a case warrants further investigation or prosecution, the case is sent to the Public Ministry. Within the counternarcotics section of the Public Ministry, two specialized prosecutors are responsible for dealing with money laundering cases. As of December 2004, 19 cases had been sent to the Public Ministry for further investigation and all have been investigated by the two prosecutors. However, only three are ready for trial, and there have been no money laundering prosecutions in Peru to date.

In addition to being able to request any additional information from the UIF in their investigations, the Public Ministry may also request the assistance of the Directorate of Counternarcotics (DINANDRO) of the Peruvian National Police. With the passage of Law 28.306 in July 2004, DINANDRO and the UIF are now able to collaborate on investigations, although each agency must go through the Public Ministry in order to do so. DINANDRO may provide the UIF with intelligence for the cases the UIF is analyzing, while it provides the Public Ministry with assistance on cases that have been sent to the Public Ministry by the UIF.

The UIF was given regulatory responsibilities in July 2004 under Law 28.306. Most covered entities fall under the supervision of the Superintendence of Banks and Insurance (banks, the insurance sector, financial institutions), the Peruvian Securities and Exchange Commission (securities, bonds), and the Ministry of Tourism (casinos). All entities that are not supervised by these three regulatory bodies, such as auto dealers, construction and real estate firms, etc., fall under the supervision of the UIF.

However, some covered entities remain unsupervised. For instance, although money remittance businesses are regulated by the Superintendence of Banks, the Superintendence is not required to supervise any money remittance business that does less than 1,240,000 soles (about \$400,000) in transfers per year. There is also difficulty in regulating casinos, as roughly 60 percent of that sector is informal. An assessment of the gaming industry conducted by GOP and U.S. officials in 2004

identified alarming deficiencies in oversight, and described an industry that is vulnerable to being used to launder large volumes of cash. Approximately 580 slot houses operate in Peru, with less than 65 percent or so paying taxes. Estimates indicate that under 42 percent of the actual income earned is being reported, while official gaming revenues totaled \$650 million in 2003. This billion-dollar cash industry continues to operate with little supervision.

Peru currently lacks comprehensive and effective asset forfeiture legislation. The Financial Investigative Office of DINANDRO 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, no clear mechanism exists 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.

As one of four countries participating in the G-8 Anti-Corruption and Transparency initiative, the GOP has committed itself to create a specialized office within the Public Ministry to provide advice on locating and recovering stolen public assets. Also as part of the initiative, the UIF will pursue activities to raise public awareness of money laundering, research money laundering trends in specific sectors of the economy, further improve the legal framework addressing money laundering, and promote better GOP interagency cooperation in pursuing cases.

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 also has not yet taken any actions to thwart the misuse of charitable or non-profit entities that can be used as conduits for the financing of terrorism. However, with the passage of Law 28.306, the GOP did make some improvements with regard to terrorist financing legislation in 2004. Law 28.306 mandates that covered entities report suspicious transactions related to terrorist financing, and enables the UIF to analyze those reports. The financing of terrorism is criminalized under Executive Order 25.475.

Peru ratified the UN International Convention for the Suppression of the Financing of Terrorism on November 10, 2001, and the Organization of American States Inter-American Convention on Terrorism in 2003. Peru is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime, and ratified the UN Convention against Corruption in November 2004. Peru is a member of the Organization of American States Drug Abuse Control Commission (OAS/CICAD) Experts Group to Control Money Laundering. Peru is also a member of the South American Financial Action Task Force (GAFISUD), and was elected in July 2004 to hold the GAFISUD presidency in 2005. Peru is expected to become a member of the Egmont group of international FIUs in mid-2005. An extradition treaty between the U.S. Government and the GOP entered into force in 2003.

The Government of Peru has made serious advances in strengthening its anti-money laundering regime in 2004. However, some progress is still required. Anticorruption efforts in Peru should be a priority, and the need for strong confidentiality protocols for the Unidad de Inteligencia Financiera should be stressed. However, there are still a number of weaknesses in Peru's anti-money laundering system: bank secrecy must be lifted in order for the Unidad de Inteligencia Financiera to have access to certain cash transaction reports, smaller financial institutions are not regulated, and the Unidad de Inteligencia Financiera is not able to work directly with law enforcement agencies; rather, the Public Ministry must coordinate any collaboration between the Unidad de Inteligencia Financiera and the other agency. Peru should also enact legislation that allows for administrative as well as judicial blocking of terrorist assets. These issues should be addressed in order to strengthen Peru's ability to combat money laundering and terrorist financing.

Philippines

The Philippines is a regional financial center. In the past few years, the illegal drug trade in the Philippines reportedly has evolved into a billion-dollar industry. The Philippines continues to experience an increase in foreign organized criminal activity from China, Hong Kong, and Taiwan. Insurgency groups operating in the Philippines fund their activities, in part, through the trafficking of narcotics and arms and engage in money laundering through alleged ties to organized crime. The proceeds of corrupt activities by government officials are also a source of laundered funds.

In June 2000, the Financial Action Task Force (FATF) placed the Philippines on its list of Non-Cooperative Countries and Territories (NCCT) for lacking basic anti-money laundering regulations, including customer identification and record keeping requirements, and excessive bank secrecy provisions. Following its placement on the NCCT list, the U.S. Government issued an advisory to all U.S. financial institutions instructing them to give "enhanced scrutiny" to transactions involving the Philippines.

The Government of the Republic of the Philippines (GRP) initially established an anti-money laundering and counterterrorist financing regime by passing the Anti-Money Laundering Act of 2001 (AMLA). The GRP enacted Implementing Rules and Regulations (IRR) for the AMLA in April 2002. The AMLA criminalized money laundering, an offense defined to include the conduct of activity involving the proceeds from unlawful activity in any one of 14 major categories of crimes, and imposes penalties that include a term of imprisonment of up to 14 years and a fine no less than 3,000,000 pesos (\$54,000) but no more than twice the value or property involved in the offense. The Act also imposed identification, record keeping and reporting requirements on banks, trusts and other institutions regulated by the Central Bank, insurance companies, securities dealers, foreign exchange dealers and money remitters, as well as any other entity dealing in valuable objects or cash substitutes regulated by the Securities and Exchange Commission.

The AMLA also established the Anti-Money Laundering Council (AMLC) as the country's Financial Intelligence Unit (FIU). The Council is composed of the Governor of the Central Bank, the Commissioner of the Insurance Commission, and the Chairman of the Securities and Exchange Commission. By law, the AMLC Secretariat is an independent agency responsible for receiving, maintaining, analyzing, and evaluating covered and suspicious transactions. It provides advice and assistance to relevant authorities and issues relevant publications. The AMLC's responsibilities include the investigation and prosecution of money laundering. AMLC has the ability to seize terrorist assets involved in money laundering on behalf of the Republic of the Philippines after a money laundering offense has been proven beyond a reasonable doubt. In order to freeze assets allegedly connected to money laundering, the AMLC must establish probable cause that the funds relate to an offense enumerated in the Act, such as terrorism. The Court of Appeals then may freeze the bank account for 20 days. The AMLC may apply to extend a freeze order prior to its expiration. The AMLC

is required to obtain a court order to examine bank records for activities not listed in the Act, except for certain serious offenses such as kidnapping for ransom, drugs, and terrorism-related crimes. The AMLC and the courts are working to shorten the time needed so funds are not withdrawn before the freeze order is obtained. The AMLC has finalized, and will soon issue, implementing regulations on the forfeiture of assets related to money laundering, including provisions for third party claims.

However, the Financial Action Task Force (FATF) deemed the original legislation inadequate and pressured the Philippines to amend the legislation to be more in line with international standards. The Government of the Republic of the Philippines (GRP) subsequently made important progress in developing its anti-money laundering and terrorist financing regime, with the enactment of amendments to the Anti-Money Laundering Act of 2001 (AMLA) in March 2003. The FATF deemed those amendments to have sufficiently addressed the main legal deficiencies in the original Philippines anti-money laundering regime, and decided not to apply any formal countermeasures.

The major purposes of the amendments to the AMLA are the following: to lower 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 banking day; to expand financial institution reporting requirements to include the reporting of suspicious transactions, regardless of amount; to authorize the Central Bank (Bangko Sentral ng Pilipinas or BSP) to examine any particular deposit or investment with any bank or non-bank institution in the course of a periodic or special examination (in accordance with the rules of examination of the BSP), to ensure institutional compliance with the Anti-Money Laundering Act; and, to delete the prohibitions against the Anti-Money Laundering Council's examining 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.

Over the last year, the Philippines also made progress in tracking, seizing, and blocking terrorist assets. The AMLC completed the first phase of its information technology upgrades in 2004. This is a significant milestone that allowed AMLC to electronically receive, store, and search CTRs filed by regulated institutions. Through 2004, the AMLC had received well over six hundred suspicious transaction reports (STRs) involving 5,451 suspicious transactions, and had received covered transaction reports (CTRs) involving over 22 million covered transactions. In October 2004, the FATF met with the Philippines during the Asia/Pacific Review Group on Money Laundering to discuss progress addressing the remaining vulnerabilities. A FATF team conducted an on-site visit to the Philippines in January 2005 in order to determine if effective implementation of the AML reforms has taken place.

The Philippines is a member of the Asia/Pacific Group on Money Laundering. It is a party to the 1988 UN Drug Convention. The GRP has signed and ratified all 12 international conventions and protocols related to terrorism, including the UN Convention against Transnational Organized Crime (2002) and the UN International Convention for the Suppression of the Financing of Terrorism (2004). The Anti-Money Laundering Council is able to freeze funds and transactions identified with or traced to designated terrorist organizations or individuals upon request of the United Nations Security Council, the United States, and other foreign governments. The AMLC has responded to numerous requests for assistance from the U.S. and other countries. In a recent joint corruption investigation, conducted by U.S. and Philippine law enforcement, Philippine authorities expeditiously identified and froze over 40 accounts containing in excess of \$1 million total. Its follow-up investigations identified more accounts in the United States that were subsequently pursued by U.S. authorities (the Philippines and the U.S. have a Mutual Legal Assistance Treaty that entered into force in 1996). The United Kingdom recently praised the AMLC for assisting in the identification and repatriation of proceeds from money laundering. A number of money laundering related investigations are underway, most of which involve a failure to report covered transactions. In addition, a number of money laundering related cases are currently being heard a different regional trial courts throughout the Philippines.

In 2004, for the third straight year, the Philippines failed to enact new counterterrorism legislation. Lawmakers introduced several counterterrorism bills in the new Congress in July 2004; however, the executive branch has yet to develop a strategy to identify the most effective legislation or complete the draft of its version and mobilize resources to lobby for its passage. In lieu of specific counterterrorist legislation, the government has broadly criminalized terrorist financing through Republic Law legislation, which defines “hijacking and other violations under Republic Act No. 6235; destructive arson and murder, as defined under the Revised Penal Code, as amended, included those perpetrated by terrorists against non-combatant persons and similar targets” as one of the violations under the definition of unlawful acts. The Revised Implementing Rules and Regulations R.A. No. 9160, as amended by R.A. No.9194 further state that any proceeds, derived or realized from an unlawful activity includes all material and monetary effects will be deemed a violation against the law.

The Government of the Republic of the Philippines has made impressive progress enhancing and implementing its amended anti-money laundering legislation. It should continue to focus on effective implementation of the laws and procedures already enacted, in part by expanding its financial and human resources to properly equip and train law enforcement and regulatory personnel. Finally, Philippines should enact and implement new legislation that criminalizes terrorism and terrorist financing.

Poland

Poland’s geographic location places it directly along one of the main routes between the former Soviet Union republics and Western Europe used by narcotics-traffickers and organized crime groups. According to Polish government estimates, 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. The Government of Poland (GOP) estimates the unregistered or gray economy, used primarily for tax evasion, may be as high as 15 percent of Poland’s \$230 billion GDP; it believes the black economy is only one percent of GDP. Poland’s entry into the European Union (EU) in May 2004 increased its ability to control its eastern borders, thereby allowing Poland to become more effective in its efforts to combat all types of crime, including narcotics-trafficking and organized crime.

Poland’s banks serve as transit points for the transfer of criminal proceeds. As of December 2004, 60 commercial banks were licensed for operation in Poland, as were slightly less than 600 “cooperative banks” that serve the rural and agricultural community. The GOP considers the nation’s banks, insurance companies, and brokerage houses to be important venues of money laundering. Polish casinos may likewise be sites for money laundering activity. According to the GOP, fuel smuggling, during which local companies and organized crime groups seek to avoid excise taxes by forging gasoline delivery documents, is a major source of proceeds to be laundered. It is also believed that some money laundering in Poland derives from Russia and/or other countries of the former Soviet Union.

The Criminal Code criminalizes money laundering. Article 299 of the Criminal Code addresses self-laundering and criminalizes tipping off. In June 2001, the parliament passed amendments that broadened the definition of money laundering to encompass all serious crimes (“Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources,” known as the “Act of 16 November”). In March 2003, Parliament further amended the law to broaden the definition of money laundering to include assets originating from illegal or undisclosed sources.

The National Security Strategy of Poland has labeled the anti-money laundering effort as a top priority. The GOP has worked diligently to bring its laws into full conformity with EU obligations. On November 16, 2000, a law went into effect that improves Poland’s ability to combat money laundering

(entitled “the November 2000 Act on Counteracting Introduction into Financial Circulation of Property Values Derived from Illegal or Undisclosed Sources”). The GOP has updated this law several times to bring it into conformity with EU standards and to improve its operational effectiveness. This law increases penalties for money laundering and contains safe harbor provisions that exempt financial institution employees from normal restrictions on the disclosure of confidential banking information. The law also provides for the creation of a Financial Intelligence Unit (FIU), the General Inspectorate of Financial Information (GIIF), housed within the Ministry of Finance, to collect and analyze large and suspicious transactions.

A major weakness of Poland’s initial money laundering regime was that it did not cover many non-bank financial institutions that had traditionally been used for money laundering. To remedy this situation, between 2002 and 2004, the Parliament passed several amendments to the 2000 money laundering law. The amendments expand the scope of institutions subject to identity verification, record keeping, and suspicious transaction reporting requirements. Financial institutions subject to the reporting requirements prior to March 2004 amendments included banks, the National Depository for Securities, 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. The March 2004 amendments to the money laundering law widen the scope of covered institutions to include lawyers, legal counselors, auditors, and charities, as well as the National Bank of Poland in its functions of selling numismatic items, purchasing gold, and exchanging damaged banknotes. It also requires casinos to report the purchase of chips worth 1,000 euros or more. The law’s extension to the legal profession was not without controversy. Lawyers strongly opposed the new amendments, claiming that the law violates client/attorney confidentiality privileges.

In 2002, Parliament adopted measures to bring the nation’s anti-money laundering legislation into compliance with EU standards regarding the reporting threshold, and also amended Poland’s customs law to require the reporting of any cross-border movement of more than 10,000 euros in currency or financial instruments. In addition to requiring that the GIIF be notified of all financial deals exceeding 15,000 euros, covered institutions are also required to file reports of suspicious transactions, regardless of the size of the transaction. Polish law also requires financial institutions to put internal anti-money laundering procedures into effect—a process that is overseen by the GIIF.

The GIIF began operations on January 1, 2001. In its first year of existence, the GIIF received over 350 suspicious transaction reports (STRs). In 2002, the GIIF received 670 STRs, from which prosecutors prepared 70 cases. In 2003, the GIIF received 965 STRs, resulting in the development of 152 cases by the Prosecutor’s Office. Between January and November 2004, the GIIF received 1,240 STRs, resulting in the creation of 136 cases. Banks filed eighty percent of the STRs submitted in 2004. At a minimum, all reports submitted by the GIIF to the Prosecutor’s Office have resulted in the instigation of initial investigative proceedings. Although there were only four convictions under the money laundering law in 2004 (this figure is twice the number from 2003), many of the investigations begun by the GIIF have resulted in convictions for other non-financial offenses. As of December 2004, the GIIF received 7.5 million reports on transactions exceeding the threshold level. The GIIF receives approximately 1.5 million reports per month.

The vast majority of required notifications to the GIIF are sent through a newly developed electronic reporting system, which is Europe’s most technically sophisticated and collects more complete information than the previously required report regarding the transaction in question (e.g., how payment was made—cash or credit, where and when). Only a small percentage of notifications are now submitted by paper, mainly from small institutions, which lack the IT capacity to use the electronic system. Although the new system is an important advance for Poland’s anti-money laundering program, the processing and analyzing of the large number of reports that are sent to the GIIF will prove to be a challenge for the understaffed FIU. To help improve the FIU’s efficiency in

handling the large volume of reports filed by obliged institutions, the GIIF plans to install new analytical software that will permit advanced and detailed analysis of financial information.

The GIIF also does on-site training and compliance monitoring investigations. In 2004, the GIIF carried out 15 compliance investigations and received several hundred follow-up reports from institutions responsible for routinely supervising covered institutions. In January 2004, the GIIF introduced a new electronic learning course designed to familiarize obliged institutions with Poland's anti-money laundering regulations.

The Polish Code of Criminal Procedure, Article 237, allows for certain Special Investigative Measures. However, money laundering investigations are not specifically covered, although the organized crime provisions might apply in some cases. Two main police units deal with the detection and prevention of money laundering: the General Investigative Bureau and the Unit for Combating Financial Crime. Overall, both police units cooperate well with the GIIF. The Internal Security Agency (ABW) may also investigate the most serious money laundering cases.

A recognized need exists for an improved level of coordination and information exchange between the GIIF and law enforcement entities, especially with regard to the suspicious transaction information that the GIIF forwards to the National Prosecutor's Office. To alleviate this problem the GIIF and the National Prosecutor's Office signed a "cooperation agreement" in 2004. The agreement calls for the creation of a computer-based system that would facilitate information exchange between the two institutions. Work on the development of this new system is currently underway.

The 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 an additional three months, pending a court decision. In 2004, Article 45 of the criminal code was amended to further improve the government's ability to seize assets. On the basis of the amended article, an alleged perpetrator must prove that his assets have a legal source; otherwise, the assets are presumed to be related to the crime and as such can be seized. Both the Ministry of Justice and the GIIF desire to see more aggressive asset forfeiture regulations. However, because the former communist regime employed harsh asset forfeiture techniques against political opponents, lingering political sensitivities make it difficult to approve stringent asset seizure laws. In 2003, the GIIF suspended 20 transactions worth 9 million euros and blocked 9 accounts worth 5.2 million euros. During the first eleven months of 2004, the GIIF suspended 5 transactions worth 650,000 euros and blocked 12 accounts worth 2.1 million euros.

The GOP recently created an office of counterterrorist operations within the National Police. The office coordinates and supervises regional counterterrorism units and trains local police in counterterrorism measures. Poland has also created a terrorist "watch list" of entities suspected of involvement in terrorist financing. The list contains data based on information derived from similar lists published by the UN, the EU, and the United States Treasury Department. All covered institutions are required to verify that their customers are not included on the watch list. In the event that a covered institution discovers a possible terrorist link, the GIIF has the right to suspend suspicious transactions and accounts. Despite these efforts, Poland has not yet criminalized terrorist financing, arguing that all possible terrorist activities are already illegal and serve as predicate offenses for money laundering and terrorist financing investigations. 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. The amendments have been presented to the Minister of Justice, but have not yet been approved by Parliament.

Poland is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, the European Convention on Extradition and its Protocols, the European Convention on Mutual Legal Assistance in Criminal Matters, and the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime. In

November 2001, Poland ratified the UN Convention against Transnational Organized Crime, which was in fact a Polish initiative.

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. The GIIF is an active participant in the Egmont Group and in FIU.NET, the EU-sponsored information exchange network for FIUs. Poland has expressed an interest in joining the Financial Action Task Force (FATF).

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. Polish law requires the GIIF to have memoranda of understanding (MOUs) with other international competent authorities before it can participate in information exchanges. The GIIF has been diligent in executing MOUs with its counterparts in other countries, signing a total of 20 MOUs between 2002 and 2003. The GIIF-FinCEN MOU was signed in fall 2003. An additional seven memoranda on exchange of financial information with Andorra, Cyprus, Monaco, Germany, Portugal, Thailand, and Ukraine were signed in 2004. Because Poland is an EU member state, the exchange of information between the GIIF and the FIUs of other member states is regulated by the EU Council Decision of October 17, 2000. All information exchanged between the GIIF and its counterparts in other EU states takes place via FIU.NET. For the first eleven months of 2004, 40 requests regarding 124 entities were received by the GIIF from foreign authorities. During the same time period, the GIIF made 104 requests regarding 227 entities to foreign authorities.

Over the past several years, the Government of Poland has worked diligently to implement a comprehensive anti-money laundering regime that meets international standards. Further improvements could be made by promoting additional training at the private sector level and by working to improve communication and coordination between the General Inspectorate of Financial Information and relevant law enforcement agencies. The Code of Criminal Procedure should also be amended to allow the use of Special Investigative Measures in money laundering investigations. This would help to attain a better record of prosecutions and convictions. Poland should also pass specific counterterrorist 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. Act 5/2002 describes specific measures for combating organized and economic crime, particularly with regard to the gathering of evidence in relation to several crimes. All cross-border movements of currency that exceed 12,500 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 12,500 euros. Non-bank financial institutions, such as casinos, property dealers, lotteries, and dealers in high-value assets, must also identify customers engaging in large transactions, maintain records, and report suspicious transactions to the Office of the Public Prosecutor.

In February 2002, the law governing money laundering (Act 10/2002) was brought into force. This law 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. Act 10/2002 also extends the list of entities obliged to report large transactions, to include account officers, external auditors, tax consultants, lawyers, solicitors, notaries, registrars, and money carriers. It also includes any other independent 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; transfer and buy rights with regard to professional sportsmen and women; 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.

In November 2003, the GOP passed a law revising and tightening the legal framework for foreign currency exchange transactions, including gold, subjecting them to the reporting requirement for transactions exceeding 12,500 euros. Beyond the requirements to report large transactions, foreign exchange bureaus are not subject to any special requirements to report suspicious transactions. The law does, however, give the GOP the authority to investigate suspicious transactions without notifying targets of the investigation.

On March 27, 2004, Portugal implemented the European Union's (EU) Second Money Laundering Directive through a new law, Act No. 11/2004 Establishing the Regime for Prevention and Repression of the Laundering of Benefits of Illicit Origin. The new law expands police access to information about bank accounts and financial transactions of individuals or companies under investigation. These rules also apply to bank branches outside of Portugal. Under the new rules, which supersede previous legislation, if a bank suspects or knows about a suspicious or illegal transaction, or has concerns about the amount, means, or payment used in the transaction, or any other suspicious fact, the bank must inform the Attorney General's Office. The Attorney General may order the bank not to complete the transaction. If stopping the transaction is impossible or likely to frustrate efforts to pursue the beneficiaries of a suspected money laundering operation, the Attorney General also may allow the bank to proceed with the transaction but require it to provide complete details to the government. Another provision requires banks to provide full access to investigators with a judicial warrant. Until March 2004, banking secrecy laws made it extremely difficult for investigators to obtain information about bank accounts and financial transactions of individuals or companies without their permission.

In addition, new rules, which take effect January 2005, permit tax authorities to lift secrecy rules without authorization from the target of an investigation. The rules require companies to have at least one bank account and, for companies with more than 20 employees, to conduct their business through bank transfers, checks, and direct debits rather than cash. These rules are mainly designed to help the GOP investigate possible cases of tax evasion but may ease enforcement of other financial crimes as well.

Portugal has established regulatory agencies, including the Central Bank of Portugal, the Portuguese Insurance Institution, the Gambling Inspectorate General, the Economic Activities Inspectorate General, the Securities Market Commission, the Registries and Notaries General Directorate, the National Association for Certified Public Accountants and the Association for Assistant Accountants, the Bar Association, and the Chamber of Solicitors, to monitor and enforce the reporting requirements of the obliged entities.

Suspicious transaction reports (STRs) are forwarded for analysis to the Unidade de Informação Financeira (UIF), formerly the Central Unit for Money Laundering Investigation, which began operating as the Financial Intelligence Unit (FIU) for Portugal in June 2003. If money laundering is indicated, the Portuguese Judicial Police will conduct an investigation. The UIF received 251 STRs in 2001, 256 STRs in 2002, and 488 STRs in 2003 from banks and other financial entities.

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. 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, Portuguese and EU legislative rules regulate its offshore sector, and the competent oversight authorities supervise it. 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.

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. Police may 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. Act 10/2002 shifted the burden of proof in cases of criminal asset 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 still belong to the individual in question, unless proven otherwise. GOP law enforcement agencies seized a total of 2.4 million euros in cash and accounts in 2003 and 5.1 million euros in 2004 in association with drug and money laundering investigations. Portugal has comprehensive legal procedures that enable it to cooperate with foreign jurisdictions and share seized assets.

In August 2003, Portugal passed Act 52/2003, which specifically defines money laundering and criminalizes the transfer of funds related to the commission of terrorist acts. 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 Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing. Names of individuals and entities included on the UNSCR 1267 Committee's consolidated list, or that the United States and EU have linked to terrorism, are passed to private sector organizations through the Bank of Portugal, the Stock Exchange Commission, and the Portuguese Insurance Institution. In practice, the actual seizure of assets would only occur once the EU'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 FATF. Portugal is a party to the 1988 UN Drug Convention and 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.

The Government of Portugal has put into place a comprehensive and effective regime to combat money laundering. Laws passed in 2002 strengthen its ability to investigate and prosecute, and the steps taken in 2003 extend the regime's reach to terrorist financing. Portugal should continue to exercise due diligence over its offshore sector and closely monitor domestic non-bank financial institutions.

Qatar

Qatar has a relatively small population (approximately 600,000 residents), with an extremely low rate of general and financial crime. The financial sector, though modern, is limited in size, and subject to strict regulation by the Qatar Central Bank (QCB). There are 15 licensed financial banks, including two Islamic banks and a Qatar Industrial Development Bank. Qatar has 19 exchange houses, three investment companies and one commercial finance company. 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 Qatar Central Bank, in addition to ten other members from the Ministries of Interior, Civil Service Affairs and Housing, Economy and Commerce, Finance, Justice, QCB, Customs and Ports Authority and the State Security Bureau.

In February 2004, passed the Combating Terrorism Law. According to Article Four of the new law, any individual or entity that provides financial or logistical support, as well as raises money for activities considered terrorist crimes according to this statute are to be punished. The punishments are listed in Article Two of the law, which include the death penalty, life imprisonment, and 10 or 15 year jail sentences depending on the crime.

On October 17, 2004 the Government of Qatar appointed a member of the ruling Al-Thani family as director of the Financial Intelligence Unit (FIU). The FIU is responsible for reviewing all financial transaction reports, identifying suspicious transactions and financial activities of concern, ensuring that all government ministries and agencies have procedures and standards to ensure proper oversight of financial transactions, and recommending actions to be taken by the NAMLC if suspicious transactions or financial activities of concern are identified. Qatar's FIU has been active during the new director's appointment. The FIU is coordinating closely with the Doha Securities Market (DSM) to establish procedures and standards to monitor all financial activities that occur in Qatar's stock

market. In November 2004, the FIU established monitoring standards in coordination with the National Post Office to ensure that post offices throughout the country monitor carefully all cash transfers. The FIU is also taking steps to monitor financial activities that take place in the Ministry of Justice's Registration Department and Qatar's camel market.

In addition to reporting suspicious transactions, all financial institutions (including businesses conducting hawala transactions) must report transactions Qatari Riyals (QR) 100,000 (approximately \$33,000) or above to the QCB. Any repeated cash transactions of QR 30,000 (approximately \$10,000) or higher made by an individual or entity must be reported. Any transaction of QR 100,000 or higher and repeated transactions of QR 30,000 or higher will be investigated by the FIU in coordination with the Ministries of Justice and Interior. Exchange houses must report any transaction of QR 40,000 or higher. All financial institutions also must identify the person entering into a business relationship or conducting a transaction. In December 2004, QCB installed a central reporting system to assist the FIU in monitoring all financial transactions made by banks.

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.

In March 2004, The Government of Qatar passed a law to establish the Qatar Authority for Charitable Works, which monitors all charitable activity in and outside of Qatar. This law incorporates the Charitable Societies Law (Law No. 8/1998), which outlines the monitoring and supervision of Qatar's charities. The Secretary General of the Authority will approve all international fund transfers by the charities. The Authority will have primary responsibility for monitoring overseas charitable, development, and humanitarian projects that were previously under the oversight of several government agencies such as the Ministry of Foreign Affairs, the Ministry of Finance and the Ministry of Economy and Commerce. Overseas activities must be undertaken in collaboration with a non-governmental organization (NGO) that is legally registered in the receiving country. The Authority will prepare an annual report on the status of all projects and submit the report to relevant ministries. The Authority is in the process of developing concrete measures to exert more control over domestic charity collection.

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 FIU receives all suspicious transaction reports and conducts an initial analysis. The FIU also obtains additional information from the banks and other government ministries before determining whether to forward the suspicious report to the Ministry of Interior. The Public Prosecutor and CID work closely on all criminal cases, although in financial cases they often seek the assistance of the QCB. There are no specialized units within the Public Prosecutor or CID's offices that initiate or investigate financial crimes.

Qatar does not 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 has established a subcommittee under the NAMLC to implement cross-border reporting requirements. The subcommittee is composed of the QCB, Customs Authority, FIU, and members of the NAMLC. In 2003, the Government of Qatar (GOQ) concluded the investigation of a seizure that occurred in November 2002, involving approximately \$400,000 worth of gold that had been smuggled into the country. The GOQ confiscated all the gold.

Qatar is a party to the 1988 UN Drug Convention but not the UN Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Organized Crime. Qatar is one of the original signatories of the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENAFATF), a FATF-style regional body that promotes best practices to combat money laundering and terrorist financing in the region. MENAFATF was inaugurated on November 30 in Bahrain by 14 Arab countries. Qatar also participates in the activities of the FATF through its membership in the Gulf Cooperation Council (GCC).

The passage of the Combating Terrorism Law and the establishment of a Financial Intelligence Unit (FIU) demonstrate the Government of Qatar's commitment to fight terrorist 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 in the fight against terrorist financing and other financial crimes. Qatar should continue to work to ensure that law enforcement, prosecutors, and customs authorities receive the necessary training and technical assistance to improve their capabilities in recognizing and pursuing various forms of terrorist financing, money laundering and other financial crimes. 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.

Romania

Romania's geographic location makes it a natural transit country for trafficking in narcotics, arms, stolen vehicles, and persons. As such, the nation is vulnerable to financial crimes. Romania's National Bank estimates the dollar amount of financial crimes to range from \$1 billion to \$1.5 billion per year. Tax evasion and value-added tax (VAT) fraud constitute approximately 45 percent (\$500-\$600 million per year) of this total. Financial sector fraud, fraudulent bankruptcy claims, and smuggling of illicit goods are additional types of financial crimes prevalent in Romania. Romania also has one of the highest occurrences of online credit card fraud in the world.

Laundered money comes primarily from domestic criminal activity carried out by international crime syndicates, which often launder money through limited liability companies set up for this purpose. The

U.S. dollar is the preferred currency. Endemic corruption in Romania and its neighboring countries abets money laundering. The proceeds from the smuggling of cigarettes, alcohol, coffee, and other dutiable commodities are also laundered in Romania. From Romania, most of the laundered funds go to offshore financial shelters in locations such as the U.S. Virgin Islands, Cayman Islands, and Cyprus.

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 requires customer identification, record keeping, reporting transactions of a suspicious or unusual nature, and currency transaction reporting for transactions over 10,000 euros.

The law also establishes a Financial Intelligence Unit (FIU), known as the National Office for the Prevention and Control of Money Laundering (NOPCML), and mandates that the NOPCML oversee the implementation of 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, non-bank financial institutions, attorneys, accountants, and notaries. However, in practice, the controls on non-bank financial institutions have not been as rigorous as those imposed on banks.

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. Every cash operation and every external wire transfer involving a sum exceeding 10,000 euros must be reported to the NOPCML and be monitored. NOPCML is authorized to participate in inspections and controls in conjunction with supervisory authorities.

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. Training for these entities is necessary to ensure compliance with reporting, record keeping, recognition of suspicious transactions, and development of internal controls. The new law also provides for both suspicious transaction reports (STRs) and currency transaction reports (CTR) to be forwarded to the NOPCML, with the CTR amounts conforming to European Union (EU) standards.

In keeping with new international standards, The National Bank of Romania (BNR) introduced Norm No. 3, “Know Your Customer,” in December 2003 to strengthen information disclosure for external wire transfers and correspondent banking. When sending out wire transfers, banks must include information about the originator’s name, address, and account. The same information is required for incoming wires as well. Banks are further required to undertake proper due diligence before entering into international correspondent relations, and are prohibited from opening correspondent accounts with shell banks. The BNR is currently working on a project to strengthen its anti-money laundering (AML) and counterterrorist financing (CTF) regulations through the introduction of improved bank examination procedures. Plans are also underway to replicate the project in the insurance industry.

The know your customer identification requirements have also been honed, so that identification of the client becomes necessary upon account opening and when single or multiple transactions meet or approach 10,000 euros. 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.

In June 2004, the Government of Romania (GOR) appointed a new director to head the NOPCML. As a result of this new appointment, there has been a concerted effort to increase the NOPCML’s operational efficiency and to bring greater visibility to the importance of AML and CTF efforts in Romania. To date, some of the most significant improvements made include the approval of a new

organizational structure for the FIU (as mandated by Governmental Decision No. 1078/2004), as well as the passage of legislation that is designed to improve the procedures for analyzing STR information and the suspension of suspicious accounts and transactions.

Thus far, it appears that these efforts have achieved a degree of success. In the four months following the appointment of the new FIU director, 10 transactions amounting to approximately \$1.5 million were suspended (during the last five years, only five transactions had been suspended). Also, from January 1, 2004 to October 2004, 400 cases have been forwarded to the General Prosecutor's Office, 201 of which were forwarded after June 2004. Despite these improvements, the NOPCML is still hampered by a lack of sufficient resources (outdated IT systems) and personnel who are in need of comprehensive training regarding AML/CTF issues, as well as training in advanced analytical research methodologies. 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. NOPCML has begun a process of international cooperation to exchange information with other FIUs, and has also been working closely with Italy to improve its efficiency and effectiveness through an EU PHARE Project.

In 2003, the number of STRs increased to 882, and during the first three quarters of 2004, 1,241 reports were filed. Out of the 1,241 STRs received by the NOPCML, 1,134 were filed by reporting entities and 107 by the supervisory institutions. The law also provides for feedback to be given, upon request, to NOPCML from the General 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 Directorate of Economic and Financial Crimes of the national police also has a mandate to pursue money laundering. However, despite hundreds of money laundering cases investigated since 2001, the interface with the justice system remains deficient.

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.

On November 24, 2004, the GOR approved a draft amendment to the anti-money laundering law, which is expected to be passed in 2005. The new law provides for a uniform approach to combating and preventing money laundering and terrorist financing. The purpose of the law is to achieve the standard contained in EU Directive 2001/97/EC. The draft law provides that money laundering and terrorist financing will be regulated under the same law to ensure consistent and effective measures against these crimes. The draft recommends the expansion of the types of individuals and institutions which are subject to reporting requirements. These obligations include not only reports on specific suspicious transactions, but also generalized intelligence involving financial patterns and typologies. The new law will also provide for better seizure proceedings, the employment of undercover investigators, and the surveillance of financial accounts and communications.

The GOR announced a national anticorruption plan in early 2003 and passed a law against organized crime in April 2003. 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 terrorist acts and money laundering.

Romania's political leadership has consistently and unequivocally condemned acts of terrorism. 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.

In April 2002, the GOR's Supreme Defense Council of the Country (CSAT) adopted a National Security Strategy, which includes 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 NOPCML. The GOR has also set up an inter-ministerial committee to investigate the potential use of the Romanian financial system by terrorist organizations.

The Romanian Government and the BNR in particular have been fully cooperative in seeking to identify and freeze terrorist assets. Emergency Ordinance 159, also passed in 2001, includes provisions 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 BNR, 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.

In November 2004, the Parliament adopted law 535/2004 on preventing and combating terrorism, which abrogates some of the previous government ordinances and takes over most of their provisions. The law includes a chapter on combating the financing of terrorism by prohibiting financial and banking transactions with persons included on international terrorist lists, and requiring authorization for transactions conducted with entities suspected of terrorist activities in Romania.

The BNR receives lists of individuals and terrorist organizations from the United States, the UNSCR 1267 Sanctions Committee, and the EU, and circulates these to banks and financial institutions. The new law on terrorism provides that the assets used or provided to terrorist entities will be forfeited, together with finances resulting from terrorist activity. To date, in regard to terrorist financing, no arrests, seizures, or prosecutions have been carried out.

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 GOR recognizes the link between organized crime and terrorism. Bucharest is the site of the Southeast European Cooperative Initiative's Center for Combating Transborder Crime, a regional center that focuses on intelligence sharing related to criminal activities, including terrorism. Romania also participates in a number of regional initiatives to combat terrorism. Romania has worked within SEEGROUP (a working body of the NATO initiative for Southeast Europe) to coordinate counterterrorist measures undertaken by the states of Southeastern Europe. The Romanian and Bulgarian interior ministers signed an inter-governmental agreement in July 2002 to cooperate in the fight against organized crime, drug smuggling, and terrorism.

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. The GOR has demonstrated its commitment to international anticrime initiatives by participating in regional and global anticrime 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. Romania also is a party to the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the Council of Europe's Criminal Law Convention on Corruption; and the UN International Convention for the Suppression of the Financing of Terrorism. On November 2, 2004, Romania became a party to the UN Convention against Corruption.

Although legislation and regulations designed to combat financial crime are fairly new developments, they are quite comprehensive in scope. Nevertheless, implementation lags, while reporting and investigations are not as timely or as effective as desired. The Government of Romania should continue addressing the concerns of the Council of Europe evaluators by making further improvements in its anti-money laundering regime. Romania should ensure non-bank entities are fully aware of their reporting and record keeping responsibilities and are adequately supervised. Romania should adopt procedures for the timely freezing, seizure, and forfeiture of criminal- or terrorist-related assets. Romania should adopt reporting requirements for the cross-border movement of currency and monetary instruments.

Russia

Russia has enjoyed rapid economic growth in recent years, mainly driven by high world oil prices and the pursuit of sound fiscal policies. Yet, Russia has been slow to complete structural reforms of the banking sector, and overall public confidence in Russian banks remains low. Consequently, Russia's financial system is unattractive to both legal and illegal depositors, and therefore Russia is not considered an important regional financial center. Over the past three years, however, Russia has committed significant resources to improve its ability to combat the laundering of criminal financial proceeds domestically and internationally. Through aggressive enactment and implementation of comprehensive money laundering and counterterrorism financing legislation, Russia now has well-established legal and enforcement frameworks to deal with money laundering and terrorism financing.

Despite notable progress and demonstrated political will to combat these phenomena aggressively, Russia remains vulnerable to criminal financial activity because of a number of contributing factors, namely: vast natural resource wealth, pervasiveness of organized crime, and a high level of corruption. Other factors include porous borders, Russia's role as a geographic gateway to Europe and Asia, a weak banking system, and under-funding of regulatory and law enforcement agencies. Criminal elements from Russia and neighboring countries continue to use Russia's financial system to launder money, because of familiarity with the language, culture, and economic system. The majority of the funds do not appear to be from activities related to narcotics production or trafficking, although these activities likely occur. Experts believe that most of the dirty money flowing through Russia derives from domestic criminal or quasi-criminal activity, including evasion of tax and customs duties and smuggling operations.

Net flows of money out of the country have slowed noticeably since the 1998 financial crisis. Although net capital outflows for the first three quarters of 2004 totaled \$10.9 billion, compared with \$3.8 billion in 2003, the long-term trend in outflows continues to drift downward. This year's anomalous increase was largely attributed to instability in the banking sector and uncertainties in the investment climate. The majority of these outflows involve legitimate movement of money to more secure and profitable destinations abroad, but at least a portion of this money undoubtedly involves the proceeds of criminal activity.

Russia has the legislative and regulatory framework in place to pursue and prosecute financial crimes, including money laundering and terrorism finance. The Russian Federation's (RF's) 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 taking effect in October 2002, January 2003,

and December 2003. RF 115-FZ obligates banking and non-banking financial institutions to monitor and report certain types of transactions, keep records, and identify their customers. Article 8 of Law 115-FZ provides for the establishment of Russia's financial intelligence unit as an independent executive agency administratively subordinated to the Ministry of Finance. In March 2004, President Putin issued a decree to upgrade the unit, formerly called the Financial Monitoring Committee, to a service, now called the Federal Service for Financial Monitoring (FSFM). All financial institutions with an obligation to report certain transactions must send this information to the FSFM. The FSFM is also responsible for coordinating all of Russia's anti-money laundering and counterterrorism financing efforts, but has no law enforcement investigative powers.

Consistent with Financial Action Task Force (FATF) recommendations, the criminal code was amended in December 2003 to remove a specific monetary threshold for crimes connected with money laundering, thus paving the way for prosecution of criminal offenses regardless of the sum involved.

According to the original language of RF 115-FZ, those institutions legally required to report included: banks, credit organizations, securities market professionals, insurance and leasing companies, federal postal service, jewelry and precious metals merchants, betting shops, and companies managing investment and non-state pension funds. Amendments to the law that came into force on August 31, 2004, extend the reporting duty to real estate agents, lawyers and notaries, and persons rendering legal/accountancy services that involve certain transactions (e.g., preparing/executing transactions with immovables; managing money, securities, or other property; managing bank accounts or securities accounts; attracting or managing money for organizations; or incorporating, managing, and buying/selling organizations).

Various regulatory bodies ensure compliance with Russia's anti-money laundering and counterterrorism finance laws. The FSFM is specifically responsible for regulating leasing companies, pawnshops, and gambling services. The CBR supervises credit institutions; the Ministry of Finance oversees insurance companies, entities managing non-government pension and investment funds, and entities buying and selling precious metals or stones; the Federal Service for Financial Markets supervises professional participants in the securities sector.

The CBR has issued guidelines regarding anti-money laundering practices within credit institutions, including "know your customer" (KYC) and bank due diligence programs. Banks are required to obtain and retain for five years information regarding individuals and legal entities and beneficial owners of corporate entities. Further, banks must adopt internal compliance rules and procedures and appoint compliance officers. In July 2004, Russia amended Law 115-FZ to require banks to identify the original source of funds and to report to the FSFM all suspicious transactions, as opposed to only transactions containing certain features, as previously mandated. Institutions that fail to meet mandatory reporting requirements face revocation of their licenses to carry out relevant activity, limits on certain banking operations, and possible criminal or administrative penalties. An administrative fine of up to \$16,700 can be levied against an institution, with a fine of up to \$700 on an officer of an institution. The maximum criminal penalty is 10 years in prison with applicable fines.

The CBR instituted a number of regulatory measures in 1999 to scrutinize offshore financial transactions. In the six months following the implementation of these regulations, 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, thereby reducing their 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 Russian financial institutions to report all related 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 incorporating and licensing these subsidiaries, Russian authorities must identify and investigate each director of the Russian unit; therefore nominee or anonymous directors are, as a practical matter, not permitted under Russian law and regulation. As the CBR completes its review of banks' applications for admission into the newly created Deposit Insurance System, the CBR will verify that banks are carrying out these identification procedures before approving the application.

Russian businesses must obtain government permission before opening operations abroad, including in offshore zones. A department within the Ministry of Economic Development and Trade (MEDT) reviews such requests from Russian firms, and once MEDT approves, the CBR must then approve the overseas currency transfer. In either case, the regulatory body responsible for the offshore activity is the same as for domestic activity, i.e., the Federal Service for Financial Markets regulates brokerage and securities firms, while the CBR regulates banking activity.

All obligated financial institutions must monitor and report to the government: 1) any transaction that equals or exceeds 600,000 rubles (approximately \$20,000) and involves or relates to: cash payments, individuals or legal entities domiciled in states that do not participate in the international fight against money laundering, bank deposits, precious stones and metals, payments under life insurance policies, and/or gambling; 2) all transactions of extremist organizations or individuals included on Russia's domestic list; and 3) suspicious transactions.

Each of the FSFM's seven territorial offices corresponds with one of the 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 FSFM, and to supervise anti-money laundering and counterterrorism financing legislation compliance by institutions under FSFM 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 Central Bank of Russia (CBR) and other supervisory agencies with respect to implementation of anti-money laundering and counterterrorist financing regimes.

Russia's anti-money laundering law, as amended, provides the FSFM with the appropriate authority to gather information regarding the activities of investment foundations, non-state pension funds, gambling businesses, real estate agents, lawyers and notaries, persons rendering legal/accountancy services, and sales of precious metals and jewelry. Virtually all financial institutions submit reports to the FSFM via encrypted software provided by the FSFM. To date, Russia's national database contains approximately three million reports. The FSFM receives six to seven thousand transaction reports daily. Of these daily reports, approximately 75 percent result from mandatory (currency) transaction reports, and the remaining 25 percent relate to suspicious transactions. Among these, 130 to 150 typically merit further investigation, with 20 to 30 of these cases potentially involving terrorism financing. The FSFM has received approximately 400 reports potentially related to terrorism financing since its inception. Depending on the nature of the activity, the FSFM provides information to the appropriate law enforcement authorities for further investigation, i.e., the Ministry of Internal Affairs (MVD) for criminal matters, the Federal Drug Control Service (FSKN) for narcotics-related activity, or the Federal State Security Service (FSB) for terrorism-related cases.

As part of President Putin's recent administrative reforms, the FSKN now has a full division committed to money laundering, staffed by agents with experience in counternarcotics and economic crimes. This division cooperates closely with the FSFM in pursuing narcotics-related money laundering cases. Over the past year, the FSKN has initiated over 50 such investigations.

With its legislative and enforcement mechanisms in place, Russia has begun to prosecute a number of high-level money laundering cases. As of mid-December 2004, the CBR had revoked the licenses of 28 banks for failure to observe banking regulations. Of these 28, two banks were specifically charged with money laundering—Sodbiznesbank and Novocherkassk City Bank. When the CBR announced on May 13, 2004, that it was revoking the license of Sodbiznesbank because of money laundering charges—the first public announcement of such allegations—it touched off a minor crisis of confidence in the banking system and triggered a depositor run. In October 2004 a series of unconfirmed press articles reported that a Moscow bank was under investigation for financing terrorist acts, including the seizure of the Moscow Theater in 2002. Based on these examples and statistics, Russia has demonstrated a broad-based commitment to enforcing its anti-money laundering and counterterrorism financing legislation and is beginning to see an improvement in compliance levels as a result of its actions.

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 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. Moreover, the law allows the FSFM, in concert with banks, to freeze possible terrorist-related financial transactions up to one week. Banks may freeze transactions for two days and the FSFM may follow up with an additional five days.

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 as "instruments" 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 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 counterterrorism 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 U.S. for possession of counterfeit currency.

Following an aggressive campaign to reform Russia's anti-money laundering regime, Russia became a full FATF member in June 2003. During its first plenary as a full-fledged FATF member, Russia announced its intention to create a Central Asian FATF-style Regional Body (FSRB). In October 2004, Russia successfully kicked off the FSRB, the Eurasian Group on Combating Legalization of Proceeds from Crime and Terrorist Financing (EAG), which includes Belarus, China, Kazakhstan, Kyrgyzstan, Tajikistan and Russia as members, and several other nations and multilateral organizations as observers to the group, including the United States. Concurrent with the first plenary meeting of the EAG, Russia also hosted the annual FATF Typologies meeting in Moscow in early December 2004.

The United States and Russia signed a Mutual Legal Assistance Treaty in 1999, which entered into force on January 31, 2002. To date, the FSFM has signed cooperation agreements with the Financial Intelligence Units (FIUs) of the United States, Poland, Britain, the Czech Republic, Belgium, Italy, Panama, France, Estonia, Ukraine, Colombia, Cyprus, Finland, Latvia, Luxembourg, Switzerland, and the United Kingdom. Additionally, the FSFM is an active member of the Egmont Group, having taken on sponsorship of several candidate countries for 2004. U.S. law enforcement agencies 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 on May 26, 2004, became a party to the UN Convention against Transnational Organized Crime. 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.

Russia has developed a solid legislative and regulatory foundation for combating money laundering and terrorism financing. Given its role in spearheading the creation of the EAG, Russia has demonstrated both the political will and a capability to play a more proactive role in improving the region's capacity for countering money laundering and terrorism financing. Nevertheless, vulnerabilities continue. Russia has committed to improving CBR oversight of shell companies as well as closer scrutiny of banks that do not carry out traditional banking activities. Further, the Government of Russia has drafted a national money laundering strategy, which is currently under review and will likely be enacted in 2005. Finally, endemic and high-level corruption continues to undermine Russia's best efforts. Persistent and significant deficiencies in Russia's overall business operating environment pose formidable challenges to Russia's efforts to establish a well functioning and comprehensive anti-money laundering/counterterrorism financing regime.

The Government of Russia should strive to contain official corruption and increase transparency in the corporate environment. Russia should commit adequate resources to its regulatory and law enforcement entities to enable them to fulfill their responsibilities. Russia should also enact legislation that would provide for the seizure of instruments, as opposed to merely the proceeds, of criminal activity. Finally, Russia should continue to play a leadership role in the region with regard to anti-money laundering and counterterrorist finance regime implementation.

[*This text has been revised since its original posting; see version as [released to Congress.](#)]

Rwanda

Rwanda is not a major financial center. Since recovering from the 1994 genocide and war, Rwanda's banking system has been largely controlled by the government and is now in the process of privatization. Two of eight banks were privatized in 2004. The Rwandan financial system lacks the efficiencies of more modern banking systems, such as electronic funds transfers or credit card transactions. As that system develops and the country becomes more stable, and as neighboring countries like Kenya and Tanzania increase their enforcement efforts, there is a risk of increased illegal financial activity in Rwanda.

There are no documented reports of money laundering in Rwanda, primarily due to the government's close monitoring through the Central Bank of monetary transfers totaling more than \$50,000, whether domestic 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 continue to monitor the banking sector, particularly with regard to government spending. In addition, most of the country's charitable and nonprofit entities are recipients of international aid and are largely monitored by their donors, the IMF and/or the World Bank.

There is evidence that the Government of Rwanda (GOR) indirectly engaged 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 three years, Rwanda has been completely overhauling its legal system, and the Rwandan Parliament is enacting new legislation affecting Rwandan financial law. There remains no provision for the prosecution of potential money laundering cases, however, and, no regulation of imports and exports, except for 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. No arrests for money laundering or terrorist financing have occurred in Rwanda since January 1, 2003.

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-related financial assets. The Ministry of Finance circulates lists of identified individuals and organizations included on the UNSCR 1267 Sanctions Committee's consolidated list. Rwanda 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.

The GOR cooperates with the U.S. 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 cooperated with the USG in check embezzlement investigations that 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.

The Government of 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 Eastern and Southern 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 are primarily the result of 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. The Government of Samoa (GOS) enacted the Money Laundering Prevention Act (the Act) in 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 2002. Under the Act, a conviction for a money laundering offense is punishable by a fine not to exceed Western Samoa Tala (WST) one 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 the 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 could expose the financial institutions to potential abuse. Nevertheless, Section 43(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 WST 30,000, or the equivalent in another currency." Moreover, proposed amendments to the Act would delete the threshold reporting system, leaving it open for all financial institutions to report any amount or transaction that purports to involve money laundering.

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 Regulations and Guidelines that have been developed 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 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 four locally incorporated commercial banks, supervised by the Central Bank. The Office of the Registrar of International and Foreign Companies has responsibility for regulation and administration of the offshore sector. There are no casinos, but two local lotteries are in operation.

Samoa is an offshore financial center, with eight offshore banks licensed. For entities registered or licensed under the various Offshore Finance Centre Acts, there are no currency or exchange controls or regulations, and no foreign exchange levies payable on foreign currency transactions. No income tax or other duties, nor any other direct or indirect tax or stamp duty is payable by registered/licensed entities. In addition to the eight offshore banks, Samoa currently has 13,465 international business corporations (IBCs), three international insurance companies, six trustee companies, and 175 international trusts. Section 16 of the Offshore Banking Act stipulates prohibition for any person from applying to be a director, manager, or officer of an offshore bank who has been sentenced for an offense involving dishonesty. The prohibition is also reflected in the application forms and Personal Questionnaire that are completed by prospective applicants that detail the licensing requirements for offshore banks. The application forms list the required supporting documentation for proposed directors of a bank. These include references from a lawyer, accountant, and a bank, police clearances, curriculum vitae, certified copies of passports and personal statements of assets and liabilities (if also a beneficial owner). The Inspector of Offshore Banks must be satisfied with all supporting documentation that a proposed director is fit and proper in terms of his integrity, competence and solvency.

International cooperation can occur only if 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. All cooperation under the MLPA is through the Attorney General's Office, which is the Competent Authority under the Act for receiving and implementing. However, according to a 2003 Samoa Report to the UN Counter-Terrorism Committee, Samoa is reviewing the legal framework for the effective operation of the MLPA in order to further strengthen domestic and international information exchange. In addition, the Office of the Attorney General, in conjunction with the Central Bank, 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 is a party to the UN International Convention for the Suppression of the Financing of Terrorism. In 2002, Samoa enacted the Prevention and Suppression of Terrorism Act. The Act defines and criminalizes 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 hosted the annual plenary of the Pacific Island Forum in August 2004. Samoa has not signed the 1988 UN Drug Convention. Nor has it signed the UN Convention against Transnational Organized Crime.

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 is 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 is strengthening relevant 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 is in the process of adopting amended and additional legislation to allow for international cooperation and information sharing.

The inability of the Money Laundering Prevention Authority simply to exchange information on an administrative level is a material weakness of the current system and is an impediment to international cooperation. To rectify that situation, the Government of Samoa should enact legislation to provide the Money Laundering Prevention Authority with the legal authority to share information with foreign analogs. Samoa should also accede to the 1988 UN Drug Convention and become a party to the UN Convention against Transnational Organized Crime.

San Marino

San Marino is a small, landlocked, independent republic located on the eastern side of the Italian peninsula. It is the third smallest country in Europe after the Holy See and Monaco. San Marino was founded in 301 and claims to be the oldest republic in the world. Its policies and social trends closely track those of Italy. The financial sector is a large component of the republic's small economy. The Government of San Marino (GOSM) passed anti-money laundering legislation in 1998. In June 2003 the GOSM approved a law that provides functional integration between the Office of Banking Supervision and the Central Bank, thus strengthening the supervisory system and its efforts to 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 approved a law on the "Provisions of Anti-Terrorism, Anti-Money Laundering and Anti-Insider Trading," which became effective on February 26, 2004. The legislation criminalizes terrorism; introduces rules supplementing the Anti-Money Laundering Law of 1998 by incorporating modifications recommended by the Financial Action Task Force (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 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. It signed, but has not yet become a party to, the UN Convention against Transnational Organized Crime. The San Marino Financial Intelligence Unit (the Department of Treasury inspection office) will adhere to the Egmont Group at its next meeting in April 2005.

The Government of San Marino should continue its efforts to thwart money laundering and terrorist financing and should ratify the UN Convention against Transnational Organized Crime.

Sao Tome and Principe

Sao Tome, which has a small economy and several commercial banks, is not a regional financial center.

Sao Tome is a party to the 1988 UN Drug Convention but not to the UN International Convention for the Suppression of the Financing of Terrorism or the UN Convention against Transnational Crime. It has not criminalized either money laundering or terrorist financing and has no laws allowing the government to freeze assets related to those activities. The need for it to enact and implement such legislation has been heightened by the successful conclusion of an agreement with Nigeria that will bring substantial oil revenues to the country. Sao Tome should consider devoting a portion of that revenue to develop a comprehensive anti-money laundering/counterterrorist regime that comports with international standards.

The Government of Sao Tome should criminalize money laundering and terrorist financing. Sao Tome should also enact legislation allowing the government 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 Organized Crime.

Saudi Arabia

Saudi Arabia is a growing financial center in the Gulf Region of the Middle East. There is little known money laundering in Saudi Arabia related to traditional predicate offenses. All ten commercial banks in Saudi Arabia operate as standard “western-style” financial institutions and all banks operate under the supervision of the Saudi Arabian Monetary Authority (SAMA). Saudi Arabia is not an offshore financial center. There are no free zones for manufacturing, although there are bonded transit areas for the transshipment of goods not entering the country. The money laundering and terrorist financing that does occur are not primarily related to narcotics proceeds in Saudi Arabia. There was no significant increase in financial crimes during 2004, and any market in smuggled goods does not appear to be related to the narcotics trade.

Saudi donors and unregulated charities have been a major source of financing to extremist and terrorist groups over the past 25 years. However, The Final Report of the National Commission on Terrorist Attacks Upon the United States (“The 9/11 Commission”) found no evidence that either the Saudi Government, as an institution, or senior Saudi officials individually, funded al-Qaida. Following the al-Qaida bombings in Riyadh on May 12, 2003, the Government of Saudi Arabia has taken significant steps to help counteract terrorist financing.

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.

SAMA guidelines correspond to the FATF’s Forty Recommendations. On May 27, 2003 SAMA issued updated anti-money laundering and counterterrorist 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 nationals; 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. The new guidelines also require banks to use software to profile customers to detect unusual transaction patterns; establish a monitoring threshold of SR 100,000; and develop internal control systems and compliance systems. SAMA also issued new “know your

customer” guidelines, requiring banks to freeze accounts of customers who do not provide updated account information. Saudi law prohibits non-resident individuals or corporations from opening bank accounts in Saudi Arabia without the specific authorization of the SAMA. There are no bank secrecy laws that prevent financial institutions from reporting client and ownership information to bank supervisors and law enforcement authorities. The Saudi media reported that during 2004, Saudi banks froze more than 250,000 accounts for non-compliance with anti-money laundering and terrorist finance laws. Funds are frozen on the basis of a request submitted from the Minister of Interior or the Minister of Foreign Affairs to the Minister of Finance and National Economy.

The Saudi Arabian Government (SAG) has established an anti-money laundering unit in SAMA and has required Saudi banks to have their own anti-money laundering units with specialized staff to work with SAMA and law enforcement authorities. The SAG has begun to staff a Financial Intelligence Unit (FIU) in the Security and Drug Control Department of the Ministry of the Interior. All banks are also required to report any suspicious transactions to the FIU. When fully operational, the Saudi FIU will collect and analyze suspicious transaction reports and other available information and decide to make referrals the Mabath or other entities for action. It will also coordinate its activities with SAMA’s anti-money laundering unit. The FIU will be staffed by officers from the Mabath, SAMA, the Ministry of Commerce, and the Ministry of Interior’s Bureau of Investigation and Prosecution. The SAG provides anti-money laundering training for bank employees, prosecutors, judges, customs officers and other government officials.

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 that have proven capable of attracting customers accustomed to using hawalas. An important advantage for the authorities in combating potential money laundering and terrorist financing in this system is that the senders and recipients 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. The 9/11 Commission Report noted that the SAG failed to supervise adequately Islamic charities in the country. To help address this problem, in 2002 Saudi Arabia announced its intention to establish a commission to oversee Saudi charities with foreign operations. In 2004, the SAG issued guidelines for the Commission for Relief and Charitable Work Abroad. As required by regulations in effect for over 20 years, domestic charities in Saudi Arabia are licensed, registered, audited, and supervised by the Ministry of Social Affairs. The Ministry has engaged outside accounting firms to perform annual audits of charities’ books and has established an electronic database for tracking the operations of the charities they oversee. New banking rules implemented in 2003 that apply to charities include stipulations that accounts can only be 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. It is unclear, however, whether such regulations apply to international charities.

Saudi Arabia participates in the activities of the Financial Action Task Force (FATF) through its membership in the Gulf Cooperation Council (GCC). In July 2004, reporting on the results of a mutual evaluation conducted in September 2003, the FATF concluded that the framework of Saudi Arabia’s anti-money laundering regime met the general obligations of the FATF recommendations for

combating money laundering and financing of terrorism, but noted the need to implement these new laws and regulations.

Saudi Arabia also supported the creation of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004; the SAG was one of the original charter signatories. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF will be a critical element in the region's efforts to expedite the adoption and implementation of international anti-money laundering and counterterrorist financing standards.

Saudi Arabia is working to implement the UN Security Council Resolutions on terrorist financing. SAMA circulates to all financial institutions under its supervision the UNSCR 1267 Sanctions Committee's consolidated list. In January 2004, Saudi Arabia and the United States made a joint request to the UNSCR 1267 Sanctions Committee to designate the Kenya, Pakistan, Tanzania and Indonesia branches of the al Haramain Islamic Foundation as a supporter of terrorism. In June 2004, Saudi Arabia announced that it had completely dissolved the al Haramain Islamic Foundation. The SAG and U.S. worked bilaterally to investigate terrorist financing. Among other activities, in response to specific requests from the U.S., the SAG investigated financial activities for 41 individuals and found that none had financial activities in the Kingdom.

Saudi Arabia has signed but is not yet a party to the UN International Convention for the Suppression of the Financing of Terrorism. It ratified the UN Convention against Transnational Organized Crime on January 18, 2005.

The Government of Saudi Arabia should move rapidly to monitor and enforce the new anti-money laundering and terrorist finance laws, regulations and guidelines. Saudi Arabia can demonstrate its commitment to effective implementation by providing adequate budgets, equipment, and staffing for the FIU and the High Commission for Charities. As in many countries in the region, there is still an over-reliance on suspicious transaction reporting to generate money laundering investigations. Saudi Arabia's unwillingness to publicly disseminate statistics regarding money laundering prosecutions impedes the evaluation and design of enhancements to the judicial aspects of its AML system. Law enforcement agencies should take the initiative and proactively generate leads and investigations, and be able to follow the financial trails wherever they lead. Saudi Arabia should demonstrate its willingness to hold elites accountable. Charities identified with the elites must also be examined and rules enforced. Regarding the misuse of charities, loopholes remain including the ability of a group or individual previously affiliated with suspect charitable organizations to simply cease referring to itself as a charity, as well as with the status of international charities. Donations in the form of gold and other gifts need to be scrutinized. Saudi Arabia should take affirmative steps to close loopholes. It should become a party to 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. A building boom in Dakar despite the relative scarcity of credit suggests that an increasing amount of funds with an uncertain provenance is available for property speculation. Approximately 15 foreign banks, including several French and African banks, have branches in Senegal. Senegal's larger financial institutions function alongside a thriving micro-credit sector and numerous non-traditional financial businesses handling remittances from overseas Senegalese in France, Italy, Spain and the United States. Senegal is not obviously linked to any offshore financial centers. Given the small customer pool, the number of casinos in Senegal (reportedly over 15) is striking.

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 Drug Code requires banks to report suspicious transactions believed to be linked to narcotics-trafficking and to keep records between one and ten years, depending on the type of record. The law authorizes the seizure of assets related to narcotics-trafficking. The last money laundering prosecution under this law was in 1999.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Action Group 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.

Senegal was the first WAEMU country to pass WAEMU-harmonized legislation establishing a Uniform Law on Money Laundering (the Uniform Law), approved by the National Assembly in October 2003. Previously, criminal prosecution of money laundering had been tied to Senegal's Drug Code. The new legislation makes money laundering/terrorist financing a crime in itself, separate from the criminal origins of the money. Banks and other financial institutions, including charitable and nonprofit entities, are required to know, record and report the identity of customers engaging in significant transactions, meaning those involving at least CFA 5,000,000 (approximately \$10,000). The Uniform Law requires financial institutions to preserve records for at least ten years. Under the provisions of banking regulations, banks and financial institutions must provide, upon request from the BCEAO or Senegal's Banking Commission, any information relating to the list of accounts opened on behalf of suspected launderers, suspected terrorists, and/or suspected terrorist organizations and must notify the BCEAO of any request or the opening of an account relating to such person or organization. Banking secrecy cannot be invoked to protect suspicious clients.

The Uniform Law also mandates the establishment of a National Office for Financial Information Process (CENTIF), a Financial Intelligence Unit (FIU), that will work with banks and other financial institutions to establish a suspicious transaction reporting system and capacity for evaluating questionable transactions. All financial institutions, businesses, and professionals under the scope of the Uniform Law will be required to report suspicious transactions. Presently, foreign-owned banks in Senegal normally report questionable transactions to their home offices (usually Paris) for vetting. Senegal's FIU will have the legal authority to conduct criminal investigations. The CENTIF will have the authority to share information with other FIUs within the WAEMU as well as with the FIUs of non-WAEMU countries. The Government of Senegal (GOS) has yet to issue a decree directing ministries to second appropriate staff to the CENTIF.

Special units from police forces and "gendarmierie" can be created to investigate and prosecute cases against money laundering. Official statistics regarding the prosecution of financial crimes are unavailable. There have been no arrests and/or prosecutions for money laundering or terrorist financing since January 1, 2004.

The Dakar Industrial Free Trade Zone (ZFID) was established in 1974 to encourage foreign investors to set up intensive export-oriented companies. Its enabling statute has been extended until 2016, but only for companies already established within the zone. The ZFID is largely inactive with few companies present, although a U.S. pharmaceutical company has a manufacturing plant in the ZFID. Police forces and customs officials monitor activities in the free zone. Companies and individuals using the zone are identified and registered.

Terrorism financing is covered in the long-existing “Code Against Acts of Terrorism” which criminalizes the financing of terrorism as required by UNSCR 1373. This provision was incorporated in the Uniform Law. Modifications to the “Code Against Acts of Terrorism” are included in legislation on counterterrorism financing currently under consideration by the National Assembly. The UN 1267 Sanctions Committee consolidated list is circulated both by the GOS and by the BCEAO to commercial financial institutions. To date, no assets relating to terrorist entities have been identified. The WAEMU Council of Ministers issued a 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. A pending law on financing terrorism would meet the stipulations of this directive

Senegalese authorities acknowledge the existence and use of indigenous alternative remittance systems that bypass, in whole or part, financial institutions. The authorities have established private foreign exchange bureaus to regulate the informal financial sector. No regulation currently governs remittances from the sale of gold and precious stones. There is no requirement to report cross-border currency transactions.

Senegal’s Drug Code and Uniform Law include a system to freeze, seize and forfeit narcotics-related assets as well as assets derived from other serious crimes, such as money laundering. It also includes the seizure of instruments of crime such as conveyances used to transport narcotics, or property such as bank accounts, legitimate businesses or real estate. Substitute assets can be seized if relationship to the crime is proven. The Uniform Law allows for both civil and criminal forfeiture, and gives full power and resources to police to trace and seize assets. Financial institutions can freeze assets upon requests from officials from the Ministries of Interior and/or Justice, or from the BCEAO. The Ministry of Justice is responsible for the confiscation of frozen assets. Assets can be frozen for up to 20 years. The sharing of seized narcotics assets with other governments would be the result of case-by-case negotiations.

Senegal has entered into agreements with Tunisia, Morocco and France regarding mutual assistance in criminal matters. With the Uniform Law now in force in most WAEMU countries and with the establishment of GIABA, FIUs in WAEMU and ECOWAS countries will cooperate, exchange and share information. In general, the GOS has demonstrated its commitment and willingness to cooperate with the United States law enforcement agencies, although no formal mechanism exists. In the past the GOS has worked with INTERPOL and Spanish and Italian authorities on international anticrime operations.

Senegal is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. Senegal also is a signatory to the African Union Convention on Terrorism Finance.

The Government of Senegal should continue to work with its counterparts in the Intergovernmental Action Group against Money Laundering (GIABA) and its partners in WAEMU to establish a comprehensive anti-money laundering regime in the region. Senegal should act timely to make its new Financial Intelligence Unit (FIU) a fully functioning organization, with adequate staffing and resources. Senegal should 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)). Serbia and Montenegro is located in Southeastern Europe (the Balkans), bordering the Adriatic Sea, between Albania and Bosnia and Herzegovina. SAM is a state union consisting of two

republics, the Republic of Serbia and the Republic of Montenegro. In the Republic of Serbia are two nominally autonomous provinces, Kosovo and Vojvodina; a United Nations Administration Mission (UNMIK) has administered Kosovo since 1999. The state union has a population of approximately 10.7 million, of which about 8 million live in Serbia, about 600,000 in Montenegro and slightly over two million in Kosovo. Each republic has a separate government and parliament. However, there is also a parliament on the federal level.

The country has a significant black market for smuggled goods. However, income from narcotics-trafficking is typically not used to support this black market. Rather, it is more typical for drug money to be laundered in the real estate market, which is one of the most popular ways to legalize criminal proceeds in SAM. Tax evasion and trade-based money laundering, in the form of over-and under-invoicing, are also another of the common methods used to launder money. According to government officials, the majority of criminal proceeds from narcotics-trafficking laundered in SAM are derived from illegal activities of the Kosovar "Narco-Mafia." Serbian officials also estimate that up to half of all financial transactions in SAM may be connected in some way to money laundering. Although SAM has made important progress in its fight against corruption and financial crimes by criminalizing money laundering and establishing financial intelligence units, substantial work remains to be done.

Neither republic has identified any activities relating to the financing of terrorism. Montenegro has criminalized the financing of terrorism and Serbia is in the process of amending its criminal code to address this issue.

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 shifted. Consequently, both the Republic of Serbia (Serbia) and the smaller Republic of Montenegro (Montenegro) have addressed money laundering and terrorism financing. However, each republic has done so separately 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 of international Conventions and treaties currently lies at the State Union level. All relevant anti-money laundering/counterterrorist financing (AML/CTF) conventions have been ratified.

Serbia. The Yugoslav Federal Assembly adopted an Anti-Money Laundering Law (AML Law) in September 2001; it came into effect in July 2002. The AML 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.

On July 18, 2003, Serbia passed a new law codifying the powers of the National Bank, decreasing its independence and establishing parliamentary control over its operations. The Bank has adopted AML supervision guidelines and is examining banks for compliance with the existing AML reporting requirements. One area of concern is the large number of currency exchanges located throughout Serbia that are reportedly structuring transactions for clients who want to avoid the reporting requirements. These currency exchanges are regulated by the National Bank, but an effective supervisory scheme to address this problem has not yet been put into place.

Entities subject to reporting requirements include 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. Covered entities are required to identify persons opening an account or if they are “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 AML Law also provides for record keeping.

In March 2002, a Financial Intelligence Unit (FIU), the Administration for the Prevention of Money Laundering (FCPML), was established as an independent federal body by governmental decree; it became operational on July 1, 2002. At its founding, both the money laundering law and the FIU were operational at the federal level, with all laws applicable to both Serbia and Montenegro. On February 4, 2003, pursuant to 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 July 2003, FCPML became a member of the Egmont Group, and has since begun active participation in information exchange with counterpart FIUs.

Despite some positive first steps, the Serbian FIU remains largely ineffective in addressing Serbia’s money laundering problems, because of both inadequate funding and a lack of sufficient compliance mechanisms. Other than the memorandum of understanding the FIU signed with the National Bank of Serbia in 2004, the FIU has not formalized relationships with enforcement officials and other government or private institutions for cooperation and exchange of information. For 2003, the FIU reported the receipt of over 60,000 reports and the referral of 162 suspicious cases to law enforcement. However, the FIU has not issued indicators of suspicious activity for all sectors encompassed by the existing law. In addition, the FIU has no inspection authority and has not provided or sponsored adequate training programs for non-bank financial institutions. As a result, the accurate reporting of suspicious transactions is questionable. To cite one example, one of the largest banks in Serbia reported conducting over 15,000 cash transactions in one year. But this same bank had filed less than 10 suspicious transaction reports (STRs) during that same year. Serbia also has not yet obtained a conviction for money laundering.

A new draft money laundering law conforming with international standards, extending the list of covered entities to include attorneys and accountants, and harmonizing legislation with all European Union (EU) Directives, was under review and submitted to Parliament 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 that brought to power Prime Minister Kostunica’s government. In the last year, however, Kostunica’s administration has failed to approve this draft law. To date, the draft law is still in Parliament. Although the draft law is fairly comprehensive, it still has some shortcomings. It does not require suspicious transaction reporting by attorneys (a FATF and EU recommendation), and it does not establish the FIU as a repository for information relating to the suspicions of terrorist financing, which is now a requirement for all Egmont members.

Serbia has no terrorist financing law consistent with the standards contained in international conventions, and its legislative and institutional framework for combating terrorist financing remains weak. Draft legislation is pending. 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 terrorist financing. But, despite this fact, Serbia is constrained with regard to international assistance in investigating terrorist financing. This is because Serbia’s police may not make use of the Mutual Legal Assistance Treaty (MLAT) process in terrorist

financing cases, due to the fact that under Serbian law, use of the MLAT process is restricted to crimes with penal sentences equal to or exceeding ten years (although the draft law reduces the requirement to four years). Under the current law, the maximum term for money laundering or terrorist financing is eight years. As a result, Serbia forfeits any available international assistance. Also presenting another obstacle is Serbia's Criminal Procedure Code, under which an MLAT request for assistance in investigating terrorist 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.

The AML Law establishes special procedures for tracking funds related to terrorist financing. The Serbian FCPML is the authority charged with enforcing the UN terrorism sanction lists. Although it routinely checks for suspect accounts, it has found no evidence of terrorism financing within the banking system and no evidence of the usage of alternative remittance systems. 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 SAM.

Serbia has no asset seizure or forfeiture law. Actual asset seizures can only be carried out by court order.

The government has no encompassing AML/CFT strategy, and has failed to enact anti-money laundering legislation that is in full compliance with international standards. It also has not created a bureaucratic and legal framework that empowers the FIU to carry out its core mission. Terrorist financing laws have not been enacted and the ability to seize or freeze assets relating to terrorist financing, except after a criminal conviction using other statutes, does not exist under current law. As a result of the absence of a comprehensive anti-money laundering regime, no accurate statistical information or feedback regarding cases forwarded to local authorities or prosecutors is available to assess results or ensure transparency. Finally, the Finance Ministry has yet to grant the FIU a line item budget, so that it can effectively plan activities and operations.

Montenegro. It is important to note that considering its past record on AML issues, Montenegro has positively and significantly changed its stance on money laundering. 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. It is speculated that much of the money came from criminal activity.

In August 2002, the Central Bank of Montenegro (CBCG) issued a decree that requires banks and other financial institutions to report suspicious transactions, establish anti-money laundering control programs, and train their employees on money laundering matters. Also, in response to the overwhelming growth of its offshore sector during the past decade, the Montenegrin government mandated that all offshore banks must re-register, post a one million Eurobond or fee, and reestablish themselves as regular banks. To date, since none of the offshore entities has complied with this mandate, the Central Bank has deemed all offshore banks to be dissolved. The Finance Ministry has not released complete information about the actual disposition of the 400 offshore entities whose names they turned over to CBCG.

Money laundering is criminalized in a new Criminal Code, which was amended in June 2003 in order 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 terrorist financing. In April 2004, Montenegro further amended its Criminal Procedure Code to bring it into conformity with the standards of the Council of Europe.

Montenegro passed anti-money laundering legislation on September 24, 2003. The new law obliges 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 euros or more, even if each particular transaction does not exceed the threshold. Financial institutions are also obliged to report suspicious transactions, even if only a small amount of money is involved. 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 mandates for the collection and analysis of these reports by Montenegro's FIU, which also has the responsibility to disseminate these reports to the competent authorities for further action. The FIU is adequately staffed, but compliance mechanisms are as yet untested. The FIU, which has been fully operational since November 2003, is currently a candidate for Egmont membership in 2005.

Montenegro can seize and forfeit assets, but only in connection with a violation of another provision of the Criminal Code, generally money laundering, terrorism or terrorist finance. In September 2004, the Government of Montenegro seized over a million dollars in undeclared currency in connection with the arrest of two Chinese nationals attempting to enter Montenegro.

Amendments to Montenegro's laws on terrorism and terrorist financing were initiated in November 2004 and are expected to be adopted in January 2005. These amendments are designed to bring Montenegrin law into conformance with international standards. Responsibility for the detection and prevention of terrorist financing was transferred in 2004 from the CBCG to the FIU. The FIU promptly informs banks and other financial institutions of additions and changes to the lists of individuals and entities included on the consolidated list of the UNSCR 1267 Sanctions Committee. No terrorist financing has been detected within Montenegro.

Kosovo. Since 1999, the United Nations Interim Administration in Kosovo (UNMIK) has governed Kosovo. Therefore, it no longer falls within the jurisdiction of either Serbia or Montenegro. Recognizing that Kosovo could become a haven for money laundering as its neighbors tighten their anti-money laundering regimes, UNMIK determined that Kosovo must also adopt a strict approach to the fight against money laundering. Thus, on February 5, 2004, UNMIK issued Regulation 2004/2, "On the Deterrence of Money Laundering and Related Offenses." The Regulation became effective on March 1, 2004, with delayed effective dates for certain provisions within the regulation.

The Regulation defines the crime of money laundering as the knowing possession, acquisition, use, transfer or conversion of the proceeds of crime. Proceeds of crime is defined as any property derived from any criminal offense punishable by a year or more of imprisonment under the applicable law in Kosovo or under the law of the jurisdiction in which the criminal offense was committed. The crime of money laundering is punishable by up to 10 ten years confinement and a fine up to three times the value of the property laundered. The Regulation provides for both civil and criminal forfeiture of the proceeds of the money laundering or any property which facilitated the money laundering or predicate offense.

The Regulation also obliges banks, non-bank financial institutions (money remitters, securities dealers/brokers, insurance companies, foreign exchange businesses, issuers and sellers of traveler's checks, credit cards, money orders, bank checks, and electronic money), and covered professionals (attorneys, accountants, and licensed auditors) to identify their clients and conduct ongoing due diligence, report suspicious transactions and currency transactions greater than 10,000 euros to the KFIC, maintain records for five years, and maintain an anti-money laundering compliance program which includes the appointment of a compliance officer and mandates training of employees. The Regulation criminalizes tipping off and failure to file either the suspicious transaction report or the currency transaction report. The Regulation also mandates the reporting of the cross-border transportation of monetary instruments exceeding 10,000 euros.

The Regulation creates the Financial Intelligence Centre (KFIC) within the Police and Justice Pillar. The KFIC will receive and analyze the reports received from the various entities, create and maintain a database of all information collected, issue administrative directives, and exchange information upon requests with like foreign entities. The KFIC is functional but in its infancy.

The Regulation limits the receipt by non-governmental organizations (NGOs) of currency contributions to 1000 euros per day from a single source. NGOs cannot distribute greater than 5,000 euros to any single recipient in a single day. NGOs must maintain accounts that document all income and disbursements. The accounts shall identify income by source, amount, and manner of payment, such as currency or payment order, and identify disbursements by recipient, intended use of funds, and manner of payment. NGOs must maintain records for five years, report suspicious transactions to the KFIC and file annual reports.

The Regulation also provides for the widest possible cooperation with foreign jurisdictions with respect to information exchange, investigations and court proceedings in relation to temporary measures for securing property and orders for confiscation relating to instrumentalities of money laundering and proceeds of crime, and for purposes of prosecution of the perpetrators of money laundering and terrorist activity.

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 United States, governed by the 1901 Convention on Extradition of Offenders. SAM has signed 34 bilateral agreements on mutual legal assistance with 26 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. 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 do not provide the framework for full application in either republic. In December 2003, SAM signed, but has not yet ratified, 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.

Serbia should expand its anti-money laundering legislation to include all serious crimes and to provide for suspicious transaction reporting requirements for intermediaries. Montenegro should enact legislation expanding its anti-money laundering regime, including suspicious transaction reporting requirements, to non-bank financial institutions and intermediaries. Both republics should enact legislation to establish robust asset seizure and forfeiture regimes. Both Serbia and Montenegro should

ensure that sufficient resources are available for their FIUs and law enforcement agencies to work effectively and efficiently. 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. Serbia should criminalize all aspects of terrorist financing specifically and they should both implement a comprehensive framework to support an counterterrorism regime that comports with international standards. Kosovo should criminalize terrorist financing and implement its new anti-money laundering law.

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, which is designed to regulate all the activities of the corporate service providers as well as the trustee service providers, entered into force in 2004. 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 Seychelles' international airport is under constant supervision by Customs and the Police, who search suspicious incoming or outgoing passengers.

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 non-banking financial institutions, including exchange houses, stock brokerages, 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.

In December 2004, the Seychelles National Assembly enacted the Financial Institutions Bill 2004, which imposes more stringent rules on banking operations. The Bill, which was drafted in consultation with the International Monetary Fund, aims at ensuring greater transparency in financial transactions and regulating the financial activities of both domestic and offshore banks in line with international standards. One provisions of the new law requires that banks change their auditors every five years. Auditors must notify the Central Bank if they uncover criminal activity such as money laundering in the course of an audit.

In 2004, the GOS enacted the Prevention of Terrorism Bill 2004. The legislation recognizes 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 Prevention of Terrorism Bill strengthens the government's hand in this area. It specifically provides for the forfeiture of assets. Previously, the Seychelles authorities could work only with states that were members of the Commonwealth, or had 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 non-profit entities are scrutinized by the authorities to prevent their misuse, and such systems as hawala are regulated.

The Government of Seychelles is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. The Seychelles is a party to the 1988 UN Drug Convention and the UN Convention against Transnational Organized Crime. The Seychelles has signed but not ratified 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. Seychelles should expand its anti-money laundering efforts by moving to immobilize bearer shares and requiring complete identification of beneficial owners of international business companies (IBCs). Seychelles 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. Seychelles should criminalize 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 is no available information for 2004. What follows is a repeat of the 2003.

There is no specific legislation concerning money laundering. However, the Ministry of Justice is in the process of developing such laws. Banks are required to record the identity of customers engaging in large currency transactions and to maintain adequate records necessary to reconstruct significant transactions in order to respond to government information requests. Banks are also required to report suspicious transactions, although they do not usually adhere to this requirement. Bank secrecy laws prevent the disclosure of client and ownership information except under court order.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Group for Action Against Money Laundering (GIABA), based in Dakar, Senegal. In November 2002, GIABA hosted an anti-money laundering seminar for representatives of 14 ECOWAS members, including Sierra Leone.

Sierra Leone is a party to the 1988 UN Drug Convention and has signed, but not yet ratified, the UN Convention against Transnational Organized Crime, which is not yet in force internationally. Sierra Leone has signed, but has not yet become a party to, the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of 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 non-bank financial system, which includes large numbers of moneychangers and remittance agencies.

As a leading financial center in Southeast Asia, Singapore has been a key player in the regional effort to stop terrorist financing. Singapore has a sizeable offshore financial sector. In 2004, there were 111 commercial banks in Singapore, of which 47 were offshore banks, down slightly from 50 in December 2003. There are also 23 full banks and 36 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. The Monetary Authority of Singapore (MAS), a semi-autonomous entity under the Ministry of Finance, serves as Singapore's Central Bank and financial sector regulator. 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.

In January 2005, as part of a draft revision of its overall anti-money laundering/counterfinancing of terrorism (AML/CFT) regulations for banks, the MAS proposed, subject to final approval, an amendment to its regulations proscribing banks from entering into, or continuing, correspondent banking relationships with shell banks—in line with the Revised Financial Action Task Force (FATF) Forty Recommendations adopted in June 2003. The new draft regulation also mandates originator information on cross-border wire transfers, in line with the FATF's Special Recommendation Seven on wire transfers. It also clarifies procedures for customer due diligence and includes a risk-based

approach to customer due diligence, as well as mandating enhanced customer due diligence for foreign politically exposed persons. It furthermore extends coverage of the regulations to include terrorist financing activities.

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 a 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 currently illegal in Singapore. However, the government is considering lifting the ban on casinos for a specific development project. In December 2004, the Government of Singapore (GOS) invited international investors to submit proposals by February 28, 2005, to build an integrated resort with gambling facilities.

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 183 other serious offenses, including foreign offenses which would be serious offenses if they had been committed in Singapore. Singapore is in the process of reviewing its list of these offenses for consistency with Recommendation 1 of the FATF's Revised 40 Recommendations, and expects to have a final list by June 2005. Financial institutions must report suspicious transactions and positively identify customers engaging in large currency transactions. Financial institutions are required to maintain adequate records, to be able to respond quickly to GOS inquiries in money laundering cases. However, there are no reporting requirements on amounts of currency brought into or taken out of Singapore. Singapore is considering implementation of FATF Special Recommendation IX, which requires the detection of cross-border movement of currency and bearer negotiable instruments

Banking regulation is the responsibility of the Monetary Authority of Singapore. The 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 ("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. Similar guidelines and notices exist for finance companies, merchant banks, life insurers, brokers, securities dealers, investment advisors, and futures brokers and advisors. The MAS announced that it will also revise these Notices in line with the final form of the revised notice for banks.

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. To improve its suspicious transaction reporting, STRO has begun work on a computer system to allow electronic online submission of STRs, as well as the dissemination of AML/CFT material. It plans to encourage all financial institutions and relevant professions to eventually participate in this system.

Singapore is an important participant 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 39 persons since 2001 as suspected terrorists. Three persons have been released since then, two in September 2004 and one in January 2005, with restrictions placed on their associations and movements.

In April 2004, the International Monetary Fund and the World Bank Financial Sector Assessment Program (FSAP) team published an assessment of Singapore's financial sector, which included an evaluation of the AML/CFT regime. The IMF found that Singapore's ability to freeze terrorist related funds is comprehensive. The IMF also concluded that, while Singapore has not adopted the FATF approach of designating terrorist financing offenses as predicate crimes for money laundering, Singapore appears to meet the underlying obligations of the relevant FATF Special Recommendation Two on terrorist financing.

There are few restrictions on intergovernmental terrorist financing-related mutual legal assistance even in the absence of a Mutual Legal Assistance Treaty, because Singapore is a party to the UN International Convention for the Suppression of the Financing of Terrorism, the IMF concluded. But the IMF urged Singapore to improve its mutual legal assistance, noting serious limitations on assistance with the provision of bank records, with search and seizure of evidence, on restraining proceeds of crime, and on the enforcement of foreign confiscation orders.

On the terrorist financing front, the MAS has broad powers to direct financial institutions to comply with international obligations. These include UN Security Council Resolutions 1267, 1333, 1373, 1390, and other similar resolutions. In 2002, the MAS issued regulations to implement this authority. The regulations 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 institutions incorporated in Singapore, or incorporated outside of Singapore but which are located in Singapore. The regulations include a list of the entities and individuals on the UNSCR 1267 Sanctions Committee's consolidated list. Singapore updates the regulations periodically to include additional names as they are added by the UNSCR 1267 Sanctions Committee.

Alternative remittance systems exist, and are used mainly by the approximately 500,000 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.

Money Laundering and Financial Crimes

Firms must also answer questions about the way they conduct business and about their overseas partners. Informal networks, such as hawala, 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 1,669 charities were registered as of December 31, 2003. All charities must register with the Commissioner of Charities, 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 into which the charity can enter, 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 33 permits were issued in 2003 for fund raising for foreign charitable purposes. There are not restrictions or direct reporting requirements on foreign donations to charities in Singapore.

Singapore is party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism and has signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. Singapore is a member of the FATF, the Asia/Pacific Group on Money Laundering, the Egmont Group, and the Offshore Group of Banking Supervisors. Singapore will host the June 2005 Plenary meeting of the FATF, marking the first time an FATF Plenary will take place in Southeast Asia.

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 183 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 November 2000 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. This was 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 non-narcotics-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, Belgium, Japan, and the United States, 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 enables the government to provide legal assistance to the United States and the United

Kingdom in matters related to terrorism financing offenses. Singapore concluded a mutual legal assistance agreement with Hong Kong in 2003. In 2004, Singapore signed a treaty on mutual legal assistance in criminal matters with seven other members of ASEAN: Brunei, Cambodia, Indonesia, Laos, Malaysia, the Philippines and Vietnam. The treaty will come into effect after ratification by the respective governments.

The Government of 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 and bearer negotiable instrument movements into and out of the country, in line with the FATF's Ninth Special Recommendation, adopted in October 2004, that countries implement measures such as declaration systems, in order to detect cross-border currency smuggling. The conclusion of broad mutual legal assistance agreements is also important to further Singapore's ability to work internationally to counter money laundering and terrorist financing.

Slovak Republic

Slovakia is not considered an important regional financial center. 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 humans. Organized crime activity and the opportunities to use gray market channels also lead to a favorable money laundering environment. Financial crimes such as fraud, tax evasion, embezzlement, and illegal business activity have been quite problematic for Slovak authorities.

Slovakia's original anti-money laundering legislation, Act No. 249/1994 (later amended by Act No. 58/1996) came into effect in 1994. Article 252 of the Slovak Criminal Code, "Legalization of Proceeds from Criminal Activity," came into force at the same time. These measures criminalize money laundering for all serious crimes, and impose customer identification, record keeping, and suspicious transaction reporting requirements on banks. 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 a covered entity to report, as well as tipping off, are criminal offenses.

As a result of amendments made to the Slovak Civil Code in 2001, new anonymous passbook savings accounts are banned. All banks in Slovakia were ordered to stop offering new anonymous accounts. All owners of anonymous accounts were required to disclose their identity to the bank and to close the anonymous account by December 31, 2003. Owners of accounts that were not closed may withdraw money for an additional three-year non-interest-bearing grace period. However, funds remaining after January 1, 2007 will be confiscated and deposited in a fund for the administration of the Ministry of Finance, where they will be available for collection by the accountholder for another five years. As of January 1, 2007, bearer passbook accounts will cease to exist.

In 2000 the legislature approved modifications to existing anti-money laundering regulations, with the passage of Act No. 367/2000, "On Protection against the Legalization of Proceeds from Criminal Activities." The Act came into force on January 1, 2001. One of the most significant changes that Act No. 367/2000 introduces is in relation to the types of transactions subject to the reporting requirements. The law replaces the standard of "suspicious transactions" with an expanded definition of "unusual business activity." According to this modified definition, an unusual business activity is any transaction that could result in the legalization of income, the source of which is suspected to be criminal. Such transactions include the attempted disposal of income or property with the knowledge or suspicion that it was acquired through criminal activity in Slovakia or a third country. Designated transactions include the acquisition, possession, or use of real estate, moveable property, securities,

money, or any other property with monetary value, for the purpose of concealing or disguising its ownership.

As recommended in 2001 by the Council of Europe's Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL) in its second-round evaluation of Slovakia, the Government of Slovakia (GOS) amended Act No. 367/2000 in order to address shortcomings of the original legislation, and in order to comply with European Directive 2001/97/EC. As a result, 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." Act No. 367/2000 expands the list of entities subject to reporting requirements to include foreign bank subsidiaries, the Slovak Export-Import Bank, non-bank financial institutions such as casinos, post offices, brokers, stock exchanges, commodity exchanges, securities markets, asset management companies, insurance companies, real estate companies, tax advisors, auditors, credit unions, leasing firms, auctioneers, foreign exchange houses, and pawnshops, all of which have been particularly susceptible to money laundering.

Amendments to Act No. 367/2000 in 2002 further extend 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. Covered persons are required to identify all customers, including legal entities, if they find that the customers prepared or conducted transactions deemed to be suspicious, or if a sum or related sums exceeding 15,000 euros within a 12-month period is involved. (Previous law had set the reporting threshold at 2,600 euros.) 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 covered entities up to 48 hours, with another 24-hour extension allowed if authorized by the Financial Police. If the suspicion turns out to be unfounded, the state assumes the burden of compensation for losses stemming from the delay.

Originally, Slovakia's Financial Intelligence Unit (FIU), the Financial Intelligence Unit of the Bureau of Organized Crime, was established under the Ministry of the Interior and was a part of the Bureau of Financial Police (BFP). However, as of January 2004, the BFP ceased to exist and its duties were assumed by the newly created Office to Fight Organized Crime (OFOC), which focuses on all forms of organized crime, including narcotics, money laundering, human trafficking, and prostitution. The OFOC has four regional units of financial police, each responsible for a different part of Slovakia (Bratislava, Eastern Slovakia, Western Slovakia, and Central Slovakia). After the abolition of the BFP, the FIU was re-organized and moved to the OFOC.

The FIU has five primary departments: Analytical, Unusual Business Transactions, Supervision of Obligated Entities, International Cooperation, and Property Checks. The FIU increased its administrative capacity by raising its staff level from 25 to 34 personnel and its analysts participate regularly in international and domestic fora related to combating money laundering. The FIU has jurisdictional responsibility over money laundering violations, receives and evaluates suspicious transaction reports (STRs), and collects additional information to establish the suspicion of money laundering. If justified, the unit forwards the case to one of the regional financial police units. Once enough information has been obtained to warrant suspicion that a criminal offense has occurred, the FIU takes appropriate measures, including asking a financial institution or bank to delay business or a financial transaction. The FIU can also submit the case to the state prosecutor's office for investigation and prosecution.

In 2003, the BFP (through the FIU) registered 318 allegations of financial crime worth an estimated value of Slovak koruny (SKK) 54.8 billion (\$1.83 billion). The police formally investigated 251 of these allegations. The cases investigated had an approximate value of SKK 34.3 billion (\$1.14 billion). The police prosecuted 123 of the cases and convicted 72 entities. Also in 2003, the BFP received 489

reports alleging suspicious business operations totaling SKK 9.2 billion (\$307 million). On the basis of these 489 reports, 88 money laundering investigations were initiated by the police, resulting in the referral of 38 cases to the courts and 33 prosecutions. The BFP also conducted 23 on-site inspections of covered entities during 2003. Ten of these inspections resulted in the levying of fines totaling SKK 1,610,000 (\$54,000).

In the first eleven months of 2004, the OFOC (through the FIU) received 738 reports alleging unusual financial transactions worth a total of SKK 19.3 billion (\$643 million). It submitted 20 proposals totaling SKK 46.4 million (\$1.54 million) for criminal prosecution and 55 proposals for tax prosecution. In addition, the regional police units submitted 107 proposals for criminal prosecutions. The OFOC started 69 on-site inspections (24 are completed) of covered persons and levied penalties totaling SKK 2.41 million (\$80,300) in 23 cases.

In 2003, a law amending and supplementing the Criminal Procedure Code and Criminal Code entered into force. It provides law enforcement with the authority to conduct “sting operations” and introduces provisions regarding corporate criminal liability and “crown” witnesses. A “crown witness” (a criminal who voluntarily opts to cooperate with law enforcement bodies) could be granted immunity or receive a shortened sentence. This rule does not apply to those that organized or instigated the crime.

In late 2003, the Slovak cabinet approved a law on measures against entities that acquired property through illegal income (also known as the Law on Proving the Origin of Property). According to the draft law, an undocumented increase in property exceeding the minimum monthly wage multiplied by 200 would be scrutinized and would be considered possibly illegal. Anyone who has suspicions about possibly illegally acquired property may report it to the police, who are then obliged to investigate the allegations, ultimately reporting to the Office of the Attorney General if findings are conclusive. The Attorney General’s Office may then order the property to be confiscated. In January 2004, the Ministry of Justice withdrew the draft law from Parliament when it was evident it would not be approved.

Slovakia has responded to the problem of the financing of terrorism by amending its money laundering law with Act No. 445/2002, which criminalizes terrorist financing and obliges covered entities to report transactions possibly linked to terrorist financing. All competent authorities in the Slovak Republic have full power to freeze or confiscate terrorist assets in accordance with UNSCR 1373. According to act no. 367/2000 and its later amendment, financial institutions are required to report to the regional financial police when they freeze or identify suspected terrorist-linked assets. The GOS agreed to freeze immediately all accounts owned by entities on the UNSCR 1267 Sanctions Committee’s and EU’s (but not the United States’) consolidated lists. No terrorist 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. The GOS is now a signatory to all 12 of the UN Conventions concerning the fight against terrorism. However, as reported in MONEYVAL 2004 member states’ self-assessment questionnaire, Slovakia is still not fully compliant with the FATF’s Special Recommendations on Terrorist Financing, having received in 2004 from MONEYVAL a rating of “partial compliance” with regard to Special Recommendation I (Implementation of UNSCR 1373) and Special Recommendation VII (enhanced scrutiny of transfers lacking originator information).

The GOS is a party to the UN International Convention for the Suppression of the Financing of Terrorism. The provisions of the Convention have 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. The FIU has memoranda of understanding (MOUs) with the FIUs of Slovenia, Monaco, Ukraine, Australia, Belgium, Poland, and

the Czech Republic. The GOS also hopes to sign MOUs with Albania and Taiwan in 2005. Slovakia's FIU 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 is a party to the European Convention on Mutual Legal Assistance; the Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime; the 1988 UN Drug Convention; and the UN Convention against Transnational Organized Crime. It also has signed the UN Convention against Corruption. 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 and participates in MONEYVAL. Slovakia sends experts to conduct mutual evaluations on fellow member countries; it also underwent mutual evaluations by this group in 1998 and 2001. Slovakia is a member of the Egmont Group.

The Government of Slovakia should continue to improve its anti-money laundering regime. Continued implementation of the provisions of Slovakia's 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 non-bank sectors to ensure reporting requirements are followed. Slovakia should provide adequate resources to assure that its FIU, law enforcement, and prosecutorial agencies are adequately funded and trained to effectively perform their various responsibilities.

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 and persons, 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 neighboring countries and those of the former Soviet Union, and occurs through the banking system, foreign exchange houses, real estate transactions, and cross-border currency transport.

The Penal Code criminalizes money laundering and the financing of terrorism. A change made to Slovenia's Penal Code, in 2004, increases the imprisonment penalty for money laundering from three to five years. Negligent money laundering is also criminalized.

Slovenia's Law on the Prevention of Money Laundering (LPML) was enacted in 1994 and amended in 2001 and 2002. The October 2001 amendments update the original law by, among other provisions, expanding the OMLP's sources of available financial information, 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 increased the power of supervisory authorities to prohibit the establishment of new bearer passbook accounts and phased out already existing bearer passbook accounts. Further amendments to the law, which extend reporting obligations to lawyers, law firms, notaries, auditors and tax advisors, auctioneers, art dealers, gaming houses, and lottery concessions, were passed and entered into force in July 2002. Additional identification requirements, most notable of which is the requirement to identify beneficial owners, were also implemented. Due to the nature of their business, certain professions (lawyers, notaries, auditors, accountants, and tax advisors) are required only to file suspicious transaction reports (STRs) and are exempt from currency transaction reporting requirements. Records must be retained for a minimum of ten years. There are

nine understatutory regulations in force providing detailed measures for the implementation of the LPML. Slovenian legislation is now harmonized with the provisions outlined in the Second EU Directive.

Financial supervisory bodies include the Bank of Slovenia, the Securities Market Agency, the Insurance Supervisory Agency, the Office for Gaming Supervision, the Slovene Audit Institute, and the supervisory body responsible for the oversight of tax advisory services. 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 (FIU), the Office for Money Laundering Prevention (OMLP), an administrative FIU, was established in 1995 within Slovenia's Ministry of Finance. The FIU has a staff of 17. The 2002 amendments to the LPML gave OMLP more power and latitude in opening cases and sharing information. The amount of time during which transactions can be held is increased from 48 to 72 hours. The OMLP used its powers in six instances to temporarily suspend transactions with a total combined value of \$3,704,352. In its nine years of operation, OMLP has opened 764 suspicious cases and closed 655 cases. Foreign nationals were involved in more than half of these cases. In 2004, OMLP opened 112 new cases of suspected money laundering and closed 88 cases. Nine of the 88 cases were forwarded to the Police and/or Public Prosecution. In addition, 25 cases regarding suspicion of other serious criminal offenses (according to Article 22 of the LPML) were sent to the police and other competent bodies for further investigation. Two judgments have been finalized, but in both cases, due to procedural reasons, the defendants were acquitted.

Several additional cases are currently pending in the court system. The existence of a large backlog of cases in the courts continues to be a major factor impeding Slovenia's anti-money laundering regime. Law enforcement authorities, prosecutors, and judges all lack experience with regard to pursuing financial crimes, including money laundering.

The Ministry of Justice has been authorized to form a decision on whether a new law on mutual legal assistance in criminal matters will be drafted, which may include also the assets sharing provisions.

New changes and amendments (primarily focused on refining provisions regarding the financing of terrorism) are expected to be implemented after the Government of Slovenia's (GOS's) adoption of the European Union's (EU's) Third Money Laundering Directive during the second half of 2005.

The 1902 extradition treaty between the United States and the Kingdom of Serbia remains in force between the United States and Slovenia. Slovenia became a member of the EU on May 1, 2004, and is actively involved in regional efforts to combat money laundering and terrorism financing, working throughout the Balkans and Eastern Europe, especially with Serbia, Montenegro, Ukraine, Macedonia, and Russia. With regard to international cooperation, Slovenia (especially the OMLP) has a very positive reputation, having conducted a regional counternarcotics conference with Croatian counterparts, and having hosted a regional anti-money laundering conference for eight of its Balkan neighbors in October 2004.

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. The OMLP is a member of the Egmont Group. Slovenia also actively participates in other multilateral programs combating money laundering and terrorism financing. 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 also 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 July 2003 Slovenia signed the European Convention on the Suppression of Terrorism.

The Government of Slovenia should continue to work with its law enforcement and judicial authorities to increase the levels of action and experience in pursuing financial crime. Slovenia should provide specific training to provide law enforcement, prosecutors, and judges with a better understanding of money laundering and other financial crimes so that they will be able to effectively investigate and prosecute cases of money laundering.

Solomon Islands

The Solomon Islands is not a regional financial center. The Islands' banking system is small. The Parliament criminalized money laundering in 2002 with the passage of the Anti-Money Laundering Act and the Proceeds of Crime Act. The Acts provide mechanisms designed to prevent the movement of funds for terrorist purposes and to enhance the exchange of financial intelligence with other countries. Implementation of the Acts has been slow, but Parliament did act to establish a Financial Intelligence Unit (FIU) at the Central Bank in late 2004. The presence of RAMSI-affiliated Australian and New Zealand civil servants in key positions throughout the government has further aided the adoption of better banking practices.

The Solomon Islands is not a party to the 1988 UN Drug Convention, the UN Convention against Transnational Organized Crime, or the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of the Solomon Islands should become 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. It should provide the recently established FIU with sufficient staff and resources to effectively carry out its mission.

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 Taiwanese groups, and the 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 the illicit narcotics trade. Other common types of crimes related to money laundering are: fraud, theft, corruption, currency speculation, illicit dealings in precious metals and diamonds, human trafficking, and smuggling. Most criminal organizations are also involved in legitimate business operations. There is a significant black market for smuggled goods. South Africa is not an offshore financial center.

The Government of South Africa (GOSA) estimates that between \$2 and \$8 billion is laundered each year through South African financial institutions. The Proceeds of Crime Act (No. 76 of 1996) criminalized money laundering for all serious crimes. This Act was supplemented by the Prevention of Organized Crime Act (No. 121 of 1998), which confirms the criminal character of money laundering, mandates the reporting of suspicious transactions, and provides a "safe harbor" for good faith compliance. Violation of this Act carries a fine of up to Rand 100 million (approximately \$16,667,330) 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.

On November 11, 2004, the Parliament passed the Protection of Constitutional Democracy Against Terrorist and Related Activities Act (POCDATARA), which specifically criminalizes terrorist activity and terrorist financing. The Act would make it easier to identify, freeze, and seize assets related to money laundering. Significantly, the Act (which, pending Presidential signature, would take effect in

early 2005) will be applicable to charitable and non-profit organizations operating in South Africa, although there is no information that these groups have been linked to terrorist financing.

In November 2001, the President signed the Financial Intelligence Centre Act (FICA) into law. Pursuant to the FICA, South Africa 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 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 FIC began operating in February 2003. In July 2003, the FIC was admitted as a member of the Egmont Group of financial intelligence units.

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 firms 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. There are no bank secrecy laws in effect that prevent the disclosure of ownership information to bank supervisors and law enforcement authorities. However, very few actual cases have been prosecuted to date.

From March 2003-March 2004, the FIC received 7,480 suspicious transaction reports (STRs), the vast majority from money remitters (4,079) and banks (2,732). This number was above what had been projected. Ninety percent of the STRs were sent electronically. No information is available on how many of these STRs led to criminal investigations, but the number is believed to be very low. In addition, the quality and consistency of the STRs was uneven, probably due to the fact that not all of South Africa's banks have yet implemented internal anti-money laundering training programs. Many banks believe the reporting requirements hamper their efforts to attract new customers. In particular, retroactive know your customer (KYC) requirements mean that account holders who do not present identifying documents in person risk having their accounts frozen. The National Treasury has extended the staggered timetable for fully implementing KYC (higher-risk clients first) to September 30, 2006.

The FIC made progress in 2004 in building its capabilities and in establishing its credibility with the South African law enforcement community. During its first full year of operation, it received 105 information requests from local law enforcement and 56 from international law enforcement agencies. The FIC plans to obtain further analytical training for its staff, particularly in the area of detecting terrorist financing in the absence of specific intelligence.

Because of the cash-driven nature of the South African economy, alternative remittance systems that bypass the formal financial sector exist, used largely by the strong local Islamic community. Currently, there is no legal obligation requiring alternative remittance systems to report cash transactions.

The Financial Action Task Force (FATF) conducted a mutual evaluation of South Africa in 2003 and made several recommendations regarding controls on cross-border currency movement, thresholds and amendments to the Exchange Control Act. Those recommendations have yet to be adopted.

South Africa has cooperated with the United States in exchanging information related to money laundering and terrorist financing. The two nations have a Mutual Legal Assistance Treaty and a bilateral Extradition Treaty. In June 2003, South Africa became the first African nation to be admitted into the Financial Action Task Force. 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 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism, and the UN Convention against Transnational Organized Crime (ratified in February 2004).

The Government of South Africa should implement the FATF recommendations to establish better control over cross-border currency movement. It should begin to regulate the country's alternative remittance systems. It should monitor and make available the number of criminal investigations resulting from STRs, and it should increase the number of actual money laundering prosecutions. It should enact and fully implement the new law against terrorist activity and terrorist financing.

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. Colombian organizations use several methods to move money from European drug sales out of Spain. Airline personnel traveling between Spain and Latin America carry out money. Colombian companies purchase goods in Asia and sell them legally at cartel-run stores in Europe. Credit card balances are paid in Spanish banks for charges made in Latin America, or money deposited in Spanish banks is withdrawn by ATM cards in Colombia. Additionally, wire transfers continue to be a common way of getting funds out of Spain.

Drug proceeds from other regions enter Spain as well. Hashish proceeds come from Morocco and heroin money enters from Turkey. The majority of money that enters Spain to be laundered is smuggled across the border in three ways. Bulk cash is carried in travelers' luggage or hidden on their bodies when arriving at international airports; shipping containers loaded with currency enter through Spanish ports (such as Algeciras); or, money is brought in by small craft along Spain's long coastline. The informal non-bank outlets (such as "Locutorios"), which make small international transfers for the immigrant community, continue to be used to move money in and out of Spain. Regulators also suspect the presence of "hawala"-like networks in the Islamic community.

Tax evasion in internal markets and smuggling of goods along the coastline continue to be sources of illicit funds in Spain. Spanish authorities believe that tax evasion in the cell phone and property industries is the most serious problem. The smuggling of electronics and tobacco from Gibraltar remains an ongoing issue. 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 terrorist group ETA.

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. Amendments to the code on November 25, 2003, which took effect on October 1, 2004, made all forms of money laundering financial crimes. To date, there have not been any cases of Spanish officials being involved in money laundering in Spain.

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 the 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 to 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 that 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 all serious crimes. The financial sector is required to identify customers, keep records of transactions, and report suspicious financial transactions. Spanish banks are required by law to maintain fiscal information for five years and mercantile records for six years.

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 regulating the movements of capital and foreign transactions implements the European Union (EU) Money Laundering Directive. The law 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. Individuals traveling internationally are required to report the importation or exportation of currency greater than 6,000 euros. Law 19/2003 allows the seizure of up to 100 percent of the currency if illegal activity under financial crimes ordinances can be proven. Spanish authorities claim they have seen a drop in cash couriers since the law's enactment in July 2003. For cases where the money cannot be connected to criminal activity, and has not been declared, the authorities may seize the money until the origin of the funds is proven.

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. Law 19/2003 allows seizures of assets of third parties in criminal transactions, and a seizure of real estate in an amount equivalent to the illegal profit.

Money Laundering and Financial Crimes

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 transaction reports (STRs) and currency transaction reports (CTRs). 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. SEPBLAC received 1,351 STRs in 2002, 1,598 STRs in 2003, and 2,414 STRs in 2004. In addition, SEPBLAC received 205,252 CTRs in 2002, 294,508 CTRs in 2003, and 331,856 CTRs in 2004.

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. Seizures of assets involving more than one country, and the division of the assets, depend on the relationship with the country in question. 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 Financial Action Task Force (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.

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. SEPBLAC will serve as the Executive Service and as the Secretariat for this Commission. 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 authorities' ability to freeze accounts granted in the most recent law is more aggressive than that of most of their European counterparts. Though many laws are transposed from European Union (EU) directives, Law 12/2003 on the prevention and freezing of terrorist financing goes beyond EU requirements. However, the implementing regulations for this law have not been written, and it has not been used. Once in full effect, this law will allow administrative freezing of suspect assets without a judge's order.

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 is a party to the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism. Spain is also a party to the 1988 UN Drug Convention. SEPBLAC is a member of the Egmont Group and is currently chairing one of the Egmont Committee working groups.

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, and provides for sharing of seized assets, provided the request is made to the Spanish court hearing the case, rather than administratively. 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. SEPBLAC has also entered into bilateral agreements for cooperation and information exchange on money laundering issues with Andorra, Argentina, Australia, Belgium, Brazil, Bulgaria, Colombia, Finland, France, Guatemala, Italy, Korea, Mexico, Monaco, Panama, Peru, Poland, Portugal, Romania, Ukraine, Venezuela and the United States. Spain actively collaborates with Europol, supplying and exchanging information on terrorist groups. U.S. law enforcement agencies reported excellent cooperation with their Spanish counterparts in 2004. U.S. customs works closely with Spanish customs, Spanish prosecutors, the national police corps and the Civil Guard. The Drug Enforcement Administration works closely with SEPBLAC, the national police and the Civil Guard. These organizations regularly share information. Official documents however, will only be transferred if requested by a court.

The scale of the money laundering industry and the sophisticated methods used by criminals create a very large law enforcement problem in Spain. The Government of Spain makes every effort to eliminate financial crime in the country. 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 and should fully implement Law 12/2003 to allow administrative freezing of suspect assets.

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 on bank customers. The Central Bank introduced regulations on customer due diligence in a December 2001 bid to tackle money laundering and terrorist financing in the absence of a specific legal framework. 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 and terrorist financing. There are three draft laws under discussion: a law to prohibit money laundering and to provide for measures to combat money laundering; a law to give effect to the UN International Convention for the Suppression of the Financing of Terrorism; and a financial transaction reporting law modeled on those in the Commonwealth which will provide, among other things, for the establishment of a financial intelligence unit. There has been a delay in finalizing the legislation as the GSL debates what sort of presumptions to establish with respect to innocence or guilt. Currently, financial transactions relating to terrorism and narcotics are illegal under Central Bank regulations and banking laws.

The definition of money laundering, under the proposed anti-money laundering law covers (as predicate offenses) the offenses under existing and proposed laws on narcotics, terrorism prevention, bribery, firearms, exchange control, transnational organized crime, cyber crimes, child protection and trafficking of persons and any other offense punishable by death or imprisonment of seven years or more. The offense of money laundering involves receiving, possessing, concealing, investing, disposing of, importing, exporting, or dealing in any property or proceeds derived or realized from any unlawful activity covered by the law. Under the sentencing provisions of the proposed anti-money laundering law, persons convicted will be liable for a fine and imprisonment for a period of 5-20 years. Under the sentencing provisions of the proposed counterterrorist financing law, persons convicted will be liable for a fine and imprisonment for a period of 15-20 years. Under the proposed laws, both money laundering and terrorist financing would be extraditable offenses.

Many areas of concern exist with respect to Sri Lanka's current anti-money laundering efforts. The Central Bank continues to allow the operation of bearer certificates of deposits. In July 2003, in order to limit money laundering through bearer certificates, the Central Bank required banks to maintain a

record of purchasers of these certificates. Another area of concern relates to a 2003 tax amnesty, under which Sri Lankan individuals and companies could declare previously undisclosed wealth accrued from any source and receive immunity from a range of taxes. The amnesty was revised recently, so that immunity is now only available with respect to the payment of income tax on relevant funds. Casinos, jewelry shops and dealers in gems are also areas 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, North America and the Gulf.

Sri Lanka has an indigenous alternative remittance system in the form of informal money transfer operations. Many Sri Lankan migrant workers, mainly in the Middle East, use a hawala-like system to remit their earnings. Various payments out of Sri Lanka are also made using this system. Sri Lankan commercial banks are increasing their presence and services in the Middle East in order to cater to this clientele. Trafficking of drugs generates significant amounts of criminal proceeds, and those proceeds are also readily transported using this system. Drug proceeds are laundered through various methods, including investment in real estate.

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 an overseas country in order to facilitate trade finance. They are subject to Central Bank supervision. Bearer shares are not permitted for offshore banks and foreign-owned companies. Sri Lanka has 10 free trade zones, also called export-processing zones, administered by the state-owned Board of Investment (BOI). The free trade zones house export-manufacturing operations. Only companies approved by the BOI are allowed to operate inside the zones. There are no indications that these free trade zones are being used in trade-based money laundering schemes or terrorist financing.

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 is a member of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) working group on Counter-Terrorism and Transnational Crime formed in July 2004. The working group had its first meeting in December 2004 and aims to serve as a platform for regional cooperation to prevent and suppress terrorism and transnational crime.

The Mutual Assistance in Criminal Matters Act of 2002 provides for cooperation in criminal matters with Commonwealth countries. According to the law, additional bilateral agreements on mutual assistance in criminal matters are required for extending provisions of the act to non-Commonwealth countries. Under the proposed law to give effect to the UN International Convention for the Suppression of the Financing of Terrorism, the government is required to co-operate and provide assistance to states party to the Convention with regard to investigations and prosecutions under the law. The Central Bank of Sri Lanka has circulated the list of individuals and entities that have been included on the UNSCR 1267 Sanctions Committee's consolidated list with instructions to identify, freeze and seize terrorist assets. To date, no such assets have been identified.

Terrorist financing is an offense punishable by imprisonment for a period of five to ten years. Regulations under the United Nations Act No. 45 of 1968 provide for the freezing and forfeiture of assets of financiers of terrorism. There is no specific provision in law for the freezing and forfeiture of narcotics-related assets. The 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 and terrorist financing legislation include asset forfeiture and seizure provisions for narcotics related crimes, money laundering and terrorist financing.

The Government of Sri Lanka should act on the three draft laws referred to above and initiate a comprehensive anti-money laundering program that has as its foundation anti-money laundering and

counterterrorist financing laws. The property and proceeds arising out of all serious crime should be included as predicate offenses for money laundering. The practice of permitting 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. Sri Lanka should ratify the UN Convention against Transnational Organized Crime.

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 15,000 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 two money remitters. There are also 50 trust and company service providers. In 2003 St. Kitts had four domestic banks, 120 credit unions, four domestic insurance companies, two money remitters, and 15 company service providers. There are also four trusts, one casino, and 450 exempt companies. Applicants may apply as an IBC for an Internet gaming license; however, none were issued in 2003. The GOSKN did not release statistics for 2004. St. Kitts claims to have no Internet gaming operations.

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 St. Kitts and Nevis' 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.

A regional stock exchange, common to the members of the Organization of Eastern Caribbean States and supervised by a regional regulator, is located in St. Kitts. The Eastern Caribbean Central Bank has direct responsibility for regulating and supervising the offshore bank in Nevis, as it does for the entire domestic sector of 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 non-bank financial institutions for anti-money laundering compliance.

The GOSKN also issued regulations requiring financial institutions to identify their customers, to maintain a record of transactions, to report suspicious transactions, 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.

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 new director, deputy director, and four police officers. The FIU receives, collects, and investigates suspicious activity reports (SARs). The FIU is also charged with liaising with foreign jurisdictions. By November 2003, the FIU had received 77 SARs. No figures were released for 2004. During its first two years of operation the FIU received over 100 SARs and froze over \$1.6 million.

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, 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.

A mutual legal assistance treaty between SVN and the United States entered into force in early 2000. 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). St. Kitts and Nevis is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism, and on May 21, 2004, ratified the UN Convention against Transnational Organized Crime.

The Government of St. Kitts and Nevis continues to be 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, St. Kitts and Nevis should determine the number 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, St. Kitts and Nevis 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.

Currently, St. Lucia has five offshore banks, 1,438 international business companies, 33 international trusts, 17 international insurance companies, two money remitters, three mutual fund administrators, 9 registered agents and 3 registered trustees (service providers) and six domestic banks. St. Lucia has a free trade zone. The Government of St. Lucia (GOSL) also is considering the establishment of gaming enterprises.

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 transactions for seven years. In September 2003, legislation was adopted that extends anti-money laundering compliance requirements to credit unions, money remitters and pawnbrokers, as well as strengthens criminal penalties for money laundering.

Many of the 1993 Proceeds of Crime Act provisions are superseded by the 1999 Money Laundering (Prevention) Act (ML Prevention Act), which criminalizes the laundering of proceeds with respect to 15 prescribed offenses, including narcotics-trafficking, corruption, fraud, terrorism, gambling and robbery. The ML Prevention Act mandates suspicious transaction reporting requirements and imposes record keeping requirements. In addition, the ML 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. It also 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 ML Prevention Act, the Money Laundering (Prevention) Authority (the 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 transaction 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 ML Prevention Act imposes a duty on the Authority to cooperate with competent foreign authorities. Assistance includes the provision of documents, testimony, conduct 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, to issue guidelines to financial institutions, and to instruct a financial institution to facilitate an investigation by the Authority.

In 1999, the GOSL also enacted a comprehensive inventory of offshore legislation, consisting of the International Business Companies (IBC) Act, the Registered Agent and Trustee Licensing Act, the International Trusts Act, the International Insurance Act, the Mutual Funds Act and the International Banks Act. An IBC may be incorporated under the IBC Act. Only a person licensed under the Registered Agent and Trustee Licensing Act as a licensee may apply to the Registrar of IBCs to incorporate and register a company as an IBC. The registration process involves submission of the memorandum and articles of the company by the registered agent, payment of the prescribed fee and the Registrar’s determination of compliance with the requirements of the IBC Act. IBCs can be registered online through the GOSL’s 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 functions of the Authority have been transferred to the new FIU. The FIU is able to compel the production of information necessary to investigate possible offenses under the 1993 Proceeds of Crime Act and the ML 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) has trained St. Lucia’s FIU personnel. In September 2003, legislation was adopted merging the Authority

with the FIU. In December 2004, the FIU received 25 suspicious transaction reports. There have been no money laundering convictions to date in St. Lucia. However, there is a money laundering case pending.

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 the 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.

Counterterrorism and counterterrorist financing legislation is pending before the St. Lucia Parliament. 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 Round 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 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. St. Lucia also has a Tax Information Exchange Agreement with the United States. The GOSL has been cooperative with the USG in financial crime investigations. St. Lucia is a party to the 1988 UN Drug Convention and, on September 26, 2001, signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. The GOSL has not signed the UN International Convention for the Suppression of the Financing of Terrorism.

The Government of St. Lucia should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and adopt counterterrorism financing legislation. St. Lucia should continue to enhance and implement its money laundering legislation and programs.

St. Vincent and the Grenadines

St. Vincent and the Grenadines remains vulnerable to money laundering, other financial crimes, and the facilitation of terrorist financing, as a result of the rapid expansion and inadequate regulation of its offshore sector. The offshore sector includes 11 offshore banks, 6,276 international business corporations, 11 offshore insurance companies and 153 international trusts. The domestic sector comprises two commercial banks, a development bank, two savings and loan banks, a building society, 13 insurance companies, 10 credit unions, and two money remitters. There are no free trade zones in St. Vincent and the Grenadines (SVG) nor have any Internet gaming licenses been issued.

The Eastern Caribbean Central Bank (ECCB) supervises SVG's four 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 St. Vincent and the Grenadines (GOSVG) gave the ECCB increasing authority to review and make recommendations regarding approval of offshore bank license applications, and to directly supervise the 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; however, its staff exercises only rudimentary controls over these institutions. The GOSVG has strengthened the structure and staffing of the OFA by appointing five new members to the OFA board. This brings the total to 12 staffers to regulate offshore insurance and mutual funds.

In June 2003, the Financial Action Task Force (FATF) recognized that the GOSVG, through enactment and implementation of appropriate legal reforms, had sufficiently addressed deficiencies identified by the FATF in 2000, and removed it from the list of Non-Cooperative Countries or Territories (NCCT). With SVG's removal from the NCCT list, the U.S. Treasury's Financial Crimes Enforcement Network (FinCEN) lifted its advisory, which had instructed all U.S. financial institutions to "give enhanced scrutiny" to all transactions involving St. Vincent and the Grenadines. The FATF encouraged the GOSVG to consider tightening provisions relating to the granting of exemptions from customer identification requirements.

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 a customer account and any other confidential information about the customer that is in the possession of a licensee. The GOSVG prepared a further amendment to the International Banks Act with a view to improving licensing procedures and better regulating the offshore banking sector.

The GOSVG 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 strengthen provisions of the Act and the Regulations. Among other measures, the Act criminalizes money laundering and imposes on financial institutions and regulated businesses a requirement to report suspicious transactions likely to be related to money laundering or the proceeds of crime. The related regulations establish mandatory record keeping rules and limited customer identification/verification requirements.

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 citizenship and passports, although there were no reports of passports having been issued under the program.

The Financial Intelligence Unit Act No. 38 of 2001 (FIU Act) establishes the Financial Intelligence Unit (FIU) that began operation in May 2002. The FIU Act allows for the exchange of information with foreign FIUs. An amendment to the FIU Act permits the sharing of information even at the investigative or intelligence stage. The FIU has a staff of 14 and became a member of the Egmont Group in June 2003. As of October 2004, the FIU had received 88 suspicious activity reports for the year and almost 400 since its inception. In November 2004, the FIU began an anti-money laundering /counterterrorist finance training initiative at the financial institutions.

There have been no money laundering convictions, but the GOSVG has frozen approximately \$1.5 million and confiscated approximately \$40,000. Officials also cooperated with a U.S. investigation of a major suspected money launderer in 2002. In 2003, the GOSVG reintroduced a customs declaration form to be completed 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 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 SVG. To date, no accounts associated with terrorists have been found.

The GOSVG is a member of the Caribbean Financial Action Task Force, and underwent its Second Round mutual evaluation in November 2002. In addition, the GOSVG is a member of the Organization of American States Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD). The GOSVG is a party to the 1988 UN Drug Convention and acceded to the Inter-American Convention against Corruption in 2001. The GOSVG signed, but has not yet ratified, the UN Convention against Transnational Organized Crime. 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 with its requirements. An updated extradition treaty and a Mutual Legal Assistance Treaty between the United States and the GOSVG entered into force in September 1999. The FIU executes the Mutual Legal Assistance Treaty requests.

The Government of St. Vincent and the Grenadines should address all remaining concerns raised by the international community in regard to its anti-money laundering regime. These include the areas of customer identification, money remitters, outstanding bearer shares, and money laundering prosecutions. St. Vincent and the Grenadines should continue to provide training to its regulatory, law enforcement, and Financial Intelligence Unit personnel in money laundering operations and investigations. St. Vincent and the Grenadines also should ensure that it properly supervises the offshore sector. St. Vincent and the Grenadines should pass counterterrorist financing legislation that will provide the authority to identify, freeze and seize terrorist assets.

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 non-banking 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. Both local drug-trafficking organizations and organized crime are believed to control the money laundering proceeds. Suriname does not have an offshore sector nor free trade zones.

Although Suriname's overall anti-money laundering regime still remains weak, it made significant progress in 2004. A package of anti-money laundering legislation passed in 2002 by the Government of Suriname (GOS) is 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," enacted in September 2002, 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. There are no provisions for civil forfeiture, and there is no legal mechanism that designates the proceeds gained by the sale of forfeited goods to be used directly for law enforcement efforts.

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 personnel received extensive training in 2004. 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, when the head of the FIU resigned effective January 2004 after less than six months in office, the FIU is making progress under a new director.

Suriname’s financial regime was challenged in early 2004 by a currency change which dropped three zeros from the currency and changed the name from the Surinamese Guilder to the Surinamese Dollar. Anticipating problems, the Central Bank required that suspicious transactions be reported/investigated. The FIU, however, did not detect any suspicious transactions from commercial banks related to the exploitation of the change in currency. The FIU, however, did not receive information from currency exchange cambios.

Suriname’s money laundering regime was further enhanced in 2004 with the establishment of a Financial Investigation Team (FOT) within the Attorney General’s office. The FOT is responsible for investigating suspicious transactions discovered by the FIU. The results of the investigation are then sent to the police and prosecutor’s office to be used as prosecutorial evidence. In November a Surinamese judge convicted a money laundering suspect for the first time in a landmark court case, marking the first successful implementation of Suriname’s 2002 anti-money laundering law. Both the FIU and FOT were instrumental in providing sufficient evidence to ensure a conviction. The suspect, whose country of origin is unknown, received a seven-year prison sentence for intentional money laundering and attempting to export a small amount of cocaine.

Resource constraints and in particular a severe shortage of judges will be a limiting factor in expanding this judicial success. A new class of nine judges, in training, will partially redress the problem, but they will not complete training for another four to five years.

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, but extradition of Surinamese nationals is prohibited. 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, but has not yet ratified it.

The Government of Suriname should continue its efforts to fully implement its anti-money laundering legislation, particularly through expansion of the Financial Intelligence Unit (FIU) and Financial Investigation Team (FOT) and further training of personnel. Suriname 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, primarily in marijuana, continues to grow in Swaziland. The country'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 Central Bank of Swaziland and the Ministry of Finance are currently drafting an amendment to the Money laundering Act of 2001 (the Act). Although the Act criminalizes money laundering for specified predicate offenses, including narcotics-trafficking, kidnapping, counterfeiting, extortion, fraud, and arms trafficking, it does not adequately address processes and procedures for the police to follow when money laundering is suspected. The penalty for money laundering is six years imprisonment, a fine amounting to roughly \$3,500, or both. The Act establishes a currency reporting requirement, requires banks to report suspicious transactions to the Central Bank, and provides conditions when assets may be frozen and forfeited. The Act also requires banks to retain records for five years, to improve the ability to trace suspicious transactions and patterns.

On November 16, 2004, the Central Bank of Swaziland and the Bankers Association of Swaziland issued a general statement on anti-money laundering regarding the importance of positive identification in banking. The statement says that Swaziland's financial institutions will not conduct transactions with any customers failing to furnish proof of their identity and that service shall not be provided when there is any reason to suspect that money laundering may be involved. By June 30, 2005, all existing customers of Swaziland's financial institutions will need to present current information to establish their actual identity.

To assist the banking community with tracking suspicious transactions, the Central Bank distributed anti-money laundering guidelines to all banks in late 2002. As of December 2004, 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—one reason the Central Bank and the Ministry of Finance are amending the 2001 Act. The police also would be responsible for seizing any assets related to money laundering, but no seizures have taken place under the Act.

Members of the Royal Swaziland Police Service (RSPS) have noted that they lack the ability to understand and monitor small businesses. The RSPS has little liaison or cooperation with those ministries of the Government of the Kingdom of Swaziland (GKOS) involved with regulating businesses and business owners. Their expressed concerns in this arena include a perceived escalation in the number of foreign business owners throughout Swaziland. While the RSPS is becoming aware that businesses, such as used car lots, cellular and electronic shops, and sundries stores, are commonly used throughout the world as fronts and/or laundering mechanisms, the RSPS lacks the inter-departmental infrastructure and agreements to address this growing concern. Simply stated, the small business sector in Swaziland has been traditionally overlooked as a very real potential money laundering and support element for drug traffickers and terrorist groups. More inter-departmental and inter-ministerial cooperation is needed in order to properly assess and address this vulnerability.

The Act allows for providing assistance to foreign countries that have entered into mutual assistance treaties with the GKOS. An amendment to the Act will allow for Swaziland to comply with regional agreements and international conventions.

Swaziland is party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The GKOS has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. Swaziland is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body. Swaziland served as President of ESAAMLG from August 2002 to August 2003.

The Government of the Kingdom of the Swaziland (GKOS) should criminalize terrorist financing. Swaziland should also establish an anti-money laundering regime consistent with international standards, including a financial intelligence unit capable of sharing information with foreign law enforcement and regulatory officials. The Kingdom of the Swaziland should provide the appropriate resources and training to its law enforcement personnel to allow them to adequately perform their duties.

Sweden

Sweden does not appear to have a significant money laundering problem. Swedish anti-money laundering legislation includes all serious crimes, and the money laundering controls allow Sweden to fulfill the recommendations of the Hague Forfeiture Convention. The 2004 Transparency International Corruption Perception Index lists Sweden as the sixth (perceived) least corrupt country. Sweden relies on transparency of institutions to keep corruption at bay; however the focus on corruption has been increasing over the past few years. In January of 2004, two Swedish consultants were convicted of bribing foreign public officials at the World Bank. The court's decision has been appealed, but this decision marks the first bribery case of a foreign public official ruled on in a Swedish court.

Among the Nordic countries, Sweden has the highest number of money laundering reports. One reason is that Sweden, in comparison with other Nordic countries, has more currency exchange offices, which appear to be the preferred mechanism for money laundering. Other financial institutions, such as postal giro companies, are also used to launder money. A new trend identified by the Financial Police concerns large cash withdrawals by entrepreneurs on the illegal labor market, especially in the construction and cleaning business sectors. The money primarily emanates from narcotics, tax fraud, economic crimes and robbery.

Swedish law requires 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, securities firms, currency exchange houses, providers of electronic money, 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 (approximately \$16,300). Banks and financial institutions are obliged to observe and report to the police transactions that are suspected to include funds that will be used to finance serious crimes. Swedish law does not allow individual officers of covered institutions to be penalized for noncompliance; however, the Swedish Supervisory Authority has the ability to sanction noncompliant institutions.

Sweden implemented new regulations to further comply with the 1991 European Union (EU) Directive on Money Laundering approved in 2001. According to the new regulations the FIU is entitled to demand customer information from accounting firms; law firms; tax counselors; casinos; real estate brokers; 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. The new regulation came into effect on January 1, 2005.

Sweden's FIU received 4,155 suspicious transaction reports in 2001, a 60 percent increase from 2000 due to the implementation of the EU's Anti-Money Laundering Directive through Swedish law, which requires bureaux de change to report suspicious activity. The FIU received 8,008 suspicious transaction reports in 2002, 10,000 reports in 2003, and 9,929 reports in 2004. The Financial Police believe that increase in suspicious activity is attributed to Baltic countries' entrance into the EU.

The number of prosecutions in Sweden has been relatively low. In 2003, only four cases were brought to trial and resulted in conviction. During 2004, the number was similar. Suspected money laundering

in Sweden requires a full investigation of the initial crimes to fully establish the origin of the money. This has proven to be a difficult and resource-consuming effort, which results in fewer prosecutions. The law on money laundering stipulates six months to two years in prison. The average time in prison for perpetrators convicted of money laundering is around one year.

Sweden ratified the International Convention for the Suppression of the Financing of Terrorism on June 6, 2002, and on July 1, 2002, a new act on penalties for financing serious crimes entered into force. According to the act, it is a punishable crime to collect, provide, or receive money or other funds with the intention that they be used, or with the knowledge that they are to be used, to commit actions that constitute offenses under the international counterterrorism conventions. Attempts to commit such crimes are also punishable. Sweden has had two cases under this law but neither went to trial. One reason was that the actual amount involved was too low to prosecute. Another reason related to difficulties in prosecuting under the law. The prosecutor has to be able to prove intent to fund not only a particular organization, but also the intent to fund a terrorist activity. Three Swedish citizens were put on the terrorist list by the U.S., and then approved by the UN and later also by the EU, since they had connections to the bank al-Barakhaat. Two have been taken off the list but the third, Ahmed Yusuf, is still on the list.

Swedish law also provides for the seizure of assets derived from drug-related activity, however, it is not possible to stop a transaction based solely on suspicions of unlawful activity. Law enforcement officials may only seize the assets of an organization or individual that is the subject of an ongoing criminal investigation. Freezing of assets based on UN Security Council Resolutions is carried out by implementation of EC law. UN and international sanctions can be imposed through the 1995 Sanctions Act, however, the Swedish government does not have the authority to identify potential sources of terrorist financing and to disrupt them on its own without a decision by the EU or UN.

Sweden has endorsed the Basel Committee's "Core Principles for Effective Banking Supervision." Sweden is a member of the Financial Action Task Force (FATF), serving as the Chair for 2004, 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 on April 30, 2004, 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 has signed, but not yet ratified, the UN Convention against Corruption.

The Government of Sweden should continue to expand its anti-money laundering/counterterrorist financing regime. Sweden should adopt reporting requirements for the cross-border transportation of currency or monetary instruments. Sweden should ensure that legislation is enacted to extend suspicious transaction reporting requirements to intermediaries, such as attorneys, accountants, and financial advisors and to ease the difficulties proving and prosecuting the crime of money laundering.

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 non-bank 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. Deposits in Swiss institutions represent an estimated \$2.9 trillion, 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 artwork trading market. It exported \$877 million worth of artwork worldwide in 2003, and another \$786 million from January to October 2004. Generating about \$951 billion a year in turnover, the Swiss market offers lucrative opportunities for organized crime to transfer stolen art or to use art to launder criminal funds. The United States is by far Switzerland's most important trading partner, and purchased \$442 million of "Swiss" works of art in 2003, and \$332 million from January to October 2004. Because art works, which may have been smuggled into Switzerland, can legally be re-exported as genuine Swiss artwork after five years, the Swiss art market is especially attractive for unethical transactions.

Switzerland has duty free zones. The Customs authorities supervise the admission into and the removal from customs warehouses. Warehoused goods may only undergo manipulations necessary for their maintenance, or such as repacking, splitting, sorting, mixing, sampling and removal of the external packaging. Any further manipulation is subject to authorization. Goods may not be manufactured in the duty free zones. Swiss law has full force in the duty free zones, for example, export laws on strategic goods, war material, and medicinal products, as well as laws relating to anti-money laundering prohibitions, etc. all apply. In view of the fact that Customs may and frequently does enter any customs warehouse area they choose, they believe they would be aware of the nature of any "value added" activity taking place in duty free zones.

In December 2001, the Swiss Federal Council (Cabinet) agreed to consider expanding the scope of the 1998 federal anti-money laundering (AML) law to include art and jewelry dealers. The revised AML bill will be discussed in January 2005 in the context of the Financial Action Task Force (FATF) Forty Recommendations. In the meantime, AML regulations have been extended to cover art dealers to the extent that they are acting specifically as "financial intermediaries" between a seller and a buyer.

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 April 2005, 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 AML 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. 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 current money laundering laws and regulations have been extended to non-bank financial institutions. Consequently, all non-bank financial intermediaries are required to either join an accredited self-regulatory organization (SRO), or come under the direct supervision of the Money Laundering Control Authority (MLCA) of the Federal Finance Department. The MLCA was formed in 1998 to oversee anti-money laundering laws in the non-banking sector. The SROs must be

independent of the management of the intermediaries they supervise and must enforce compliance with due diligence obligations. Noncompliance can result in a fine or a revoked license. About 7,000 fiduciaries operate in this previously unregulated arena. The MLCA has shown willingness to take action against financial intermediaries: in 2003, the MLCA ordered the official liquidation of five financial intermediaries and the removal from the commercial register of two others, because they failed to comply with AML regulations. Reporting regulations on international money transactions, applicable to money transmitters in particular, have been tightened as well.

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. Additionally, the ordinance mandates computer-based transaction monitoring systems for all but the smallest financial intermediaries. All cross-border wire transfers must 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). 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 mandated an interdepartmental working group led by the Ministry of Finance to review Switzerland's compliance with the revised FATF Forty Recommendations. In December 2003, the MLCA effected a new money laundering ordinance which implements the revised Recommendations. The 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, to be known as FINMA. In November 2004, the Cabinet instructed the Finance Ministry to draft a parliamentary bill providing for the establishment of the FINMA. Under the Cabinet's proposal, the MLCA would also be included within the FINMA. The draft bill is scheduled for submission to Parliament by the end of 2005. The proposed changes are extremely far-reaching

In June 2004, the Cabinet submitted draft legislation to Parliament on auditing reform. The draft revision more tightly delineates the duties of auditing firms of large corporations and strengthens provisions on auditors' independence to prevent conflicts of interest. The draft legislation also provides for a public monitoring body of auditors to ensure that only sufficiently qualified experts perform auditing services.

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 anti-money laundering issues and responsible gaming practices.

The Money Laundering Reporting Office Switzerland (MROS) is Switzerland's Financial Intelligence Unit (FIU). All financial intermediaries (banks, insurers, fund managers, currency exchange houses, securities brokers, etc.) are legally obliged to establish customer identity when forming a business relationship. They also must notify the MROS, or a government authorized supervisory body, if a transaction appears suspicious. In March 2004, MROS released figures for the previous year: In 2003, money laundering cases rose 32 percent over 2002 figures, with more than 860 reports of suspicious transactions (STRs) worth approximately \$460 million. As in 2002, the majority of reports came from the non-banking sector, probably due to the stricter reporting regulations directed at non-banking financial intermediaries. However, while the percentage of STRs coming from banks has decreased, the actual number of STRs from the banks has continued to increase.

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 on 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 75 percent of the time. In January 2003, Switzerland won a battle when the European Union 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 banking community cooperates with enforcement efforts. 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.

Under the 2002 Efficiency Bill, the Swiss Attorney General is vested with the power to prosecute crimes addressed by Article 340bis of the Swiss Penal Code, which also covers money laundering offenses. 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.

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

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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.

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. In December 2004, Swiss judicial authorities handed over to Argentinean authorities banking information, in the context of criminal investigations, against former Defense Minister Oscar Camilion and former Air Force chief Juan Paulik. Camilion was forced to resign in June 1996.

During 2002, the Swiss Federal Council presented a bill to the Nationalrat, Switzerland’s lower house, that addresses a number of terrorism issues surrounding ratification of the UN terrorism conventions. This bill includes a 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 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.

The ordinances adopted in December 2002 also include 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 FIU immediately.

Since September 11, 2001, Swiss authorities have been alerting Swiss banks and non-bank financial intermediaries to check their records and accounts against lists of persons and entities with links to terrorism. The accounts of these individuals and entities are to be reported to the Ministry of Justice as suspicious transactions. Based on the “State Security” clause of the Swiss Constitution, the authorities have ordered banks and other financial institutions to freeze assets of organizations and individuals designated by the UNSCR 1267 Sanctions Committee. In the 2003 reporting period, MROS received reports of five cases possibly linked to the funding of terrorism. The total amount of money involved was \$115,000. All the reports involved individuals and institutions appearing on the USG lists. The five reports were transmitted to the Swiss Attorney General in Berne.

Along with USG 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 Attorney General also separately froze 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, addressed to the Benevolence International Foundation, a Chicago-based Islamic foundation designated as a terrorist financier. 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 has ratified the Council of Europe (COE) Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime and is a party to the UN International Convention for the Suppression of the Financing of Terrorism. Switzerland has signed, but not yet ratified, the UN

Convention against Transnational Organized Crime and 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. 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 FATF, the Egmont Group and the Basel Committee on Banking Supervision.

The Government of 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/counterterrorist financing regime.

Syria

Due to its relatively undeveloped banking sector, Syria is not a likely center for money laundering via the formal financial sector. From the time that private banks were nationalized in the early 1960s, and prior to last year, Syria's entire financial system was owned and operated by the state. However, in January 2004, private banks began operating in Syria. Currently three private banks are open for business. The existing public banks remain inefficient and highly regulated, and focus almost exclusively on financing public enterprises. Until late 2004, several foreign banks had been operating in Syrian duty-free zones without direct supervision by the Government of Syria (SARG). The SARG, however, recently began applying banking controls and regulatory oversight to these banks.

The U.S. Department of State designated Syria as a State Sponsor of Terrorism in 1979. In May 2004, the U.S. Department of the Treasury designated the Commercial Bank of Syria (CBS), along with its subsidiary, the Syrian Lebanese Commercial Bank, as a financial institution of "primary money laundering concern," pursuant to Section 311 of the USA Patriot Act. This designation remains in place, but the final rulemaking on the implementation of the special measure against CBS has not been issued, pending further discussions between the U.S. Government and the Government of Syria (SARG). In September 2004, U.S. and Syrian officials met to discuss deficiencies in SARG banking regulations. The U.S. Government later suggested remedial actions that Syria could take to conform to international banking standards, particularly those outlined in the recommendations of the Financial Action Task Force (FATF).

The Government of Syria strictly controls foreign currency flows out of the country, contributing to the use of alternative and "informal" systems of moving money or transferring value. Syrian businessmen usually depend on banks in neighboring Lebanon and Jordan to transact a full range of banking services. The private sector routinely uses foreign currency 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 they are usually moved to Lebanon for laundering purposes. As a result, the primary money laundering vulnerability in Syria is not necessarily through financial institutions but through 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. The opening of private banks is a positive development in terms of modernization of Syria's financial sector, but at the same time it makes the banking system increasingly vulnerable to money laundering, at least until such time as the SARG completes the implementation of measures to facilitate its oversight of financial transactions.

Due to a distrust of public banks, strict currency restrictions, and displeasure with the official exchange rate, most Syrians prefer to utilize informal banking systems to transfer currency into, around, and out of 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. 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. Until January 2004, when the first private banks opened, only the Commercial Bank of Syria was been permitted to provide commercial banking services. As the sole legal trader of foreign currencies, the Commercial Bank also effectively controlled all legal 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 different rates depending on the nature of the transaction. There are reports that the SARG may take steps toward eliminating the multiple exchange rate system in 2005. Until it is changed, however, this inefficient system contributes to the use of 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. That same month, 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. Much still needs to be done to fundamentally restructure the banking sector, particularly in terms of either suspending or amending existing regulations that prohibit the three established private banks from operating fully. The SARG continues to work on detailed regulations that will govern the operation of private banks. These private banks must have a 51 percent Syrian ownership (individual or consortium), while non-Syrian banks interested in investing in this new financial sector often finance the other 49 percent.

In September 2003, Syria passed Legislative Decree No. 59, criminalizing money laundering and creating an Anti-Money Laundering Commission. While this was an important movement in principle toward addressing vulnerabilities in the banking sector, particularly the new vulnerabilities arising from 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. In December 2004, the SARG prohibited private bank representation on the Anti-Money Laundering Commission, in order to ease conflict-of-interest concerns.

Syria is a party to the 1988 UN Drug Convention. It is also in the process of becoming a party to the UN International Convention for the Suppression of the Financing of Terrorism. It signed the UN Convention against Transnational Organized Crime (in 2000), but has not yet ratified it. Syria is a charter member of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004. The MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

The Government of Syria should immediately stop all support of terrorist organizations. It should continue to implement comprehensive anti-money laundering and counterterrorism finance legislation that adheres to international standards, including the creation of an independent Financial Intelligence

Unit (FIU). Syria should then take meaningful steps to enforce the law and follow-up rules and regulations governing the banking sector. Syria should ratify both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime.

Taiwan

Taiwan's modern financial sector and its role as a hub for international trade make it attractive to money laundering. Its location astride international shipping lanes makes it vulnerable to transnational crimes such as narcotics-trafficking and smuggling. The use of alternative remittance systems or "underground banking" is a money laundering vulnerability. There is a significant volume of informal financial activity through unregulated non-bank channels. According to suspicious activity reports (SARs) filed by financial institutions on Taiwan, the predicate crimes linked to SARs include financial crimes, corruption, narcotics, and other general crimes, in that order.

Taiwan's anti-money laundering legislation is embodied in the Money Laundering Control Act (MLCA) of April 23, 1997. Its major provisions include a list of predicate offenses for money laundering, customer identification and record keeping requirements, disclosure of suspicious transactions, international cooperation, and the creation of a financial intelligence unit, the Money Laundering Prevention Center (MLPC).

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 (approximately \$30,000) to the MLPC. Between August 2003, when the amended MLCA came into force, and May 31, 2004, the MLPC received over one million such reports on currency transactions—with 99 percent of them reported electronically. Also 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 cooperatives, consulting companies, insurance companies, and securities dealers, as well as traditional financial institutions.

The time limit for reporting cash transactions of over NT\$1 million is within five business days. Banks were also barred from informing customers that a suspicious transaction report had been filed. 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. There is no threshold amount specified for filing suspicious transaction reports. Reports of suspicious transactions must be submitted to the MLPC within 10 business days after the transaction took place.

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 May 2004, the Ministry of Finance also required banks to demand two types of identification and to keep copies when bank accounts are opened upon request for a third party, in order to prove the true identity of the account holder. Individual bankers can be fined NT\$200,000-1 million (\$6,000-30,000) for not following the MLCA.

All foreign financial institutions and offshore banking units follow the same regulations as domestic financial entities. Offshore banks, international businesses, and shell companies must comply with the disclosure regulations from the Central Bank, Bureau of Monetary Affairs (BOMA), and MLPC.

Money Laundering and Financial Crimes

These supervisory agencies conduct background checks on applicants for banking and business licenses. Offshore casinos and Internet gambling sites are illegal.

From January to September 2004, Taiwan investigated 505 cases of possible money laundering. Among these cases, 442 were economic crimes, seven involved government corruption, and seven were narcotics-related crimes. Total money laundering during this period amounted to NT\$1.244 billion (about \$38 million). Of the 505 cases investigated, 287 involved money laundering via bank transactions, 213 involved postal remittances and savings banks, and one case involved a credit union.

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.

Starting in September 2003, the Directorate General of Customs was responsible for providing the MLPC on a monthly basis with electronic records of travelers entering and exiting the country carrying any single foreign currency amounting to NT\$1.5 million. Among the 542 cases reported between September 2003 and June 2004, the center said it had found several cases that might involve illegal underground banking activities, and these were under investigation.

The authorities on Taiwan are actively involved in countering the financing of terrorism. In 2003, a new "Counter-Terrorism Action Law" (CTAL) was drafted, although as of January 2005 it is still pending legislative approval. 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. Taiwan officials currently have the authority to freeze and/or seize terrorist-related financial assets under the MLCA promulgated in 1996 and amended in February 2003 to cover terrorist finance activities. Under the Act, the prosecutor in a criminal case can initiate freezing assets, or without criminal charges, the freezing/seizure can be done in response to a request made under a treaty or international agreement.

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 UNSCR 1267 Sanctions Committee's consolidated list. Taiwan and the United States have established procedures to exchange records concerning suspicious terrorist financial activities. After receiving financial terrorist lists from the American Institute in Taiwan, BOMA conveys the list to relevant financial institutions.

Banks are required to file a report on cash remittances if the remitter/remittee is on a terrorist 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. identified to date. In 2004, there was one suspected terrorist finance case reported. Subsequent investigation determined that the suspect was not a terrorist or a financier of terrorism.

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, and there are currently no plans to investigate such entities further for terrorist financing. Such organizations are already required to register with the government.

Taiwan's only free trade zone began operation in Keelung on October 1, 2004. Entities wanting to operate in the free trade zones must submit applications to the port authorities. Entities can conduct simple processing of commodities in the zone and re-export them without inspection by customs. There is no indication that the zone is used in money laundering schemes or by financiers of terrorism. Keelung port authority has a panel composed of members from various enforcement agencies to conduct checks of commodities, transportation, and accounting. According to Taiwan's Banking Law and Securities Trading Law, in order for financial institutions to conduct foreign currency operations, Taiwan's Central Bank must first approve the institution to for this function. The financial institutions must then submit an application to port authorities to establish an offshore banking unit in the free-trade zone.

Taiwan has established drug-related asset seizure and forfeiture regulations, which state that according to treaties or agreements, Taiwan's Ministry of Justice shall share seized assets with foreign official agencies, private institutions or international parties which provide Taiwan with assistance in investigations or enforcement. Assets of drug traffickers, including instruments of crime and intangible property, can be seized along with legitimate businesses used to launder money. The injured parties can be compensated with seized assets. The Ministry of Justice distributes other seized assets to the prosecutor's office, police or other anti-money laundering agencies. The law does not allow for civil forfeiture. In January-September 2004, total seized assets reached NT\$20 million (about \$660,000).

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. In 2003, thirty-six information exchanges took place between Taiwan and international counterparts, including the United States, related to money laundering investigations.

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. Taiwan should endeavor to pass the proposed Counter-Terrorism Action Law to better address terrorist financing issues. The authorities on Taiwan should also enact legislation that would promulgate regulations regarding alternate remittance systems.

Tajikistan

Tajikistan is not a major financial center in the region and does not have a developed banking system. Prosecutions for financial criminal activity are unusual, although the ringleaders of the Ponzi bead-scheme that defrauded hundreds of people out of tens of thousands of dollars in 2003 were convicted in 2004 and sentenced to terms ranging from eight to twenty years. Tajikistan is not an offshore center, but offshore zones are often used while concluding deals with foreign enterprises. Foreign banks operate in the country, including an Iranian bank.

Domestic goods smuggling is a concern in Tajikistan. Consumer goods, mostly apparel and low-cost household appliances, are smuggled to avoid customs duties and local taxes. In most cases, goods such as tobacco, alcohol, and fuel are not “officially” imported to Tajikistan. For example, a shipment transiting Tajikistan intended for Kazakhstan or Afghanistan never reaches the destination country. While there is certainly a market for smuggled goods, there is little evidence that most items are financed with narcotics money, with the exception of imported cars and other luxury items.

The Tajik Criminal Code of May 21, 1998, Art. 574-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 (for example, removal of currency into the offshore zone, unlawful usage of a charity, insurance companies, etc.).

The Law on Banking Activity of May 23, 1998 (No.648 AMOPT NO. 10, 1998)-Art. 32 addresses banking secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement authorities for domestic and offshore financial services companies. While the Government of Tajikistan (GOT) has not yet addressed the problem of international transportation of illegally sourced currency and monetary instruments, and has a long way to go to meet “due diligence” standards, it has instituted cross-border currency reporting requirements. Travelers may depart with a maximum amount of \$2,000 without any certifying document. When amounts exceed \$2,000, an authorized exchange office issues a certificate of transaction for purchase of currency (USD), a.k.a. “form 377,” and then the head office (bank) issues a “Ruhsatnoma”—permission to take the cash out of the country. Travelers may enter Tajikistan with unlimited quantities.

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. Some civil proceedings can also trigger this scrutiny. For example, in civil or administrative proceedings, a court can request information about accounts or the nature and value of property kept in bank safes, or request information which is considered to be a “bank secret” in cases when the bank’s client represents one of the sides in the proceedings, if asset forfeiture can be applied, or in inheritance cases. Banks and other financial institutions also are not required to maintain records to reconstruct activity. 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. There is no legal mechanism to insure law enforcement’s access to the information related to illegal financial operations.

Money laundering controls are applied to all financial institutions, including exchange offices, brokerages, etc., that are licensed by the National Bank and subject to the same laws as banks. There have been no arrests or prosecutions for money laundering or terrorist financing since January 1, 2002.

Although negotiations are underway for developing an asset seizure program, the GOT does not currently have any asset-seizure mechanisms. The main barriers to implementing such a program are corruption and the underdeveloped legal system. The GOT passed Criminal Code, Art. 57, stating that asset forfeiture is possible but also specified exceptions. A program is being developed to allow the Drug Control Agency to use this law as one means of achieving self-sustainability.

The Tajiks used asset forfeiture procedures in the case of former Commander of the Presidential Guard General Gaffor Mirzoev, who was arrested in August this year and charged with a number of crimes: illegal storage of weapons, murder, illegal commercial activity, illegal appropriation of state property and its use for personal benefit. In November, the Supreme Economic Court passed a resolution to transfer Dushanbe Meat Processing Plant, Entertainment Complex “Jomi Jamshed,” and the shop “Koopoperator” located in Kulyob from Mirzoev’s Company “Mirzoi Rahmon” to the jurisdiction of the Tajik State Committee for Management of State-owned Property, after the Prosecutor General’s Office established that these entities had been privatized illegally.

The GOT has criminalized terrorist financing, as covered by the above-mentioned general money laundering statute. Terrorist finance is considered to be a “serious crime.” There were no reported cases of suspected terrorist assets being frozen in 2004 because no known terrorist assets were discovered.

Several laws have been adopted, e.g.: Civil Code, Art. 284—Illegal Transactions with Precious Metals, Gems and Gold—to address the misuse of gold, precious metals and gems. The GOT has not addressed alternative remittance systems. Remittances from labor migrants are mainly from Russia and other NIS countries, and are seasonal. The GOT has waived a 30 percent fee on bank transfers, making remittances sent via banks more effective.

Tajikistan and the U.S. Government have not yet reached an agreement for a mechanism for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious criminal investigations, and no negotiations are currently underway. However, the U.S. Government regularly sends information regarding designated individuals and organizations subject to asset forfeiture to the Tajik Ministry of Foreign Affairs (MFA). The MFA distributes this information to the Ministries of Security, Finance, and Interior, and other governmental structures, which conduct appropriate checks. The GOT has not adopted laws or regulations that ensure the availability of adequate records in connection with narcotics, terrorism, terrorist financing or other investigations. Two GOT officials participated in the Roundtable Conference on legislative reforms to combat money laundering and terrorist financing, in Tashkent, Uzbekistan, in July 2004.

Despite a primitive banking system and the use of a barter system in many rural areas, Tajikistan signed 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 Counterterrorism Center. The GOT signed the UN International Convention for the Suppression of the Financing of Terrorism in November 2001, but has not yet ratified it. Tajikistan is a party to the UN Convention against Transnational Organized Crime and a charter member of the new Eurasian Group on Combating Money Laundering and Financing of Terrorism, a FATF Style Regional Body established in October 2004.

The Government of Tajikistan should enact and implement anti-money laundering and counterterrorist financing legislation that comports with international standards. Additionally, mechanisms to share information among financial institutions, regulatory authorities and law enforcement entities should be developed to promote the successful prosecution of financial crime cases. Tajikistan should ratify the UN International Convention for the Suppression of the Financing of Terrorism.

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 the emerging

casino industry as an area of concern for money laundering. Money laundering is more likely to occur in the informal non-bank financial sector, as the formal sector is still relatively undeveloped. The prevalence of hawala and the threat of terrorist organizations on the unregulated island of Zanzibar make Zanzibar 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 most likely sources of illicit funds include Asia and the Middle East, and to a lesser extent Europe. Such transactions rarely include significant amounts of U.S. currency.

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 100,000 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. The Central Bank has issued regulations requiring financial institutions to file suspicious transaction reports (STRs), but this requirement is not being enforced, and no mechanism exists for receiving and analyzing the STRs. Financial institution employees are legally protected from liability stemming from reporting suspicious transactions. Current law does not hold financial institutions responsible if they are found to have been used to launder money.

The 2002 Prevention of Terrorism Act criminalizes terrorist financing. It also requires all financial institutions to inform the government each quarter as to whether any of their assets or 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 Bank of Tanzania (the Central Bank) circulates to Tanzanian financial institutions the list of individuals and entities on the UNSCR 1267 Sanction Committee's consolidated list, but to date no assets have been frozen under this provision. The Government of Tanzania (GOT) did take action in 2004 against one charitable organization on the list by closing its offices and deporting its foreign directors. However, it is not clear whether Tanzania has the investigative capacity to identify and seize related assets. Tanzania has cooperated with the United States in investigating and combating terrorism. Tanzanian officials have consistently cooperated in the exchange of counterterrorism information with U.S. authorities.

The GOT became a party to the UN International Convention for the Suppression of the Financing of Terrorism in 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 also 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 has prepared new anti-money laundering legislation. A Tanzanian Ministry of Finance official stated in August 2004 that the drafting committee was in the process of receiving comments on the language of its bill from stakeholders, and that the bill would likely be presented to the Parliament in January 2005. The proposed legislation provides for the creation of a Financial Intelligence Unit (FIU) that will collect mandatory suspicious transaction reporting from financial institutions, and will be empowered to share this information with other FIUs and foreign law enforcement agencies.

The Government of Tanzania should maintain the momentum towards enacting its anti-money laundering law. It should continue to work through Southern African Anti-Money Laundering Group

(ESAAMLG) to establish a Financial Intelligence Unit (FIU) and develop a comprehensive anti-money laundering regime that comports with international standards.

Thailand

Thailand is vulnerable to money laundering as a result of a significant underground economy and cross-border crime problems with illicit narcotics, contraband, and smuggling. Thailand continues to remain vulnerable to money launderers. Money laundering occurs in both the banking and non-banking systems. Over the last decade, there has been a considerable decrease in the amount of heroin produced in the Golden Triangle region of Burma, Laos, and Thailand. However, drug traffickers still use Thailand's banking system to hide and move their proceeds. It is a key destination, transit and source country for organized international migrant smuggling and trafficking in persons. Thailand is a major production and distribution center for counterfeit goods of all types, including the production and sale of fraudulent travel documents. The underground banking system is widely used for money laundering. Illegal gambling, prostitution, and underground lotteries are a significant part of Thailand's sizeable underground economy. There is a black market for smuggled goods for the purpose of evading customs duties. With the acceleration in economic growth, tax evasion has reportedly increased, and significant financial and securities fraud has been reported. Public sector corruption, particularly in criminal justice institutions, remains a major problem. Thailand experienced an increase in financial crimes in 2004.

Thailand's anti-money laundering legislation, the Anti-Money Laundering Act (AMLA) B.E. 2542 (1999), criminalizes money laundering for the following predicate offenses: narcotics-trafficking, trafficking in women or children for sexual purposes, fraud, financial institution fraud, public corruption, customs evasion, extortion, and blackmail. It also provided for the establishment of an Anti-Money Laundering Office (AMLO). On August 11, 2003, as permitted by the Thai constitution, the Royal Thai Government (RTG) issued two Emergency Decrees to enact measures related to terrorist financing, that had been under consideration by the Executive Branch and Parliament for over a year and a half. The first of these Decrees amended Section 135 of the Penal Code to establish terrorism as a criminal offense. The second Decree amended Section 3 of the AMLA to add the newly established offense of terrorism as an eighth predicate offense for money laundering. The Decrees took effect when they were published. Parliament endorsed their status as legal acts in April 2004. The current list of predicate offenses in the AMLA does not comport with international best practices, as provided in Recommendations 1 and 2 of the Forty Recommendations of the Financial Action Task Force (June 2003), to apply the crime of money laundering to all serious offenses or with the minimum list of acceptable designated categories of offenses. Additionally, the definition of "property involved in an offense" in the AMLA is limited to proceeds of predicate offenses and does not extend to instrumentalities of a predicate offense or a money laundering offense.

The AMLA requires customer identification, record keeping, the reporting of large and suspicious transactions, and provides 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.

In early 2004, the Thai cabinet approved amendments to the 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. These amendments have been under consideration by the Council of State and are expected to be submitted to the Parliament in early 2005. Active consideration is being given to adding eight additional predicate offenses to the anti-money laundering statute, to include offenses related to natural resources, currency exchange, stock market manipulation, gambling, firearms, conspiracy in awarding government contracts, labor fraud, and tax evasion. 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 Bank of Thailand 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. The BOT is working closely with AMLO and had hoped to begin such examinations in 2004. The BOT has now agreed that AMLO should be responsible for on and off site audits for AMLA compliance. The target date for such examinations has now slipped to early 2005.

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 two million baht (approximately \$52,000), and property transactions exceeding five million baht (approximately \$130,000), have been in place since October 2000. However, AMLO has been considering a proposal to lower the threshold for reporting cash transactions to 400,000 baht (\$10,500). The proposal is not yet in effect and the likelihood of its adoption is in doubt, since (in early February 2005) the Prime Minister publicly expressed his opposition to it. The AMLO is also drafting amendments requiring gold and jewelry shop owners and used car dealers to report transactions over 400,000 baht (\$10,500), and is consulting with private industry, but those amendments have also been opposed by affected industries as too cumbersome and unnecessary, and are under review by the Prime Minister.

The various land offices are also required to report on any transaction involving property of five million baht or greater, or a cash payment of two million baht or greater, for the purchase of real property. The Stock Exchange of Thailand (SET) requires securities dealers to have know-your-customer procedures; however, the SET does not check anti-money laundering compliance during its reviews. The Department of Insurance (DOI) is responsible for the supervision of insurance companies, which are covered under the AMLA definition of a financial institution, but there are no anti-money laundering regulations for the insurance industry. Similarly, the Cooperative Promotion Department (CPD) is responsible for supervision of credit cooperatives, which are required under the Cooperatives Act to register with the CPD. Currently, around 6,000 cooperatives are registered, with approximately 1,348 thrift and credit cooperatives engaged in financial business. Thrift and credit cooperatives are engaged in deposit taking and providing loans to the members, and are covered under the definition of a financial institution, but as with the securities and insurance sectors, there are no anti-money laundering compliance mechanisms currently in place.

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 the AMLA.

Thailand acknowledges the existence and use of alternative remittance systems (hawala, etc.) that attempt to circumvent financial institutions. There is a general provision in the AMLA that makes it a crime to transfer, or to receive a transfer, that represents the proceeds of a specified criminal offense (including terrorism). Within the Asia Pacific Economic Council (APEC), Thailand is working with several other countries on a study of alternative remittance systems. Moneychangers frequently act as illegal remittance agents. Remittance agents, including informal remittance businesses, require a license from the Ministry of Finance. Operating a money transfer business also requires a license. The Ministry of Finance issued the Notification to Authorized Persons on July 30, 2004, and to Money Transfer Agents August 4, 2004. The Bank of Thailand issued a Notice to the Competent Officer on the Procedures and Guidelines to operate as Authorized Persons dated August 6, 2004, and to Money Transfer Agent dated August 6, 2004. These new guidelines of BOT and MOF became effective on August 11, 2004. Before the grant of a license, both money changers and money transfer agents are subject to onsite examination by the BOT, which also consults with AMLO on the applicants criminal history and AML record. Licensed agents are also subject to monthly transaction reporting and a 3-year record maintenance requirement. At present, there are about 270 authorized moneychangers and five remittance agents. There is no limitation on the amount of foreign currency that a person can take in or out of Thailand. A customer can transfer an unlimited amount of money through a commercial bank, with the required supporting documentation. At present, moneychangers have to report financial transactions to the Anti-Money Laundering Office (AMLO), while remittance agents do not. As part of the August 6, 2004 notice, the Bank of Thailand limited the annual transaction volume for agents to \$60,000 for offices in the Bangkok area and \$30,000 for offices located in other areas.

The BOT does not have any regulations that give it explicit authorization to control charitable donations, but it is working with AMLO to monitor these transactions under the Exchange Control Act of 1942. With respect to charities, The Bank of Thailand (BOT) does not have regulation that gives it explicit authorization to control charitable donations. However, the BOT is working with the Anti-Money Laundering Office to monitor these transactions under the Exchange Control Act of 1942.

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, the AMLO is responsible for investigating money laundering cases for civil forfeiture purposes and 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 created 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 Anti-Money Laundering 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 relevant ministerial regulations. From October 2003 to October 2004, AMLO filed 362 cases of civil asset forfeiture involving assets worth 3.771 billion baht. Of these, forfeiture judgments have been entered in 152 cases involving 418 million baht. In pursuing its civil forfeiture investigations, AMLO has received valuable cooperation from financial institutions, particularly the commercial banks.

In 2004, the Prime Minister's "Regulations on Payment of Incentives and Rewards in Proceedings Against Assets Under the Anti-Money Laundering Act" went into effect in Thailand. Under this system, investigators from AMLO and other investigative agencies can receive personal payments from the property they seize in money laundering cases. The system that Thailand has created

undermines the integrity of its AML regime and may impede international cooperation. After domestic and international criticism of this system, the Ministry of Justice is considering alternatives to personal commissions from seizures, including the creation of a forfeiture fund for the forfeited proceeds to be dedicated to various programs, rather than personal purposes.

In criminal cases, the forfeiture and seizure of assets is governed by the 1991 Act on Measures for the Suppression of Offenders in an Offense relating to Narcotics (“Assets Forfeiture Law”). The Property Examination Committee has filed 1,865 cases with assets valued at 1.64 billion baht (\$4 million) and 1,644 cases are on trial. Two hundred million baht (\$5,000,000) have been confiscated and sent to the Narcotics Control Fund.

As part of a general reorganization of the Executive Branch, the Thai Parliament has authorized the establishment in the Ministry of Justice of a new criminal investigative agency, the Department of Special Investigations (DSI), separate from the Royal Thai Police Office. On November 24, 2003, Parliament approved legislation defining DSI’s organization, authorities, and responsibilities. The latter include responsibility for investigating the criminal offense of money laundering (as distinct from civil asset forfeiture actions carried out by AMLO), and for many of the money laundering predicates defined by the AMLA, now including terrorism. The DSI, AMLO, and the Royal Thai police all have the authority to identify, freeze, and/or forfeit terrorist finance-related assets.

Thailand is a party to the 1988 UN Drug Convention. In September 2004, Thailand became a party to the UN International Convention for the Suppression of the Financing of Terrorism. It has signed (December 2000), but not yet ratified, the UN Convention against Transnational Organized Crime. It has also signed (December 2003) the UN Convention against Corruption. In April 2005, Thailand will host the 11th United Nations Crime Congress, which will emphasize counterterrorism as one of its principal themes. The RTG has issued instructions to all authorities to comply with UNSCR 1267, 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 any assets linked to individuals or entities included on the UNSCR 1267 Sanctions Committee consolidated list. However, AMLO has identified some suspicious transaction reports derived from financial institutions and has initiated cases that may involve terrorist activities using non-governmental or non-profit organizations as a front. Thailand has a Mutual Legal Assistance Treaty (MLAT) with a number of countries, including the United States. It has a memorandum of understanding on law enforcement issues with an additional number of other countries. Thailand became a member of the Asia/Pacific Group on Money Laundering (APG), a FATF-style regional body, in April 2001. The AMLO joined the FATF’s Egmont Group of financial intelligence units in June 2001.

The Government of Thailand should continue to implement its anti-money laundering program. The BOT and AMLO have agreed that AMLO will be responsible for both offsite and onsite supervision of banks to ensure that Financial Institutions comply with requirements of AMLA and AMLO regulations. 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. It is therefore important that BOT/AMLO compliance examinations begin early in 2005 and that other relevant agencies (SET, DOI, and CPD) be working with AMLO to establish policies and procedures for supervisory oversight of AML/CFT compliance. The RTG should develop and implement anti-money laundering regulations for exchange businesses, and should take additional measures to address the vulnerabilities presented by its alternative remittance systems. The RTG to further strengthen its anti-money laundering regime against crime, particularly by expanding its list of 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 the “structuring” of transactions a criminal offense. It should extend the law to cover instrumentalities. Thailand should ratify the UN Convention against Transnational Organized Crime. Thailand should also immediately rescind its new rewards program for AMLO investigators who seize assets under the

anti-money laundering laws, and for agents of other agencies that engage in such practices, as it gives the appearance of impropriety, can imperil successful prosecutions, and will eventually impede international cooperation and undermine public support for Thailand's forfeiture regime and its credibility.

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 not a criminal offense in Togo, although draft legislation is pending. 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.

In August 2004, the UN Office of Drug and Crimes (UNODC) and the GOT organized a workshop to review the Togolese penal code. UNODC recommended that Togo either amend the penal code or pass separate laws on terrorism to comply with UN terrorism resolutions.

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 is to be in charge of coordinating such committees. Each member country is now responsible for putting legislation into 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 person or organization on the UN 1267 Sanctions Committee's consolidated list.

In 2000, the Economic Community of West African States (ECOWAS) established the Intergovernmental Action Group 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. On November 27, 2003 Togo signed, but has not yet ratified, the UN Convention against Transnational Organized Crime.

The Government of Togo should criminalize money laundering for all serious crimes, criminalize terrorist financing, and 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.

The Reserve Bank of Tonga is the primary authority in charge of coordinating the identification of suspicious financial transactions for further investigation. Tonga has not yet established a Financial Intelligence Unit (FIU), however the Reserve Bank is responsible for conducting on site exams of Commercial banks procedures, and training staff members to spot suspicious transactions. Commercial banks are currently required to report suspicious Financial Transaction Reports (FTRs) to the Reserve Bank of Tonga. Since this requirement was instituted in 2002, there have been 5 suspicious transactions referred to the Reserve Bank for further investigation. There have been no prosecutions to date.

Tonga has proposed, but not yet enacted, new legislation to criminalize money laundering and terrorist financing. Cabinet and Parliament will consider amendments to the Money Laundering and Proceeds Act of 2000 in the middle of 2005.

Representatives from Tonga have participated in the Asia/Pacific Group on Money Laundering (APG) anti-money laundering workshops and attended seminars conducted by the Egmont Group. Tonga plans to submit an application to join the APG in 2005. Representatives from Tonga also attended several seminars in Fiji that were related to combating money laundering.

In a 2003 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 failed to act on that legislation in 2004.

The Government of Tonga should quickly enact legislation that specifically criminalizes money laundering and the financing of terrorism and establishes a Financial Intelligence Unit (FIU). It should follow through with its plan to join the Asia/Pacific Group on Money Laundering. It should also sign and ratify the UN Convention against Transnational Organized Crime.

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. Illegal drug-trafficking proceeds are not known to be an important source of laundered funds in T&T, although they are implicated in some money laundering. Criminal proceeds laundered in T&T are derived primarily from domestic criminal activity and from the activity of nationals involved in crime abroad. While there is no significant black market for smuggled goods in T&T, drug money continues to support the importation of illegal arms into the country.

Financial crimes in general are increasing, particularly those involving the use of fraudulent checks and related instruments in the banking sector. Trinidad and Tobago's financial institutions are not

known to engage in current transactions involving international illegal drug-trafficking proceeds that significantly affect the United States.

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 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 TT 250,000 (approximately \$40,000) and imprisonment for two years for summary conviction, and a fine of TT 3,000,000 (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 TT 25,000,000 (approximately \$4,000,000) and 25 years imprisonment. Under the POCA, any officer who aids and abets the money laundering activities of an institution can be convicted of money laundering. In addition, the POCA protects individuals who cooperate in money laundering law enforcement investigations. The POCA also enables the courts to seize the proceeds of all serious crimes, although only one property has 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. In 2004, the Central Bank updated these guidelines, setting new minimum standards for compliance with existing regulations and informing stakeholders on proposed legislation. The Central Bank will bring large credit unions under its supervision by 2005. Also in 2004, the Government of Trinidad and Tobago (GOTT) established a fledgling Tax Fraud Investigations unit in its Inland Revenue Division to address tax evasion and non/underreported income that may have its source from money laundering activities.

GOTT customs regulations require that any sum above approximately \$3,000 (in currency or monetary instruments) entering or leaving the country be declared. GOTT Customs may restrain cash above approximately \$10,000 for 96 hours, or longer with judicial approval, pending the determination of their legitimate source. The Financial Investigations Unit (FIU) maintains a database of these transactions and analyzes them for evidence of money laundering.

There are six free trade zones in T&T where exporting of services and manufactured products, and re-exportation of manufactured products take place. There is no evidence that these zones are involved in money laundering schemes, and companies operating in these zones are required to submit quarterly tax returns and yearly audited financial statements. These companies must present their bona fides and are subject to background checks prior to being allowed to operate in these zones.

The GOTT has legislation in place that allows it to trace, freeze, and seize assets, including bank accounts. Authorities may also seize legitimate businesses if they are used to launder drug money. However, the GOTT can only restrain assets through due process at the level of the High Court—it cannot freeze assets “without undue delay,” and the law only allows for criminal forfeiture of assets, not civil forfeiture.

Since January 1, 2003, the GOTT has conducted 189 financial investigations, and has issued seven production orders and eight foreign intelligence requests. To date, traffickers, organized crime organizations and terrorist organizations have not taken any retaliatory actions related to money laundering/terrorist financing investigations. In 2004, the GOTT charged one person with laundering the proceeds of fraud and seized TT 131,618 (approximately \$22,000) in related assets. In previous years, the GOTT seized a total of TT 6 million (\$1 million) and restrained TT 1 million (approximately \$167,000).

Some legal loopholes exist that allow traffickers and supporters/financiers of terrorists or terrorist organizations to shield their assets. These include the absence of financial obligations regulations and FIU legislation, the ability of attorneys to operate accounts in their client's names, the absence of suspicious transaction reporting (STR) requirements for attorneys and accountants, and legal rules that prevent courts from confiscating assets received after a defendant's sentencing.

Opposition party intransigence has stalled legislation specifically aimed at criminalizing terrorism financing, but Parliament will debate this bill again in 2005. The GOTT is developing regulations for financial sector supervision that acknowledge and monitor alternative remittance systems. The banking system has also reported the suspicious use of charitable or nonprofit entities. The GOTT has circulated the UN 1267 Sanctions Committee's consolidated lists to its financial institutions. The GOTT has also circulated the United States' list of Specially Designated Global Terrorists and other relevant EU lists. There has not yet been any identified evidence of terrorist financing in T&T.

In 1999, a MLAT with the United States entered into force, and 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. While there is no mechanism in place with the United States Government (USG) for the exchange of crime and terrorism-related information, the GOTT has cooperated regularly with the USG and other governments' law enforcement agencies on issues involving drug-trafficking, terrorism, terrorist financing and other criminal investigations. 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.

Trinidad and Tobago is a party to the 1988 UN Drug Convention and the 1992 Kingston Declaration on Money Laundering. It has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. It has not yet signed the UN International Convention for the Suppression of the Financing of Terrorism. T&T is 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 will undergo a third round evaluation in April 2005. Trinidad and Tobago is also a member of the OAS Inter-American Drug Abuse Control Commission Experts Group to Control Money Laundering (OAS/CICAD).

The Government of Trinidad and Tobago should continue to work toward full implementation of its anti-money laundering laws and the improvement of its anti-money laundering/counterterrorist financing regime. Trinidad and Tobago should enact suspicious transaction reporting requirements and expand coverage of the laws to include intermediaries, such as attorneys and accountants, and exchange houses. Trinidad and Tobago also should become a party to the UN International Convention for the Suppression of the Financing of Terrorism and criminalize terrorist financing.

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 non-convertibility of the Tunisian dinar. There is an offshore financial sector. There is no discernible money laundering activity reported to be occurring in Tunisia through formal financial institutions.

In December 2003, the Tunisian Parliament passed Law No. 2003-75, a comprehensive counterterrorism and anti-money laundering law, to support international counterterrorism efforts and to establish more severe sentences for individuals convicted of terrorist acts. This law makes it a crime to provide financial assistance or any other type of support to terrorist activities, and provides for the freezing of assets. Those suspected of violating the law can be exempted from charges, however, if they report a planned terrorist action to authorities.

Money laundering is punishable where false information is proffered relating to the illicit origin of property or income arising directly or indirectly from an offense. Money laundering also includes investing, depositing, transferring or safekeeping of property or income resulting from an offense. The law imposes obligations on financial institutions relating to identity checks, verification of transactions of suspect persons, record keeping and the declaration of transactions above certain monetary limits. The Ministry of Finance oversees operations to combat money laundering and terrorist financing.

Tunisia's 1992 Law (No. 92-52) against narcotics-trafficking also includes provisions that contribute to the combating of money laundering. Under Articles 2 and 30, anyone aiding in narcotic operations or transfers of proceeds in connection with these operations, including financial institutions, can be punished.

The Tunisian penal code also 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, which will notify the investigative Economic Enforcement Agency. There are no "secret" or numbered accounts allowed 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 references and the Ministry of Finance approves 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 has 8 offshore banks. There is foreign participation in over 2,600 Tunisian companies (2003 figures). There are several casinos in Tunisia, but Tunisians are not permitted to use them. The export of Tunisian dinars, by either residents or nonresidents, is strictly prohibited. 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, since all fund transfers must go through the banks or National Post Office, it is precisely due to these restrictions and currency exchange controls that there are underground methods of moving money or transferring value in and out of the country. While a significant black 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 under 1,000 dinar. Customs may at any time require declarations for gold or securities.

Tunisia is a founding member of the Middle East North Africa Financial Action Task Force (MENAFATF) based in Bahrain and approved in November 2004 by the governments of Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia,

United Arab Emirates, and Yemen. The MENAFATF is a FATF-style regional body that will address money laundering and terrorist financing related issues and work to raise compliance standards throughout the region to meet international standards.

Tunisia is a party to both the 1988 UN Drug Convention and the 1999 UN International Convention for the Suppression of Financing of Terrorism. It has signed and ratified the UN Convention against Transnational Organized Crime. The Central Bank has circulated the UN 1267 Sanctions Committee's consolidated list to all of its financial institutions. To date no terrorist assets have been identified in Tunisia. Tunisia has varying bilateral agreements on "criminal matters" with 29 countries and is party to 12 international agreements on counterterrorism.

The Government of Tunisia should continue its efforts to implement its comprehensive 2003 legislation. It should establish a Financial Intelligence Unit (FIU) and require financial institutions to report suspicious transactions to that unit.

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. 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 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. Since tax evasion is such a large problem, the Government of Turkey (GOT) is in the process of reforming its tax administration, with the goal of improving tax collection. There is no significant black market for smuggled goods in Turkey. There are 21 free trade zones operating in Turkey, but there is no evidence that they are being used in trade-based money laundering schemes or terrorist financing operations. The GOT closely controls access to the free trade zones.

Money laundering takes place in both banks and non-bank financial institutions. Money laundering methods in Turkey include: the cross-border smuggling of currency; bank transfers into and out of the country; and the purchase of high 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 exchange houses 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. Whoever commits a money laundering offense shall be sentenced to imprisonment from two to five years and is subject to a fine of double the amount of the money laundered and asset forfeiture provisions. The Council of Ministers subsequently passed a set of regulations that require the filing of suspicious transaction reports (STRs), customer identification, and the maintenance of records for five years. These regulations apply to banks and a wide range of non-bank financial institutions, including insurance firms and jewelry dealers.

In 2004, the GOT enacted additional anti-money laundering legislation: a new criminal law and a new criminal procedures law. The new Criminal Law, which will take effect in April 2005, broadly defines money laundering to include all predicate offenses punishable by one year's imprisonment. Previously, Turkey's anti-money laundering law comprised a list of specific predicate offenses. A new

Criminal Procedures Law, which will also come into effect in April 2005, will facilitate asset forfeiture.

In July 2001, the Ministry of Finance issued a banking regulation circular 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, non-interest-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 to other financial entities. The new requirements are intended to increase the Government's ability to track suspicious financial transactions. Turkey does not have secrecy laws that prevent disclosure of client and ownership information to bank supervisors and law enforcement officials. According to anti-money laundering law Article 5, public institutions, individuals, and corporate bodies must submit information and documents as well as adequate supporting information upon the request of Turkey's Financial Crimes Investigation Board (MASAK) or other authorities specified in Article 3 of the law. Natural persons and corporate bodies from whom information and documents are requested may not refrain from submitting the requested items by claiming the protection provided by privacy provisions in special laws, provided that the provisions related to the right of defense are reserved.

Generally speaking, Turkey does not have foreign exchange restrictions. However, Turkey does have cross-border currency reporting requirements. Except for payments for imports, invisible transactions and capital exports, banks and special finance institutions must inform authorities, within 30 days, about transfers abroad exceeding \$50,000 or its equivalent in foreign currency notes (including transfers from foreign exchange deposits). Travelers may take up to \$5,000 or its equivalent in foreign currency notes out of the country.

Since the financial crisis of 2000, the GOT has significantly tightened oversight of the banking system through an independent regulatory authority, the Banking Regulatory and Supervisory Agency (BRSA). BRSA conducts anti-money laundering compliance reviews at banks under authority delegated from MASAK. BRSA's reputation was hurt by its failure to detect a major bank fraud in 2003, but it is working to improve its capabilities in this area.

The 1996 anti-money laundering law establishes MASAK, which is part of the Ministry of Finance. MASAK, which became operational in 1997, serves as Turkey's Financial Intelligence Unit (FIU), receiving, analyzing, and referring STRs for investigation. MASAK has a pivotal role between the financial community, on the one hand, and Turkish law enforcement, investigators, and judiciary, on the other. MASAK itself is not yet functioning at the optimal level of efficiency, and is trying to strengthen its role. It would benefit from 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 end in June 2006. Under current law, MASAK has three functions: regulatory, financial intelligence, and investigative. Under long-pending draft legislation currently under review by relevant GOT agencies, MASAK would cede its investigative function to the public prosecutors, while retaining its regulatory and financial intelligence roles. Passage of the law is expected in early 2005.

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 December 2004 that the GOT has drafted legislation that will provide such protection, but it has not yet been enacted. Another reason is that many bankers do not believe that money laundering occurs through Turkish banks.

Turkey's anti-money laundering regime does not have a strong reputation for enforcement. Since its inception, MASAK has pursued more than 500 money laundering cases, but, as of December 2004, only one had resulted in a conviction-which was later overturned. Factors contributing to this low conviction rate include the fact that Turkey's police, prosecutors, judges, and investigators still need substantial training in dealing with financial crimes, a lack of coordination among law enforcement agencies and 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 non-narcotics criminal actions or tax evasion; roughly 30 percent are narcotics related. There were no arrests or prosecutions for money laundering in Turkey in 2004.

Turkey has traditionally taken a strong stance against terrorism, but the GOT still has not explicitly criminalized terrorist financing. The GOT believes that the new draft anti-money laundering law described above and the pending Law to Combat Terrorism should ameliorate the situation, in part by the inclusion of a definition of terrorist financing. 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. In February 2002, MASAK issued General Communiqué No. 3, which details a new type of STR to be filed by financial institutions in cases of terrorist financing. The GOT distributes to interested GOT agencies (but not financial institutions) the UNSCR 1267 Sanctions Committee's consolidated list. Financial institutions receive the consolidated list through the Turkish Bankers Association.

Another area of vulnerability in the area of terrorist financing is the GOT's loose supervision of non-profit organizations. The General Director of Foundations (GDF) issues licenses for charities and oversees them. The GDF requires charities to verify and prove their funding sources and to have bylaws. Charities are audited by the GDF and are subject to being shut down if they act outside the bylaws. However, the GOT does not have other oversight mechanisms, such as requiring the publication of annual reports or periodic reporting to competent authorities. In addition, there is no central registry of charities. The GOT has taken no steps to regulate or register alternative remittance systems.

The GOT has the authority to identify and freeze only the assets of individuals and entities on the UNSCR 1267 Sanctions Committee's consolidated list. The Council of Ministers promulgated a decree (2001/2483) on December 22, 2001 to freeze all the funds and financial assets of individuals and organizations included on the UN list. If enacted, the Law on the Fight Against Terrorism would authorize the dissolution of associations, foundations, and unions that are found to have lent support to terror movements. Additionally, their assets would be subject to confiscation. However, the tools currently available under Turkish law for locating, freezing, seizing, and confiscating terrorist assets are cumbersome, limited, and not particularly effective. For example, there is no legal mechanism to freeze the assets of terrorists not on the consolidated list. In the past year, the assets of 241 individuals and organizations have been frozen under the Council of Minister's Decrees on the grounds of being connected to terrorist organizations or terrorist activities. One individual and two organizations were found to have assets in Turkey. All of the funds and assets of these parties have been frozen by relevant GOT authorities.

Turkey also has in place a system for identifying, tracing, freezing, and seizing assets that are not related to terrorism, although Turkish law allows for only criminal forfeiture not for the administrative freezing of assets. The anti-money laundering law, Article 7, provides for the confiscation of all property and assets (including derived income or returns) that are the proceeds of a money laundering predicate offense (soon to be expanded to crimes punishable by one year imprisonment), once the

defendant is convicted. The law allows for the confiscation of the equivalent value of direct proceeds that could not be seized. Instrumentalities of money laundering can be confiscated under the law. In addition to the anti-money laundering law, Article 36 of the Criminal Code provides for post-conviction seizure and confiscation of the proceeds of crimes. The defendant, however, must own the property subject to forfeiture. Legitimate businesses can be seized if used to launder drug money, support terrorist activity, or are otherwise related to other criminal proceeds. Property or its value that is confiscated is transferred to the Treasury.

The government enforces existing drug-related asset seizure and forfeiture laws. MASAK, the Turkish National Police, and the Courts are the government entities responsible for tracing, seizing and freezing assets. According to Article 9 of the anti-money laundering law, the Court of Peace—a minor arbitration court for petty offenses—has the authority to issue an order to freeze funds held in banks and non-bank financial institutions as well as other assets, and to hold the assets in custody during the preliminary investigation. During the trial phase, the presiding court has freezing authority. Public Prosecutors may freeze assets in cases where it is necessary to avoid delay. The Public Prosecutors' Office notifies the Court of Peace about the decision within 24 hours. The Court of Peace has 24 hours to decide whether to approve the action. There is no time limit on freezes. There is no provision in Turkish law for the sharing of seized assets with other countries. The GOT is expected to participate in a meeting in Vienna in January 2005 to prepare a UN model bilateral agreement on the disposal of confiscated proceeds of crime.

The GOT cooperates closely with the United States and with its neighbors in the Southeast Europe Cooperation Initiative (SECI). Turkey and the United States have a Mutual Legal Assistance Treaty (MLAT) and cooperate closely on narcotics and money laundering investigations. However, problems remain in terms of timely information sharing by Turkey with other countries, law enforcement and counterterrorist financing agencies.

Turkey is a member of the Financial Action Task Force (FATF). The MASAK is a member of the Egmont Group. Turkey is a party to the 1988 UN Drug Convention, the UN International Convention for Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Turkey has signed and ratified the COE Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds of Crime, and it will come into force on February 1, 2005. Turkey has signed, but not yet ratified, the UN Convention against Corruption. However, implementation efforts on UN anti-financial crime conventions are weak, and Turkey is not believed to be in conformity with the FATF's Special Recommendations on Terrorist Financing. The GOT asserts that legislation being prepared in early 2005 will bring Turkey into conformity with all international counterterrorist financing standards.

The Government of Turkey has publicly 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. Turkey should also provide training for its prosecutors, judges, and investigators. Turkey should improve the coordination among the various entities charged with responsibility in its anti-money laundering/counterterrorist financing regime and between the courts, in order to increase successful investigations and convictions for money laundering. Turkey should enact its safe harbor bill to protect the filers of STRs, which may result in increased filings. Turkey should also regulate and investigate alternative remittance networks to thwart misuse by terrorist organizations or their supporters. It should also strengthen its oversight of charities.

Turkmenistan

Turkmenistan is not an important regional financial center; there are only four international banks and a small, underdeveloped financial sector. Foreign companies operate six hotels and casinos in

Turkmenistan. These entities could be vulnerable to financial fraud and used for money laundering. Turkmenistan's national currency, the Turkmen Manat, has an unofficial, but generally accepted, exchange rate that is four times the official rate, creating an environment where money laundering is possible. Turkmenistan has no offshore companies or banks.

The Turkmen Criminal Code of June 12, 1997, Article 242 (Legalization of illegally obtained funds or other property) prohibits money laundering.

Turkmenistan's Law on currency regulations of October 8, 1993, defines general principles for conducting currency operations within the domestic and international accounts of Turkmenistan. It also details authorities and functions of state agencies in currency regulations and management of currency resources, rights and responsibilities of residents and non-residents in regard to ownership, use and handling of hard currency, directions of currency control, and responsibility for violating currency legislation. According to Presidential Decree No. 4715 of June 15, 2000, "Measures to Strengthen Currency Regulations in Turkmenistan," Turkmen ministries, departments, state enterprises and organizations are prohibited from opening bank accounts abroad except as specifically permitted by Turkmen legislation.

Presidential Resolution No. 0210/02-2 of October 17, 1995, gives the Central Bank of Turkmenistan (CBT) authority over all international financial transactions. Under this resolution, any entity making an electronic transfer of funds to an account abroad must provide documentation establishing the source of the money. The CBT regulations also permit an individual to transfer funds abroad of no more than \$15,000 every three months. Presidential Decree No. 5976 of November 20, 2002, "Strengthening the Regulations of Turkmen Bank Operations carried out in Foreign Currency," orders Turkmenistan banks to carry out correspondent, deposit, investment and other operations in foreign currency outside Turkmenistan only through open correspondent accounts in the CBT or State Foreign Economic Relations Bank ("Vnesheconombank").

Turkmenistan's tax inspectorate is responsible for uncovering any irregularities. If any irregularities are discovered, the tax inspectorate turns the matter over to Turkmen law enforcement for investigation. To date, no cases have been reported.

The current Law on Free Economic Zones in Turkmenistan adopted in 1993, and amended in 1994, determines the legal regime for conducting business in these zones, guarantees the rights of both foreign and domestic investors, forbids nationalization of enterprises and discrimination against foreign investors, and provides guarantees to foreign investors for exporting production and repatriating after-tax profits. All related enterprises are exempt from taxes on profits for the first three years of profitable operation. All goods and properties must be declared when imported into or exported from free economic zones. There are ten free economic zones in Turkmenistan including: Mary-Bayramali, Okarem-Hazar (Cheleken), Turkmenabat-Seyidi, Baharly-Serdar, Dashoguz Airport, Ashgabat-Anau, Ashgabat-Abadan, Ashgabat International Airport, Serakhs, and Guneshli Turkmenistan near Anau. The first seven zones were created in 1992, and the Serakhs zone was established in 1996. Two more zones, the international airport zone in Ashgabat and the Guneshli Turkmenistan zone near Anau, were created in 1997.

Presidential Decree No. 6097 of January 24, 2003, authorizes the Turkmenistan Supreme Court to open a centralized deposit account at the CBT for receiving payments from illegal enrichment, compensation of material loss or other assets obtained illegally and seized during inspection, investigation, and court trials for all crimes, including: organized crime, drug-trafficking and terrorist financing. The assets will remain in the Supreme Court account until the announcement of the court's final verdict on the case or until another decision is made.

The Turkmenistan Antiterrorism Law of August 15, 2003, authorizes the government to freeze resources and/or other financial assets, deposits, economic resources, and material values of:

individuals who commit or attempt to commit terrorist acts, or contribute to their commitment; organizations directly or indirectly placed under ownership or under control of such individuals; and, individuals and organizations acting on behalf of the above individuals and organizations, including any assets acquired or received through the use of property directly or indirectly belonging to or controlled by such individuals and/or organizations. Turkmen counterterrorism laws require Turkmenistan to cooperate with foreign states and international organizations in terrorism matters and render assistance to other states in criminal investigations and prosecutions of individuals involved in financing or supporting terrorist activities.

The Ministry of Foreign Affairs reports that it distributes information regarding designated individuals and organizations subject to asset forfeiture, provided by the United States, to the Ministry of Finance, the Ministry of National Security, the Ministry of Internal Affairs, and other concerned agencies.

Turkmenistan is a party to the 1988 UN Drug Convention.

The Government of Turkmenistan should enact appropriate legislation and take steps to implement a comprehensive anti-money laundering regime capable of thwarting terrorist financing that conforms to international standards. Turkmenistan should sign and ratify the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. Turkmenistan should also consider joining or becoming an observer to the new Eurasian Group on Combating Money Laundering and Financing of Terrorism, a Financial Action Task Force (FATF) Style Regional Body established in October 2004.

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 is no updated information to add for 2004.

As of 2003, 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 non-statutory Guidance Notes to the financial sector, in order to help educate the industry regarding money laundering and the TCI's anti-money laundering requirements. Additionally, it provided practical guidance on recognizing suspicious transactions. The Guidance Notes instruct institutions to send SARs to either the Royal Turks & Caicos Police Force or the FSC. Officials forward all SARS to the Financial Crimes Unit (FCU) of the Royal Turks and Caicos Islands Police Force, which 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 Government of the Turks and Caicos Islands 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 Turks and Caicos Islands should criminalize the financing of terrorists and terrorism, and enhance its on-site supervision program. Turks and Caicos Islands should expand efforts to cooperate with foreign law enforcement and administrative authorities. Turks and Caicos Islands 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 Turks and Caicos Island's financial sector.

Uganda

Uganda is not a regional financial center and is not a major hub for narcotics trafficking or terror finance. Some money laundering occurs in Uganda. It appears that a large percentage of the money laundering occurring in Uganda stems from domestic criminal actions, often related to smuggling counterfeit products, and other financial fraud. Reportedly, large drug-trafficking organizations, organized crime groups, and terror groups have historically not played a leading role in money laundering activities in the country. However, there have been reports during the past year that certain significant figures may be involved in organized international money laundering schemes, possibly related to narcotics trafficking. The Government of Uganda (GOU) does not monitor cross-border financial activities. The GOU has finally begun to draft legislation to confront money laundering on a broad scale.

Money laundering also occurs in the informal financial sectors. Many Ugandans working abroad use alternate, cash-based, informal remittance systems to send money back to their families. Many establishments in Kampala accept U.S. dollars for cash transactions. Under legislation passed in 2004, foreign exchange bureaus are not authorized to transfer money abroad. The GOU has no effective means to prevent money launderers from accessing the many charitable and faith-based organizations that operate in Uganda. Moreover, to date, the GOU has not been able to document the level to which money launderers have used these entities.

Uganda does not have an offshore banking sector. The Special Economic Zones Bill of 2002 authorized the creation of export-processing zones (EPZs) and free trade areas within Uganda, and the GOU recently received a World Bank credit to establish EPZs. However, the GOU has not yet developed either EPZs or free trade areas. In 2001, Uganda criminalized narcotics-related money laundering. In 2003, the Bank of Uganda issued know your customer guidelines for Ugandan commercial banks, though it currently is unwilling to enforce compliance. In December 2003, the Ministry of Finance submitted to Parliament a comprehensive anti-money laundering bill based on the Financial Action Task Force's (FATF's) Forty Recommendations on Money Laundering. This legislation would criminalize money laundering for all serious crimes. However, the legislation did not pass during the past year. Until the draft AML legislation passes, the GOU maintains only limited authority and ability to investigate and prosecute money laundering related violations. To date, the GOU has not prosecuted anyone for narcotics-related or any other crime-related money laundering.

Beginning in 2004, the Bank of Uganda has circulated to financial institutions the list of individuals and entities included on the UNSCR 1267 Sanctions Committee's consolidated list. The Uganda Anti-Terrorism Act (ATA) of 2002, which entered into effect in June 2002, criminalized contributing, soliciting, controlling, or managing funds used to support terrorism or terror organizations. Despite the ATA, GOU authorities believe they have limited powers to freeze or seize terrorist finance-related assets. The draft AML would significantly expand this authority allow the GOU to seize all proceeds of crime.

Uganda is a member of the East and Southern African Anti-Money Laundering Group (ESAAMLG) and served as chair from August 2003 to August 2004. Uganda is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. It has signed, but not yet ratified, the United Nations Convention against Transnational Organized Crime. At this time, Uganda and the United States do not have formal agreements to facilitate the exchange of information and records in connection with investigations relating to narcotics, terrorism, and other crimes. Nevertheless, Ugandan authorities have cooperated with U.S. law enforcement efforts. In May 2004, at the request of the United States, the GOU detained and deported two U.S. citizens to face money laundering and wire fraud charges in the U.S.

The Government of Uganda should act on the draft legislation pending since December 2003 and enact comprehensive anti-money laundering legislation that meets international standards and

construct a viable anti-money laundering regime capable of thwarting terrorist financing. It should ratify the UN Convention against Transnational Organized Crime.

Ukraine

Ukraine has made rapid progress over the past two years in adopting, enacting and implementing comprehensive anti-money laundering legislation. However, high-level and widespread corruption, organized crime, smuggling, tax evasion, and other economic crimes continue to plague Ukraine's economy. Money laundering in Ukraine is not primarily related to proceeds from narcotics-trafficking, although this activity does generate at least a portion of organized crime income. Illicit proceeds also originate in criminal activities such as fraud, manipulation of the privatization process, fictitious entrepreneurship, smuggling of goods, trafficking in weapons and human beings, and large-scale corruption by government officials and others. In June 2004, a federal jury in the United States convicted Ukraine's former Prime Minister, Pavlo Lazarenko, of money laundering, conspiracy to launder money, wire fraud, and transportation of stolen property. Ukraine provided assistance to the United States in connection with this prosecution.

The Ministry of Interior registered 39,300 economic crimes, or 6.2 percent more than over the same period of 2003, including 371 cases of money laundering, 3,500 cases of bank fraud, and 1,700 cases of smuggling. Overall, 37 percent of economic crimes involve real and private property, 38 percent are related to misuse of public office, and 20 percent relate to business and corporate activity. The market for smuggled goods remains significant in Ukraine, especially for textiles, automobiles, alcohol, and tobacco products.

Ukraine has created eleven Free Economic Zones (FEZs), and nine Priority Development Territories (PDTs), reportedly covering some 10 percent of Ukrainian territory. In August 2002, the Cabinet of Ministers introduced a moratorium on the establishment of FEZs and PDTs until January 1, 2005. There is a separate law for each FEZ that defines a set of tax exemptions enjoyed by the FEZ. Creation of FEZs was originally intended to enliven business and attract investment to depressed territories, but effectiveness of their operation is disputable. Legislative loopholes permit companies to misuse FEZ status, and to avoid taxes and import duties. The State Department of Financial Monitoring has uniform policy regarding economic entities operating throughout the country and does not envisage any specific provisions on FEZs.

When the Financial Action Task Force (FATF), in September 2001, placed Ukraine on the list of non-cooperative countries and territories in the fight against money laundering (NCCT), it noted that Ukraine lacked (1) a complete set of anti-money laundering (AML) 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 U.S. Treasury Department issued an advisory to all U.S. financial institutions instructing them to "give enhanced scrutiny" to all transactions involving Ukraine. At its September 2002 plenary, FATF extended its original October 2002 deadline, by which Ukraine had to enact comprehensive, effective anti-money laundering legislation, or it would face the possibility of a recommendation for countermeasures from the FATF member countries, 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 of the Legalization (Laundering) of the Proceeds from Crime" (the Basic AML Law). On December 20, 2002, the FATF determined that Ukraine's new AML statute did not meet international standards and announced a recommendation that FATF members impose countermeasures on Ukraine. Under Section 311 of the USA PATRIOT Act, on December 20, 2002, the United States designated Ukraine as a jurisdiction of primary money laundering concern. In response to the imminent threat of countermeasures, Ukraine passed further comprehensive legislative amendments in December 2002 and February 2003, in

accordance with FATF recommendations. Immediately upon passage of the February amendments, the FATF withdrew its call for members to invoke countermeasures and the United States 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 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 AML regime was conducted on January 19-23, 2004. The positive results of the on-site visit by the FATF evaluation team were reported to the ERG, and Ukraine was accordingly de-listed at the FATF plenary on February 25, 2004. As a condition for de-listing, Ukraine continues to undergo monitoring by the FATF on implementation of its AML regime.

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 the basic AML law in November 2002.

Two subsequent sets of amendments to the Basic AML Law, adopted in December 2002 and February 2003, have further helped bring Ukraine into compliance with internationally-recognized standards, as set forth by the FATF, UN and European Union (EU) conventions and directives on money laundering, and the Basel Committee's "Core Principles for Effective Banking Supervision". Effective September 1, 2001, the Government of Ukraine (GOU) criminalized non-drug money laundering in the Criminal Code of Ukraine. Subsequent amendments adopted in January 2003 include willful blindness provisions and expand the scope of predicate crimes for money laundering to include, with certain exceptions, any action that is punishable under the criminal code by imprisonment of three years. 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 conduct due diligence to identify beneficial account owners prior to opening an account or conducting certain transactions, and to maintain records on suspicious transactions and the people carrying them out for a period of five years. The AML legislation also mandates the establishment of AML procedures in first-line financial institutions such as banks; stock, securities, and commodity brokers; and insurance companies, among other entities. Subsequent amendments mandate establishment of bank compliance programs and the appointment of bank compliance officers who may be subject to criminal liability for non-compliance. They also require employees of entities that carry out financial transactions to 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. In June 2004, the National Bank of Ukraine (NBU) drafted amendments to the Act, strengthening anti-money laundering requirements for banks. In particular, it mandates that the AML compliance officer also be a bank director, forbids banks to have correspondent accounts with shell banks, and authorizes the NBU to obtain information from other state authorities and legal persons in order to determine the business reputation and financial circumstances of prospective bank owners and directors. Travelers must declare cross-border transportation of cash sums exceeding \$1000.

In August 2001, "The Law on Financial Services and State Regulation of the Market of Financial Services" (August 2001 Law) was signed. The August 2001 Law establishes regulatory controls over non-bank financial institutions that manage insurance, pension accounts, financial loans, or "any other financial services involving savings and money from individuals." Specifically, it imposes record keeping requirements on covered entities and identifies the responsibilities of regulatory agencies. The August 2001 Law creates the State Commission on Regulation of Financial Services Markets, which, together with the NBU 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 non-bank financial institutions. Additionally, in August 2003, the State Commission established a State Register of financial institutions; as of December 2004, it contains information on over 1200 non-bank financial institutions.

Significantly, amendments to Article 11 of the August 2001 Law reduce the monetary threshold over 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 applies 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.

In November 2004, the GOU approved and sent to Parliament for review a draft law "On Amending Some Legislative Acts of Ukraine on Prevention to Legalization (Laundering) of the Proceeds from Crime and Terrorist Financing." The draft law, which proposes amendments to several pieces of existing legislation, is designed to bring Ukraine into compliance with the revised FATF Forty Recommendations, the Special Recommendations on Terrorist Financing, and the UN International Convention for the Suppression of the Financing of Terrorism. Proposed amendments to the Basic AML Law include expanding the list of covered entities to include financial intermediaries, such as real estate dealers, lawyers, notaries, advocates, public accountants, auditors, dealers in precious metals and stones, and others. These amendments also would widen the list of supervisory and regulatory financial monitoring authorities over such entities; in particular, designating the Ministry of Finance as responsible for gambling institutions, legal persons that organize any lotteries, dealers in precious metals and precious stones, public accountants and auditors; the State Committee on Land Resources for real estate dealers (realtors); the Ministry of Justice for notaries, lawyers, businesses providing incorporation and registration services for enterprises as well as management services of enterprises and property; and the Ministry of Transport and Communications for postal operators.

Additional proposed amendments to the Basic AML law include provisions to allow financial intermediaries to suspend suspected money laundering or terrorist finance related financial transactions for two working days and to require them to notify the Financial Intelligence Unit (FIU)-the entity to be designated as the authority for combating terrorist financing in Ukraine-of the suspension within one day. The FIU is authorized to suspend the transaction for an additional five working days. Customer due diligence (CDD) requirements for financial intermediaries would also be expanded to bring them into conformity with the revised FATF recommendations on customer identification and establishment of beneficial ownership. The Code of Ukraine on Administrative Offenses also would be supplemented to provide new supervisory and regulatory bodies with the authority to impose administrative fines on financial intermediaries for non-compliance with AML requirements. Notably, the draft law also amends the Ukrainian Criminal Code, criminalizing terrorist financing as a separate crime, and lowering the threshold of predicate offenses for money laundering from three to two years. Although the first reading in Parliament did not secure enough votes for

adoption of the draft law, it is currently under review and will most likely undergo a second vote in 2005.

On December 10, 2001, the Ukrainian Presidential Decree "On Measures to Counteract Legalization (Laundering) of Proceeds from Crimes" mandated the creation of the State Department of Financial Monitoring (FMD) by January 1, 2002, to function as Ukraine's FIU. The FMD became operational on June 12, 2003. 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: 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 the activities of the service providers. The overall regulatory authority in the system is vested in the FMD. 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 terrorist financing, and to transfer financial intelligence information to competent law enforcement authorities for investigation. By presidential decree on September 28, 2004, the FMD was elevated to a Central Executive agency with special status. The change, which takes effect on January 1, 2005, subordinates the new agency, known as the Financial Monitoring Committee (FMC), directly to the Cabinet of Ministers. Beginning January 2005, the FMD plans to open territorial offices in each of Ukraine's 27 administrative regions. Due to the change in status of the FIU and also to the creation of the territorial offices, the FIU staff size has correspondingly been increased from 100 to 338 persons.

In 2003, the FMD received 220,427 suspicious transaction reports (STRs), the bulk of which have been reported by banks. Approximately ten percent of these were identified by the FMD for "active research" and 3,211 were sent to competent law enforcement agencies as part of 18 case referrals. In 2004, the FMD received 725,959 STRs, 96.6 percent filed by banks. Of the 3.4 percent of STRs filed by non-banking financial intermediaries, the insurance sector comprised over 67 percent of the reporting. The FMD referred 164 cases comprising 20,929 STR filings to law enforcement authorities for the calendar year, seven of which were linked to terrorist financing.

From June 12, 2003, the date the FMD became operational, through December 31, 2004, FMD has referred a total of 182 cases to law enforcement agencies, 44 of which were sent to the General Prosecutor's Office (GPO), 42 to the Ministry of Interior, 50 to the Security Service of Ukraine, and 46 to the State Tax Administration of Ukraine. As a result of subsequent investigation, law enforcement agencies initiated 32 criminal cases based upon 67 original case referrals. Eleven of these cases were initiated based on suspicion of money laundering, with predicate offenses ranging from fraud, fictitious entrepreneurship, unlawful activity with payment cards, forgery, and abuse of power or official position. Three criminal cases have been passed to the courts and others are currently under investigation. Additionally, during the first eight months of 2004, the State Security Service filed 71 criminal cases on money laundering charges. The Ministry of Interior reported that over 10 months of 2004 it detected 398 crimes connected to money laundering. Eighty-three of them were committed by criminal groups involved in laundering proceeds from trafficking in drugs or arms, smuggling and tax evasion.

Ukraine has an asset forfeiture regime. Article 59 of the Ukrainian Criminal Code provides for the forceful seizure of all or a part of the property of a convicted person for grave and special grave offenses as set forth in the Special part of the code. With respect to money laundering, Article 209 allows for the forfeiture of criminally obtained money and other property.

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 Single State Informational System (SSIS) of Prevention and Counteraction of Money Laundering

and Terrorism Financing. This is a functioning system that electronically unites databases of 17 ministries and agencies through a central server located at the FIU and sub-servers at each of the participating state agencies, thereby allowing the FIU electronic access to virtually all information housed in the databases of the other agencies. In order to foster better interagency cooperation, on September 22, 2004, the Cabinet of Ministers adopted a resolution establishing a Governmental Coordination Council on Functioning of a Single State Informational System. The Council will be comprised of high-level governmental officials in the Cabinet of Ministers, Ministries of Economy, Finance and Interior, Customs Office, and other agencies, including the FIU, and will address organizational issues of SSIS functioning and expansion.

Amendments to criminalize terrorist financing as a distinct and separate crime and to vest the Security Service of Ukraine with authority to investigate terrorist financing have been proposed as part of the draft law submitted to Parliament in November 2004. The GOU has cooperated with U.S. Government efforts to track and freeze the financial assets of terrorists and terrorist organizations. The NBU, State Tax Administration, Ministry of Finance, and State Security Service 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. Ukraine plans to sign a U.S.-Ukraine agreement on mutual admission and actions on a list of persons/entities related to terrorist activities.

The GOU has also taken 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 assets and funds of the entities and individuals on the UNSCR 1267 Sanctions Committee's consolidated list. 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 non-profit entities that might be used to finance terrorism.

Ukraine will host the development of a prototype system for enhancing international data exchange and case collaboration (INDECCS). It is expected that the prototype will be completed in the spring of 2005 for presentation and review by international AML/CTF organizations. If successful, the new system promises to dramatically enhance the speed and quality of international information exchange, and will introduce new real time collaboration capabilities among and between participating countries.

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. In June 2004, FMD joined the Egmont Group. As of December 2004, 19 memoranda of understanding were concluded between the FMD and the FIUs of Russia, the Slovak Republic, Estonia, Italy, Spain, Belgium, the Czech Republic, Colombia, Georgia, France, Serbia, Macedonia, Slovenia, Poland, Romania, Portugal, Cyprus, Brazil, and Panama. However, as a member of Egmont, Ukraine may also exchange information with any other FIU whose legislation similarly allows information exchange without a memorandum of understanding in place. Under this framework, the FMD regularly exchanges information with the United States and other Egmont members, and has reported a 50 percent increase in information exchange with foreign FIUs since its accession to the Egmont Group.

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. The GOU has also participated in GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) for the development of a joint law enforcement center that would cover asset seizure issues on a regional basis.

Ukraine ratified the UN Convention against Transnational Organized Crime in May 2004. 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. In March 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.

The Government of Ukraine has demonstrated considerable political will to combat money laundering by strengthening, clarifying, and implementing its newly adopted laws. As evidenced by the positive steps taken 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. Ukraine should criminalize terrorist financing as a distinct and separate crime. - Ukraine should continue to enhance and implement its newly adopted anti-money laundering regime, and should enact its pending legislation to expand coverage of its anti-money laundering laws to financial intermediaries. Law enforcement agencies should give higher priority to investigating money laundering cases. Both law enforcement officers and the judiciary lack a fundamental understanding of the nature of money laundering as a criminal offense. Both should be provided training in the theoretical and practical aspects of investigation and prosecution of money laundering.

United Arab Emirates

The United Arab Emirates (UAE) is an important financial center for the Gulf region. The UAE is still a largely cash-based society. However, the financial sector is modern and progressive. Dubai, in particular, is a major international banking center. There is also a growing offshore sector. The UAE's robust economic development, political stability, and liberal business environment have attracted a massive influx of people and capital. Because of the UAE's geographic location and role as the primary transportation and trading hub for the Gulf States, East Africa, and South Asia, and with its expanding trade ties with the countries of the former Soviet Union, the UAE has the potential to be a major center for money laundering. The large number of resident expatriates from the above regions, many of whom are engaged in legitimate trade with their homelands, or send remittances there, exacerbates that potential. Approximately 80 percent of the UAE population is comprised of non-nationals. The laundering of proceeds from the illegal narcotics trade is known to occur in UAE, and given the country's close proximity to Afghanistan, where most of the world's opium is produced, such narcotics-trafficking is a likely source. In addition, the potential exploitation of the UAE financial system by foreign terrorist groups is a serious concern.

Following the September 11 terrorist attacks in the United States, and amid 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. They have taken significant steps in 2004 to better monitor cash flows through the UAE financial system and to cooperate with international efforts to combat terrorist financing, including the passage of a law that specifically criminalizes terrorist financing.

Money Laundering and Financial Crimes

Law No. 4 of 2002 criminalizes 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. It also provides safe harbor provisions for those who report such crimes. Banks and other financial institutions (exchange houses, investment companies, and brokerage houses) are supervised by the Central Bank (CB) and are required to follow strict “know your customer” guidelines; all financial transactions over \$54,000, regardless of their nature, must be reported to the CB. Financial institutions also are required to maintain records on transactions for five years.

In July 2000, the UAE established the National Anti-Money Laundering Committee (NAMLC), 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.

The supervision of the UAE banking and financial sector falls under the authority of the CB. The CB issues instructions and recommendations as it deems 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. The CB has issued a number of circulars 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 an effort to consolidate and expand anti-money laundering requirements for the financial sector, the CB issued Circular 24/2000 in November 2000 to all banks, money exchanges, finance companies, and other financial institutions operating in the UAE. This circular delineates 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.

On July 29, 2004, the UAE strengthened its legal authority to combat terrorism and terrorist financing, by passing Federal Law Number 1 of 2004 on Combating Terror Crimes (Law No. 1/2004). The law sets stiff penalties for the crimes covered, including life imprisonment and the death penalty. It also provides for asset seizure or forfeiture. Under the law, founders of terrorist organizations face up to life imprisonment. The law also penalizes the illegal manufacture, import, or transport of “non-conventional weapons” or their components, with the intent to use them in a terrorist activity.

Law No. 1/2004 specifically criminalizes the funding of terrorist activities or terrorist organizations. Article 12 provides that raising or transferring money with the “aim or with the knowledge” that some or all of this money will be used to fund terrorist acts is punishable by “life or temporary imprisonment,” whether or not these acts occur. Law No. 1/2004 grants the Attorney General (or his deputies) the authority to order the review of information related to the accounts, assets, deposits, transfer, or property movements on which the Attorney General has “sufficient evidence to believe” are related to the funding or committing of a terror activity stated in the law. The law also provides for asset seizure and confiscation. Article 31 gives the Attorney General the authority to seize or freeze assets until the investigation is completed. Article 32 confirms the Central Bank’s authority to freeze accounts for up to seven days if it suspects that the funds will be used to fund or commit any of the crimes listed in the law. The law also allows the right of appeal to “the competent court” of any asset freeze under the law. The court will rule on the complaint within 14 days of receiving the complaint.

Law No. 1/2004 also sets up a “National Anti-Terror Committee” with representatives from the Ministries of Foreign Affairs, Interior, Justice, and Defense, the Central Bank, the State Security Department, and the Federal Customs Authority. The Committee serves as a UAE interagency liaison, implements UN Security Council Resolutions on terrorism, and shares information with its foreign counterparts as well as with the United Nations (UN).

Law 4/2002 provided for the establishment of the Anti-Money Laundering and Suspicious Case Unit (AMLSCU), which acts as the Financial Intelligence Unit (FIU) and is housed within the CB. 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. The AMLSCU—a member of the Egmont Group since June 2002—exchanges information with foreign FIUs on a reciprocal basis, and has provided information relating to investigations carried out by the United States and other countries. In June 2004, the AMLSCU hosted a joint training session in Abu Dhabi for the nations of South Asia that are taking steps toward setting up their anti-money laundering regimes, including FIUs. The seminar focused on building an effective anti-money laundering regime, information technology issues, bilateral cooperation and mutual assistance, regulatory issues, hawala, international initiatives, and basic intelligence analysis.

From December 2000 to November 30, 2004, the AMLSCU received 2259 reports of suspicious transactions; of that number, 2148 were investigated by either the AMLSCU, the Central Bank, or law enforcement officials. In 27 cases, the Central Bank issued freeze orders and referred the cases to the Public Prosecutor; 12 of those cases are currently in the process of prosecution for money laundering, and 9 are in the process of judgment for money laundering and confiscation of proceeds.

Some money laundering in the UAE occurs in the formal banking system, including the numerous money exchange houses, but it is more prevalent in 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 confronting its vulnerability to the unregulated use of hawala. New regulations to improve oversight of the hawala system were implemented in 2002, when the CB required hawala brokers to register, submit the names and addresses of senders and beneficiaries, and to file suspicious transaction reports. As of January 2005, the number of applicants to obtain a hawala dar (hawala brokers) certificate reached 151, of which 128 were issued and the remaining 23 are in the process of fulfilling the requirements. There is no accurate estimate of the total number of UAE-based hawala brokers.

The UAE hosted its second International Conference on Hawala in April 2004, which was attended by approximately 350 participants. Delegates included government officials, executives of supervisory institutions, banking experts, and law enforcement officials from the United States, Latin America, Asia, and Europe. The conference statement recognized the key role that hawala and other informal funds transfer systems play in facilitating remittances, particularly those of migrant workers, although such systems can be abused for illegal activities. The conference reaffirmed the “The Abu Dhabi Declaration on Hawala,” which calls for the establishment of a sound mechanism to regulate hawala.

The new attention on hawala is encouraging more people in the country to use regulated exchange houses. Representatives of money exchange business noted that their sector could transfer money anywhere, even to a private residence, for a fee competitive with hawala, persuading many to use the formal, and more secure, banking network.

In January 2002, the UAE CB published a declaration requirement for cash imported into the country above \$10,900. The regulations provide customs services with the authority to seize undeclared cash; however, strict enforcement is still lacking. The UAE National Anti-Money Laundering Committee

held its Second Annual Conference in December 2004 under the title “Customs Inspectors and the Implementation of the Cash Declaration Regulation” to look at ongoing implementation efforts.

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 has participated in the Kimberley Process Certification Scheme for Rough Diamonds (KPCS) since November 2002 and began certifying rough diamonds exported from the UAE on January 1, 2003. In 2004, the UAE was the first KPCS participant country to volunteer for a “peer review visit” on internal control mechanisms.

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 certificate.

The Securities and Commodities Authority (SCA) supervises the country’s two stock markets. In February 2004, it sent out anti-money laundering guidelines to brokers and the markets, instructing them to verify client information when opening accounts and created a reporting requirement for cash transactions above \$10,900. The SCA also instructed the markets and brokers to file suspicious transaction reports for initial analysis before forwarding them to the AMLSCU for further action. The instructions also provide for a five-year record keeping requirement.

Dubai’s booming property market might also be susceptible to money laundering abuse. In 2002, Dubai permitted three companies to sell “freehold” properties to non-citizens. Several other emirates (though not Abu Dhabi) have announced their intention to follow suit. The intense interest in these properties, and rumors of cash purchases, sparked concerns about the potential for money laundering. As a result, developers have stopped accepting cash purchases, alleviating some of the concerns about possible money laundering activities in this sector of the economy.

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 (MLSA) regulates charitable organizations in the UAE. The CB prohibits banks from opening accounts for charities, unless they are registered with the MLSA. The UAEG is much more sensitive since September 11 to the oversight of charities and the 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 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 number of free trade zones (FTZs). Every emirate except Abu Dhabi has at least one functioning FTZ. There are 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. However, UAE law prohibits the establishments of shell companies and trusts, and does not permit non-residents to open bank accounts in the UAE.

In March 2004, the UAEG passed Federal Law No. 8 Regarding the Financial Free Zones (Law No. 8/2004). The new law exempts FFZs and their activities from UAE federal civil and commercial laws, but subjects them and their operations to federal criminal laws including the Anti-Money Laundering Law No. 4/2002 and the Anti-Terror Law No. 1/2004. The new law and a subsequent federal decree

also allowed for the establishment, in September 2004, of the UAE's first financial free zone (FFZ), known as the Dubai International Financial Center (DIFC). Sheikh Mohammed bin Rashid Al-Maktoum, Crown Prince of Dubai and UAE Defense Minister, is the President of the DIFC, which is currently the only FFZ operating in the UAE.

With regard to banking activities in the FFZs, Law No. 8/2004 limits licenses to branches of companies, joint companies, and wholly owned subsidiaries, provided that they "enjoy a strong financial position and systems and controls, and are managed by persons with expertise and knowledge of such activity." The law prohibits companies licensed in the free zone from dealing in UAE currency (dirham) or taking "deposits from the state's markets." It further stipulates that the licensing standards of companies "shall not be less than those applicable in the state." The Law empowers the Emirates Stocks and Commodities Authority to approve the listing of any company listed on any UAE stock market in the free zone and the licensing of any UAE licensed broker. The law limits any insurance activity in the UAE carried out by a free zone company, to reinsurance. It further gives competent authorities in the Federal Government the power to inspect financial free zones and submit their findings to the UAE cabinet.

DIFC regulations provide for an independent regulatory body, the Dubai Financial Services Authority (DFSA), which reports to the office of Dubai Crown Prince and an independent Commercial Court. Observers called the independence of the DFSA into question in the summer of 2004, even prior to the inauguration of the DIFC, with the high profile firing of the chief regulator and the head of the regulatory council (the supervisory authority). Subsequent to the firing, Dubai passed laws which appear to give the DFSA more regulatory independence from the DIFC, although these laws have not yet been tested. The DFSA, whose regulatory regime is generally modeled after the United Kingdom system, is the only authority responsible for licensing firms providing financial services in the DIFC. There are currently two banks and three other financial firms operating in the DIFC. The DFSA's rules prohibit offshore casinos or Internet gaming sites' operating in the UAE. The DFSA requires firms to send suspicious transaction reports to the AMLSCU (along with a copy to the DFSA). Although firms operating in the DIFC are subject to Law No 4/2002, the DFSA has also issued its own anti-money laundering regulations and supervisory regime, creating some ambiguity as to the authority of the CB and AMLSCU within the DIFC.

The UAE is a party to the 1988 UN Drug Convention. It signed the UN Convention against Transnational Organized Crime in 2002, but has not yet ratified it. It has yet to sign the UN International Convention for the Suppression of the Financing of Terrorism. It has entered into a series of bilateral agreements on mutual legal assistance. The CB has circulated to all financial institutions under its supervision the UNSCR 1267 Sanctions Committee's consolidated list. To date, the CB has frozen a total of \$3.13 million in 18 bank accounts in the UAE since September 11, 2001. The UAEG has also frozen other financial assets under Law 4/2002. Additionally, the AMLSCU has provided international organizations and its counterpart FIUs information on cases related to terrorist financing and anti-money laundering. In April 2004, the CB Governor announced that the CB had frozen all accounts related to a company suspected of trying to smuggle nuclear materials.

The UAE was very active in supporting the creation of the Middle East and North Africa Financial Action Task Force (MENAFATF) that was inaugurated in Bahrain in November 2004; the UAE was one of the original charter signatories. MENAFATF is a FATF-style regional body. The creation of the MENAFATF is critical for pushing the region to improve the transparency and regulatory frameworks of its financial sectors.

The United Arab Emirates Government has begun constructing a far-reaching anti-money laundering program. The United Arab Emirates 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. There has been a substantial improvement on behalf of the AMLSCU in the

area of information sharing with other countries. However, there remain areas requiring further action. The Central Bank and AMLSCU should clarify and assert their jurisdiction in enforcing federal laws with respect to the DFIC. 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. United Arab Emirates 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. The United Arab Emirates should ratify both the UN Convention against Transnational Organized Crime and the UN International Convention for the Suppression of the Financing of Terrorism.

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, and credit/debit card fraud has been on the increase since 2002.

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 non-bank 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 business 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.

The Proceeds of Crime Act 2002 was enacted on July 24, 2002, and entered into force on January 1, 2003. The final regulations took effect on March 1, 2004. The Act creates, for the regulated sector, a new criminal 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 UK. 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 \$159.6 million (£84 million) has been seized under the Act to date.

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 relate to the safety and soundness of the institutions under its jurisdiction. The FSA also plays an important role 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 regulated approximately 10,500 institutions and approved of 160,000 individuals in key positions (compliance officers, etc.) during the first half of 2003. From October of 2003, the FSA increased its regulatory role to include mortgage and general insurance agencies, totaling over 30,000 institutions. 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, \$4.37 million (£2.3 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), which 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. The FID received approximately 32,000 STRs in 2001, 65,000 in 2002, and 100,000 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, 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 to prove that the assets were acquired through lawful means. In the absence of such proof, assets may be forfeited, 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.

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. In 2004, the UK issued 20 terrorist asset freeze orders on 34 individuals and 13 organizations.

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 increase in 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).

Charitable organizations and foundations are subject to supervision by the UK Charities Commission. Such entities must be licensed and are subject to reporting and record keeping requirements. The Commission has investigative and administrative sanctioning authority, up to and including the authority to remove management, appoint trustees and place organizations into receivership.

The UK cooperates with foreign law enforcement agencies investigating narcotics-related financial crimes. The UK is a party to the 1988 UN Drug Convention and the UN International Convention for the Suppression of the Financing of Terrorism. The UK has signed, but not yet ratified, the UN Convention against Transnational Organized Crime and the UN Convention against Corruption. 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 a memorandum of understanding between the U.S. Customs Service and HM Customs and Excise.

The Government of the United Kingdom should provide adequate oversight of its gaming sector. The United Kingdom 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 and capital mobility regulations, and overall economic stability made it a regional financial center vulnerable to money laundering. However, its extent and exact nature have always been relatively unknown. In 2002, banking scandals and mismanagement, along with massive withdrawals of Argentine deposits, led to a near collapse of the Uruguayan banking system, significantly weakening Uruguay's role as a regional financial center. This crisis likely diminished the attractiveness of Uruguayan financial institutions for money launderers in the medium term.

Uruguay has been a member of the Financial Action Task Force for South America (GAFISUD) since the organization was created in December 2000. In 2003, Uruguayan President Batlle's Deputy Chief of Staff served as the Task Force's President, and in December, 2004, Alejandro Montesdeoca Broquetas, Uruguay's delegate to GAFISUD was selected to serve as the organization's new Executive Director Secretariat. GAFISUD's mutual evaluation in 2003 noted that Uruguay's anti-money laundering regime met international standards. GAFISUD 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 2003 report of the OAS' Inter-American Drug Abuse Control Commission (CICAD) noted that there had been no arrests or prosecutions for money laundering in the previous three years. There were no arrests or prosecutions in 2004.

Over the last five years, the GOU has instituted several legislative and regulatory reforms in its anti-money laundering regime. In May 2001, Law 17,343 extended the predicate offenses for money laundering beyond narcotics- trafficking and corruption to include: terrorism; smuggling (value over \$20,000); illegal trafficking in weapons, explosives and ammunition; trafficking in human organs, tissues and 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 confiscate property, products or financial instruments linked to money laundering activities. Legally, money laundering is considered a crime separate from underlying crimes such as narcotics-trafficking, administrative corruption, terrorism and smuggling, which are formally listed in the statutes.

In December 2003, the Uruguayan Chamber of Deputies approved a bill designed to limit bank secrecy and confidentiality. The bill is intended to increase credit transparency by eliminating bank secrecy for information pertaining to personal loans, financial credits, mortgages, or similar obligations. As of the end of 2004, however, the bill was still pending in commission in the Senate and had not been approved into law.

In its 2003 mutual evaluation report, GAFISUD made 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. GAFISUD also suggested that the Government of Uruguay (GOU) improve its investigative and administrative capabilities.

In September 2004, the Uruguayan Congress approved Law 17,835, which significantly strengthened the GOU's money laundering regime. The law incorporated all of GAFISUD's recommendations that had to be legislated, while other recommendations were met over the past two years through administrative regulations. The 2004 law expands the realm of entities subject to the filing of suspicious activities reports (SARs) and makes reporting of such activities a legal obligation. It specifically confers to the Central Bank's Financial Information and Analysis Unit (UIAF) the role of receiving and analyzing SARs, and the authority to request additional related information. The law also includes specific provisions related to the financing of terrorism and to the freezing of assets linked to terrorist organizations, as well as to undercover operations and controlled deliveries.

Central Bank regulations require all banks, currency exchange houses, stockbrokers and insurance companies to implement anti-money laundering policies, such as thoroughly identifying customers, recording transactions over \$10,000 in internal databases, and reporting suspicious transactions to the UIAF. The 2004 law now makes this a legal obligation, extended to all financial intermediaries, as well as casinos, art dealers, real estate and fiduciary companies. Additionally, the law extends the reporting requirement to all persons coming in or out of Uruguay with over \$10,000 in cash or monetary instruments. Regulations for the 2004 law are being issued by the Central Bank for all entities it supervises, and by the Executive for all other reporting entities, such as casinos, real estate companies and art dealers.

Three government bodies are involved in combating money laundering. The President's Deputy Chief of Staff heads the National Drug Council, which is the senior authority directing anti-money laundering policy. The Center for Training on Money Laundering serves as a forum for discussion and policy advice based on public and private sector input. Created in 2000, the UIAF acts as a financial intelligence unit receiving, analyzing, and remitting suspicious transaction reports to judicial authorities. Central Bank Circular 1722, which created the UIAF, provides for responding to requests for international cooperation. In November 2004, Resolution 2002-2072 of the Central Bank Board of Directors raised the UIAF to the level of a directorate reporting directly to the Board.

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 financial private sector, most of which is foreign owned, has 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 (1997), the Association of Exchange Houses (2001), and the Securities Market (2002).

Despite the power of the courts to confiscate property linked to money laundering, real estate ownership is not publicly registered in the name of the titleholder, which complicates efforts to track money laundering in this sector, especially in the partially foreign-owned tourist industry. The UIAF can have access to the name of titleholders at any time, however, and so can other government agencies through a judicial order. The GOU is planning to establish a computerized system that will facilitate the UIAF's access to titleholders' names.

Offshore banks are subject to the same laws and regulations as local banks, with the GOU requiring them to be licensed through a formal process that includes a background investigation. There are six offshore banks and 21 representatives of foreign banks. There are no records of the number of Uruguayan offshore firms or shell companies. 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.

Safeguarding the financial sector from money laundering is a priority for the GOU, and Uruguay remains active in international anti-money laundering efforts. It is a party to the 1988 UN Drug Convention, and participates in GAFISUD and the OAS Inter-American Drug Abuse Control Commission (CICAD) Experts Group to Control Money Laundering. The USG and the GOU are parties to extradition and mutual legal assistance treaties that entered into force in 1984 and 1994, respectively. Uruguay has signed, but not yet ratified, the UN Convention against Transnational Organized Crime. In 2003 Uruguay ratified the UN International Convention for the Suppression of the Financing of Terrorism. The GOU is taking steps to comply with the Financial Action Task Force (FATF) Special Recommendations on Terrorist Financing. Some of these recommendations, such as the criminalization of

terrorism financing and provisions for the freezing of terrorist assets, were met by the 2004 money laundering law.

Effective implementation and enforcement of its anti-money laundering legislation should be a priority for the Government of Uruguay and should enact legislation that requires the identification and registration of the titleholders of real estate- a sector that is particularly vulnerable to money laundering. Uruguay should ratify the UN Convention against Transnational Organized Crime.

Uzbekistan

Uzbekistan is not considered an important regional financial center and does not have a well-developed financial system. Reportedly, legitimate business owners, ordinary citizens, and foreign residents generally attempt to avoid using the Uzbek banking system for transactions, except when absolutely required, because of the onerous nature of the Government of Uzbekistan's (GOU) financial control system and the fear of GOU seizure of one's assets. As a result, Uzbek citizens have functioning bank accounts only if they are required to do so by law. They deposit only funds they are required to deposit and often resort to subterfuge to avoid depositing currency. The Central Bank of Uzbekistan (CBU) asserts that deposits from individuals have been increasing over the past two years.

Narcotics proceeds are controlled by local and regional drug-trafficking organizations and organized crime. Foreign and domestic proceeds from criminal activity in Uzbekistan are held either in cash, high-value transferable assets, such as gold or automobiles, or in foreign bank accounts. The GOU could not provide information on whether financial crimes have been increasing. There is a significant black market for smuggled goods in Uzbekistan. Since the GOU imposed a very restrictive trade and import regime in the summer of 2002, smuggling of consumer goods, already a considerable problem, increased dramatically. Many Uzbek citizens continue to make a living by illegally shuttle-trading goods from neighboring countries, Iran, the Middle East, India, Korea, Europe, and the U.S. The black market for smuggled goods does not appear to be significantly funded by narcotics proceeds.

However, drug dealers may be exchanging their drug money in a fashion that allows the black market business people to access drug dollars. It is possible that this unofficial, basically unmonitored cash-based market may create the potential for small-scale terrorist or drug-related laundering activity. The funds generated by the smuggling and corruption are not laundered through the banking system. There appears to be virtually no money laundering through formal financial institutions in Uzbekistan because of the extremely high degree of supervision and control over all bank accounts in the country exercised by the CBU, the Ministry of Finance and the state-owned and controlled banks. Although Uzbek financial institutions do not engage in illegal transactions in U.S. currency, illegal unofficial exchange houses, where the majority of cash-only money laundering takes place, deal in local soum and U.S. dollars. Moreover, drug dealers and others can transport their criminal proceeds in cash across Uzbekistan's borders for deposit in the banking systems of other countries, such as Kazakhstan, Russia or the United Arab Emirates.

Money laundering of the proceeds from drug-trafficking and other criminal activities is a criminal offense. With regard to drugs, 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 narcotics-trafficking. Penalties for money laundering are from ten to fifteen years imprisonment, under Article 243 of the Criminal Code. This article defines the act of money laundering to include as punishable acts the transfer; conversion; exchange; or concealment of origin, true nature, source, location, disposition, movement and rights with respect to the assets derived from criminal activity. There has not yet been a complete assessment of the implementation and use of this legislation.

The CBU and the National Security Service (NSS) closely monitor all banking transactions to ensure that money laundering does not occur in the banking system. 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. All transactions involving sums greater than \$1000 in salary expenses for legal entities and \$500 in salaries for individuals must be tracked and reported to the authorities. The CBU unofficially requires commercial banks to report on private transfers to foreign banks exceeding \$10,000. Depending on the type and amount of the transaction, banks are required to maintain records for time deposits for a minimum of three years, possibly not sufficient time to reconstruct significant transactions. The law protects reporting individuals with respect to their cooperation with law enforcement entities. However, reportedly, the GOU has not adopted "banker negligence" laws that make individual bankers responsible if their institutions launder money.

Parliament passed a new law in August 2004 to combat money laundering and terrorist financing. This law, scheduled to take effect in January 2006, requires certain entities to report cash transactions above \$26,000 (approximately) as well as suspicious transactions. In addition, this law also covers some non-banking financial institutions, such as investment foundations, depositaries and other types of investment institutions; stock exchanges; insurers; organizations which render leasing and other financial services; organizations of postal service; pawnshops; lotteries; and notary offices. It does not include intermediaries such as lawyers, accountants, or broker/dealers. Casinos are illegal.

The law on banks and bank activity (1996), article 38, stipulates conditions under which banking information can be released to law enforcement, investigative and tax authorities, prosecutor's office and courts. Different conditions for disclosure apply to different types of clients—individuals and institutions. In September 2003, Uzbekistan enacted a bank secrecy law that prevents the disclosure of client and ownership information for domestic and offshore financial services companies to bank supervisors and law enforcement authorities. In all cases, private bank information can be disclosed to prosecution and investigation 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

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under consideration. Protected banking information also can be disclosed to tax authorities in cases involving the taxation of a bank's client.

Existing controls on transportation of currency across borders, would, in theory, facilitate detection of the international transportation of illegal source currency. When entering/exiting the country, foreigners and Uzbek citizens are required to report all currency they are carrying. Residents and non-residents may bring the equivalent of \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a one-percent duty. Non-residents may take out as much currency as they brought in, however, residents are limited to the equivalent of \$2000. Residents wishing to take out higher amounts must obtain authorization to do so; amounts over \$2000 must be approved by an authorized commercial bank and amounts over \$5000 must be approved by the CBU.

International business companies are permitted to have offices in Uzbekistan and are subject to the same, if not stricter, regulations as domestic businesses. Offshore banks are not present in Uzbekistan and other forms of exempt or shell companies are not officially present.

In accordance with Uzbekistan's Code of Criminal Procedure, investigation of money laundering offenses falls under the jurisdiction of the Ministry of Internal Affairs (MVD). The Department of Investigation of Economic Crimes within the Ministry conducts investigations of all types of economic offenses. A specialized structure within the NSS and the Department on Combating Economic Crimes and Corruption in the Office of the Prosecutor General also are authorized to conduct investigations of money laundering offenses. There are no known arrests or prosecutions for money laundering or terrorist financing since January 1, 2002, except for one case following the suicide bombings of Spring 2004. Unofficial information from numerous law enforcement officials indicates that there have been few, if any, prosecutions for money laundering under article 243 of the Criminal Code since its enactment in 2001. The GOU appears to lack a sufficient number of experienced and knowledgeable agents to investigate money laundering.

Article 155 of Uzbekistan's Criminal Code and the law "On Fighting Terrorism" criminalize terrorist financing. The latter law names the NSS, the MVD, the Committee On The Protection Of State Borders, the State Customs Committee, the Ministry of Defense, and the Ministry for Emergency Situations as responsible for implementing the counterterrorist 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. Uzbekistan has circulated to its financial institutions the names of individuals and entities included on the UN 1267 Sanction Committee's consolidated list. In addition, the GOU has circulated the lists of individuals and entities included in the U.S. executive order to the CBU, which has, in turn, forwarded these lists to all banks operating in Uzbekistan. According to the CBU, no assets have been frozen.

Other than a plan to step up enforcement of currency regulations, the GOU has taken no steps to regulate or deter alternative remittance systems such as hawala, black market exchanges, trade-based money laundering, or the misuse of gold, precious metals and gems. We are not aware of any legislative initiatives under consideration. Although currency convertibility has been officially announced, in many regions of the country there is a strong black market for foreign exchange that accounts for a significant amount of informal economic activity.

The GOU closely monitors the activities of charitable and non-profit entities, such as NGOs, that can be used for the financing of terrorism. In February 2004, the Cabinet of Ministers issued Decree # 56 to allow the Government to vet grants to local NGOs from foreign sources, ostensibly to fight money laundering and terrorist financing. Given the degree of supervision of charities and other non-profits, and the level of threat Uzbekistan itself faces from the Islamic Movement of Uzbekistan (IMU), a designated terrorist organization, it is extremely unlikely that the NSS would knowingly allow any funds to be funneled to terrorists through Uzbekistan-based charitable organizations or NGOs.

Uzbekistan has established systems for identifying, tracing, freezing, seizing, and forfeiting proceeds of both narcotics-related and money laundering-related crimes. Major points in current laws include the ability to seize items used in the commission of crimes such as conveyances used to transport narcotics, farm facilities (except land) where illicit crops are grown or which are used to support terrorist activity, legitimate businesses if related to criminal proceeds and bank accounts. The banking community, which is entirely state-controlled and with few exceptions, state-owned, cooperates with efforts to trace funds and seize bank accounts. Uzbek law does not allow for civil asset forfeiture, but the Criminal Procedure Code provides for “civil” proceedings within the criminal case to decide forfeiture issues. As a practical matter, these proceedings are conducted as part of the criminal case. No new legislation or changes in current law are under active consideration by the GOU regarding seizure or forfeiture of assets. The obstacles to enacting such laws are largely rooted in the widespread corruption that exists within the country.

In 2000, Uzbekistan set up a fund to direct confiscated assets to law enforcement activities. In accordance with the regulation the assets derived from the sale of confiscated proceeds and instruments of drug-related offenses were transferred to this fund to support entities of the NSS, the MVD, the State Customs Committee, and the Border Guard Committee, all of which are directly involved in combating illicit drug-trafficking. According to the GOU, a total of 115 million soum (approximately \$115,000) has been deposited into this fund since its inception, which includes about 40 million soum (\$40,000) during 2004. Roughly \$80,000 has been turned over to Uzbek law enforcement agencies. In 2004, however, the Cabinet of Ministers issued an order to close the Special Fund as of November 1, 2004. Under the new procedure, each agency will manage the assets it seizes. There is also a specialized fund within the MVD set up to reward those officers who directly participate in or contribute to law enforcement efforts leading to the confiscation of property. This fund has generated 20 percent of its assets from the sale of property confiscated from persons who have committed offenses such as the organization of criminal associations, bribery and racketeering. The GOU enthusiastically enforces existing drug-related asset seizure and forfeiture laws. The GOU has not been forthcoming with information regarding the total dollar value of assets seized from crimes. Reportedly, existing legislation does not permit sharing of seized narcotics assets with other governments.

Uzbekistan’s government agencies are extremely cooperative and positive to efforts by the U.S. and other countries to trace or seize assets. GOU agencies make use of tips from other countries’ enforcement officials regarding the flow of drug-derived assets or of assets intended to support terrorism.

The GOU has repeatedly emphasized the importance of international cooperation in the fight against drugs and transnational organized crime and has made efforts to integrate the country in the system of international cooperation. Uzbekistan has entered into agreements with Uzbek supervisors to facilitate the exchange of supervisory information including on-site examinations of banks and trust companies operating in the country. Uzbekistan has entered into bilateral agreements for the cooperation or exchange of information on drug related issues with the U.S., Germany, Italy, Latvia, Bulgaria, Poland, China, Iran, Pakistan, the CIS, and all the countries in Central Asia. It has multilateral agreements in the framework of the CIS, under the Shanghai Cooperation Organization and under memoranda of understanding. An “Agreement on Narcotics Control and Law Enforcement Assistance” was signed with the United States on August 14, 2001, with two supplemental agreements that came into force in 2004.

Uzbekistan does not have a Mutual Legal Assistance Treaty with the United States. However, Uzbekistan has reached informal agreement with us on mechanisms for exchanging adequate records in connection with investigations and proceedings relating to narcotics, terrorism, terrorist financing and other serious crime investigations. When requested, Uzbekistan has cooperated with appropriate

law enforcement agencies of the USG and other governments investigating financial crimes and several important terrorist-related cases.

The GOU is an active party to the relevant agreements concluded under the CIS, CAEC, ECO, Shanghai Cooperation Organization and the “Six Plus Two” Group. The GOU has also participated in GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova) for the development of a joint law enforcement center that would cover asset seizure issues on a regional basis. Uzbekistan is a party to the 1988 UN Drug Convention, the UN International Convention for the Suppression of the Financing of Terrorism and to the UN Convention against Transnational Organized Crime.

A lack of trained personnel, resources, and modern equipment hinder Uzbekistan’s efforts to fight money laundering and terrorist financing. The Government of Uzbekistan should continue to refine its pertinent legislation to bring it up to international standards. Uzbekistan also should establish supervisory oversight of intermediaries, such as accountants and attorneys, and expand the cross-border currency reporting rules to cover the transfer of monetary instruments, gold, gems and precious metals. Access to financial institution records should be given to appropriate regulatory and law enforcement agencies so that they can properly conduct compliance examinations and investigations. Uzbekistan should establish a Financial Intelligence Unit to receive and analyze the suspicious transaction reports it proposed to require.

Vanuatu

Vanuatu’s offshore sector is vulnerable to money laundering, as Vanuatu 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, and in response to pressure from the Financial Action Task Force (FATF), 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 9 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, according to the Australian High Commission in Port Vila, the Reserve Bank of Vanuatu regulates nine offshore banks registered in Vanuatu that were 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 one-person 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. FRTA amendments are expected to be passed in parliament some time this year—the next ordinary session is scheduled to sit in March. The amendments to the FTRA, if enacted, would require mandatory customer identification requirements; broaden the range of covered institutions required to file STRs to include auditors, trust companies, and company service providers; and provide safe harbor for both individuals and institutions required to file STRs. The proposed amendments would override any inconsistent banking 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 under the International Banking Act no 4 of 2002 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 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 restraints on 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 or imprisonment. Under Section 19 of the Act, the Reserve Bank can conduct investigations where it suspects that an unlicensed person or 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 plenary session of the Asia/Pacific Group on Money Laundering (APG), 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 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.

In addition to the Asia Pacific Group, Vanuatu is a member of the Offshore Group of Banking Supervisors, the Commonwealth Secretariat, and the Pacific Island Forum. Its Financial Intelligence Unit became a member of the Egmont Group in June 2002. However, Vanuatu has yet to sign either the UN International Convention for the Suppression of the Financing of Terrorism, the UN Convention against Transnational Organized Crime, or the 1988 UN Drug Convention

The Government of Vanuatu should immobilize bearer shares and require complete identification of the beneficial ownership of international business companies (IBCs). It should implement all the provisions of its Proceeds of Crime Act and enact all additional legislation that is necessary to bring both its onshore and offshore financial 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 UN 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 is a major drug-transit country. 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. Trade-based money laundering, such as the Black Market Peso Exchange, 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, remains a prominent method for laundering narcotics proceeds. It is suspected that many of these black market traders ship their wares through Venezuela’s Margarita Island free trade zone. Reportedly, some money is also laundered through the real estate market in Margarita Island.

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 asset forfeiture and sharing provisions, adds conspiracy as a criminal offense, strengthens due diligence requirements, establishes the Financial Intelligence Unit (FIU) as a fully autonomous unit, 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 or 2004. 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 have been ratified by the GOV.

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) have implemented controls to prevent and investigate money laundering. These include stricter customer identification requirements, and the reporting of both currency transactions over a designated threshold and suspicious transactions. These controls apply to all banks (commercial, investment, mortgage, private), savings and loan institutions, financial rental agencies, currency exchange houses, money remitters, money market funds, capitalization companies, and frontier foreign currency dealers. The institutions are also required to file suspicious and cash transaction reports with Venezuela's FIU, the Unidad Nacional de Inteligencia Financiera (UNIF), which was created under the SUDEBAN in July 1997 and began operations in June 1998. In 2004, the UNIF was expanded to include two new divisions: one for research and development, and another for strategic analysis. Three different officials held the position of director of the UNIF in 2004.

The UNIF receives suspicious transaction reports (STRs) and reports of currency transactions exceeding 4.5 million bolívares (approximately \$2,350) 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. A system has been developed for electronic receipt of currency transaction reports (CTRs), but STRs must be filed in paper format. The UNIF received 965 STRs in 2003, although that amount is expected to decrease in 2004.

In addition to STRs and CTRs, 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 that exceed 4.5 million bolívares. The UNIF does not, however, receive reports on the transportation of currency or monetary instruments into or out of Venezuela. 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 filing of CTRs and STRs and "know your customer" policies. Each currency exchange house in the country has and employs systems to electronically transmit transaction reports to SUDEBAN and the Public Ministry. However, inadequate foreign exchange controls by the GOV's Commission for Administrative Control of Currency Exchange (CADIVI) present new opportunities to circumvent regulations applicable in the banking and financial institution sectors. Procedures to limit the potential for laundering funds through the stock market are also thought to be inadequate.

The UNIF analyzes STRs and other reports, and refers those deemed appropriate for further investigation to the Public Ministry (the Office of the Attorney General). Approximately 30 percent of the STRs received by the UNIF are sent to the Public Ministry for further investigation. 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 a Judge of Control, bank secrecy may be waived. Comprehensive financial and law enforcement information is available to the UNIF under existing legislation. When the Organized Crime bill is passed, the UNIF will become a fully autonomous unit, rather than being part of SUDEBAN. There is some concern among GOV officials about moving the UNIF out of SUDEBAN, as approximately 90 percent of the STRs received are filed by banks.

Venezuela is one of the few countries in Latin America that does not have restrictive bank secrecy laws. Although the Venezuelan constitution guarantees the right to privacy and confidentiality, investigations by the UNIF, SUDEBAN or the Public Ministry are not hindered by bank secrecy provisions. However, due to the lack of a 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 receive STRs from the UNIF and conduct money laundering investigations, although STRs may then be shared with other prosecutors as deemed necessary. 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. No money laundering cases were tried in 2004. Venezuela has limited mechanisms for freezing assets tied to illicit activities. The assets must be linked to a crime such as narcotics trafficking—or money laundering directly related to narcotic trafficking—and must pass through a lengthy judicial process.

Current Venezuelan law does not specifically criminalize terrorism, although it is addressed as a matter of public order under a 1936 law. The Organized Crime Bill, when passed, 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. However, the bill does not establish terrorist financing as an autonomous crime.

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 and is a member of the Caribbean Financial Action Task Force (CFATF). Although Venezuela is a member of GAFISUD, the South American Financial Task Force, the GOV has not participated in any GAFISUD meetings or other initiatives since it first became a

member in July 2003. Venezuela also participates in a multilateral initiative with the governments of the United States, Colombia, Panama, and Aruba designed to address the problem of trade-based money laundering through the Black Market Peso Exchange. Venezuela 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. The GOV has signed, but not yet ratified, the UN Convention against Corruption. In January 2004, the GOV deposited its instrument of ratification for the OAS Inter-American Convention Against Terrorism. The GOV continues to share money laundering information with U.S. law enforcement authorities under the 1990 Agreement Regarding Cooperation in the Prevention and Control of Money Laundering Arising from Illicit Trafficking in Narcotics Drugs and Psychotropic Substances, which entered into force on January 1, 1991. The information shared has supported U.S. domestic operations, resulting in the seizure of significant amounts of money and several arrests in the United States. Venezuela has a Mutual Legal Assistance Treaty (MLAT) with the United States.

The Government of Venezuela should take steps to move forward with the passage of the Organic Law Against Organized Crime, which has been under consideration by Congress for nearly three years. The passage of this bill will provide law enforcement and judicial authorities the much-needed tools for the effective investigation and prosecution of money laundering derived from all serious crimes, broaden asset forfeiture and sharing provisions, strengthen due diligence requirements, and expand the mandate of the Financial Intelligence Unit, the Unidad Nacional de Inteligencia Financiera (UNIF). Venezuela should also expand and strengthen the capabilities of the Public Ministry to successfully investigate and prosecute crimes related to money laundering, and provide further training to financial regulators, investigators, prosecutors and judges. Venezuela should create and enact legislation to criminalize the financing of terrorism, as well as institute measures to expedite the freezing of terrorist assets. The passage of the Organic Law Against Organized Crime and legislation criminalizing the financing of terrorism would bring Venezuela into compliance with international standards for combating financial crimes.

Vietnam

The “drug economy” exists in Vietnam’s informal financial system. Vietnam is a major drug producing and drug-transit country. Vietnam is not an important regional or offshore 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. Vietnamese officials assert that their strict banking regulations prevent money laundering and terrorist financing. However, the issue is difficult to monitor since there are no laws in effect at this time to support international money laundering investigations, resulting in a lack of legal and policy-driven authority for Vietnamese law enforcement officials to cooperate bilaterally. 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 \$3 billion and unofficially the number may be more than double that amount.

There has been an increase in financial crimes, including but not limited to money laundering, as a result of the developing economy. Some of the transactions in both the formal and alternative remittance systems result from the proceeds of illegal narcotics sales, although the black market for smuggled goods is reportedly not significantly funded by the drug trade.

Vietnam has three free trade zones known as export processing zones (EPZ). Companies operating in EPZs manufacture goods for export and enjoy customs benefits (e.g., duty free for imported

materials). A foreign invested enterprise must have a license to operate in the EPZ. The investment license often stipulates what activities the company can do or what products they can manufacture.

Vietnam does not yet have a separate law on money laundering or terrorist financing. It is working on anti-money laundering legislation, in the form of a Decree that is expected to be issued in the first quarter of 2005. The Decree is expected to cover all serious crimes without specific reference to such offenses covered in the Penal Code. However, a Decree cannot create offenses. 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. However, the implementing regulations have not yet been promulgated. The State Bank of Vietnam, which has the lead on countering terrorist financing, can also request the disclosure of information when it believes that a transaction might fall within this category. Furthermore, the State Bank requires banks to report suspicious transactions of any kind.

Under existing Vietnamese legislation, there are provisions for seizing of assets linked to drug trafficking. In the course of its drug investigations, MPS has seized vehicles, property and cash; though the seizures typically are directly linked to the drug crime and the final confiscation requires a court finding. Reportedly, MPS can notify a bank that an account is “seized” and that is sufficient to have the account frozen.

The Asian Development Bank is working with the GVN on draft banking legislation. The GVN is also working with international financial institutions to increase its banking supervision capabilities. Currently banks are required to maintain records from seven to up to 20 years. Banks are responsible for client confidentiality but are also required to provide information to law enforcement authorities for investigation purposes. Banks are responsible for checking all identification and relevant papers presented for opening accounts and implementing transactions. Foreign currency (including notes, coins and traveler’s checks) in excess of \$3,000, cash exceeding Vietnamese Dong (VND) 5,000,000 and gold of more than 300 grams must be declared at customs upon arrival and departure. There is no limitation on either the export or import of U.S. dollars or other foreign currency provided that all currency in excess of \$3,000 (or its equivalent in other foreign currencies) or in excess of VND 5,000,000 in cash is declared upon arrival and departure, and supported by appropriate documentation. If excess cash is not declared, it is confiscated at the port of entry/exit and the passenger may be fined.

The GVN is a party to the 1988 UN Drug Convention and the 1999 International Convention for the Suppression of the Financing of Terrorism. It has signed but not yet ratified the UN Convention against Transnational Organized Crime. The GVN and the USG signed a Letter Of Agreement on Counternarcotics Cooperation in December 2003, to establish and to support projects designed to combat the production and trafficking of illicit narcotics and other forms of transnational criminal activities. The GVN has circulated to its financial institutions the 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, members of the al-Qaida organization or the Taliban, and has reported that no names or assets have been identified. Vietnamese legal provisions on counterterrorism financing are covered in various legal documents such as the Law on Credit Organizations, the Penal Code (Article 84 and Article 20. paragraph 2) and others.

The Government of Vietnam should promulgate all necessary regulations to fully implement the Counter-Narcotics Law of 2001. While it should proceed with the planned anti-money laundering decree, Vietnam should also amend its Criminal Code to create expanded terrorism offenses, as a Decree cannot create offenses. Vietnam should establish a separate legal document governing the prevention and suppression of terrorism financing. Vietnam should ratify the UN Convention against

Transnational Organized Crime. Vietnam should enforce cross border currency controls and regulate the use of gold as an alternative remittance system. Vietnam should provide implementing regulations for international cooperation regarding both drug crimes and financial crimes and improve its informal cooperation and should become a member of the Asia/Pacific Group on Money Laundering (APG).

Yemen

The Yemeni financial system is not yet well developed. Thus, the extent of money laundering is not known. The prevalence of alternative remittance systems, such as hawala, makes financial institutions vulnerable to money laundering, although they are technically subject to limited monitoring by the Central Bank of Yemen (CBY). The banking sector is relatively small with 17 commercial banks, including four Islamic banks. The CBY supervises the 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 (Law 35) 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 monetary theft, and imposes penalties of three to five years of imprisonment. Yemen has no specific legislation relating to terrorist financing. But terrorism is covered in various pieces of legislation that treat terrorism and its financing as serious crimes.

Law 35 requires banks, financial institutions, and precious commodity dealers to verify the identity of persons and entities that open accounts (or in the case of the dealers for those who execute a commercial transaction), 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 reports to the Anti-Money Laundering Committee (AMLC). The AMLC is composed of representatives from the Ministries of Finance, Foreign Affairs, Justice, Interior, and Industry and Trade, the Central Accounting Office, the General Union of Chambers of Commerce and Industry, the CBY, and the Association of Banks. The AMLC is authorized to issue regulations and guidelines and provide training workshops related to combating money laundering efforts.

In addition, Law 35 grants the AMLC the right to exchange information with foreign entities. The head of the AMLC is empowered by law to 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, the CBY issued Circular 22008 in April 2002, instructing 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, when they have no accounts at the banks in question. 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 and "Core Principles for Effective Banking Supervision". The CBY issued Circular No. 4 on December 9, 2003, ordering banks to set up intelligence gathering units specializing in investigating and monitoring suspicious funds and transactions in their regulatory structures.

In 2003, U.S. Department of Homeland Security/Immigration and Customs Enforcement (DHS/ICE) agents in New York conducted an investigation of a company suspected of being involved in the smuggling and distribution of pseudoephedrine. The investigation disclosed that employees at the

business were sending a large number of negotiable checks to Yemen's capital city of Sanaa. 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 were actively involved in a hawala network.

In response to the UNSCR 1267 Sanctions Committee's consolidated list and the list of Specially Designated Global Terrorists designated by the United States pursuant to E.O. 13224, and Yemen's Council of Ministers' directives, CBY issued two circulars (75304 and 75305) 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. 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). The Yemeni Government did not issue the circular again in 2004. Since the February 2004 addition of Sheikh Abdul Majid Zindani to the UNSCR 1267 Sanctions Committee's consolidated list, the Yemeni government has made no known attempt to enforce the sanctions and freeze his assets.

A law was passed in 2001 governing charitable organizations. This law entrusts the Ministry of Labor 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. The CBY Circular No. 33989 of June 1, 2002, and Circular No. 91737 of November 24, 2004, ordered banks to abide by the enhanced controls regulating the opening and management of the accounts of charities. This was in addition to keeping these accounts under continuous supervision in coordination with the Ministry of Labor and Social Affairs.

During 2004 the FIU and the CBY have been very active in enlightening the public and the financial sector, including money services businesses and money laundering reporting officers, about the proper ways and means of detecting and reporting suspicious financial transactions. They have done so through public forums and workshops. In addition, the AMLC has prepared an anti-money laundering procedural directory that will be distributed to all public and private financial institutions. The directory explains how to monitor and report suspected money laundering cases.

Yemen is one of the original signatories of the memorandum of understanding governing the establishment of the Middle East and North Africa Financial Action Task Force (MENAFATF). The MENAFATF is a FATF-styled regional body that promotes best practices to combat money laundering and terrorist financing in the region. It was inaugurated in November 2004 in Bahrain by 14 Arab countries. 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.

The Government of Yemen is making progress in enforcing its domestic anti-money laundering program. The passage of the 2003 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 still in the initial development stages. The Central Bank of Yemen 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 enact specific legislation with respect to terrorist financing and forfeiture of the assets of those suspected of terrorism. It should ratify the UN Convention against Transnational Organized Crime. It should also become a party to the UN International Convention for the Suppression of the Financing of Terrorism.

Zambia

Zambia is not a major financial center. To the extent that money laundering is a concern in Zambia, reports indicate that proceeds of narcotics transactions and money derived from public corruption are the major sources of laundered money. Law enforcement officials also indicate that bulk cash smuggling is a concern.

The Prohibition and Prevention of Money Laundering 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.

The anti-money laundering law does not contain specific provisions on the financing of terrorism; the Government of the Republic of Zambia (GRZ) 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, the GRZ established an anti-money laundering unit under the DEC. The main purpose of the unit is to lead efforts within the GRZ to counter money laundering and enforce the Prevention of Money Laundering Act. In the same year, three officers of a commercial bank were tried and convicted for money laundering offenses. In 2004, the DEC conducted numerous investigations of money laundering, resulting in several arrests under the 2001 anti-money laundering statute. Trials in these cases are pending. The penalty for money laundering is imprisonment for a term not exceeding ten years and/or a fine.

In 2003, Zambia signed the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) memorandum of understanding. In 2004, Zambia's Central Bank was an active participant in ESAAMLG activities. 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.

The Government of Zambia should establish a fully operational financial intelligence unit in accordance with 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 and implement counterterrorist financing regulations that comport with the FATF recommendations, including the Special Recommendations on Terrorist Financing

Zimbabwe

Zimbabwe is not a regional financial center and is not considered to be at significant risk for money laundering. However, it faces a serious problem with official corruption, which generates substantial funds that need to be concealed.

Narcotics-related money laundering was previously criminalized in Zimbabwe's Anti-Money Laundering Act. In 2004, the Government of Zimbabwe passed the Anti-Money Laundering and Proceeds of Crime Act. The new Act applies the anti-money laundering law to all serious offenses. It requires banks to maintain records sufficient to reconstruct individual transactions for at least six years. The 2004 Act mandates a prison sentence of up to five years for a money laundering conviction. The 2004 Act also addresses terrorist financing and authorizes the tracking and seizing of assets. Given the Government's history of using the legal system selectively and aggressively to target political opponents, the new Act has raised human rights concerns, although its use to date has not been associated with any reported due process abuses nor provoked any serious public opposition. However, the Government also has yet to make much use of the new law.

Over the past year, the Government has arrested many prominent Zimbabweans for activities it calls "financial crimes." Most of these "crimes" involve violations of currency restrictions that criminalize the externalization of foreign exchange activities conducted by many Zimbabwean businesses with substantial volumes of imports or exports (i.e., transferring assets offshore). To date, the Anti-Money Laundering Act has not been employed in the selective prosecution of individuals for such "crimes."

When requested, the banking community has generally cooperated with the Government in the enforcement of other laws involving tracking of assets, such as laws restricting the externalization of foreign currency. The banking community and Central Bank also have cooperated with the U.S. in global efforts to identify individuals and organizations associated with terrorist financing.

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 has yet to sign the UN International Convention for the Suppression of the Financing of Terrorism. Zimbabwe joined the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), a FATF-style regional body, in August 2003. However, Zimbabwe has yet to sign the ESAAMLG Memorandum of Understanding (MOU).

The Government of Zimbabwe should become a party to both the UN International Convention for the Suppression of the Financing of Terrorism and the UN Convention against Transnational Organized Crime. It should sign the MOU for the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) and participate actively in that body.

